

The nuclear stand-off between India and Pakistan threatens the key ingredients of human security

economic and human costs associated with nuclear build-up, the nuclear dimension of the Indo-Pak confrontation must be skilfully managed, underscoring concerted steps to avert a renewed arms race. Given the potential for mass annihilation of innocent civilians and the environment, *all* South Asians—from Nepal to Sri Lanka to the Maldives—must be informed of the radioactive consequences of using or even testing nuclear weapons. People must never forget that the relatively small, 20 kiloton bomb dropped on Hiroshima on 6 August 1945 left nearly 150,000 dead. Radiation can also cause genetic or heritable disorders that affect the offspring of the exposed individual. As a result, people in Hiroshima are still suffering and dying from the effects of the nuclear explosion half a century ago.

Never before have two hostile nuclear powers—with per capita incomes under \$500 a year—shared a contiguous border. Moreover, the latest Ghauri II and Agni II missile systems have equipped Pakistan and India, respectively, with the technology to deliver nuclear warheads with more accuracy at medium-range distances (over 2000 kilometres). While the US and USSR maintained 20–25 minutes of reaction time for a nuclear response, Pakistan and India are afforded no more than three minutes—perhaps

less, without advanced communications systems in place—to protect their major cities of Karachi, Mumbai, Lahore, and New Delhi. Neither country exhibits experience or resources for adequate command and control systems, safeguard mechanisms, a credible second-strike retaliatory capability, and a coherent nuclear doctrine. Given large imbalances in conventional forces and unresolved regional disputes in Kashmir and Siachen, the risk of drifting into a nuclear conflict will dramatically increase if the unstable relations between the two adversaries further deteriorate.

Clearly, the nuclear stand-off between India and Pakistan threatens key ingredients of human security, reducing government concern for income and job security, environmental security, security against crime, and security of both individuals and communities. Besides the effects of possible radiation fallout, the major fallout of India and Pakistan's tests will be on long-term development needs. Admittedly, national territorial security is still regarded as paramount, but its attainment in the coming decades will be linked increasingly to the security of people. A narrow conception of national security cannot be realized in a situation where people starve but arms accumulate, where social expenditure falls while military expenditure rises. Today, real security is connected to the enrichment of human lives.

Costs of a renewed arms race

After presenting South Asia as one of the world's most militarised regions in the 1997 Report on *Human Development in South Asia*—with two of the ten largest armies, a high military-social spending ratio, and a 6:1 ratio of soldiers to doctors—the 1998 Report welcomed the renewed peace dialogue between India and Pakistan, and Pakistan's announcement to reduce defence spending by 10 per cent in real terms for the 1997–8 budget. However, subsequent to the nuclear tests in May 1998, the Indian government declared an allocation of \$9.9

Table 1.5 Burden of military expenditure in South Asia

Indicators/ Countries	As a % of GDP			As a % of central government expenditure			As a % of education and health spending		
	1985	1994	1997	1980	1994	1997	1985	1991	1997
Bangladesh	1.3	1.5	1.8	9.4	17.6	17.2	n/a	41.0 ^a	80.4
Bhutan	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
India	2.6	3.6	3.1	14.1	12.8	15.2	68.0 ^b	65.0	62.3
Maldives	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Nepal	0.8	1.1	0.9	6.7	5.9	4.9	67.0	35.0	25.0
Pakistan	5.2	7.0	5.3	30.6	26.9	27.8	393.0	125.0	148.7
Sri Lanka	2.7	4.7	5.1	1.6	16.8	19.6	17.0	107.0	107.5
South Asia	2.4	3.4	3.2	15.1	14.7	16.7	113.0	72.0	74.0

a. 1991 figure not comparable with that in 1997, as they are taken from different sources: UN 1998 and official sources from Bangladesh Ministry of Finance, respectively.

b. this figure is biased downwards since budgeted education expenditure also includes Sports, Art, Culture.

Source: GOB 1998c; GOI 1998b; GOP 1998c; GOS 1997a; Haq 1997; HMG 1998b, IISS 1998; and HDC staff calculations.

billion dollars (Indian Rs 412 bn) for defence from its 1998-9 budget, an increase of \$1.2 billion or 14 per cent in nominal terms over the previous year. Following India's announcement, Pakistan immediately responded by increasing its defence expenditure an additional 8.5 per cent in nominal terms to \$3.3 billion dollars (Pakistani Rs 143 bn) for the fiscal year 1998-9.

When most basic social services are missing in both India and Pakistan, the rising defence burdens in these countries continue to impose prohibitive social and economic costs on their people (see table 1.5). Embroiled in an internecine fifteen year conflict with Tamil separatists leaving over 50,000 dead, the Sri Lankan government's defence spending has also expanded to alarming levels in recent years, crowding out investments in people. While the government of Bangladesh concluded its long-standing conflict with guerrilla forces in the Chittagong Hill Tracts through a peace accord, it too has witnessed a considerable growth in its military spending, today claiming nearly 18 per cent of the budget.

Additionally, South Asian countries maintain substantial para-military forces whose funding falls outside regular defence budgets. For instance, India's combined allocations for its paramilitary forces, numbering in excess of 1 million soldiers, amounted to \$773 million in 1998-9 within the budget of the Ministry of Home Affairs. Numbering nearly a quarter of a million, Pakistan's paramilitary forces were reported to cost the country \$200 million for fiscal year 1998-99. Furthermore, India and Pakistan have supplied weapons valued at millions of dollars to rebel groups in neighbouring countries over the past several decades (Gunaratna 1997).

The transfer of hi-tech military hardware from abroad has been plagued by corruption and over-spending. In the late 1980s, the Bofors-Howitzer deal scandal is believed to have channelled millions to the highest corridors of power in India, and on 24 April 1997, Pakistan's

Prime Minister removed the Navy Chief on suspicion of corruption and misappropriation of funds in the purchase of foreign armaments.

Besides the losses to corruption, the social costs of expensive arms transfers from abroad are immense:

- In 1996, India purchased from Russia 40 multi-purpose SU-30 HK jet fighters for an estimated \$1.8 billion (Radyuhin 1996). At \$45 million a piece, each modern fighter plane costs the same as educating 6 million primary school children in India. India's largest military hardware purchase in 1997 was for two Russian submarines of the Kilo class and three frigates of the 1135 type, a contract worth over two billion dollars. In 1998, India further secured a ten-year military procurement deal with Russia estimated at \$16 billion. (ITAR—TASS 1998).
- The Bangladesh Air Force is reported to have paid \$200 million for 8 MiG-29s from Russia in early 1998. Immunizing a child against deadly diseases costs only one dollar. For the purchase of each foreign war plane, 25 million children can be immunized. (IISS 1998)
- Since 1994, Pakistan paid \$1.1 billion for three French Agosta 90-B air-independent diesel electric submarines, which included submarine-launched Exocet anti-ship missiles. Just this one purchase could have financed much of the social agenda of Pakistan for one year. (IISS 1994).

If the immense costs of conventional weapons and large land armies are not already enough, new estimates for maintaining full-scale nuclear arsenals—including command and control with nuclear safeguards, training, and delivery systems—are expected to run India and Pakistan each, at a bare minimum, \$750 million per annum. Over a ten-year period, a projected \$15 billion may be spent by the two adversaries on the production and maintenance of these instruments of war (Sharma 1998). This is enough to educate, properly nourish, and provide health care to almost 37.5

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million neglected children in South Asia. The price for an effective command and control structure alone costs millions of dollars, and ballistic missile testing, resumed in April 1999, holds a several hundred million dollar price tag.

Admittedly, non-transparency of military budgets, especially regarding defence-specific nuclear spending, hinders complete accuracy by researchers. Further, published defence expenditures are regularly estimated to be under-reported by 20-30 per cent. Many items related to nuclear programme spending are, for example, camouflaged under various budgetary heads, and the details of the prices paid for nuclear equipment are often missing, making precise analysis nearly impossible. Nevertheless, it is fair to acknowledge the defence policy choices that result in staggering social trade-offs.

Learning from the cold war, the Brookings Institution estimates that since 1945 the United States spent just under five and a half trillion dollars to maintain its nuclear capability. The Soviet Union's overall military rivalry with the West significantly crippled the Soviet economy by the late 1980s. Iraq too has reportedly spent \$5—\$10 billion in its efforts to produce nuclear weapons—an enormous sum for a poor country devastated by two decades of conflict. Pakistan and India can only incur the costs of nuclear build-up by further depriving their people of the essential means for a dignified livelihood.

The above costs cited only refer to direct nuclear weapons programme-related expenditures. Other economic losses should also be calculated in any attempt to determine the aggregate financial consequences of India and Pakistan's decision to go nuclear. These losses range from the sanctions imposed by Japan, the United States and Canada, to the loss of Foreign Direct Investment (FDI) that immediately occurred after the nuclear tests.

For Pakistan, FDI fell 46 per cent (from \$286 million to \$155 million) from July to November 1998, and private

foreign investment dropped 67 per cent (from \$471 million to \$156 million) in the same period. (Part of the fall in investment is also due to the ongoing Independent Power Projects (IPP) tussle in Pakistan.) According to the Finance Minister of Pakistan, the recent nuclear tests have cost the country \$10 billion in economic terms—pushing the country's development back by two and a half years. A slow-down in foreign guest worker remittances flowing through the country's banks in 1998 has also affected the country's balance of payments position and overall resource gap. Combine these losses with the estimated costs of the subcontinent's nuclear build-up in 1998, and the realization is bound to be shocking: was it necessary for India and Pakistan to sacrifice billions of dollars, and risk near economic collapse to reinforce their so-called 'security' arrangements?

Balancing military and human security: challenges and options in the India-Pakistan confrontation

Since 1990, the alarming developments in India and Pakistan's nuclear and ballistic missile programmes have further threatened to undermine the region's stability. Rather than improving each country's national military security, full nuclearization and new missile tests have upset the ability of conventional forces to provide adequate territorial defence, and have eroded the relatively safer non-weaponized nuclear deterrent on the subcontinent. A nuclear sword perilously hangs over the more than one billion people of South Asia.

Given the considerable repercussions for human security from a nuclear stand-off in South Asia, a delicate balance must be sought between an investment in arms and an investment in people. Such a balance can only come about through a concerted effort to build confidence and devise a new framework for peaceful co-existence in the region. The three wars fought between India and Pakistan, coupled with constant low-intensity

conflict along the Line of Control (LoC) and Siachen glacier, have left a legacy of deep mistrust. To transcend past enmities and the nuclear dangers of the present, a broad but integrated strategy for peace and human security in South Asia must be evolved.

First, India and Pakistan must desist from any further testing and avoid 'hair-trigger' situations by refraining from deploying and arming tactical missiles with nuclear warheads and forming sound nuclear doctrines. Military training exercises should be banned near border areas. Besides border patrols, soldiers and military hardware should not be stationed within a reasonable distance of the border between Pakistan and India, including the Line of Control.

Second, renewed dialogue should be staged between Pakistan and India to settle the core Kashmir conflict and other outstanding disputes. The 1999 Lahore Declaration, calling for new confidence-building measures, non-interference in domestic affairs, and an acceptance of the 1972 Simla agreement as a basis for further dialogue, is a promising step forward. High level negotiations must be pursued with even greater vigour and deeper commitment to resolve issues.

Third, a regional security arrangement, along the lines of South East Asia's ASEAN and Europe's OSCE should be encouraged, by formally incorporating political and security issues into the SAARC agenda. Each South Asian country could then resolve to peacefully settle regional and internal conflicts through the good offices and mediation services provided by the Secretary-General of the SAARC, as well as through SAARC member countries.

Fourth, innovative measures building trust, confidence, and security should be adopted to buttress, rather than replace, conflict resolution processes in South Asia. In this regard, all South Asian countries should mutually decide to reduce their existing levels of military spending by an agreed fixed percentage a year in real terms and to earmark the

potential savings to accelerate the pace of their economic growth and human development. Further, as India and Pakistan consider tough decisions concerning the Comprehensive Test Ban Treaty (CTBT), Fissile Material Control Treaty (FMCT), and NPT, they have many useful lessons to draw on, including Brazil and Argentina's nuclear weapons-free-zone and South Africa's recent decision to denuclearize after years of investing in nuclear weapons.

Nuclear disarmament and a decrease in total military spending are impossible unless the security of nations and people can be guaranteed. This requires cognizance of South Asia's relations with China, the Middle East, and the rest of the world. Regrettably, the five nuclear powers continue to evade their obligation under article IV of the Nuclear Non-Proliferation Treaty (NPT) to work for "complete disarmament under strict and effective international control." Inspired, in part, by the growing number of South Asian people-to-people non-formal dialogues (over forty at present), a renewed global peace movement—as witnessed at the height of the Cold War—is not unimaginable. Led by a diverse range of civil society groups and statesmen, the movement could strive to convince policy-makers that the development and procurement of nuclear devices will continue until the international community makes a serious moral and political commitment to undertake and sustain:

- a comprehensive process, with a concrete timetable, towards universal nuclear disarmament, realizing the full spirit of the NPT to rid the world of the still threatening 30,000 nuclear bombs in existence;
- a new universal regulatory regime to ensure compliance of treaties on nuclear and other weapons of mass destruction—along the lines of the powerful regulatory regime proposed at the advent of the nuclear age (an initiative soon derailed, however, by Cold War politics).

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In the final analysis, the use of nuclear weapons, with their potential for the ultimate evil—the mass annihilation of innocent civilians and environment—will become a distant possibility when a concerned and knowledgeable global civil society demands from governments the complete abolition of these armaments and the establishment of a new global regulatory framework. Perhaps with such a strategy in place, the nuclear race will not only be abated, but the insanity of arms races in poor countries will also be controlled, enabling governments to concentrate on the urgent task of improving people's lives.

Peace between India and Pakistan is a prerequisite to economic and social progress in the sub-continent. Peace can never be achieved through nuclear or conventional force superiority. Building large nuclear arsenals is not so much a threat to other countries as it is to the human security of the people of the nuclear state. Though others may argue that such measures are essential for national security, this is a false notion. The collapse of the Soviet Union bears testament: despite having enough nuclear weapons to destroy the world, the Soviet government could not feed its people or provide them with productive jobs and decent social services. Conversely, Costa Rica chooses not to maintain a military, while spending one-third of its national income on education, nutrition, and health. Costa Rica today is the only prosperous democracy in troubled Central America. Long-term peace and human development are therefore inextricably linked and complimentary.

The threat to human development from the spread of nuclear and conventional weapons dominates South Asia's political landscape today. The relentless forces of globalization and external economic turbulence present other challenges and opportunities.

Globalization and the East Asian crisis

There is growing economic inter-dependence among different regions of

the world. This is manifested in the proliferation of regional trade agreements, such as: NAFTA in North America, MERCOSUR in South America, ASEAN in the East of Asia, and the European Union. Such agreements have sought to generate mutual benefits from increasing liberalization. South Asia, which has been slow to adopt broad-based liberalization policies, can learn a great deal from these experiences.

There are gains to globalization, but there are serious pitfalls as well. Liberalizing trade and allowing greater capital mobility can promote growth in developing countries, through increased technology and knowledge transfers. On the other hand, globalization may sometimes be a source of instability, as highlighted by the crash of the Exchange Rate Mechanism (ERM) in the United Kingdom, Italy, and Spain in 1992; the sudden downfall of the Mexican markets in 1994 and the 'tequila' effects that engulfed South America; and more recently, the collapse of the East Asian economies, that spread to other parts of the globe.

The reality is that the world's industries and financial systems are today inextricably intertwined. Just as no one anticipated how swiftly the recent local panic in Thailand would bring down the entire East Asian region, no one could really understand how the collapse of the world's biggest growth zone would ripple through the West.

In the wake of the East Asian crisis and ensuing global economic slow-down, South Asia now confronts even more daunting economic and human development challenges. The global economic slow-down has already retarded South Asia's growth. Slackening of the export market has pulled growth down to 4.6 per cent in 1998 (per capita growth still lower, at less than 2.6 per cent), and is expected to remain below 5 per cent till the year 2000. This will hinder South Asia's efforts to reduce poverty and raise living standards. Further, social expenditures are often the first to be cut to achieve fiscal discipline during

economic recessions and adjustment. The twin effects of an economic slow-down and fiscal adjustment exacerbate the burden on the poor. Thus human development in South Asia, in the aftermath of the East Asian crisis, may receive a further setback. A brief review of the East Asian crisis is necessary here to draw some lessons for South Asia.

The East Asian crisis

Between 1990-95, East Asian countries were responsible for half of the world's growth and a quarter of the world's output (Noland 1998). During the period 1965-85, GNP per capita grew 5.3 per cent on average in the East Asian region compared to 1.9 per cent in the South Asian states of Bangladesh, India, Pakistan, and Sri Lanka. In the 1960s, East Asia's per capita income was similar to that of South Asia. On the poverty front, in 1975 four out of ten East Asians lived in absolute poverty (defined as living on less than one US dollar a day). By 1995, this ratio had dropped to two in ten. Because of such extraordinary achievements over the past two decades, the crisis that hit East Asia was least expected.

On 2 July 1997, Thailand abandoned its currency peg under massive speculative pressures and its currency promptly depreciated (effectively) by 20 per cent. Within months, the currency crisis had spread through much of East Asia. In the space of one year, East Asia was transformed from the world's fastest growing into the slowest growing region (Lipsky 1998). According to IMF estimates, the economies of Indonesia, Malaysia, Philippines, and Thailand will shrink by more than 10 per cent in 1998-9. It is estimated that East Asia's trade, excluding Japan, was cut by a staggering \$165 billion in 1998. (Richardson 1998). This is greater than the combined GDP for the whole of South Asia excluding India.

Although the countries in East Asia were not all alike, they did share some

generally agreed symptoms that explain the collapse.

First, the East Asian currencies that were pegged in one form or another to the US dollar, lost their credibility to maintain the fixed exchange rates. The depreciation of the Chinese yuan in 1994 and the appreciation of the US dollar against the Japanese yen in 1995 also left East Asian currencies over-valued, and exports less competitive. Moreover, historical evidence of an effectively fixed dollar rate and over-confidence in the region's continued growth served as implicit guarantees to fuel domestic lending. The unrestrained lending led to a mammoth increase in short-term external debt, exposing East Asian financial institutions to the risk of runs. Funds were also misdirected towards unproductive sectors such as land and real estate. Such investments were unwisely backed by implicit government bailout guarantees if economic conditions were to deteriorate.

Second, 'alliance capital', known more widely as 'crony capitalism', was another important reason behind the collapse of East Asian currencies. With many East Asian companies being controlled by relatives and friends close to those in power, many governments offered favourable subsidies, and directed financial institutions to lend to these companies. Further, the lack of prudential supervision and transparency, both within financial institutions and by national 'watchdogs', exacerbated the situation.

Third, the crisis spread because speculators treated East Asia largely as one market instead of many different country-based markets. Hence, when the crisis hit Thailand, it caused many speculators to view their investments in the rest of East Asia as subject to the same structural weaknesses as in Thailand. This occurred even though the economic—such as capital account deficits—or financial fundamentals had not changed for other East Asian nations. Yet, less than a month later the entire region was engulfed in a speculative

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frenzy. The speculative panic heightened when investors perceived the financial situation of East Asian firms and banks to be far worse than originally acknowledged. This led to uncertainty about the extent of the problems and caused even more devaluations—further exacerbating the financial problems.

Human costs of the crisis

The economic costs of the East Asian crisis have been well documented. But what are the social costs of the crisis? The human element is often overlooked in the discussions of economic catastrophes. The slow-down of the East Asian economies has led to growing unemployment across the region. Between July 1997 and December 1998, more than fifteen million people lost their jobs, a staggering 17 per cent of the working population. 15 per cent of the working population in Thailand (3 million people) were expected to be unemployed by the end of December 1998. In Korea, unemployment rose from under 3 per cent before the crisis to 7.9 per cent by December 1998.

Rising price levels in the region added to the problems of falling income levels and increasing unemployment. Medicine prices increased by 200 to 300 per cent in Indonesia between November 1997 and March 1998 (World Bank 1998o). This price hike has affected many poor people who are no longer able to afford much needed medication. Similarly, currency depreciations have increased prices in other East Asian states. In Thailand, evidence in the North-East region suggests that rice prices increased from 12 to 20 bahts per kilo, and fuel prices from 9 to 13 bahts per litre. Such dramatic price increases could mean that although food may exist starvation may still follow. In Malaysia too, food prices are rising faster than inflation.

Education for East Asia's poor is also expected to suffer. Though difficult to assess, certain inferences can be drawn from the past. In 1986-7, Indonesia suffered a smaller economic shock. Gross

enrolment rates at the junior school level fell from 62 per cent to 52 per cent during that period—a fall attributed to poor children no longer attending junior school. It took almost a decade for the enrolment rate to return to its previous level. Poor children are already being taken out of school and put into work to support their families. A recent ILO report from Malaysia suggests that some of the poorest children have been forced into prostitution to earn a living.

Whether the East Asian region can provide adequate support to the affected remains to be seen. In the past, East Asia had given scant attention to building safety nets for the poor. Fast paced growth led to the erosion of traditional social security nets; everyone was lulled into a false sense of high growth security. Korea has relied on rapid growth and lifetime employment to provide social security for its citizens; it does not have universal unemployment insurance and only very modest social safety nets (Stiglitz 1998). Thailand and Indonesia rely on informal family ties as social security. Thus, the crisis is likely to hit the poor doubly hard in countries such as Thailand, which have not shared the rewards of growth equitably.

Implications for South Asia

Given the recession in East Asia and its growing human costs, the implications for South Asia are critical (see box 1.2). Policy-makers in South Asia need to effectively manage liberalization and structural adjustment policies. South Asia has not experienced a destabilising external shock of the magnitude that affected East Asia because of its lack of openness. It continues to repress financial sectors and protect goods markets—lower vulnerability to international capital flows is simply an accidental by-product of this reluctance to liberalize.

But, the correct lesson to draw from this experience is not to forgo the many advantages of openness. Rather, trade liberalization must be combined more effectively with controls on short-term

capital movements. Indeed, curbs on free capital mobility have also been proposed by some advocates of free trade. Unlike East Asia, most South Asian countries until recently have been encouraging import substitution policies and have been slow to adopt trade liberalization strategies. Box 1.3 highlights the four core strategies which lie behind the East Asian economic miracle and are still relevant for South Asia.

If liberalization is properly sequenced and 'hot flows' carefully managed, globalization can be beneficial to all. Comparative lessons from Russia and the People's Republic of China (PRC) are helpful. When Russia moved from a centrally planned to a market oriented economy, it quickly dismantled both its legal and political power structures. The administrative machinery and authority to carry out the market reforms were thus lacking. The result was economic chaos—run-away unemployment effects, galloping inflation, and currency collapse. The PRC, on the other hand, is busy developing a solid civil service system and a strong banking and financial framework. Additionally, the PRC is gradually freeing

Box 1.2 Globalization: lessons South Asia could learn from the East Asian crisis

There are several lessons for South Asia from the recent East Asian crisis:

- Trade liberalization is good for an economy. However, financial liberalization should only be undertaken cautiously and after proper sequencing.
- If 'hot flows' of capital are to be allowed, they should be monitored carefully and managed properly. As demonstrated by the Tequila and East Asian experiences, rapidly expanding short-term debt financed by 'hot flows' can harm domestic economies.
- The exchange rate system followed, whether fixed or flexible, should reflect the economic fundamentals of the country.
- Transparency, absence of politicization and prudential regulation must exist in the financial sector.
- Proper data reporting is a must—if only to accurately assess the financial state of an economy.
- Industrialization should be diversified, decentralized and rural oriented, not urban concentrated.
- An active and free domestic media is a necessity. A more realistic picture of an economy can only be of benefit to all parties—whether domestic or foreign. If the media highlights deficiencies in a national economy, it should be viewed not as a threat, but as an opportunity to correct mistakes and weaknesses.

Source: HDC staff.

its domestic economy from monopolistic practices and distortion. Learning from these two experiences, South Asian policy-makers must realize that building markets and institutions of governance takes time.

Without regional cooperation and mutually beneficial competition, South Asia cannot expect to meet the challenges

Box 1.3 Lessons South Asia still has to learn

Despite the temporary liquidity crisis in East Asia, economic fundamentals remain strong. These were based on four key strategies discussed in the 1997 Report on *Human Development in South Asia*:

INVESTMENT IN PRIMARY EDUCATION. Liberal investment in basic education marks the critical difference between South Asia and East Asia. Estimates indicate that primary education has the highest social rate of return, followed by secondary education. According to a World Bank study, primary education was the most important component in East Asia's rapid growth over the last three decades. South Asia's destiny will similarly be determined by its ability to expand basic education.

INSTITUTIONAL REFORMS. Land and credit reforms were probably the most important institutional factors behind East Asia's high growth. South Asia cannot break the shackles of poverty and destitution without instituting meaningful reforms in these sectors.

MOBILISING SAVING AND INVESTMENT. The high rates of saving in East Asia (35 per cent in 1996) compared to those of South Asia (14 per cent in 1996) were made possible by high growth, a progressive taxation policy, and a fall in the dependency ratio. At the same time, there was an emphasis on investment in infrastructure. Many studies have indicated that such public investments promote private investment, especially in export-oriented manufacturing activities.

COOPERATION BETWEEN THE PUBLIC AND PRIVATE SECTOR. Another ingredient in the East Asian miracle was the healthy nexus between the state, bureaucracy, and big business. This was an important element in devising high growth strategies. South Asian economies remain dominated by inefficient public sectors corporations, and inefficient bureaucracies.

Source: Haq 1997.

of the next millennium. There is much to be gained from technical cooperation within the region. There are questions that need to be answered. For example, why is the agriculture yield per acre for some commodities in Pakistan's Punjab half that in Indian Punjab? How does Grameen Bank in Bangladesh provide credit to poor peasant women? Or how has Bangalore become the second largest exporter of computer software in the world over the last decade? Answers to such questions can unleash South Asia's tremendous potential.

Globalization has many benefits, but there are also some dangers. South Asia can avoid these inherent pitfalls while

emulating the East Asian miracle if it remains cautious, fosters mutual cooperation, and distributes economic advances equitably. As Prime Minister Goh Chok Tong of Singapore recently stated:

'A good government will practice sound economic policies, share the fruits of growth equitably and perpetuate a virtuous cycle—but how do we produce a good government? This is not taught in economics—a fatal omission.'

In this Report we intend to answer this question by introducing the concept of humane governance.