DEVELOPMENT PAPERS

NO. 1

ST/ESCAP/154

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DEVELOPMENT STRATEGIES FOR THE 1980s IN SOUTH ASIA

Economic and Social Commission
for Asia and the Pacific
Bangkok, Thailand, 1981



UNITED NATIONS

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ST/ESCAP/154

UNITED NATIONS PUBLICATION

Sales No. E.81.II.F.16

Price: $US 7.00

DEVELOPMENT STRATEGIES FOR THE 1980s IN SOUTH ASIA: REPORT OF A GROUP OF CONSULTANTS*

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* Report of the Second Meeting of the South Asia Group of Consultants in connexion with the Implementation of ESCAP Resolution 180 (XXXIV): Strategies for the 1980s, convened at Bangkok from 23 April to 4 May 1979.

INTRODUCTION

This paper is addressed to the development prospects and problems, of countries in south Asia during the 1980s, bearing in mind the experience of the past two decades or more and the objectives and priorities for the future as reflected in the national plans and in international forums. There is clearly considerable dissatisfaction not only with over-all economic performance as measured by the conventional indicators, but even more with the failure to make a significant improvement in the availability of employment and in mass living standards. As a matter of fact, south Asia taken as a whole has been one of the slowest growing regions of the world, and this modest pace of growth has shown signs of faltering in recent years. The over-all unemployment picture shows little sign of improvement, and urban unemployment is progressively deteriorating. There is a widespread belief that social and economic inequalities has worsened. At any rate there is little doubt that the incidence of poverty has not appreciably declined and the absolute size of the "poor" population has almost certainly increased.

These trends have forced a reconsideration of the strategy and priorities of development in the region: the latest national plans of all countries in the region seem to show a heightened awareness of the inadequacy of growth *per se* for mitigating mass unemployment and poverty, partly because of the constraints on growth itself. There is certainly a significant shift of emphasis towards achieving a better distribution of benefits of economic growth and in particular, towards raising the employment and living standards of the poorest segments of the population.

The factors affecting growth, employment and distribution are so closely interwoven that we do not think the problem can be meaningfully addressed in isolation. The patterns of production and investment are conditioned by the present unequal distribution of wealth and incomes. Nevertheless, the experience of some of the east Asian countries, notably the Republic of Korea, is often cited to argue that a sustained high rate of over-all growth can bring about a rapid improvement in the living conditions of the poor and thereby eliminate abject poverty without necessarily reducing the relative inequalities in income or wealth. The success stories of east Asia are, however, the result of circumstances — arising in part from their size, but more from their internal social and political configurations and external relations — which do not obtain in south Asia. While all countries of the region could, and need to, press for more liberal access to developed country markets and adopt policies to take maximum advantage of trading opportunities, it is our judgement that even the most

optimistic assumptions on exports are unlikely to make a dramatic difference to the over-all growth rate except, under certain conditions, in Sri Lanka and Nepal.

On the domestic front, the growth of agricultural output is the principal factor constraining, both directly and indirectly, over-all growth prospects. The problems are in part technical in nature, but in large measure remain institutional. The prospects for a significant and sustained step-up in growth of agriculture within the prevailing institutional framework are therefore in considerable doubt. This, taken together with the constraint on exports, puts growth rates of the east Asian levels beyond the realm of possibility in south Asia, at any rate during the 1980s. Indeed, the attainment of even the 5 per cent average annual growth postulated in various national plans and international projection exercises cannot be taken for granted.

If the latter expectations are met and the *relative* inequalities do not deteriorate, the prospects are that the absolute number of poor at the end of the 1980s will be larger than now. The situation may well be worse because there are several incipient tendencies which point to a worsening of relative inequalities. In the context of a moderate growth, if the conditions of the poorer classes are to be improved significantly in relation to the average, greater emphasis on redistributive measures which seek to enhance substantially the employment and income opportunities for the poor is inescapable.

Redistributive measures of the pure transfer type (via consumption subsidies, unemployment doles etc.) on the required scale are not sustainable without gravely jeopardizing growth and self-reliance. Redistribution of assets, primarily through land reform, on a significant scale has not made much progress in the region. Nor have attempts to operate through social consumption aimed at improving the health, living environment and skills of the poor, or to organize special programmes to increase productivity of "target" groups and regions, been conspicuously successful. All this only underscores the point that the growth-distribution dichotomy is misleading.

Our interpretation of the development experience of south Asia during the last two decades implies that any strategy which genuinely seeks to reduce poverty in the relative and absolute senses must squarely face the institutional constraints on both growth and distribution. It is our central thesis that a major task for the 1980s is institutional changes to facilitate more effective implementation of at least moderate land reform, to ensure more efficient use of land and water and to provide an opportunity for local institutions to decide effectively on the mobilization and

allocation of resources for local development. All this adds up to a programme for decentralization of planning and implementation of a large part of public sector programmes in the field of rural development and social services.

The idea of decentralization is not new: it has been tried by all countries at various times and in various forms only to be abandoned as a failure. Perhaps this was because these reforms were imposed from above and never really transferred effective power to representative local institutions. It would obviously be harzardous to predict what might in fact happen in the future: this depends in part on the character of the State and the extent of spontaneous local-level organization, both of which vary from country to country and within each country. But there can be little question that without decentralized institutions, appropriate to different functions and levels of government, public intervention in the name of redistribution cannot be an effective instrument of anti-poverty programmes.

We are of the opinion that in the south Asian context internal factors, many of which are of an institutional character, are the basic constraint both to growth and to rapid elimination of poverty. This does not, however, mean that external factors are either irrelevant or unimportant. Even though, with some exceptions, the scope for stepping up the growth of the domestic economy by producing for export markets is quite limited, the countries of the region will need to import rising volumes of intermediate goods, capital equipment and in some cases essential consumer goods. Unless the foreign exchange necessary to meet the growing import needs is available, development will be impeded by shortages of critical inputs.

The prospects for foreign assistance are highly uncertain; its cost is high in terms of both debt service and the exposure to interference by donor countries in domestic policies. The countries of the region should therefore seek to meet as large a proportion of their import needs as possible by expanding their exports.

The prospects for expanding primary commodity exports (which are currently the dominant type of exports in the region) being limited, the focus should be on commodity stabilization and compensatory financing arrangements, both of which will require co-ordinated action by the principal producers in the region. Further increases in exports have to be sought in manufactures. The countries of the region have a common interest with all other developing countries in pressing for the maintenance of a high and stable over-all growth of the developed countries, for measures to remedy instability and imbalances in the world payment system and for drastic reduction in tariff and non-tariff barriers to the import of manufactures from developing into developed countries. The south

Asian region, taken by itself, could enlarge labour-intensive manufactured exports substantially, provided that appropriate adjustments in domestic policy are made, because countries with a high concentration of labour-intensive export industries (e.g. clothing, footwear) are finding them less and less attractive as real wage rates rise.

Much greater co-operation among countries in the region is necessary in order for them to improve their collective bargaining power in the context of negotiation of commodity agreements. It is also desirable because there seems to be considerable scope for mutually beneficial expansion of trade, as well as collaboration in investments. Moreover, the region as a whole could benefit from a co-ordinated strategy to work out an arrangement for marrying the surplus foreign exchange of the Middle Eastern countries with the natural and human resources of the region. This will require considerable accommodation on the part of all the countries. Naturally, the smaller countries are concerned about any arrangement which may evolve into excessive dependence on, or dominance of, the largest country in the region, namely, India. For this reason, the viability of such regional co-operative arrangements depends a great deal on India's willingness to accommodate the interests and allay the concerns of the other countries, especially the smaller ones.

While all these measures will help to contain excessive dependence on foreign aid, the region as a whole, and some countries in particular, will, in the absence of radical changes in the existing institutional arrangements, be in need of a substantial volume of external assistance. In relation to foreign aid, we feel that the region should aim at securing long-term commitments by the donors, channelling as much of the assistance as possible through multilateral agencies and substituting well-defined general principles and rules for discretionary decisions on the quantum and allocation of aid.

I. PAST DEVELOPMENTS

A. BACKGROUND OF PAST DEVELOPMENTS

The countries of the subregion are obviously very diverse in character. Although, with the exception of Nepal, all of them emerged as independent nations in the course of the last three decades after two centuries or more of colonial rule, they differ a great deal in terms of the nature and degree of development already attained, their socio-economic structure as well as the form and political complexion of their Governments. Sri Lanka was perhaps the most "developed" at the time of independence largely because of the prosperous plantation agriculture established during colonial rule. It had a relatively high level of *per capita* income and among the highest standards of public health, education and community services in the region. The economies of the other countries were dominated by a traditional, low-productivity agriculture. Industries largely consisted of agro-processing activities organized in small-scale units. Such modern industry as had developed — and this was on a very limited scale — was confined to highly concentrated pockets. Processing industries for agricultural raw materials (e.g. raw cotton and jute) produced in Pakistan and Bangladesh were located in India. The area covered by the present Pakistan had a relatively prosperous agriculture marked by a favourable land-man ratio and a high degree of irrigation development. At the other extreme was Bangladesh, where the productivity per unit of cultivated area was relatively high but where this advantage was wholly neutralized by an extraordinary high population density. There were wide regional variations in development in all these countries.

Political independence was generally heralded as the necessary first step to social and economic emancipation. And all countries of the region took to "planned development" with the avowed aim of improving the economic conditions of their people. Development objectives, in particular the degree of emphasis on equitable distribution of income and wealth, as well as the policies for their realization were naturally influenced by the social and political realities prevailing in different situations. For instance, within the framework of representative institutions in India, the problem of social and economic inequalities figured prominently in political forums. The eradication of inequality, the right of every citizen to an adequate means of livelihood and the power of the State to regulate the private sector in the social interest were written into the Constitution as part of the Directive Principles of State Policy. These have been given

a prominent place in the statement of objectives of successive five-year plans. Pakistan's first plan also emphasized the equity aspects and envisaged relatively low ceilings on land ownership. But, by the end of the 1950s, Pakistan had accentuated the emphasis on a "growth through functional inequalities" model. During this phase, it was fashionable among some Western experts to contrast the pragmatic "non-ideological" orientation of the Pakistan Government with the excessive preoccupation of the Indians with equity as an ideology and State ownership and control as a means of achieving it. Indeed some went so far as to suggest that this was responsible for the then-significant differences in the over-all growth between the two countries. Sri Lanka already had one of the region's best developed networks of education, health services, communications and subsidies on essential consumer goods. But for the past decade or more a stagnant export production and a sustained deterioration in the terms of trade have raised the problem of finding politically acceptable ways of cutting back the level of redistributive public spending.

The differences in the approach to equity should not be exaggerated, however. Thus, even during the late 1950s and early 1960s, when more equal distribution of income and wealth did not figure prominently as objectives in the Pakistani plans, the problem of equitable mobilization of resources and their subsequent allocation for development between the two wings of country was a very important issue. In fact, the failure to solve this conflict was among the major reasons for the eventual break-up of the country in 1971. Also such differences as existed in perception on the question of equity and the State's role have been greatly narrowed since. Thus, the excessive, and growing, concentration of power in a few large private business houses surfaced as a contentious issue of Pakistan's domestic politics in the late 1960s. However, while the Indian plans gave prominence to reducing inequalities, the realities of power reduced them to little more than rhetoric. Indeed, except for land reforms, the plans did not really contemplate any direct measures to alter the distribution of existing wealth or to impose a more egalitarian wage-income policy. Such solutions were considered too drastic to be feasible so that, like their counterparts in other countries of the region, the Indian plans' promise of eradicating poverty and unemployment in fact rested mainly on accelerated growth and diversification of output.

Indeed the approaches to development adopted by the countries of south Asia show some marked similarities. All of them have sought to achieve and sustain high over-all growth rates and to bring about a rapid diversification of the economy through industrialization. The strategy of growth was also generally oriented towards import substitution though the sectoral focuses varied from country to country (agriculture in Sri Lanka, light industry in Pakistan and heavy industry in India) depending on their particular circumstances. Significantly too, all of them accepted the necessity for the State to play a leading role in stimulating development

and regulating its course, a role which has in all cases resulted in the State being directly responsible for implementing a substantial proportion of total investment and for raising tax and non-tax revenues to support, among other things, an expanding programme of mass education, health and other items of social consumption. Also, all these countries have adopted the mixed economy concept and used much the same set of instruments (taxes, subsidies, licensing, price control and quantitative allocation of scarce resources) to "regulate" private sector activities. While there are undoubtedly important differences among countries, especially with regard to the role assigned to the private sector in industry, it is useful to bear in mind the above common elements in discussing the achievements and future problems of development in the region. In the subsequent discussion, we shall therefore focus on these common characteristics, taking care to highlight the peculiarities of particular countries where appropriate and important.

B. HIGHLIGHTS OF PAST DEVELOPMENTS

The actual records of the countries of south Asia in respect of growth and distribution show strong similarities, though not without significant differences in some respects. In the first place, population has grown very rapidly and far more than was expected at the beginning of the period (table 1). The rate of natural increase has ranged from an average of 2.3 per cent a year over the last two decades in Sri Lanka to over 3 per cent a year in Pakistan. Sri Lanka experienced a steep decline in the death rate much earlier than other countries and birth rates had already begun to fall in the early 1950s. In all other countries, the steep fall in the death rate is essentially a post-independence phenomenon. With birth rates remaining constant, or declining only marginally, the rate of population growth accelerated. The decline in the birth rate in some parts of the region is a relatively recent phenomenon. But in Sri Lanka and parts of south India, this trend started earlier and seems to have been due to a rise in the age at marriage.

Although the official development plans of the countries were aimed at achieving and sustaining fairly high rates of over-all growth (ranging from 5 per cent to 7 per cent per annum), actual accomplishments have consistently fallen short of targets. Individual countries (for example, Pakistan) and parts of countries (notably north-western India) have recorded high growth rates. But the south Asian region as a whole ranks among the slowest growing parts of the world (table 2).

Growth has also not been steady. After 15 years of sustained expansion (at about 4 per cent a year), the growth rate of India's GDP fell close to the population rate during the subsequent decade. Pakistan, which showed relatively modest growth in the 1950s, recorded a rather high 6 per cent annual growth in the 1960s, only to slump back to 3.5 per cent

in the 1970s. Bangladesh, consistently a low-growth country, suffered massive dislocation in 1971, from which it is only slowly recovering. The Sri Lanka experience also points to a rather unstable growth path.

Growth has in general been accompanied by a diversification of economic activity reflected in a rising share of non-agricultural activities in GDP. However, in the context of slow over-all growth the expansion of non-agricultural activities was not adequate to reduce the pressure of population on agriculture (table 3). The indicators of over-all unemployment do not fully capture the extent of the deterioration, in part because of conceptual problems and lack of comparability of data. A more important reason is that adjustments to a shortage of employment opportunities relative to labour force growth may not be exclusively in the form of a rise in the proportion of workers unemployed, but in the form of lower wage rates, or lower intensities of employment, or withdrawal from the labour force, or some combination of these. However, there is no doubt at all that in the educated segment of the labour force open unemployment in the conventional sense has been growing rapidly.

Except in Sri Lanka, export trade is relatively small: 10 per cent or less in relation to the total output of the countries in the region (table 4). In the case of Sri Lanka, where exports form nearly one fifth of GDP (the proportion was more than a third in the 1950s), the conditions of external demand have a significant direct impact on the economy. In fact, the relatively stagnant world demand for its major export products, combined with a sharp deterioration in the terms of trade, is at the root of many of the difficulties faced by Sri Lanka's economy in recent years.[1] In the case of other countries export form a small fraction of aggregate demand, but in the supply of goods and services imports are often crucial.[2] The ability to maintain supplies of such key items at required levels is therefore dependent on import capacity, which is influenced by the growth of export earnings, the behaviour of import prices and the quantum and terms of foreign resource inflows.

Shortages of foreign exchange on account of any of these factors could therefore have a far more serious impact on the growth of the economy than the dimensions of foreign trade alone might suggest. Moreover, foreign resource inflows have played an important role as a means of financing investment, in particular public investment. This is especial-

[1] The terms of trade index (1967-1969=100) fell from 158 in 1960 to 120 in 1965, 97 in 1970 and 82 in 1973. As a result, while GDP at constant 1967-1969 dollars rose from an average of $US 760 million in 1960-1962 to nearly $US 1,200 million in 1971-1973 (a rise of 57 per cent), the corresponding rise in gross domestic income (adjusted for terms of trade changes) was only 22 per cent (from $US 960 million to $US 1,170 million). See *IBRD, World Tables, 1976* pp. 216-217.

[2] For instance, India which has gone furthest in import substitution, imports more than half its crude oil and practically all its sulphur, rock phosphate and non-ferrous metals other than aluminium and copper. Substantial proportions of fertilizers and machinery and components are also imported.

ly so in Bangladesh, Nepal and Pakistan, where foreign aid finances the major part of domestic investment. In India and Sri Lanka, the role of foreign resource transfers has generally been much smaller and has declined in recent years. During the 1970s, a phenomenal rise in foreign remittances has been a major factor in the Indian and Pakistani balances of payments. In the context of rising exports and relative stagnation of the domestic economy, this has resulted in sizable accretions to the foreign resources of these countries.

The role of the public sector in the economies of all the south Asian countries has been growing progressively (table 6), for the most part through investment. In Bangladesh, Pakistan and to some extent Sri Lanka, nationalization of existing undertakings has also contributed significantly to this process. The public sector currently accounts for somewhat less than half of total investment in India and Sri Lanka and nearly 70 per cent in Nepal and Pakistan. Although these proportions do not always show a uniform trend in all countries, the post-independence period has as a rule been marked by a sharp rise in the share of investment undertaken by the public sector compared with the earlier colonial era, the share of total reproducible wealth owned by the public sector must therefore have increased in practically all these countries. In the case of India, for which we have some estimates, the public sector currently accounts for 40 per cent of total reproducible capital compared with around 15 per cent in the early 1950s. If we consider the equity holdings of public financial institutions in private undertakings, not to speak of the various other forms of control, the public sector's potential command over the economy is massive indeed.

Much of the public investment has been in infrastructure, including irrigation, transport and power, which is inherently capital-intensive. Where the State has entered productive sectors, as in India, the investments are again concentrated in rather large and capital-intensive activities like energy and the metallurgical and heavy chemical industries. Therefore, the increase in the share of the public sector (other than administration) in total GDP has not been as striking as its share in capital formation. The expansion of administrative activities of the Government, partly on account of the growth of developmental and social services, has been a more important source of the State's increasing share in total output, which by the early 1970s ranged between 16 and 20 per cent. In relation to non-agricultural GDP, the public sector has been even more prominent, accounting for 24 per cent in Pakistan and 45 per cent in Bangladesh.

The importance of social consumption has also been rising, both absolutely and relative to private consumption. Social consumption includes education, public health and a variety of other developmental services. That all of these have increased rapidly is reflected in the manifold expansion in enrolments at all levels of education, number of hospitals

and hospital beds, number of extension workers etc. However, a good part of the increment in social consumption is on account of activities — like general administration, maintenance of law and order and defence — which are not directly productive and whose effect on people's welfare is at best very indirect.

Public expenditures on social services and transfers have played a major redistributive role in Sri Lanka. But its experience also underscores the problems arising from large-scale consumption subsidies: not only are they difficult to sustain but they eat into the meagre surplus available for productive investment. Apart from social consumption, public development outlays are sought to help the poor classes and regions. But, as we shall see later, these have had very limited effect. The empirical evidence on trends in the distribution of income and wealth presents a rather mixed picture: sample surveys of income and consumption, which are available for India at different points of time, do not show any perceptible deterioration in the degree of relative inequality at the national or subnational levels. Although the average size of holdings has fallen in India, the over-all distribution of land does not appear to have become more unequal. Nor apparently has the degree of concentration in total wealth. But in both Pakistan and Bangladesh, there seems to have been a deterioration in the distribution of land (reflected in increased landlessness and reduction of tenancy), and evidence for particular regions of India also points strongly in this direction. Furthermore, trends in the real wage rate and the consumption level of wage labour in agriculture relative to other rural classes suggest an increase in relative inequality. There are a number of studies which estimate that the proportion of the population below the poverty line has risen in many parts of the region. While it is difficult to be categorical on the question of changes in relative inequality, the rise in *per capita* real incomes and consumption has been so modest that, even with no change in relative inequality, the absolute number of people falling below the poverty line is certainly larger today than two decades ago.

Altogether, developments in the last two decades have fallen far below expectations: while there has been some rise in average *per capita* real incomes — and this rise marks a distinct improvement over the record of the pre-independence period — the impact on mass living conditions is but modest. The pressure of population in agriculture has continued to rise. Open unemployment in urban areas, particularly among the educated, has risen sharply. While the macro evidence on income distribution does not uniformly point to an aggravation in relative inequalities, other evidence suggests that the condition of the poorest segments of the population is not improving as fast as the average. Whatever the facts, the belief is widespread that the rich are becoming richer and the poor, poorer. It is this perception which feeds popular discontent. Mounting social tensions have been aggravated in recent years because most countries in the region have suffered a deterioration in their growth performance resulting in stag-

nant (or declining) *per capita* availability of essential consumer goods, inflation and a further rise in unemployment. Under these conditions, it is only natural that there should be a widespread sense of unease and doubt about the validity of past approaches to development problems.

The response to this concern varies. There is, of course, the school which still sees the root of the malady in bad economic policies and the lack of "political will". According to this view, a great many things can, and should, be done to stimulate growth: correcting past distortions in investment priorities, doing away with the complex and counterproductive system of controls and licensing, and creating a climate of confidence and incentives to stimulate production are recurrent themes of policy reform commended by this school. It is further argued that if only the government had the "political will" it could bring about the desired redistribution of incomes without interfering with efficient production.

The fashionable view now is that growth alone will not do because the "trickle-down" process does not ensure that the poor automatically benefit from it to the same degree as the rich. Therefore, the elimination of abject poverty calls for a frontal attack on the problem of low productivity and incomes of the poor through asset redistribution (mostly land reform), combined with conscious orientation of the State's development efforts to help the poor classes to raise their productivity, employment and incomes. Some would go further to advocate that the primary object of planning should be to meet the "basic needs" of the people in the sense of providing them with minimum standards of nutrition, housing, education, health services and sanitation.

Implicit in all this is the notion that the State is capable of deciding and enforcing policies which go against the interests of the dominant, and hence powerful, groups and that the character of the State, in the sense of its class and regional bias, can be changed in favour of the poor, the unemployed and the backward regions. The State apparatus may not, in all situations, be so dominated by the well-to-do as to preclude altogether the possibility of advancing the interest of the poor. But we need to recognize that the margin for manoeuvre at any point of time is limited. The important issue is how this margin can be utilized to facilitate further changes in the desired direction. It is impossible to give any generalized prescription on this question. What is possible depends very much on the situation prevailing in each country (or subnational region), the historical factors which led up to it and the existence of organized forces which can take advantage of the opportunity to press for the interests of the poor. Moreover, it is necessary to recognize that politics, while crucial, is by no means the only relevant factor. Development problems have technological and organizational (in the narrower sense) dimensions which are often just as important. Our discussion of the prospects for south Asia is based on this understanding.

II. PROSPECTS FOR DEVELOPMENT

While there is little doubt that a high and sustained rate of growth could resolve over time some of the most serious problems of unemployment and absolute poverty facing south Asia, the real issue in this context hinges precisely on the question of whether such a sufficiently high rate of growth is indeed sustainable over the next decade or so. The answer to this question in our view rest on two broad sets of factors, namely, the potentialities of agricultural growth and the role that can be assigned to the foreign trade sector. We argue below that, primarily for various institutional reasons, there is likely to be a fairly stringent upper limit to the rate at which agricultural production can be expanded in the 1980s. We argue at the same time that, with the possible exceptions of Sri Lanka and Nepal, expansion based upon export of labour-intensive manufactured goods cannot really provide that critical momentum which is needed for a long spell of high growth even under quite favourable assumptions. This is where the broad prospects for south Asian development need to be contrasted against recent experiences of some of the south-east Asian countries. Given limited possibilities of agricultural growth in the dominantly agrarian economies of south Asia, it is reasonable to postulate a correspondingly low rate of growth of domestic demand for manufactured goods. Indeed, this argument is even stronger in those countries which have carried out import substitution programmes in the past. At the same time, limited possibilities for manufactured exports will set the limit to the possibilities of expansion of foreign demand. Under these circumstances, one is led to face the prospect of a relatively slow rate of growth of demand for manufactured goods, which in turn is compatible only with a rather low pace of industrial development in south Asia. Such limited manoeuverability on the growth front calls for a special orientation in development, at least in the larger countries of south Asia. But before elaborating on how the countries of south Asia could attempt to cope with such prospects of relatively low growth in relation to the growing problem of poverty and unemployment, it is essential to place the argument on a firmer basis by examining in greater detail our central postulates that agricultural growth is limited by the existing socio-political environment while export expansion will be unable to provide the needed critical momentum for accelerated and sustained growth in most parts of south Asia.

A. AGRICULTURE AND GROWTH

One of the principal constraints on the over-all growth of output, and hence of incomes and employment, in the region is the rate at which

agricultural production can be raised. With food alone accounting for upwards of 55 per cent of total consumption in these countries, the rate of expansion in food supplies, given the saving effort, sets a limit to the rate of expansion in aggregate demand which can be sustained without inflation. Unless the economies of this region are in a position to meet deficits in food production relative to demand through imports (whether from aid or by export of goods and services), the rate of growth of domestic food production will effectively set a limit to over-all growth. Also, since agriculture is an important source of domestic demand for manufactures, and of domestic savings, its rate of growth has significant indirect effects on the expansion in the rest of the economy. Ineed, an important part of the explanation for the slowing down of over-all growth in most countries of the region during the past decade seems to lie in the slowdown in agricultural growth in this period.

The much-heralded new technology notwithstanding, prospects for a significant acceleration in the rate of agricultural growth in the coming decade or so are shrouded in doubt. In the first place, the scope for bringing new area under cultivation has, with the possible exception of Sri Lanka, been virtually exhausted. The extent to which cropped (as distinct from cultivated) area will increase depends almost exclusively on the more intensive use of land already under the plough. The increase in cropping intensity, and in Sri Lanka also the extension of cultivation, are dependent both on the speed with which irrigation facilities are expanded and on their quality.

The region has large unexploited potential for irrigation (table 7). It should be possible to achieve fairly high rates of expansion of irrigation capacity in the next decade or two. But ecological imbalances resulting from widespread destruction of forests in the Himalayan region can be expected to pose serious problems of flood control and water management, particularly in Nepal, Bangladesh and parts of India. Furthermore, in India, under the existing criteria for resource transfers to the State governments, areas which have the potential for expansion of surface irrigation may not have the funds needed to exploit it rapidly; similarly, the projected rate of expansion in Sri Lanka is considered over-optimistic in relation to available resources.

The pace of improvement of existing irrigation facilities is far more relevant to the speed with which cropping intensities and the potential of the new seed-fertilizer technology can be realized. In Pakistan, Bangladesh and parts of India, the rapid growth of groundwater supplies relative to surface sources is itself contributing to such qualitative improvement. There is also scope for increasing the effectiveness of water use by improving the distribution network, drainage and land development in the newer systems and by modernizing old irrigation systems. While these programmes are undoubtedly important and deserve to be given

high priority in resource allocation, the qualitative improvement of irrigation management, which is crucial for optimum use of new technology, presents very difficult problems.

Large public irrigation systems, which predominate in the region, are known to have several defects, namely, wasteful use of water, maldistribution of available supplies among farms and lack of flexibility to adjust timing of water supplies to crop water requirements. While to some extent these problems result from technical constraints imposed by the seasonal pattern of water supplies feeding the system and, in some cases, by the sheer size of the project area, they result in large part from improper management and use of water distribution at all levels, from the project authority to the farms. The nature of some of the problems and their solutions are well known but their implementation calls for major institutional changes.

Thus, contour bunding, consolidation of holdings, land levelling, rational layout of irrigation and drainage channels at the field level and other essential ingredients of a proper land and water improvement programme necessarily involve scrapping the boundaries of individual holdings, redrawing the boundaries after development and deciding the extent and location of the new holding for each farmer. In principle, farmers in a command area can be persuaded to come together voluntarily and work out, by mutual agreement, all the relevant details including the mechanisms of reward and sanction to enforce the collective decision. But this has not happened; nor is it likely to happen without compulsion involving active social intervention. This method has been followed with some success in effecting the consolidation of land holdings in Uttar Pradesh and Punjab. But even here the process was by no means smooth or equitable; moreover the developmental aspects, that is, the requirements of optimal land and water use, hardly figured in the scheme. To overcome these problems will require even greater compulsion.

The entire command area under an irrigation project could be brought under social control, developed for efficient use of the area's resources entirely at public expense and have the developed land reallocated in proportion to the original holdings of individual farmers (expressed in some standard, quality-weighted units reflecting the pre-irrigation conditions). Since development works improve land quality, the above procedure will leave some surplus, after meeting the claims of the original land holders, which can be given to the marginal holdings and the landless. But the feasibility of this over the first alternative is open to even greater doubt.

Problems relating to water management are perhaps among the most important challenges for the region, and also among the most difficult. From past experience, one cannot be sanguine about the prospects of any

of the needed reforms being taken up. Most of the ingredients for efficient use of irrigation facilities are in fact part of the concept underlying the Command Area Development projects of India. But they have in practice been confined to improving communications in the command area, ensuring that the distribution network is constructed down to the field level and undertaking drainage improvement. Consolidation, realignment, land levelling and shaping — all of which involve a high degree of compulsion — have hardly been attempted.

No less difficult is the problem of ensuring that the facilities, once created, are properly maintained right down to the farm level, that optimal land-use and cropping patterns are enforced and that the allocation of water between different parts of the system and between different farms within any part of the system conforms to the socially desired allocation. Clearly — and there is abundant experience to show this — these conditions cannot be met by relying wholly on the bureaucracy, which is exposed to pressures from conflicting interests at all levels. And it is physically impossible for a centralized system effectively to supervise and police the administration of all parts of any sizable irrigation system. While the ability to regulate the scheduling of water to different parts of the command gives some measure of central control, most of the problems involved in ensuring equitable and efficient water use have to be resolved at the local level. The lack of effective local institutions to settle these problems throws the entire burden of decision on the bureaucracy, which, being subject to so many competing pressures, simply cannot make, much less enforce, rational and equitable allocations.

At a minimum, it is necessary to get representatives of users from different parts of a system, chosen by some elective process, to participate in making and enforcing decisions. Water users' associations of a voluntary character will be inadequate for this purpose. It is necessary to make them statutory bodies with clearly specified responsibilities and rights. Government officials can and should be involved in these bodies, but they will no longer be required to arbitrate on conflicting claims on their own. It should, however, be recognized that in many parts of the region the productivity of water during dry season is so large, and the available water relative to land in this season so limited, that the conflict between individual interest and collective good is likely to be particularly severe. The mechanism for enforcing the socially desirable allocation of water will therefore require either direct control over water allocation or a system of severe penalties for violating the regulations regarding water use. Local institutions will need to play an important role in this process.

As to the high-yielding varieties (HYVs), it is by now well known that, except for wheat, the spread of the varieties and the increases in production resulting from them are far less than expected. In the case of rice, which is by far the most important cereal crop in the region, the gains

have been especially disappointing. The basic factor, again, lies in the difficulty of achieving the necessary quality of water control. The new varieties have done well in Pakistan and during the dry season in the rest of the region because under these conditions rainfall is low and the crop is entirely irrigated. All countries, and especially Bangladesh, are therefore stressing the rapid extension of irrigated rice cultivation during the dry season. But the major part of the rice area in the region is dependent on monsoon rain or is grown under deep water conditions, making it nearly impossible to control the timing and quantum of water in the field (table 8). Even in irrigated areas it is difficult during monsoon season to achieve anything like satisfactory control over water. This is not to suggest that there are not areas where better water control is possible even in the monsoon season. Even so, the inherent difficulties of raising the yield of the monsoon crop are underscored by the fact that the extent of adaptation of HYVs and, except in Pakistan, the growth rate of yield are consistently much lower for paddy than for wheat (table 9). That the new varieties for other cereals have done even less well and that no varieties with comparable potential for raising yields are yet available for many of the important non-cereal crops point not only to difficulties of stepping up the over-all growth rate of crop yields but also to the likely aggravation of imbalances (e.g., the decline in pulse area and production) which have already begun to surface in some countries.

In addition to the adoption of new varieties, the increase in fertilizer use and its productivity will have a major influence on the rate of output expansion. Defects in extension services, the organization for the supply of material as well as of credit and the sharp rise in fertilizer prices in recent years are usually held responsible for the failure to realize targeted levels of use and the slowdown in the growth of demand in recent years. But the constraints imposed by environmental (soil and water) conditions necessary for the effective use of fertilizers at recommended dosages are just as important. There is also some reason to believe that fertilizers are being used at a much lower level of productivity than is possible with available knowledge. These dimensions of fertilizer use are little understood and deserve greater attention. While all these constraints tend to depress growth of fertilizer demand, it would seem that the constraint on expansion of fertilizer use in Bangladesh currently arises mainly from shortage of supplies.

The one country which could be an exception to the regional pattern is Pakistan. Given its low rainfall and the fact that most of its cropped area is irrigated, the problems of efficient water management would seem far more tractable. If the belief is correct that there exists considerable scope for expanding the exploitation of groundwater without risk of "mining" this resource, there should be scope for a further significant rise in cropping intensities. Indeed, it is this perception which seems to underlie the confidence of Pakistan's planners that the recent slackening in agriculture can be reversed and farm output increased at the rate of

7 per cent a year, a rate which would support a phenomenal 9 per cent annual growth in GDP and still leave a large surplus of farm products for export. However, while technical conditions may be highly favourable, the institutional context, and in particular the distribution of land and the tenurial system, may constrain growth. Indeed, both the Food and Agriculture Organization of the United Nations (FAO) and the Asian agricultural survey seem to consider the recovery of the agricultural growth rate to the level achieved in the decade of the 1960s (1963-1974) as the upper limit in their projections.

Over-all, it seems highly unlikely that the rate of agricultural growth visualized in the national plans, thought in some cases more modest than in the past, will be realized. Table 10 gives the official targets along with the judgement of other agencies [notably the Asian Development Bank (ADB)] on the feasible range. Since past rates of cropped area expansion almost certainly cannot be sustained, even the low growth variant (less than 3 per cent a year) of ADB would require a large step-up in the rate of yield improvement. The risks of inflation and unbalanced expansion of capacity inherent in planning the level and composition of investment in the expectation of high agricultural growth have been made abundantly clear by experience. While we simply do not have the knowledge to make any confident predictions, agricultural growth in the range of 3 to 4 per cent a year over the next decade would be a remarkable achievement. The attempt to reach this growth rate certainly will pose very difficult tasks for planners, administrators and politicians.

B. POSSIBILITIES OF EXPORT-LED GROWTH

In the realm of development economics, perhaps the most forcefully advocated strategy today is that of initiating a process of economic growth led by export-oriented industrialization. The underlying logic of this strategy is quite simple: if a poor country could go on expanding its production of labour-intensive manufactures and sell them profitably abroad, then it could combine a high rate of growth with equity through full employment and rising real wages. The development experience of the Republic of Korea, among several cases during the last two decades, adds empirical underpinning to the strategy of export-led industrialization.

This is not the place to go into a detailed examination of the various domestic and international factors responsible for the remarkable performance of the Korean economy during the last 15 years, but it is important to assess how far the Korean experience can be replicated in the south Asian context and what would be the magnitude of its impact if export promotion were to be carried out to its feasible limits. Given the size of the economy and other demographic and resource configurations, it is felt that for India, Pakistan or Bangladesh the over-all impact of foreign trade on aggregate output, income and employment cannot be

spectacular. An illustrative calculation for India shows that if the annual rate of growth of GDP were to be increased by one percentage point over the trend rate as a result of an increase in export demand, then India's share in the total exports of the non-oil producing developing countries would over the course of a decade have to increase by about 50 per cent.[3]

The case of Nepal and Sri Lanka, the two small countries of the region, is somewhat different. If these countries could substantially expand their exports — particularly of labour-intensive commodities — the resultant impact could be significant in macro-economic terms. Nepal's emphasis on tourism in recent years and the current efforts of the Government of Sri Lanka in establishing export-processing zones indicate strong awareness in these countries of the immense possibilities arising from the external sector. In the case of Nepal, however, a major hurdle in pursuing an export-led industrialization strategy is high transport costs and the external barriers to trade faced by the land-locked country. In the absence of an atmosphere of liberalization and co-operation, the current difficulties faced by Nepal in seeking access to seaports cannot be resolved.

Nepal's geographical location places it at a considerable disadvantage in pursuing export-led growth catering for markets other than India. Its success is therefore dependent largely on Indian policies. However, a careful programme of export promotion directed towards both India and other countries could provide the necessary stimulus for growth. Apart from traditional export items like jute and rice, tourism is already emerging as the leading export sector of the economy and it is expected to grow rapidly in the future. A plan of regional co-operation with India and Bangladesh in the harnessing of the Himalayan river system could herald the beginning of a new era based on the export of hydropower. On top of this, Nepal's topography offers great prospects for the development of horticulture, livestock and vegetable cultivation and vegetable seed production. A planned programme of export promotion will have to exploit these opportunities in the future.

Sri Lanka does not face these barriers. In addition to having vast potential in processed materials and services, it can, in co-operation with some of the developed countries, other successful countries of south-east Asia and, of course, the transnational corporations develop the nexus of domestic production, international marketing organization, capital, technology and information flows necessary for any scheme of export-led industrialization. But as experience elsewhere shows, the vigour with which such a growth process can take off and sustain itself over time depends crucially on the existence of dynamic, alert and powerful entrepreneurial class within the country. The success of the outward-looking growth strategy will depend on the extent to which this class on

[3] These calculations are extremely hazardous because one needs to keep too many factors — internal and external — constant in order to compute the marginal contribution of any element in the world system of production and trade.

the one hand can grasp the profitable opportunities arising in the international market from time to time and on the other hand can use State power and society's other regulatory institutions to keep a low-cost economy functioning smoothly. It remains to be seen to what extent these conditions come to be realized in Sri Lanka in the course of the 1980s. But one should not be under the illusion that a few cordoned-off areas, where essentially the subsidiaries of foreign companies are permitted to produce for foreign markets, can lead to an economy-wide growth process on a significant scale.

As we have argued earlier, although the ability of a small country to rely on the external sector to resolve its over-all growth and equity problems is greater, the big countries too must try to derive whatever benefits they can from external relations. In the south Asian region, India and, to a large extent, Pakistan have fairly large and diversified sectors of manufacturing industries. They export a wide variety of manufactured commodities. These exports have been rising steadily in the past decade. The existence of large excess capacities in many segments of industry would appear to provide significant potential for the immediate expansion of exports, especially in India. A part of the reason for the existence of these excess capacities no doubt relates to the supply side: bottle-necks arising from shortages, mismanagement in the electricity and transport sectors and difficulties in industrial relations. Similarly, excessive reliance on direct control over capacity creation, production, prices and the allocation of scarce materials like foreign exchange has in the past inhibited the expansion of exports. But over the last few years the trend has clearly been towards liberalization in both the sphere of foreign trade and that of production and capacity creation. In fact, in the case of neither India nor Pakistan can one argue that public policy today is as discriminatory against export expansion as it was in the 1950s or 1960s, when industrialization through import substitution was the dominant theme in planning and policy making. None the less, there is still scope for further rationalization of the trade and fiscal policies in these countries, particularly in the sphere of removing quantitative restrictions on imports and multiple exchange practices. There are, however, hardly any credible estimates of the effect of such a liberalization package on production and trade.

Unlike India, which has by now exhausted the possibilities of industrialization through import substitution, or Pakistan, which is entering the more difficult phase of import substitution in capital and intermediate goods, Bangladesh is now in its initial phase of industrialization. Import substitution is therefore likely to remain the dominant theme underlying whatever programme of industrialization Bangladesh is going to adopt in the 1980s. However, programmes of regional co-operation and an improved international environment for labour-intensive exports may increase the scope for both expanding and diversifying exports.

In spite of all the differences among the countries of south Asia and their efforts at domestic reforms aimed at export promotion, one can confidently predict that their individual and collective ability to push exports on any significant scale will ultimately depend on the future rate of growth of the mature industrial economies and, more important, on the reversal of the protectionist tendencies and the removal of discriminatory trade barriers in those countries. If the less developed countries are to expand their exports to labour-intensive manufactures, it is only possible in the context of the international division of labour.Whether in the field of textiles and garments, leather goods, light engineering products or products of metallurgical industries, the effective barriers to international trade and specialization today lie in the quota restrictions and other protectionist measures currently practised by the developed Western economies. Therefore, the major task before the international forums in the 1980s will inevitably be the removal of the restrictive trade practices in the developed countries and the creation of a new international trade framework in which every country could gain in the long run, with poor countries perhaps deriving some extra advantages which they must have to initiate a process of self-sustained growth.

C. OVER-ALL GROWTH PROSPECTS

In view of the above considerations, the prospects of the region achieving high growth rates in the next decade seem quite doubtful. If agricultural production and exports rise no faster than they have in the past decade, and foreign assistance remains at current levels, the region as a whole will be hard put to maintain a 3.5 per cent annual rate of expansion. With quite optimistic assumptions regarding agriculture and foreign exchange availability, the highest feasible growth rate would be in the vicinity of 5 per cent a year.[4] The extent to which the incidence of absolute poverty would be reduced under such optimistic conditions without any special effort would depend on the behaviour of population and the relative inequalities in the distribution of income.

We shall not enter into any detailed discussion of demographic prospects except to note that birth rates have already begun to fall in several parts of the region, that all Governments are fully conscious of the imperative need to bring down the rate of population growth and have undertaken massive programmes to bring this about, that the rate of decline in fertility relative to mortality will differ from country to country and that despite the utmost effort the growth in absolute numbers cannot be checked in the next decade. The ADB projections indicate that the

[4] This compares with the 5.1 per cent growth rate postulated in IBRD, *World Development Report, 1978*, and the 5.0 per cent to 1.5 per cent respectively in the high and low variant projections of ADB.

population of the region by the end of the 1980s is likely to be 1 billion. This implies an average annual growth of 2.5 per cent a year, ranging from 1.8 per cent in Sri Lanka to about 3 per cent in Pakistan.

On the above basis, *per capita* GDP in 1990 would be between 10 and 25 per cent higher than at present. If the relative inequality in the distribution of income remained unchanged, the proportion of the population falling below any given poverty norm at the end of the 1980s would be lower than at present, the reduction being more in the high growth variant. But since population in the meanwhile will also have risen 25 per cent, it is likely that the absolute number of poor people at the end of the 1980s will be larger than at present.[5]

D. GROWTH AND DISTRIBUTION

There are several forces which, in the absence of corrective measures, will tend to aggravate the present inequality in income distribution in south Asia. In the first place, a 5 per cent annual growth in aggregate GDP may not be adequate to absorb the increments to the labour force, expected to be of the order of 2.5 per cent a year. The number of people dependent on agriculture will almost certainly increase, resulting in a further intersification of population pressure on land and the movement of more and more households with relatively small amounts of land into the ranks of wage labour. This pressure will be intensified if the tendency, already in evidence in parts of India and in Pakistan, for land owners to evict tenants and resume self-cultivation is allowed to persist. However, the growth of labour use relative to that of output in agriculture seems very low in part owing to indiscriminate mechanization in some parts of the region. If this trend persists, the rural employment situation is bound to worsen, thereby dampening the rise in real wage rates and/or intensities of employment. The tendency for widening of the differential in the real income growth rate between agricultural labourers (who are the principal consituents of the rural poor) and the well-to-do farmers, already in evidence, is bound to grow.

Moreover, although the new seed-fertilizer package may not give any differential advantage to the larger farmer from a purely technical viewpoint, there is abundant evidence to show that the larger farmers have superior access to physical inputs as well as to the financial resources needed to take advantage of the technology. This again can result in a more unequal distribution of rural incomes.

[5] It is noteworthy that according to IBRD, *World Development Report, 1978*, a GDP growth of 5 per cent a year sustained over the last quarter of the century would double *per capita* real incomes in the low-income countries. With no change in relative inequalities, the proportion below the proverty line would no doubt fall (from 52 per cent now to 27 per cent by 2000 A. D.), but the absolute number would be only marginally smaller (540 million, as against 670 million at present).

These tendencies in the rural sector will inevitably affect the rest of the economy as well. Since the growth of organized sector employment at projected growth rates is unlikely to be very large, the major part of the increase in labour force will continue to compete for jobs in the unorganized segment of the market. The expansion of job opportunities in these activities is again constrained by the over-all growth rates so that the situation of excess labour supply, with all the attendant consequences by way of depressed wage rates and low intensities of employment, will persist. Indeed, if the situation evolves as predicted in the rural sector, the disparities between the organized and unorganized sectors in urban areas may well worsen.

Unequal access to development resources is as much a problem in urban areas as it is in agriculture. Small producers suffer from a variety of disadvantages in access to raw materials, credit and markets relating to larger businesses. Where, as in India, banks and financial institutions have been nationalized with the express purpose of facilitating access by smaller producers to credit, the situation has improved, but only moderately. Differential taxation of products of large industry to protect the traditional sector and more positive programmes to provide technical and financial help to small industry have produced mixed results. The most impressive case of such intervention is in the textile sector of India, where, since the ban on the expansion of weaving capacity in modern mills, the entire increase in production has come from the decentralized sector; but on closer examination it turns out that the benefits of the expansion of the decentralized sector have accrued only partly to the traditional handloom weavers, the major part having gone to a burgeoning power loom industry. In Bangladesh also there is a ban on the expansion of weaving capacity in the cotton textile sector. The handloom sector traditionally supplies nearly 65 per cent of the total available textile material. In the absence of supportive extension and marketing institutions, however, the weavers have failed to consolidate the gains from the ban and the associated control of yarn prices. In contrast to the Indian case, it is the trading middlemen who have made the best use of the imperfect institutional situation.

Although systematic studies have not been made, there is a widespread belief that the planning process has not succeeded in narrowing the regional disparities. While the public sector has indeed played a significant role in setting up industries in backward areas, agricultural areas which were already relatively better off have done much better than average. A recent study in India has shown that although resource transfers from the centre to the States for plan purposes were tilted in favour of the backward States (thereby working to reduce disparities), this was fully neutralized by a regressive pattern of resources transfer outside the plans. The well-to-do States were able to get around the Planning Commission by using their political power to obtain transfers of central funds on other accounts and by using their superior administrative capabilities to obtain a larger proportion of the assistance provided by financial institutions.

While there is a great deal of persuasive evidence on the widening disparities between particular classes and sectors and among regions, available statistical evidence on the pattern of over-all income distribution in rural areas does not show a consistent picture of changes in relative inequalities over time. Nevertheless, it is difficult to ignore the force of *a priori* arguments which suggest that in the context of slow-to-moderate growth in total output the poorer classes, and especially those who (lacking productive assets) have to depend on wage labour, will find it difficult to increase their incomes and living standards at the average rate for the population as a whole. Even if these fears turn out to be ill-founded and relative inequality remains unchanged, there is no prospect for a reduction in the number of the people below the poverty line unless the State intervenes to make the distribution more equal than it is at present.

The idea of defining the objectives of development to include the guarantee of a minimum standard of living[6] to everyone is not new to the region. It was in fact the basis for a long-term (15-year) programme prepared by the Indian Planning Commission as early as 1962. It is a measure of the magnitude problem that, even with a sustained annual increase in GDP of 7 per cent between 1960 and 1975, it was found necessary to reduce the degree of inequality in consumption (from 0.33 to 0.25 in terms of the Lorenz ratio) if all but the poorest 10 per cent of the country's population were to have, by 1975, a moderate standard of food, clothing and housing.

[6] It is perhaps appropriate to stress here that "minimum needs" in its narrower concept is concerned only with providing all regions and classes with a certain minimum standard of education, health, drinking water and communication. The problem here is one of mobilizing the necessary resources from the well-to-do and ensuring that the resources and personnel needed for the programme in fact reach the areas which fall short of the agreed standards. This is, in principle, within the control of the Government. The basic needs strategy understood in the broader concept aims at guaranteeing a minimum living standard of both public and private consumption (i.e., including a minimum of food, clothing etc.). Many advocates of the latter approach argue that it requires drastic change in the priorities of investment allocation so that more of the items of mass consumption could be produced and less of luxury goods. We have already stressed that the effective constraint on the expansion of agricultural production, the source of practically all essential consumer goods, is not always the lack of investment. Also, a shift in the pattern of production in favour of essential goods, without a concurrent shift in the distribution of incomes in favour of those who will use these goods, will not solve the problem. The Indian experience during the past few years, when the stocks of foodgrains remained high in the face of widespread undernutrition of the population, serves to dramatize this point.

III. REDISTRIBUTIVE PROGRAMMES

Intervention to alter the distribution of incomes may take several forms. First there are measures designed to redistribute privately owned productive assets more evenly among those who derive their livelihood from them. A second category includes programmes aimed at improving productivity, incomes and employment of specified target groups (or regions) at a faster rate than might happen in the natural course of events. Intervention which in effect raises current consumption of the poorer classes is yet another category. Finally, there are measures designed to give the State a greater degree of control over the accumulation and use of wealth. Practically all these types of intervention are being attempted in the south Asian countries.

A. LAND REFORM

Attempts to redistribute private wealth in the predominantly agrarian economies of south Asia have quite naturally centred on the issue of land reform. And yet it is the common experience of a highly ineffective land reform programme which illustrates most precisely the severe nature of the socio-economic constraints under which the agrarian system operates in these countries. Programmes of land reform in each country were formulated to include tenancy reform and ceilings on private land ownership. Less emphasis was placed on programmes of land consolidation and better water and credit management. While maximum ceilings varied enormously among countries, actual achievement in terms of land declared surplus was uniformly poor, except in the case of Sri Lanka. The amount of land declared surplus was uniformly less than 3 per cent of total cultivated land. Only in Sri Lanka was it as high as 14 per cent as a result of the land reform measures of the 1970s. While Sri Lanka acquired considerable land, it shared with the rest of south Asia the common dismal experience of not being able to distribute effectively the surplus land to the rural poor. Thus, even in Sri Lanka not more than 1.5 per cent of the total cultivated area was distributed to the landless and poor peasants,[7] while the figure was less than 1 per cent in every other country of the region.

[7] A large acreage, however, was vested in different types of co-operative organizations by way of a compromise between the need to broad-base ownership and the need to preserve the economies of scale of each production unit. The latter technical consideration exerted a dominant influence on the mode of disposal of expropriated lands, and this accounts for the reluctance of the authorities to have the economic viability of the plantations undermined through an extensive alienation of the crop lands to individual villagers.

While the land redistribution programme was an almost systematic failure, the very process of initiating land reform brought about certain changes in the balance of power. Both in Bangladesh and in many parts of India which for historical reasons had developed large land proprietorship rights under the Zamindari and Jagirdari systems, sustained by an elaborate structure of intermediate non-cultivating rent-receiving interests operating between the Zamindar or Jagirdar on the one hand and the direct cultivators on the other, the abolition of the former Zamindari-Jagirdari system resulted in a shift of power away from these larger feudal interests to a more diffused body of smaller rent receivers and rich peasants. Such diffusion of power based on landed property perhaps did not take place to the same extent in Nepal or Pakistan. In Pakistan, generous ceiling laws combined with the general absence of differentiated structure of rent-receiving interests impeded the diffusion of landed power. But the very process which diffused the power of landed property in India and Bangladesh in the earlier phases of land reform has created a much wider power base of propertied interests in land. And this makes the politics of land reform still more problematic for the future, since future reform measures will have to be increasingly directed against that wider power base.

While land redistribution programmes have not in general been effective and their only success has been in the form of widening the power base of landed property, the picture in the whole area of tenancy reform could be even more dismal. Unlike the Zamindari-Jagirdari system's abolition, tenancy reform affects a wider class of rich peasants and landowners and thus comes up against the more effective constraint of going against the interests of a more numerous group. Indeed, it has been the uniform experience of all countries in south Asia that each round of tenancy reform results in eviction of tenants on a large scale in the name of resumption for self-cultivation. It also leads to concealed tenurial arrangements, and some observers believe that such tenancies have probably become more widespread in the region. As an inevitable concomitant, land records have often been kept inaccurate and not updated, so that even the minimal prerequisite information for a genuine programme of wide-ranging tenancy reform is lacking in many areas. Under these conditions, other important aspects of tenancy reform like fair rent enforcement must also remain equally ineffective.

It is not even clear that all countries of the region recognize land consolidation, water management and associated credit reforms as integral aspects of any viable land reform programme. Available evidence shows that sporadic attempts at land consolidation based largely upon voluntary participation have led to partial or complete failure in Bangladesh and in most parts of India except Punjab, Hariyana and West Uttar Pradesh. As to integrating and with credit reform, the only country in south Asia that has made a conscientious attempt is Nepal. In Nepal such an explicit attempt was made through a "compulsory savings scheme" under which

the beneficiaries of the land reform programme of 1964 would contribute resources for the creation of a working capital land. The fund was to be managed by the people's representatives at the local level. This experiment, however, has so far failed to be effective. The problem has not been the collection of funds but their effective management at the local level to suit the needs of the contributors.

The Indian experience shows that loopholes in legislation, inability of administrative agencies to implement the laws, inaccurate and outdated records of land rights and prolonged and expensive litigation made possible under law have been the immediate causes of the failure of land reforms. It is at this level of immediate causes that the measures suggested by the Indian Panel on Land Reform could make some contribution to the pace of implementation, perhaps not only in India but also in some other countries of south Asia. They consist of three important steps: extension of constitutional protection to certain categories of land reform legislation to prevent them from being challenged in the courts as involving violation of fundamental rights; reduction in the number of stages of appeal and establishment of special courts for speedier disposal of cases; and entrustment of implementation to village-level committees with adequate representation of beneficiaries.

Attempts to operate only at the level of the law are, however, essentially superficial in this context. Underlying those immediate legal causes of the failure of land reform is a crucial political question. It is evident that any land reform machinery which is based upon the very landed class which it wants to curb cannot go very far. Indeed, this has to be recognized as the fundamental constraint on land reform in south Asia; it is essentially a political constraint on a political programme. Therefore, the ultimate sanction for land reform has to rest on the organized strength of the potential beneficiaries finding effective political expression. It is in this context that land reform essentially becomes a programme for distribution of political power in favour of the rural poor and ceases to be a mere programme for income redistribution. Thus, the argument often advanced by large landholders against land reforms — that this would condemn them to levels of income no better than that of middle-grade workers in organized industry in countries like India, Sri Lanka or Nepal — misses the essential thrust of such a programme, which is directed towards diffusion of power.

It should also be mentioned that, to make land reform a successful programme for higher production, more imaginative ideas will be needed in most cases than simply redistribution of land. This is especially important in Bangladesh and Nepal, which have the least favourable ratios of cultivated land per man. Land consolidation and effective water management under some co-operative arrangement seem almost unavoidable in these cases, as there is simply not enough surplus land to

distribute on a viable basis. But even programmes for such co-operation require the creation of a reasonable degree of homogeneity of interests among those who co-operate; it cannot be co-operation among the landless on the one hand and among large and small landowners on the other.

B. RAISING THE PRODUCTIVITY AND INCOMES OF THE POOR IN THE RURAL SECTOR

Among the programmes meant to help small cultivators to overcome their handicaps of high credit cost, low staying power and poor access to inputs, the co-operative is perhaps the oldest and certainly the most widespread in terms of coverage. As in other cases, the expectations have been belied. In Bangladesh, after initial success in involving small farmers in the management of co-operatives, it was found that, as the programme expanded, management of the societies came to be dominated by the large farmers, a larger proportion of medium and large farmers were members of the societies and the larger cultivator-members tended to get a disproportionate share of credit. It was also found that large farmers, especially those involved in the co-operatives' management, were among the biggest defaulters. The story is much the same in India. Co-operatives generally meet a larger proportion of credit needs of the large holders compared with small farmers. The average volume of credit per unit of area also rises with the size of the holding. The All India Rural Debt and Investment Survey, 1971-1972, conducted by the Reserve Bank of India shows that disparities increased in favour of large farmers during the 1960s and, furthermore, that the share of institutions in total finance rose for large farms and fell in the case of small farms. The experiences of these two countries are well documented, and there is little reason to believe that the picture in the other countries is any different.

Criticism that the advantages of "normal" programmes for agricultural development, including co-operatives, are being appropriated mostly by the medium and large peasants has led to the creation of development agencies specifically meant for the small farmers and special programmes to create employment for those depending largely on wage labour. The Indian Small Farmers Development Agency (SFDA) is an example of the former. Although the Agency has been at work for nearly eight years, the results have been disappointing. It is estimated that out of the 15 million small farmer participants identified by the Agency up to 1978, only about 10 per cent had benefited from minor irrigation and animal husbandry programmes. The entire programme is heavily dependent on the bureaucratic machinery, and the meagre time, attention and resources devoted to SFDA by top district-level development officials suggest that this is not considered to be a high-priority programme but simply a subsidiary element of the total development programme being carried out in the area. In a functional sense, the Agency's programme elements are not

different from those of the normal agricultural development programme. It will take a special effort to identify and prepare viable projects specifically for the benefit of small farmers because many basic improvements, like soil conservation, require implementation on an area basis where the small-large farmer distinction is inappropriate, or they may have to be done for groups of small farmers, which raises problems of finding groups with contiguous holdings and getting them to agree to mutually acceptable arrangements for meeting the costs as well as for operating the facilities. Under these conditions the indifferent quality of SFDA projects is not surprising. And without good projects, the Agency merely ends up as a conduit for subsidies (in one form or another) and credit, leaving little permanent residue behind.

Public works programmes have been tried in all countries under various titles and in various garbs as means of increasing wage employment opportunities for rural labour. These range from token programmes launched as a sop to criticisms that official plans did not pay enough attention to employment, through employment guarantee schemes, to integrated rural development programmes. In some cases, the "target groups" have been defined in terms of regions rather than classes of population. The Drought Prone Areas Programme in India, for instance, is meant to undertake comprehensive development projects to augment the production potential of the dry regions, which are also among the poorer regions, and thereby provide additional employment of an enduring nature.

Ad hoc work programmes undertaken as activities independently of other rural development programmes have been generally as disappointing as the SFDA-type programme and suffer from many of the same defects. It is arguable that acceleration of agricultural output growth in a manner which facilitates maximum increase in the use of human labour is far more important as a means of solving the rural unemployment problem. A central issue in this context is the role of mechanization in raising agricultural productivity and the extent to which it reduces the demand for labour in cultivation. Nevertheless, a deliberate policy of concentrating public investment for agricultural development in areas with a relatively high density of poor people and in favour of the vulnerable segments of the rural population everywhere can also make a significant contribution. The lesson of past experience is simply that fragmented approaches to the latter question through special programmes for different classes without a clear regional focus or unrelated to other agricultural programmes are ineffective.

This has led to a revival of the integrated rural development concept. The idea of a planned, multifaceted effort at improving the productivity as well as the quality of the rural environment on the basis of felt needs identified by the local communities and implemented on the principle of

self-help and group action has a long history. It formed the basis of the community development programme launched in India during the early 1950s and subsequently taken up in different forms in other countries. In all cases the working of the programmes did not meet expectations.

It was found that instead of being efforts at self-help on the part of the rural communities, the programmes as a rule turned out to be dominated by and dependent on the bureaucracy, who were not answerable to the local population and who tended to be guided by "schematic budgets" devised by their central office rather than by the possibilities and needs of their particular area. The bulk of the funds was derived from outside the local community. Initially, there was some limited local resource mobilization in the form of contributions of voluntary labour for building community assets. But enthusiasm for this disappeared rapidly, perhaps because these contributions increasingly took the form of exactions and the levy on different classes did not bear any fair relation to the distribution of the resulting benefits. Most evaluation studies found that the local well-to-do dominated the advisory councils and were the major beneficiaries of the programme. This appears to have been true even in the case of the relatively successful efforts at integrated rural development, as, for example, in the Comilla project in Bangladesh. Also, as time passed, the "people's representation" on the advisory or decision-making bodies came to be dominated by members of State/federal legislatures from the region or political nominees of the party in power, thereby reducing local development institutions to instruments for political patronage.

Recognition of these defects has led, on the one hand, to some innovations in the bureaucratic organization of rural development programmes and, more generally, on the other hand, to a revival of interest in integrated rural development through decentralized popular institutions. One of the most interesting examples of the former is the employment guarantee scheme being implemented in Maharashtra. Under the scheme anyone in the village who is unemployed and wants work can register with the village official; the State government undertakes to provide him employment in public works subject to certain conditions. Although formally various organs of local representative government are involved in the programme, it is largely dependent on and implemented through the bureaucratic machinery. But the programme avoids the mistake of being treated as yet another development activity. Instead, it is used as a device to get an idea of the extent of demand of work in different areas, and an attempt is made to adjust the nature and scale of development works under various programme categories in meeting this demand. Flexibility of finance is ensured by the provision of a separate allocation for the scheme. The scheme is reportedly quite successful.

The latest plan documents of the countries in the region place much emphasis on integrated rural development in the broader sense, which

includes effective decentralization and local participation as essential components. However, that is all too often viewed in terms of preparing technically sound and economically viable development programmes for each district or block or *thana* and of ensuring that the different departments and agencies involved in rural development are properly co-ordinated at the local level. While this may help to reduce some waste, it does not achieve the aim of effective decentralization based on people's participation in local planning.

Formal proclamations of commitments to decentralize are nothing new. They have formed a conspicuous part of the political rhetoric for quite some time. In fact, however, the record of implementation has been quite disappointing. In India and Nepal, for instance, the village panchayats entrusted with a variety of development functions at the local level not only operate under the heavy hand of the bureaucracy but have also as a rule failed to reflect the economic interests of the poorer classes. Development resources under their control have tended to be channelled to areas and for purposes to the benefit of a few. As noted earlier, this failure to confer benefits equitably has also constrained these institutions in mobilizing resources locally on a sustained basis.

Public policy in the immediate context of solving the problems of rural inequity and poverty has necessarily to come to grips during the 1980s with this basic problem of decentralization as part of a larger strategy of achieving growth and social justice. A first step is to distinguish sharply between mere devolution and genuine decentralization. The former can in some narrow administrative sense contribute to increased efficiency in planning and in the monitoring of results arising from a clearer perception of local needs, perceptions and impact. However, genuine decentralization can be viewed in a more basic sense as the means by which unprivileged groups in rural society can participate in a meaningful fashion in the development process by influencing decisions and sharing resources. The extact level and form of decentralization cannot be defined in the abstract. It will vary from country to country and, in the case of the larger countries, within each country. What is important is that the level should be so determined that in the given socio-political context it maximizes opportunities for effective mobilization and involvement of the poorer classes.

If popular participation is to be effective on a sustained basis, it may be necessary to think in terms of institutionalizing the process. Experience with co-operatives and other such rural institutions, however, has shown that undifferentiated institutions based, explicitly or implicitly, on expectations of an essential harmony of class interests in rural society are unlikely to benefit the rural poor. This is particularly relevant in the south Asian context, where rural societies tend to be stratified, ownership of economic assets is badly skewed and power is concentrated in the hands of a small

minority. It might be more appropriate in such countries to evolve a differentiated pattern of institutions with a view to ensuring a dominant weightage for the poor. This might involve excluding the entrenched élite from participation in decision-making roles in respect of certain institutions and functions. While historically developed institutions such as the panchayats might continue to interest themselves in largely regulatory duties of common concern, including the management of some social consumption facilities, a special pattern of institutions based on interest groups may have to be devised. This will be particularly relevant for work connected with redistribution of assets as well as provision of physical, financial or technical inputs to rural producers. Implementation of land reform measures and distribution of credit are two immediate avenues for applying such a strategy in south Asia. Other avenues could be identified locally.

A differentiated institutionalized approach thus seems to be one of the more promising options available for the south Asian countries in their quest for more equitable growth than was witnessed during the First and Second United Nations Development Decades. But the inherent complexities of the social reality will not, of course, vanish automatically with the adoption of such an approach. There is the danger that such constituent institutions will be rendered ineffective in practice and will be allowed to perform only such ritualistic functions as the local élite or the bureaucracy, or the two acting in tacit collusion, choose to entrust to them from time to time. If such tendencies are to be countered, the relevant institutions will need to be backed up adequately by a staff that they can control directly. Secondly, the flow of resources from higher administrative levels should be arranged on an agreed and more or less automatically working formula and not take the form of *ad hoc* discretionary grants. Thirdly, managing bodies of such institutions should be renewed through periodic elections. Resort to nominations and other such patronage-involving practices will need to be strictly avoided. Indeed, the periodical election principle is also worth stressing in the context of community-based local institutions such as the panchayats. Here again, making the relevant bureaucratic agencies accountable for their performance to the local institutions would be important.

"Decentralization" and "participation" are closely allied to the concept of "self-reliance". At one extreme is the view that genuine local development is possible only on the basis of complete self-reliance in the sense that all resources needed for the programme should be mobilized from within the local community. At the other extreme is the fact that rural development programmes in the south Asian region have as a rule been inspired, funded and executed under centrally controlled political and bureaucratic agencies that have tended to nurture the periphery in a relationship of dependency rather than of progressive self-reliance. It

is at least arguable that, where wide geographical disparities exist which reflect not so much their differing potential as the interplay of historical factors, a system of pooling and distributing at least part of the developmental resources between areas in accordance with their needs offers a means of correcting such disparities over time. As against this proposition, it should be noted that a process of pooling and devolution could serve to accentuate rather than mitigate disparities. In India, for instance, the better-off States manage to get as much, if not more, *per capita* as the poorer States by way of transfers from the central government and financial institutions controlled by it. The same phenomenon manifests itself between local institutions in different areas within States.

One way of overcoming this distortion is to earmark a part, perhaps a large part, of the national revenue pool for providing the minimum amenities of life (education, health, sanitation, roads etc.) and building up the production potential of the backward areas identified on the basis of objective criteria. Alternatively, the pattern of central financial support for such programmes, including maintenance expenditure, can be varied depending on the prosperity of the area. Unless some such principle is adopted, it is difficult to see how a time-bound minimum needs programme can be implemented. It is to be expected that the acceptance of any such principle will evoke opposition from the well-to-do areas, which stand to lose by its application, not to speak of the politicians and civil servants concerned, whose powers over disposition of resources will thereby be substantially reduced. It is perhaps no accident that in India, for instance, the vociferousness of States demanding larger resources from the Federal Government is matched by a studied coolness to proposals for greater devolution to institutions at the grass-roots level.

The interplay of forces as between classes cannot thus be neatly separated from the forces as between geographical areas. There is a real question of how far balanced growth can be pursued without correcting the inequality in the distribution of land, which is at the root of unequal distribution of power, and the perversion of State-aided programmes meant to benefit either the poorer groups or the backward areas. But if one were to go by what is feasible in the present context of south Asia, even discrete attempts at decentralizing rural development and debureaucratizing it could, as suggested, open up promising avenues for the poor to press their interests, or at least make their presence felt. Viewed from this perspective the experiments in Nepal as well as in West Bengal, and the reforms recently legislated in Kerala, are of considerable significance.

C. MANUFACTURING SECTOR

Industrialization was identified in the earlier development plans of the region as the panacea for a backward agriculture. It was to serve

both as the engine for growth of the economy and as the means of absorbing the surplus labour of the rural sector. The experience in south Asia, while stepping up the pace of industrialization, indicates that output increases in the industrial sector have been accompanied by more than a desirable degree of capital intensity. Consequently, the incremental employment opportunities in industries have been smaller than anticipated and inadequate quanta of incremental labour force have been absorbed in gainful and productive employment. In addition, the industrialization process has led to concentration of wealth and power within the economy. The process has also been accompanied by the agglomeration of modern industry in a few urban centres. The failure to link technology, location and industry and create viable links between the large and the small industrial sectors has, in sum, resulted in an inappropriate pattern of industrial growth.

The development of such a lop-sided industrial structure has been the inevitable result of the policy measures directed towards this sector. Both India and Pakistan put heavy emphasis on industrialization, at least in the 1950s and 1960s; but the policy measures in effect had a strong bias in favour of large industries and high capital intensity. Public investments in transport, power, urban infrastructure, ports and harbours removed the traditional bottle-necks to the growth of modern large-scale industries. On the one hand, public investments in utilities and intermediate goods and a systematic policy of underpricing these inputs enhanced the private profitability of large industrial enterprises. On the other hand, under-valued exchange rates and concessional finance for capital investments made it profitable to choose relatively capital-intensive techniques of production. In certain cases, the manner in which foreign aid came along with turn-key projects with inflexible technology aggravated this process.

Furthermore, the Governments placed heavy emphasis on direct control and licensing in regulating capacity expansion and in allocating certain scarce materials, including imported inputs. Ironically, these measures had the effect of generating a far greater concentration of wealth and economic power. Using their superior links with the administrative machinery, big industrial houses cornered most of the licences and improved their market share within the protective régime.

Although the plan documents, particularly in India, talked about promoting small and medium industries, public policies had an in-built bias against them. In many cases, village industries — particularly those producing agricultural implements — could not survive competition from the modern sector. Only in those cases where the small-scale producers found a network of linkages with the larger economy for product marketing, input supplies, technology and design transfers could they

survive and even grow. In the footwear industry, where the big companies operate on a principle of subcontracting, the small-scale sector developed in response to the expansion of the market. In light engineering industries and in the production of accessories to transport equipment the picture was a mixed one; better market organization linking the small and large sectors could have produced greater efficiency and healthier development. The impressive growth of the handloom industry in India is a case in point. Although the industrial policy in India reserved quotas for the small sector with respect to a wide spectrum of industrial products, only the handloom sector, where the State also created a wide network of marketing organizations, registered vigorous and impressive growth. Even now, if the trade restrictions on the import of textiles in the developed countries are relaxed, this highly labour-intensive sector is capable of fast growth.

With the possible exception of India, the establishment of linkages between large, medium and small industry did not follow any consistent set of priorities, causing wasteful differentiation and competition and creation of under-utilized capacity. With the possible exception of the footwear and metal industries, large industries failed to play the leadership role of promoting supportive growth in medium, small or cottage industries. As a result, the economies of decentralized production have not been adequately explored. This question of linkages and decentralization is important as growth of large-scale industries at the cost of equivalent small industries would aggravate unemployment. It is, however, recognized that there are areas of industrial operation where technology and efficiency considerations would dictate establishment of large-scale industries. Thus, industrial policy should recognize the differentiation in the industrial sector and promote technological efficiency and establish appropriate linkages among different categories of industries for mutual support and growth. This can be done not only through appropriate identification of the sectors but also through a differentiated institutional approach for different sectors/types, as putting all responsibilities in one institution sharply increases the possibility of bias and neglect. The Bangladesh experience with small-scale industries is a case in point.

A basic thrust in our argument so far has been to suggest adoption of labour-intensive technology because of the abundant supply of unskilled labour in south Asia. We have indicated above that technology policy would require flexibility over time as demand and supply in terms of product and factors change both qualitatively and quantitatively. While the availability of resources indicates a pattern of "appropriate technology" based on considerations of labour absorption, the product mix also conditions technological choice from the demand side. The pattern of demand is, however, dictated by the distribution of income and wealth prevailing in the country.

Dispersal of industries away from metropolitan areas has been discussed as a relevant policy in this context. But the logic of localization of industries cannot be negated unless there is compensation for the costs of diverting industry away from its commercially desired location in terms of input access, market access, physical infrastructure (including transport and commercial network) and access to administrative decision-making units. Most of the experiments with dispersal have not been successful. For instance, industrial estates generally provided no more than minimum physical facilities (i.e., internal roads, developed land, electricity and water), in many cases at high cost. They failed to provide complementary facilities, particularly a decentralized administrative machinery for expeditious clearance and allocation of scarce resources needed by the industrial units. The choice of industries in the investment schedule was such that both market and input considerations created a pull towards nodal areas in the proximity of metropolitan cities. Fiscal concessions were ineffective in neutralizing such pulls. Further, the absence of linkages among units within the subcentres inhibited the mutually reinforcing growth of these centres.

In the quest for growth and equity, we emphasized earlier the need for differentiated institutions to cater for the needs of different groups. Unequal access in resources and opportunities is as much a problem in the industrial as in the agricultural sector. Small industrial producers suffer, and the smallest production units suffer most, as they have to depend on the traditional money and output market. In this context, special credit institutions, as distinct from special credit programmes, are suggested as a measure to improve their lot at least moderately. With the support of such an institution, it may be possible to group them into exclusive producers' societies for procurement of inputs and marketing of outputs outside normal channels, which perpetuate unequal exchange relations.

D. REDISTRIBUTION THROUGH FISCAL POLICY

The essence of a redistributive fiscal policy consists of (a) collecting a share of private incomes through taxation in such a way that the richer pay a higher proportion of their income, and (b) using the proceeds to finance activities which raise the immediate consumption of the relatively poorer classes and/or enable them to increase their productivity and incomes over a period of time. Obviously the distributive impact of fiscal policies depends both on how large a proportion of total expenditure is channelled through the budget and also on the incidence of taxation relative to accrual of benefits from public spending as between different classes. It should, however, be noted that fiscal policy is seldom designed, or can be designed, exclusively for redistribution. In reality, it has to

serve simultaneously several other objectives, such as financing defence expenditures, managing short-term fluctuations and crises in the economy, mobilizing savings and regulating the allocation of resources to promote rapid growth.

Studies of tax incidence are available only for India and Sri Lanka, and these studies are limited to only partial analysis of the situation. These studies indicate that the coverage of direct taxes in India is very low: hardly 1 per cent of the population pay direct taxes, all of them from non-agricultural incomes. Although the incidence is progressive, the progressivity is far less than might appear from the nominal rate structure of income, wealth and capital gains taxation. The difference is largely explained by the innumerable exemptions and concessions allowed by law to the taxpayer. On the one hand, the incidence of direct tax on agriculture is very low and possibly regressive. The incidence of indirect taxes, which account for the bulk of the government revenue throughout the region, is progressive with reference to consumption expenditure but considerably less so with reference to incomes in the case of India. In Sri Lanka, the poorer classes pay a higher proportion of their income as indirect taxes than the middle group, but the incidence again increases at higher income levels. In view of all this, it cannot unequivocally be said that the over-all incidence of taxation is progressive.

There has been no systematic study of the distribution of the benefits of public expenditure as between different categories of the population. This is due in part to conceptual problems arising from the multiplicity of policy objectives and, more important, from the fact that, since taxation and public expenditure always affect allocative efficiency, it is impossible to measure the over-all effect on distribution. Apart from such conceptual problems, even such elementary information as the distribution of school enrolment at different levels and the use of hospital facilities relative to population in different *per capita* income classes is not available in any country of the region. Under the circumstances, we cannot go beyond rather gross and qualitative observations.

Public expenditure falls into three broad categories: administration, law and order, and defence; developmental activities; and transfers and subsides. Expenditure on administration and defence is the largest, accounting for some two thirds of total public expenditure in India. Its benefits are also the most difficult to apportion between classes. It is a legitimate question whether the "services" rendered by these expenditures really help to protect, much less promote, the poor's interests. To the extent that the additional incomes generated by these expenditures benefit the poorer classes more than the rich, they have a redistributive effect rather like that of transfers and subsidies.

Among developmental activities it is useful to distinguish between those which directly add to the welfare of the beneficiaries and those whose effects on distribution of welfare are indirect, depending on how the increases in incomes made possible by public spending are ultimately distributed. Public health, sanitation, housing and social welfare belong to the former category. Education, however, can be viewed only partly as an item of consumption; to the extent that it raises skills, and hence incomes, its distributive impact is more difficult to capture. The second category of programmes includes all outlays on productive sectors. The distributive impact of programmes which are designed explicitly to increase the productivity of specific classes of the poor can be judged directly given the necessary information on the beneficiaries. But for programmes with a more general coverage, such as much of irrigation and land development, fisheries and forestry, one needs to know not only how the productive improvements are distributed between, say, different size classes of farms, but also the extent of the eventual increase in incomes of these classes.

Once again, data availability precludes any definite statements. On the basis of limited information and analysis, mostly relating to India, several findings can be cited. First, public expenditures undertaken for improving the current consumption of the poor, especially curative health, appear to have benefited the poor, especially in urban areas, although these benefits have been appropriated by the top income groups in rural areas. Second, public expenditures for improving the living standard of the poor appear to be regressive. Third, expenditures to improve the economic viability of the poor seem to be limited in coverage, with no clear evidence on incidence. And fourth, the weight of evidence points to the better-off farmers benefiting much more from facilities and finance provided at public expense so that the redistributive impact is unlikely to be in favour of the poor.

Whether openly given or concealed by supplying goods and services below cost and/or by providing opportunities for private interests to obtain rental income, subsidies are an important means of redistributive transfer. In India, open subsidies of the central government alone rose from around 1 per cent of total expenditure in the early 1950s to 8 per cent in 1977/78. About half the subsidies are in the form of public distribution of foodgrains, the benefits of which go mostly to people living in large urban centres. The rural poor and the small-town poor do not benefit from it. Food subsidies account for a large proportion of expenditure in the other countries of the region, the 1975 figures being 8 per cent for Bangladesh, 11 per cent for Pakistan and 16 per cent for Sri Lanka. Except in Sri Lanka, the distribution of benefits is not very different from that in India. In India other open subsidies, mostly for export promotion and economic services, would seem to benefit largely the upper income groups. Subsidies on social services which might help the poor are negligible. Little is known about the quantum of hidden subsidies by

way of tax concessions and holidays, below-cost supply of transport, electricity, irrigation and the like. Since none of these figure prominently, if at all, in the consumption of the poor, they could not have benefited the poor. There can also be no doubt that such rental incomes as the private sector gets on account of controls over prices and distribution of scarce goods and services are mostly appropriated by the rich.

Altogether, with the possible exception of Sri Lanka, one is left with a strong impression that fiscal policy has not been effective in redistributing consumption in favour of the poor; indeed, it would not be surprising to discover that the distributive effects have been perverse. Since fiscal policies are among the few potentially powerful instruments to correct maldistribution of incomes between classes and regions, it is surprising how little attention has been given by economists or politicians to examining this question. An essential first step must be to fill in this serious knowledge gap so that the attention of the public and the policy makers can be sharply focused on the distributive aspects of fiscal policy. This is a necessary preliminary to generating political pressures for use as a more purposive instrument for achieving better distribution.

E. PUBLIC ENTERPRISE

Public ownership of wealth and State control over the economy have spread rapidly in all countries of the region. The share of public ownership in reproducible capital has increased progressively to reach quite high levels. Since public investment has been concentrated in relatively capital-intensive infrastructure and industry, however, the rise in the share of public enterprise in total output is much less striking (table 6), though still quite significant for all the countries. The progress of public enterprise in generating surpluses directly available for new investment is, however, quite poor.

The absolute surplus generated by public enterprise, defined in the broader sense to include retained earnings and contributions to the budget by way of taxes and dividend, has grown to a sizable magnitude. However, the major part of it is in the form of taxes, which form part of the government revenue pool. Since the bulk of the latter is spent on current operations rather than investment, and that too on non-developmental activities with little redistributive impact in favour of the poor, it follows that much of the surplus is in fact used for current consumption. It would appear from the south Asian experience that public enterprise has not realized its potential as a source of growth for the economy or as an instrument for distributing income towards the poor.

Low returns on investment in public undertakings are partly due to over-capitalization, low rate of capacity use and poor maintenance. To a

considerable degree, such ineffective use of capital reflects the constrains under which public enterprises have to operate. Typically public enterprises have little control over the sources and terms on which finance for capital and current operations is realized, or over the procurement and marketing régime of the enterprise, especially in relation to the external sector. A preference among the policy makers of these countries for administered prices, reinforced by distributional controls, constrains surplus generation and imposes serious distortions on the distributive régime of public enterprises. The absence of an effective incentive structure devised within the framework of an incomes policy has tended to discourage the retention of professionally competent managers and, where these are still in use, to inhibit their operational effectiveness.

Public enterprises find it difficult, in general, to retain good managers owing to their inability to pay a market wage while the rewards offered for skills by both the domestic private sector and the international market are much more remunerative. The tendency for the top jobs to be retained by the permanent bureaucracy is also a potential disincentive and is inimical to the emergence of a cadre of professionally competent managers motivated by the incentive of responsibility and career advancement. The further tendency to constrain the operational autonomy of public enterprise executives through bureaucratic and budgetary controls instead of concentrating on over-all operating results is an impediment of efficient management. Nor is it easy to evaluate efficiency in a situation where the enterprises are expected to fulfil multiple objectives.

The consequence of these exogenously imposed constraints on the capacity of public enterprises to generate surpluses is not necessarily reflected in a socially equitable reallocation of the surplus by the controlling authorities. In many cases appropriation of the surplus through price and distributional controls with a view to mitigating inflation or benefiting targeted groups of the less privileged degenerate into instruments of patronage and appropriation of scarcity premiums by privileged intermediaries. The use of public enterprise as an instrument for distributing patronage often leads to overmanning and the placement of inappropriately qualified people in positions of responsibility, which further constrains their capacity to generate surpluses. In some countries these policies have not succeeded in even maintaining the level of real earnings or protecting the relative share of factor incomes of the target groups concerned against the interests of the intermediaries and the privileged groups within the system. In these circumstances public enterprise, rather than serving as an instrument for distribution to the poor, becomes a vehicle for directly or indirectly benefiting privileged elements.

Besides direct ownership, most governments in the region have either nationalized principal credit and financial institutions or control the allocation of credit by them; many also have acquired powers through licensing, control of monopoly and other means to regulate the concentra-

tion of private business in a few hands. But the growth of big business has hardly been curbed in any of the countries. Indeed, in some they have benefited from the very instruments of regulation meant to contain them. It should be noted, however, that in some cases, at least in India, State-owned financial institutions have acquired extensive equity holdings in the private corporate sector. A substantial part of private corporate equity is thus held by these institutions and in some of the big business firms the government has thus become a dominant shareholder, owning a far highest proportion than the houses which used to control and manage them. In principle, therefore, the State has acquired the leverage to shape the policies of these enterprises in a socially desirable direction.

The south Asian experience with public enterprises appears to indicate that public enterprise has not been conspicuously successful as an anti-poverty instrument. It has had some success in achieving an element of regional dispersal of public investment to backward areas, conferred limited benefits to some elements of the working class, increased to some extent the earnings of some parts of the farm sector and contributed to the revenues of the government indirectly rather than by design or policy. Such contributions have in many cases been made directly at the cost of the growth potential of public enterprise or the interests of its employees. These revenues have not always been used by the respective governments to reduce poverty. Nor has the investment strategy of public enterprise made any significant contributions to employment or meeting the basic needs of the poor.

Within the perspective of anti-poverty strategies, another dimension of the role of public enterprise relates to its role as an instrument for reducing concentrations of wealth and power, at least in the urban sector. Here again the south Asian experience has yielded mixed results. Except for a short period in the 1970s in Pakistan and Bangladesh, where the growth of public enterprises was used as a direct weapon to curb the power of certain segments of the population, in none of the south Asian countries was its extension really used in any way to frustrate the concentration of power. In Sri Lanka, public enterprise was used in the 1970s to take over private interests in the plantation sector but was never explicitly oriented to frustrate the growth of the private sector, although this may have emerged as an unscheduled by-product. In Bangladesh and Sri Lanka and to a very limited extent in India, public enterprise was used to take over non-indigenous interests in some sectors. In none of these countries, except for this phase in the early 1970s, was there any attempt to deploy public enterprises to break up concentrations of wealth and power. Indeed, in all these countries, whether by explicit policy intention or as a by-product of the workings of the system, particular segments of the private sector both directly and indirectly benefited and expanded through the medium of public enterprise. The distributive régime of controls favoured for public enterprise has been particularly conducive to the growth of the private sector at the direct expense of public enterprise.

The south Asian experience suggests that in the area of public enterprises, policy makers need clarify their own intentions and identify certain broad areas of action which could contribute to the goals of reducing poverty and concentrations of wealth.

The growth of public enterprise would appear to be a necessary but not sufficient condition for reducing concentration of wealth. To realize this, policy makers would need to take conscious policy decisions to limit the size to which such an enterprise or conglomerates can grow. In the south Asian countries, the problem is not one of monopoly in the product market but monopoly of power and wealth. It is only when this is broken that the extension of public enterprise into areas hitherto under private ownership can serve the purpose of reducing concentrations.

A policy directed to the reduction of concentrations must at the same time define the social parameters of such a policy by setting out in unambiguous terms the current and future role of both public and private enterprises. If the goal is to use public enterprise as an infrastructure service to support the private sector, this should be made clear rather than permitted to emerge as an unintended by-product of State policy. If the object is both to limit the growth of the private sector and to expand progressively the role of public enterprise, then the social assumptions and time frame underlying such a policy should be spelt out. Either way, the prevailing tensions which have surrounded public enterprise in south Asia will be reduced. In this situation, policy makers and those contending for power within the polity will be more willing to accept the parameters of public enterprise as settled rather than seek to modify them by working to undermine its viability in order to promote the expansion of the private sector.

Once the social assumptions and boundaries of the public and private sectors are established, the contending social groups within the polity will at least have the shared objective of making public enterprise viable and productive. If public enterprise is to work in support of private enterprise, it is better that it do so efficiently and that the instruments for support and transfer of surplus do not work at contradictory purposes. Alternatively, if public enterprise is clearly to play a lead role in the economy with the pre-emption of the role of the private sector, then it will have to become the main engine of accumulation and growth in the economy. An unproductive public sector will undermine not only its own viability, which is now taken as given, but the viability of the whole system.

The unified commitment within the system to make its public enterprises productive must identify the main constraints on production performance. The south Asian experience has identified this in terms of constraints on enterprise autonomy in the capital, labour and commodity markets. Once the investment decision is taken, autonomy to keep the plant productive must at least be provided for, as must the freedom of

decision over material procurement. In both cases, it is far more important to establish a clear line of accountability along with a machinery of sanctions and rewards to establish the premium on honest and efficient decision making rather than to impose costly and eventually ineffective checks on decision making.

In the labour market, also, the principle of identifying responsibility either individually or collectively and rewarding the fulfilment of responsibility through an effective system of incentives may be necessary. Within this system the participation of workers in the managerial process through a redefinition of the traditional division of labour between white collar managers and those who work with their hands appears to be an important pre-condition for securing a shared commitment to make the enterprise productive.

The reward structure in public enterprise must be devised within the framework of an income policy. If a thriving private sector system is to exist, management and skilled labour in public enterprises must be paid their market wage. A wage scale and incentive structure related to performance needs to be devised along with complete freedom to recruit laterally from the market rather than on the basis of established governmental procedures. Here again results must be measured against performance rather than rules. If public enterprise is to carry a quota of patronage appointees, then this must be identified as a social cost to be paid for within the allocative framework of the budget. Managers should be made to identify the costs of overmanning, which may be paid for out of the job-creation programmes budget set up by the government.

In seeking to focus the attention of policy makers on the consequences of their actions, not just in relation to the goals of public enterprise but also in terms of over-all budgetary policy, any evaluation of public enterprise performance must insist on a full and explicit statement of all the objectives other than maximization of profit which each enterprise or group of enterprises is supposed to realize. They should further seek to identify the costs in terms of surplus foregone, as well as the beneficiaries of these policy goals. This will not only make for a fairer assessment of public enterprise performance but also help to focus debate on the justification for hidden subsidies and their distribution.

Finally, if some rationality must be imposed on the distributive régimes of public enterprise as an anti-poverty device, then policy should focus on maximizing the surplus it can make available to the exchequer. The principle of reducing poverty through allocative policy in the development budget is likely to be much more effective than extracting surpluses from the body of public enterprise as has been the policy in south Asia. Pricing and distribution controls should only be applied where the poor

are the intended beneficiaries and the distribution machinery is adequate and efficient enough to deliver price-controlled products directly to all in the target groups. The south Asian countries' experience has shown that the capacity to sustain a comprehensive rationing system is at the moment limited and at this stage could only extend to a few commodities. In these circumstances, for those commodities where an adequate public delivery system does not exist, it would be better to let the price mechanism operate and retain the surplus within the public enterprise and eventually the budget. This can then provide income transfers, projects or services in a more focused way to the poor.

IV. THE EXTERNAL ENVIRONMENT

The discussion so far has been concerned with constraints on growth and distribution which are internal to the countries in the region. We believe that overcoming these internal constraints is an essential pre-condition for significant progress towards solving the problems of mass poverty and inequality in the region. At the same time we recognize that the international environment also has an important bearing on the course of domestic developments in the countries under consideration. It is possible, in principle, to take advantage of foreign markets to stimulate growth of the domestic economy. While some countries have followed this route with conspicuous success, for reasons discussed earlier, such export-led growth is not a feasible option for south Asia as a whole in the sense that it is unlikely to make a dramatic difference to the growth potential of the region. The more important and in many ways crucial role of the external sector lies in the fact that the ability to ensure adequate supplies of raw materials, capital equipment and essential consumer goods in short supply is dependent on the availability of foreign exchange resources. While any attempt at precise projections is hazardous, there can be little doubt that, even with the utmost effort at import saving, the region's requirements of essential imports will increase as the aggregate level of activity rises, though in varying degrees in different countries.

Given our scepticism on the prospects for export-led growth for the south Asian countries during the 1980s, the central question regarding the external economic relations of the region is therefore one of finding how best to meet the essential import needs of the growing economy and to exploit the possibilities of using exports as a stimulus for domestic expansion and as a means of acquiring flexibility and independence in managing the balance of payments. This is an important consideration because, given the uncertainty of foreign assistance, its high cost and the propensity of donors to use it to interfere in domestic policies, the countries of the region should in our view seek to maximize the proportion of foreign exchange needs met by export earnings.

A. PROSPECTS FOR EXPORTS

Before turning to the future, a glimpse at the record of growth in export volume of the countries in the recent past is quite sobering. According to the UNCTAD *Handbook of International Trade and Development Statistics, Supplement 1977*, the export volume index fell for

Bangladesh (51 per cent), Pakistan (26 per cent) and Sri Lanka (26 per cent) and increased only for India (30 per cent) between 1970 and 1976.

At present well over half the export trade of the region consists of primary products; the proportion is much higher in Bangladesh, Sri Lanka and Nepal, the first having the further problem of overwhelming dependence on a single commodity (jute) for its export earnings. Although the export trade of the region as a whole has been progressively diversified into manufactures, this process has been confined mostly to Pakistan and India. At present about 55 per cent of Pakistan's export earnings are derived from manufacturing, mostly cotton textiles; in India the proportion of manufactures in the total is somewhat smaller (45 per cent), but its commodity composition is very diversified. In both countries, this trend towards diversification reflects in part the diversified industrial base built up in the last three decades buttressed, since the early 1960s, by policies specifically aimed at export promotion.

There is general agreement that the prospects for expanding primary products exports of the region are severely constrained by the inelastic world demand for its major export items (tea and jute), the competition from substitutes (jute and rubber) and difficulties of raising domestic output (coconut). In the case of tea and jute, the proposed commodity stabilization funds are clearly of great relevance to the region, especially to Bangladesh, Sri Lanka and India. This will require co-operative action on the part of all countries of the region, as it accounts for the bulk of world production and trade in these commodities. However, while such schemes could assist in mitigating the destabilizing effects of short-term price fluctuations on the economies of primary exporters, there is continued reason for concern that stability in export prices cannot, by itself, protect the exporting countries from a continued deterioration in their terms of trade. The major over-all strategy should certainly be to decrease progressively the dependence on the export of primary products and to capture as much as possible of the value-added component in the final-use form of the product. While the potential for this might be relatively low in most primary exports intended for direct consumption, there is significant potential in the many primary exports which are industrial inputs.

Any significant increase in the rate of growth of exports must necessarily involve diversification into manufactures. A shift from the export of unprocessed primary products to exporting them in the form of processed semi-finished or finished goods will make a contribution which, though limited in the over-all context, could be quite important for countries like Bangladesh and Sri Lanka. The major thrust, however, will have to be in expanding into manufactured exports.

The prospects for expansion of manufactured exports from the region are contingent on both external and internal policies. On the external

front, the most important variables are the rate of development and trade policies of the developed countries. The prognosis for either is not encouraging. There is a general consensus that the developed countries are unlikely to be able to maintain the high tempo of growth (5 per cent a year) achieved during the 1960s and early 1970s because of inflation, balance-of-payments problems and internal political problems which make aggregate demand management particularly difficult. Added to this is the rising tide of protectionism in the developed countries. Resistance to free entry of manufactures from the "cheap-labour" countries, reflected in the grudging concessions on tariff and non-tariff barriers in international trade negotiations from as early as the Kennedy Round, has been greatly intensified of late. The pressure for protectionism exerted by trade union interests in the developed countries and the very restrictive attitude of EEC in relation to textile imports are manifestations of this disturbing trend. In this context, projections of developing country prospects based on a significant rise in their share of total world trade in manufactures must be treated with circumspection. Nevertheless, since the growth of manufactured exports from south Asia is obviously tied up with the larger question of freer access to developed country markets for products from developing countries as a whole, securing the liberalization of trade policies of the developed countries should continue to be the central concern of the collective action by the countries of south Asia along with other developing countries. In our opinion, pressures for increased protection in developed industrial economies will continue unless satisfactory institutional and other arrangements can be effected in order to secure steady growth in the world economy together with satisfactory balance-of-payments adjustment mechanisms. It is essential that such international developments take fully into account the concerns of the developing countries.

It is, however, possible that south Asia could enlarge its manufactured exports, even in the context of a slow or moderate growth in world trade, by increasing its share of developing country exports. This seems possible without creating conflicts within the developing world in the case of some highly labour-intensive products like textiles, garments and footwear, as real wage rates in countries which are leading exporters of such products have risen to such high levels that it is now profitable to shift these industries to countries with lower wage rates. And south Asia falls in the latter category. The potential from this sources seems to be substantial. For instance, in 1976 the developing countries as a whole exported nearly $US 18 billion worth of textile, clothing, footwear and leather products, of which south Asia accounted for less than $US 2 billion.

Apart from these labour-intensive sectors, India and, to a lesser degree, Pakistan are better placed, by virtue of their large and diversified industrial base and the existence of excess capacity in many segments of industry, to export a much wider range of products, including intermediate

and capital goods. Thus, the potential exists for expansion of manufactured exports from the region at a significantly faster rate than in the past although, except in Sri Lanka and Nepal, it may not be so large as to make a dramatic difference to the over-all growth rate. The realization of this potential is also contingent upon the domestic policies of the governments in the region.

The discrimination between import substitution and export promotion in favour of the former, which still continues to be implicit in the exchange rate, tariff and subsidy policies of the region, will need to be corrected. It will take purposive and long-range planning of the organizational infrastructure to provide access to know-how, finance and markets for export promotion. Even where excess capacity exists, its utilization is often impeded by bottle-necks in the supply of inputs, including in some cases imported materials. Further, the ability to maintain a competitive position in world markets depends on the resilience of domestic firms to adapt techniques and products in response to changing market conditions, as well as on the ability to keep wages and domestic prices from going beyond the limits set by productivity increases in the industry and by world prices.

B. COLLECTIVE SELF-RELIANCE

To the extent that the south Asian countries remain concerned with the consequences of rising external dependence for resource transfers from the developed world, there appears scope for trade-enhancing initiatives within the developing world through a policy of collective self-reliance. South Asia has a large reservoir of surplus manpower, including a pool of skilled manpower, albeit rather unequally distributed as between countries, some elements of an indigenous technology and a potentially much larger market than exists currently within its respective national boundaries. It is strategically positioned to interact with Asian countries to the east and west and even with Africa. As the matter now stands, however, economic relations with the rest of Asia and Africa are limited except for the growing volume of manpower exports to the oil-surplus countries of the Middle East. Only recently has India, and to a lesser extent Pakistan, begun to participate directly in the enormous increment in development activity in the oil-surplus countries.

All such initiatives are currently derived from the prevailing resource base and external policy initiatives of a few countries in south Asia. Such initiatives, however, remain well below the potential for interaction within the developing world. The external relations of each country still remain largely oriented towards the developed world, which, except in the case of India, remains the preponderant source for supply of capital, technology and even subsistence in the region. The need to explore the

possibilities at both the national and the regional levels of a more sharply focused and sustained initiative to expand economic relations, particularly with the petroleum exporting countries (PECs) in tre Middle East, needs to be seriously considered. If the surplus capital tied up in the oil wealth of the Middle East can be married to the labour skills, natural resources and markets of south Asia and even the as-yet-not-very-large markets of the high absorbers among the PECs, the potential for a major transformation in the external economic balance of power in the region and even the world appears to exist. While it may not immediately serve to transform the growth prospects of south Asian countries, it will at least serve both to reduce their dependence on the developed world and to relax the balance-of-payments constraint, which appears endemic to the regional economies.

Within this policy perspective there would appear to be a wide range of possibilities for promoting co-operation. Up to now, manpower at the unskilled, skilled and managerial levels has moved to the "surplus" PECs of the Middle East in large numbers from India, Pakistan and, more recently and to a smaller extent, Bangladesh. A large part of these movements has been on an individual basis. However, as various public and private enterprises from these countries have won tenders to set up projects in the "surplus" countries, they have been bringing in labour at various levels of skill from their respective countries as part of their contribution to the project. Entrepreneurs from other countries, too, have sought to utilize cheap labour in south Asia on their projects. For example, a Japanese enterprise setting up a steel mill in Qatar brought in 200 skilled personnel from a steel mill in Bangladesh, where this firm had been the original contractor and had trained the personnel.

While such flows have substantially improved the prospects of individual beneficiaries, led to pockets of affluence in areas from which the emigration originated and had a dramatic impact on the balance of payments of some of these countries, they have led to longer-term problems at least for those countries with a narrower skill base. India, perhaps, remains the only country with a current and future surplus of skilled workers to sustain this pattern of migration. Pakistan is now coming to the point where the net loss of skills is affecting the viability of many of its development projects and enterprises. Bangladesh is a net consumer of skills and in critical areas of the economy this migration has seriously constrained its production capability. Thus, the loss of 200 skilled personnel is of serious consequence to the steel mill, as has been the case in many other similarly afflicted public enterprise projects in the engineering and chemical sectors.

To improve the situation from the sending countries' point of view, it would be worth exploring the possibilities of setting up an intergovernmental machinery to permit the respective countries to monitor these flows and relate them in a more planned manner to both the pattern of

demand in the importing countries and the structure of skills in the supplying countries. Resources from the "surplus" countries could be invested in setting up specialized training institutions in those countries with poorer pools of skills where unskilled workers could be specially trained to meet the needs of the "surplus" countries or at least substitute for those skills which have been depleted. The Islamic Centre for Technology at Dacca offers an example of the type of project that could be multiplied.

Apart from the possibilities of planning the flow of manpower, the scope for identifying commercially viable joint ventures appears to be promising. So far, much of the resource transfer from PECs to south Asia has been on a concessional basis. The motives underwriting these transfers have largely been political and humanitarian. There is, however, a residual assumption that at least some of these projects are potentially able to supply the needs of the PECs.

There is, however, a growing recognition on both sides that concessional flows cannot hope to provide a long-term basis for exchange. The surplus of the PECs is derived from a wasting asset, so they will need to build up compensatory sources of income and command over resources in anticipation of the day when their natural resources are fully depleted. The current use of their surplus funds for short-term investments in the Western money market has not only yielded negative returns to the investors owing to the depreciation of the dollar and adverse movements in their terms of trade but has made them politically much more vulnerable in any confrontation with the developed world.

In this situation there is a strong case for the south Asian countries to make a major effort to attract surplus funds on a commercial basis. So far, the recycling of petrodollars via the Western capital markets has yielded negligible benefits to south Asian countries, which are seen to be poor security risks by the world banking community. As a result, what commercial flows have taken place are largely the result of bilateral initiatives of the State and private levels. There have been some short-term credits for financing oil imports, some placement of funds with central banks on short-term deposits and some commercial lending as balance-of-payments support. These, however, have really been seen as an extension of the aid programme on slightly harder terms rather than as a mutually beneficial programme of commercial co-operation.

Perhaps the most promising of these ventures has been the Kurdemukh project, whereby Iranian capital is being invested to mine and pelletize Indian iron ore for export to Iran's steel industry. A similar project is envisaged for exploitation of bauxite deposits in Orissa. Pakistan has put together a number of investment projects with an equity stake for the "surplus" countries, but these are not predicated on a long-term marketing programme. However, some private equity investment from Dubai to

Pakistan is under way to supply cement from plants in Pakistan to the United Arab Emirates. Some joint-investment companies between Pakistan and some "surplus" countries have provided an institutional framework for promoting such ventures, but these have not yet yielded anything of substance.

The main issue which south Asian countries will have to resolve is the apprehensions of the "surplus" countries regarding their capacity to yield a return on and guarantee the security of their investments. The tendency of these economies to be inward-looking and prone to balance-of-payments crises has perpetuated their low international credit ratings.

To compensate for this, the pattern of joint ventures should also seek to tie itself to a long-term marketing programme either in the PECs or even within the south Asian region. There is obviously a very substantial market in the PECs, whose current annual import bill is in the region of $US 70 billion. An important part of this bill is realized in the developed countries, which have been selling projects, luxury goods and arms to these countries at astronomically marked-up prices to recoup the loss of resources from the oil price increase. A growing awareness of these tactics has in recent years forced the PECs to turn to markets in both south and south-east Asia for supplies and projects.. In this area, India and to a lesser degree, Pakistan have made progress, particularly in executing various construction projects; Bangladesh has also bid successfully for some projects. In competing for supply contracts and projects there is much more scope for mutual co-operation rather than pursuit of mutually damaging unilateral initiatives. The scope for setting up consortia to bid for projects will not only improve the projects' resource base but will enhance their political acceptability, since the PECs will be able to avoid invidious distractions in their awards. The collective strength of such consortia when set against the transnational corporations now dominating these economies will improve this economic viability. In making such gestures, the region's bigger countries will obviously have to make concessions to the extent that they are able to compete on their own. It will, however, be in their long-term interest to have the smaller countries of the region tied into their project bids if they do not want to overexpose themselves in this area. Such tie-ups could be extended to include south-east Asian countries.

Apart from competing for projects, liquid capital from the PECs can be deployed to set up projects in south Asia explicitly designed to serve the PEC markets or to cater for regional markets. The Kudremukh model could be replicated many times over with such funds themselves becoming a lubricant for subregional co-operation. For example, Bangladesh could provide its natural gas to a fertilizer plant serving a guaranteed long-term market in India. Petrodollars could finance the capital costs for items and technology of such a project not available in India. The returns of these investments could be guaranteed in the long-term purchase contract.

Similarly, Pakistan could provide a long-term supply of fresh fruits, vegetables, poultry and dairy products to the Gulf area in collaboration with Arab capital and Indian technology. In the same way, investments from these areas could be brought in to develop the tourist industry in Nepal and Sri Lanka. A wide variety of such bilateral and multilateral projects could be identified and the institutional mechanisms needed to activate these possibilities suggested. The present discussion is, however, designed to highlight the possibilities and indicate that these will be substantially enhanced within a framework of regional co-operation.

C. REGIONAL CO-OPERATION

One of the principal constraints to the materialization of such initiatives for collective self-reliance has been insufficient co-operation among south Asian countries. If individual countries unwillingly compete with each other in sending their surplus manpower to the Middle East, over-all and individual benefits may not be maximized. Similarly, if each country seeks to attract aid and capital from the surplus countries for development projects, this, too, may in the long run be prejudicial to both national and even collective interest. Thus, if India seeks to export technology to Kuwait to set up a fertilizer plant in exchange for fertilizer while Bangladesh seeks Kuwait aid for a fertilizer plant which seeks an export market in India, none will gain in the long run. As a result, future proposals to "surplus" countries for project finance might be more sceptically received.

A regionally planned initiative in collective self-reliance can hardly expect to make headway when economic relations within south Asia remain weak. Moreover, the growth of such relations remains constrained by structural imbalances between the economies because of different stages of development. It is essential, if co-operation is to be successful, that all perceive individual benefits in excess of costs, in advance of implementing co-operative endeavours. It is unlikely that this will occur if the market mechanism alone is relied upon. Therefore, to secure both a restructuring of trade and an enhancement of its volume, the need for a planned adjustment process within the domestic economies and for joint ventures specifically designed to serve a regional market would be in order. As it stands today, India has pursued a policy of import substitution which has made it self-reliant in a wide range of imports of finished and intermediate products. This development raises problems of finding a range of manufactures from within the south Asian region which could effectively be absorbed into the Indian market. In the first instance, there is significant scope for exporting energy-intensive products and services to India given the insufficiency of fossil fuels in relation to India's needs. This opens up prospects for joint investments in Nepal, Sri Lanka and Bangladesh in hydroelectric power and natural gas projects to serve

power deficits in the Indian market and in projects in energy-intensive industries catering for the Indian market. For example, Bangladesh can add export value to its gas by converting it to fertilizers; it can also use its gas to convert both Indian iron ore and bauxite for re-export to India. In each of these areas, India would normally aim for self-sufficiency based on fuel imports. Any deviation from this pattern would imply a programme of joint development predicated on guarantee agreements covering supply and markets and a mutually rewarding sharing of the benefits. In all these project areas, the prospects of a guaranteed market could lend themselves to investments from the "surplus" countries.

Beyond energy-based projects, the potential for exchanging natural-resource-intensive products local to the smaller countries, such as newsprint from Bangladesh or forest products from Nepal, for capital and intermediate goods from India would again require co-operation to ensure markets on the basis of which specific projects could be developed. In the case of Pakistan, such an exchange would need even closer study so that some of its own intermediate and capital products could be accommodated.

Outside of the exchange in manufactures, scope for more regional specialization in natural resource development may also be feasible. India, possibly, instead of pursuing self-reliance in fibres could depend on Pakistan to meet certain ranges of its raw cotton requirements. It could also substitute other crops on its jute acreage and reopen its market to Bangladesh's raw jute exports.

The position of the land-locked countries requires special consideration to improve their market options and to ensure their participation in the restructuring of industries on a regional basis.

At the international level, Sri Lanka, India and, on a much smaller scale, Bangladesh are exporters. Not only do they have to face the long-standing problem of fluctuating prices and instability in earnings, but they also have to contend with competition from African tea. In the jute sector, similar problems are accentuated by the secular decline in world demand due to growing competition from synthetics. Here Bangladesh in particular, because of the predominance of jute in its exports, followed by India and marginally by Nepal, faces serious long-term problems. The current pattern of cut-throat competition in both tea and jute has hitherto only benefited the developed countries and the small number of international marketing companies which control the world commodity trade. In both areas, but particularly in jute, where there is really a world monopoly in the region, the securing of the future of their markets and the acquisition of better control over the international marketing mechanism through co-operation is likely to yield dividends. In the case of jute, joint research on yield improvements, productivity gains, product diversification and development would be of collective benefit. Similarly, negotiating strength to secure markets, pre-empt competition from

synthetics, obtain access to developed country markets and ensure stabilization of prices and earnings would be greatly enchanced if a collective perspective were presented to the world. In this area, again, there appears scope for developing a commercially viable programme for stocks to stabilize prices and earnings using PEC surplus funds for both jute and tea. In both these fields, co-operation based on the specific circumstances in each country would need to identify future market shares. Thus, Bangladesh, because of its much greater dependence on jute, could negotiate a rising share of the world trade in manufactures as well as a larger share of the domestic market for raw jute.

Beyond enhancing trade, there is scope for joint projects to utilize common riverine resources as between India, Bangladesh and Nepal. An integrated river development programme could play a valuable role in flood control and irrigation and for export of power from Nepal to its neighbours. Furthermore, programmes of technical co-operation which seek to exchange and utilize indigenously developed or adapted technology would be particularly appropriate given the similarity of factor endowments and of many environmental circumstances.

It is evident that there is a wide range of options in the field of co-operation which could be opened up and these could inter-link with programmes of co-operation in south-east Asia and the Middle East.

D. FOREIGN ASSISTANCE

In the scheme of analysis presented above, foreign assistance should ideally play a subsidiary role to trade expansion and regional co-operation in the process of the economic development of south Asia. Nevertheless, it has an important role to play in so far as the investment programme associated with the postulated rate of growth exceeds the maximum possible rate of savings that can be mobilized in these economies. There may, furthermore, be a few investment projects which have a non-substitutable foreign exchange component, and this defines the minimum floor of foreign exchange requirements of the investment programme. When all other forms of foreign earnings fall short of even this required minimum, there appears a critical minimum foreign exchange gap that has to be filled through additional inflows of foreign assistance in some form.

Viewed in these terms, international resource transfers should be able to act as a device complementing the domestic resource mobilization programme rather than substituting for it. Both aid givers and aid receivers fail in their task when aid becomes only a soft option against such full mobilization of domestic savings. Therefore, in this view, the efficiency criteria for the utilization of aid ultimately depend on the ability of aid to act as a galvanizing factor for developing domestic capabilities in the long run, rather than perpetuating foreign dependence indefinitely.

But since the development of domestic capabilities has to be a relatively gradual process over time, it is imperative for the donor countries to take a long-term view of the question of efficient utilization of aid. It follows that a first pre-condition for efficient utilization of aid is a firm and long-term commitment by the donors, so that the uncertainty is taken out of aid negotiations and programmes for development of domestic capabilities can be implemented within the required long-term perspective. Unfortunately, past experiences of south Asian countries tend largely to belie such expectations. Not only have the richer industrialized countries failed in their commitment on the volume of aid, but, perhaps even more significantly, they have been unable or unwilling to work out a mechanism of resource transfer on a stable long-term basis. Aid programmes have continued to be heavily influenced by bilateral diplomacy, typically resulting in a short-term commitment by the donors, so that aid can be switched on and off to bring pressure on the receiver as an additional arm of modern diplomacy. It is essential for the steady economic progress of south Asia that such mechanisms of discretionary aid be replaced by more efficient and fair procedures based upon a more stable multilateral mechanism capable of generating long-term aid commitments.

While long-term aid commitment is a necessary pre-condition, it does not in itself ensure the best possible utilization of aid. In this respect, we take an integrated view of domestic and foreign economic policy based upon considerable decentralization. Just as a major thrust of our argument on the domestic front has been a decentralized sructure in which initiatives for taking economic decisions are based upon more concrete local experience as well as more tangible information available at the local level, on the international front the same type of argument applies. A decentralized aid utilization programme must be viewed as the national responsibility of the receiving countries without close or direct supervision by the donors. Quite apart from the sovereignty question, effective decentralization of aid utilization makes it imperative that the receiving national governments take the full responsibility for making effective use of such aid based upon their own experience and perceived priorities. The notion of aid tied either to expenditure in a specific country or to a specific project is contrary to this view of decentralization of aid. If aid is to be given, it has to be given on those assumptions only.

There is perhaps only one area where foreign assistance need not be exclusively linked with the question of generating the long-term economic capabilities of the receiving countries. This is in the area of food aid. While we have argued at length as to the necessity of maintaining a reasonable growth rate of agricultural production in south Asia, agricultural production is by its very nature subject to seasonal fluctuations, notably so in Bangladesh. While every effort should be made on the domestic front through institutional and other reforms to maintain a high and stable rate of agricultural growth, inevitable shortfalls of a seasonal nature should not be allowed to impinge on longer-term domestic

development programmes through the temporary diversion of investible resources into food imports. To the extent that food aid can insulate domestic development programmes from seasonal fluctuations, however, it creates the environment for pursuing long-term development policies on a more stable and firm basis and can act as a helpful complement to the general strategy of long-term aid commitments by donors.

In pursuing our line of argument of placing foreign assistance in a larger-term perspective, we much recall our earlier discussion which tended to show that the average growth rate of south Asia over the coming decade is unlikely to be very high. This raises an important question regarding the terms and conditions of fresh foreign borrowing. Since the ability to repay debt is largely guided by the subsequent rate of growth, it is essential for both the donors and the borrowers to agree on terms which are manageable within the perspective of moderate growth of the region in the coming decade. This implies that both the interest rate and the time structure of repayment should be negotiated in such a manner as to make them compatible with a moderate growth perspective. Broadly speaking, this calls for foreign assistance on softer terms and with a greater component of grant and official development assistance than has been available in the past. Unfortunately, however, past negotiations on foreign assistance have not paid sufficient attention to the debt servicing and repayment problems of the future. with the result that the servicing and repayment burden in relation to the export earnings of the region have become prohibitively high. The issue of renegotiation of past debt -- an important item in the discussions concerning a new international economic order — assumes special significance in this context for south Asia. Evidently, the phasing out at least of official debt could be to the benefit of both the borrowers and the lenders in the present context. It could release the borrowers to a large extent from the debt trap of foreign dependence; it could also help the lending countries in their present phase of development by increasing the purchasing power of the borrowing countries, which in turn would increase their importable capacity and thus add to the much-needed increase in effective demand for goods and services of the rich industrial nations. It is only what Keynes once described as the "humbug of high finance" and the old habit of thought of using aid and debt as weapons of diplomacy which prevent such sensible renegotiation of past debt. A pre-condition of more efficient long-run utilization of foreign assistance is precisely the elimination of such old habits of thought.

Table 1. South Asia. Demographic trends

	Crude birth rate[a]			Crude death rate[a]			Population growth rate[b]		
	1960	1970	1975	1960	1970	1975	1950-1960	1960-1973	1965-1973
Bangladesh	47.0	44.0	46.0	20.0	21.0	18.0	n.a.	2.8	2.8
India	38.0	38.0	36.0	13.0	16.0	15.0	1.8	2.3	2.3
Nepal	50.0	45.0	46.0	37.0	23.0	20.0	1.5	1.8	1.8
Pakistan	46.0	51.0	47.0	17.0	18.0	16.0	n.a.	3.2	3.3
Sri Lanka	36.0	31.0	27.0	9.0	8.0	9.0	2.6	2.4	2.3

Sources: IBRD, *World Tables, 1976*, p. 506; IBRD, *World Development Report, 1978*, p. 104.

Notes: [a] Number per thousand population.

[b] Percentage per annum.

Table 2. South Asia. Trend growth rates of GDP (Average annual growth rates)

	1950-1959			1960-1969			1970-1976		
	Aggregate	Marginal	Total	Aggregate	Marginal	Total	Aggregate	Marginal	Total
Bangladesh	—	—	—	2.7	7.9	3.6	0.5	1.8	1.6
India	3.2	6.6	4.2	1.9	5.5	3.6	1.4	3.8	2.7
Nepal	—	—	2.4	—	—	2.5	1.9	—	2.7
Pakistan	—	—	—	4.9	10.1	6.7	1.6	4.1	3.6
Sri Lanka	2.3	-0.9	3.9	3.0	6.7	4.6	1.2	3.0	2.9

Sources: IBRD, *World Tables, 1976*; IBRD, *World Development Report, 1978*.

Table 3. South Asia. Labour force and sectoral distributions of employment

	Total (Millions)		Agriculture (Percentage)		Industry (Percentage)	
	1960	1970	1960	1970	1960	1970
Bangladesh	17.1	22.3	76.0	71.0	6.0	7.0
India	189.0	221.0	73.0	71.0	11.0	12.0
Nepal	4.3	4.9	94.0	94.0	2.0	1.0
Pakistan	15.0	18.0	59.0	58.0	9.0	16.0
Sri Lanka	3.5	3.6	49.0	52.0	14.0	11.0

Source: IBRD, *World Tables, 1976*, p. 514.

Table 4. South Asia. Role of foreign trade and aid

	Exports as percentage of GDP		Imports as percentage of GDP		Foreign aid (US$ million)		Foreign aid as percentage of gross domestic investment	
	1960	1973	1960	1973	1960	1973	1960	1973
Bangladesh	10.0	7.3[a]	9.3	13.0	16.4	-284.7	-8.8	29.4[b]
India	5.3	4.4	8.0	5.5	-881.3	-438.6[c]	29.1	9.0
Nepal	—	—	—	—	—	—	—	—
Pakistan	8.4	15.1	15.1	18.5	-251.7	-129.5	58.3	16.4
Sri Lanka	29.8	18.2	32.8	19.1	-50.9	-38.9	24.7	9.4

Source: IBRD, *World Tables, 1976.*
Notes: [a] 1971.
[b] 1970.
[c] 1972.

Table 5. South Asia. Trends in *per capita* real income and consumption

	Per capita GDP[a]			Per capita consumption in index[b]			Per capita calorie intake	
	1960	1970	1973	1960	1970	1973	1960	1970
Bangladesh	79.0	89.1	72.4	87.7	100	92.1[c]	—	2,310
India	78.9	91.8	90.9	87.4	100	95.7	2,030	2,210
Nepal	—	68.0	67.1	—	—	—	2,020	2,210
Pakistan	103.8	151.4	147.5	74.7	100	96.8	1,980	2,310
Sri Lanka	74.5	93.1	91.0	92.7	100	96.8	2,080	2,220

Source: IBRD, *World Tables, 1976.*
Notes: [a] At 1962–1969 market prices (in US dollars).
[b] 1970=100.
[c] 1971.

Table 6. South Asia. Share of the public sector and of public enterprise, 1972-1974 (Percentages)

	Government revenue as percentage of GDP (1)	Public expenditure as percentage of GDP (2)	Share of the public sector in GDP (3)	Share of public enterprise in GDP (4)	Share of public enterprise in non-agricultural GDP (5)
Bangladesh	3.45	—	16.3[a]	6.5	16.2
India	20.91	26.52	17.0[b]	9.4	16.9
Nepal	5.43	7.86	—	1.1	3.1
Pakistan	10.03	14.09	15.9[c]	6.2	9.7
Sri Lanka	21.72	27.40	19.8[c]	11.0	—

Sources: Columns (1) and (2): *Statistical Yearbook for Asia and the Pacific* (United Nations publication, Sales No. E/F.77.II.F.8); columns (3), (4) and (5): ESCAP, "Public enterprise as an instrument of policy in anti-poverty strategies in south Asia" (DP/STR/SAG(2)/6, prepared for the Development Planning Division by Rehman Sobhan) (March 1979).
Notes: [a] 1973/74.
[b] 1972/73.
[c] 1974/75.

Table 7. South Asia. Potential for expansion of irrigation

	Ultimate potential (Thousands of ha) (1)	Area irrigated 1970 (Thousands of ha) (2)	Increase in irrigated area (Percentage)		Target for 1985 (Thousands of ha) (5)
			1961-1965 to 1970 (3)	1970-1974 (4)	
Bangladesh	—	1,058	111.0	14.5	—
India	85,500	30,420	19.1	5.2	42,000
Nepal	—	181	135.1	2.2	—
Pakistan	28,800	12,958	15.1	8.8	18,400
Sri Lanka	800	465	28.8	−7.5	640

Sources: Columns (1), (2) and (5): Food and Agriculture Organization of the United Nations, *Indicative World Plan for Agricultural Development to 1975 and 1985*, Explanatory notes and statistical tables (Rome, 1968); columns (3) and (4): *FAO, Production Yearbook*, vol. 29, 1975.

Table 8. South Asia. Proportion of area under rice in different environments, 1970-1974 (Percentages)

	Irrigated	Rainfed	Upland	Deep water	Second crop
Bangladesh	16	39	19	26	10
India	40	50	5	5	5
Nepal	16	76	9	0	0
Pakistan	100	0	0	0	0
Sri Lanka	61	37	2	0	25

Source: Asian Development Bank, *Rural Asia: Challenge and Opportuity*.

Table 9. South Asia. Relative performance of wheat and rice

	Rice		Wheat	
	Percentage of area under HYVs (1973/74)	Rate of growth in yield (1965-1973)	Percentage of area under HYVs (1973/74)	Rate of growth in yield (1965-1973)
Bangladesh	15.6	0.45	23.1	2.59
India	25.6	1.86	57.4	5.68
Nepal	17.1	−1.42	75.5	−2.18
Pakistan	42.1	6.44	59.0	5.92
Sri Lanka	64.5	2.37*	—	—

Source: ADB, *Rural Asia: Challenge and Opportunity*.
Note: * 1965–1972.

Table 10. South Asia. Past and projected growth rates of agricultural productions

	Past[a] (1961-1974)	National Plans	Projected FAO (1975-1985)	ADB (1972-1985)	
	(1)	(2)	(3)	H[b] (4)	L[c] (5)
Bangladesh	1.1	n.a.	—	3.8	2.3
India	2.3	4.0	3.9	3.9	2.8
Nepal	1.3	3.5	n.a.	n.a.	n.a.
Pakistan	4.4	6.0	4.5	4.3	2.9
Sri Lanka	1.4	n.a.	4.1	3.8	2.4

Sources: Column (1): *FAO, Production Yearbook*, vol. 29, 1975.

Column (2): India: Government of India, Planning Commission, *Draft Five Year Plan* (1978–1983), 1978; Nepal: National Planning Commission of Nepal, *Basic Principles of the Fifth Plan* (1975–1980); Pakistan: Planning Commission, Government of Pakistan, *The Fifth Five Year Plan* (1978–1983), June 1978, 1983.

Column (3): FAO. *Indicative World Plan for Agricultural Development to 1975 and 1985.*

Columns (4) and (5): ADB, *Rural Asia: Challenge and Opportunity.*

Notes: [a] Estimated on the basis of weighted averages of agricultural production for 1961–1964 and 1971–1975.

[b] H = High growth situation.

[c] L = Low growth situation.

Table 11. South Asia. Projected growth of population and GDP, 1976-1985

	1976[a]		Growth rates 1976-1985[b]		1985	
	Population (Millions)	GNP (Billions)	Population	GDP	Population (Millions)	GNP (Billions)
Bangladesh	80	8.8	3.0	5.2	104	13.9
India	620	93.0	2.3	5.1	760	145.3
Pakistan	71	12.1	3.4	5.2	96	19.1
Sri Lanka	13.8	2.8	2.3	4.5	17	4.2
Total	785	116.7	2.7	5.0	997	181.0

Notes: [a] Derived from IBRD, *World Development Report 1978.*

[b] Based on the high variant of the ADB projections for 1972–1985.

Table 12. South Asia. Structure of manufactured exports, 1976 (Millions of US dollars)[a]

	Total exports	Total	Exports of manufactures				
			SITC 5[b]	SITC 6[c]	SITC 7[d]	SITC 8[e]	SITC 9[f]
Bangladesh	361	222.0	1.7	216.1	—	2.4	1.7
	(100)	(61.5)	(0.8)	(97.37)		(1.1)	(0.8)
India	5,109	2,802.7	118.9	1,873.1	315.3	495.4	—
	(100)	(54.9)	(4.2)	(66.8)	(11.2)	(17.7)	
Nepal	93	13.5	0.8	9.9	0.1	2.2	0.4
	(100)	(14.5)	(5.9)	(73.3)	(0.7)	(16.3)	(3.0)
Pakistan	244	150.3	4.3	112.7	4.6	25.7	3.7
	(100)	(61.6)	(2.9)	(75.0)	(3.1)	(16.7)	(2.5)
Sri Lanka	563	75.9	17.2	5.4	—	9.5	43.8
	(100)	(13.5)	(22.7)	(7.1)		(12.5)	(57.7)

Sources: United Nations, *Yearbook of International Statistics, 1977*, vol. I.

Nepal: Data from Nepal Rastra Bank, *Quarterly Economics Bulletin*, mid-July 1976, mid-January 1978, No. 1–2.

Pakistan: Data from Foreign Trade, September 1977 (Pakistan); Statistics Division, Ministry of Finance, Planning and Economic Affairs, Government of Pakistan.

Notes: [a] Figures in parentheses are percentage shares of total exports and total exports of manufactures, respectively.

[b] Chemicals.

[c] Manufactured goods classified chiefly by material.

[d] Machinery and transport equipment.

[e] Miscellaneous manufactured articles.

[f] Commodities and transactions not classified according to kind.