The Second Freedom

South Asian Challenge 2005-2025

Strategic Foresight Group

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The research process of this project gained from two other projects we had undertaken at the same time. They were *The Final Settlement: Restructuring India-Pakistan Relations* and *Cost of Conflict in Sri Lanka.* We would like to thank Chr. Michelsen Institute and the National Peace Council of Sri Lanka for their intellectual and practical support. In particular, our research team that visited Sri Lanka had valuable support during their field visits for both the projects.

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An important component of the project was the South Asia Essay Contest. We appreciate the participation of scholars, activists and citizens from across the region. We wish to congratulate and thank Ms Asma Khalid for her down-to-earth citizen perspective and declare her the winner.

Finally, we want to place on record that the report has been possible with the cooperation of several scholars and observers of the region. While it is not feasible to name each one of them, we remain indebted to them for their insights and reflections.

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Preface

The objective of this report is to examine the challenges facing South Asia in the next 20 years. In 2025, South Asia will have a population close to 2 billion, which was the world population in 1925, or ten times the world's population in 225 AD. Does South Asia have the capacity to carry such an onerous responsibility?

In the last two thousand years, the region has demonstrated an extraordinary ability for innovation. This is the region that conceptualised the drainage system at Mohenjodaro, universities at Taxila and Nalanda, observatory at Jaipur — all at a time when Europe was considered backward. The region practised tolerance between religions, gave birth to new religions and a vast creative literature derived from faith when Europe was engaged in a violent conflict between churches of the same religion. This region had a vast state in the 15th Century, rivaled by China and the Ottoman Empire, while the rest of the world was divided into over 1,000 entities.

In the middle of the last millennium, South Asian rulers traded with other parts of the world without intending to colonize them. Had an alien from outer space visited the planet in the 15th Century, after the Chinese banned their shipping activities and before the Europeans sailed to discover new land, he would have envisioned South Asia as the super-power of the twentieth-twenty first century.

However, South Asia has achieved an extraordinary feat in degeneration in the last 250 years — what once constituted the two wealthiest regions of the world, is now one of the poorest.

Following the defeat at the Battle of Plassey, South Asian society lost its freedom to the British. They regained their independence from the colonial masters in the late 1940s. However, much of the freedom still remains a dream. In Nepal that was never colonised, the monarch is the master. In Pakistan, the military has the monopoly on power. Bangladesh has overthrown a military rule, but may surrender to a mullah rein in future. Nevertheless, political institutions only indicate the state of freedom on the surface. In reality, people of South Asia have yet to achieve full social and economic freedom. In the last 58 years, since the first freedom was achieved in the 1940s, the countries in the region have made progress in some areas, and regressed in some. However, real freedom has in fact shrunk with every passing decade.

The loss of real freedom has made people despair. There are conflicts galore in the region. Terrorism is booming and political assassinations are increasingly common-place. In the first 25 years since independence from the British, three top leaders were killed. In the last 30 years, a dozen heads of government have been assassinated and perhaps 1,200 politicians of lower level and government officials have been killed.

South Asia, in 2005, is a region where a military dictator with his 620,000 troops needs the help of outlawed terrorists to remain in power; where a powerful monarch fights a losing battle to a combination of village mafiosi and Maoists; where the leaders who were gifted their entry ticket into politics due to the assassination of a father or a husband now want to buy extension passes from religious extremists; and where a democracy is losing district after district to Naxalites.

On the surface, the region is brimming with confidence. India is aspiring to be a world power. It is certainly an easy task given its financial wherewithal to purchase a fleet of F-18s or their equivalent, and the engagement of one million highly talented youth to service the big business houses of great powers. Pakistan aspires to be a superpower of the Islamic world. It is certainly an easy task given the selling power of the A Q Khan network and the blatant sale of the nation's sovereignty and airbases to enable the western powers to attack Islamic nations. Nepal and Bangladesh do not claim to be anything; they are simply preparing themselves to be super-centres of terrorism.

The region, ostensibly, is talking about cooperation. A free trade area agreement has been signed and there are talks of a common currency. 'Rupa' is a nice name. Never mind the need to agree on policies on reserves, coordinate fiscal and monetary policies, eliminate obstacles to the movement of factors of production, establish common product and process standards and to talk of other esoteric economic policies.

Twenty years ago, the South Asian elite decided to reinvent the region by establishing the South Asian Association for Regional Cooperation (SAARC). It is about time to assess how the region has performed in the last 20 years and where it can reach in the next 20 years. Far too much debate has been focussed on who did wrong to whom in the past. It is necessary to redirect the discussion to assess who can do right in future. The South Asian Challenge 2005-2025 is about serious re-examination of the state of the region. It cannot be met by superficial politically correct, academically balanced analysis. It requires honest and fearless diagnosis. It needs drastic review aimed at reforming the region.

The Second Freedom: South Asian Challenge 2005-2025 is about revisiting the concept of the state in the region. It is about initiatives of individuals. It is about restructuring one's mindset. It is about reconstructing, or rather, constructing a shared value premise for the people of the region. It is about seeking freedom, the real freedom, the second freedom.

Sundeep Waslekar
President
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July 2005

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Global Context

During 2005-2025, South Asia will encounter a world where the basic concepts of sovereignty of state, separation of religion and polity, and the unity of super-force and super-power will be challenged, and the world will see a strategic shift from the West to the East.

The most dramatic change that South Asia will face in the next 20 years will be conceptual and hence invisible. For the last 350 years, the concept of sovereignty of state has provided the basis for domestic governance as well as international relations. In the next 50 years, this will change, with constructive and destructive challenges to sovereignty. First, in Europe, there is a growing consensus to pool sovereignty on a voluntary basis. Secondly, forces of technology, communication and finance have already made state sovereignty redundant. On the other hand, both violent and non-violent religious extremists reject the sovereignty of state because of their belief in the sovereignty of God as a superior alternative. If these forces acquire popular support, it will be very difficult for the state to survive as an organising unit of society. This process started in a dramatic way with an attack on important symbols of the western state, engendering a conflict that may continue for the next two decades until a decisive conclusion is reached.

At the heart of the concept of sovereignty of state is the concept of monopoly of the state over force. Those who challenge the concept of sovereignty do so with the use of illicit force. Those who counter them also do so with the use of force.

In the last century, it was generally accepted that the state that had maximum force was also a super-power. With the demise of the Soviet Union, more than a decade ago, the United States was seen as the only super-power. During the next two decades, US will be accepted as the super-force because of its unparalleled military superiority and its monopoly over global military expenditure. However, the United States will not be accepted as a super-power then, on account of the growing realisation of the disjuncture between the concept of super-power and super-force. While the US role as super-force will be unchallenged because of military factors, its role as a super-power will be challenged because of economic and cultural factors. The US share of global GDP will decline from 33 per cent in 2005 to about half of that by 2025. The Dollar is likely to lose its supremacy as reserve currency and share this honour with the Euro. Most important, United States may lose its leadership of the community of values as Europe may charter its own course in this regard. There will be no conflict of a serious nature between the United States and Europe, but they are likely to grow apart as two independent entities and allies instead of one political community.

As Europe's mind drifts away from its Atlantic partner, there will be a strategic shift from Europe to the Middle East, between 2005 and 2015 and from the Middle East to East Asia between 2015 and 2025. In the next decade, the Middle East will experience turmoil as the Arab elite will demand accountability from rulers, economic reforms and competitive press. They may not insist on multi-party democracy, but they will expect a Magna Carta of devolution of power from the monarchies to the elite. During this period, China will be relatively quiet, as it will concentrate on its own economic consolidation. However in the following decade, China will compete with the western powers for energy resources, markets and strategic influence. The period from 2015 to 2025 may therefore see a gradual rise in conflicts between China and the US allies in its neighbourhood such as Japan and Taiwan. The position of South Korea will be uncertain and be influenced by the developments in North Korea.

Technological developments will have an unprecedented impact on the geo-political changes of the future. Twenty years ago, nobody had foreseen Internet as an essential factor in modern commerce and even personal life. A little over a hundred years ago, aircraft were beyond imagination. Only 150 years ago the concept of a vehicle running on petrol was absent. The momentous changes of the last two hundred years are a testament to the power of science and technology. Similarly, the changes in the future will have an impact that might be impossible to imagine at present.

The biggest wildcard during 2005-2025 is the use of nuclear weapons by either an angry state or a non-state actor. Even if such a weapon is used on a limited basis, and the immediate damage is restricted to a few thousands, or few millions, its psychological impact will be profound. The world that will survive the after-effects of such an event will not be the same.

While it is difficult to project technological developments and wildcards, it is evident that South Asia will be at the centre of the conceptual changes and geo-strategic shift. The region will be influenced by global developments as well as its own internal dynamics. Most important, it will not escape the global process of the changing balance of power between the state and the individual. Much will depend on how the South Asian states are reformed and the initiatives that individuals take to shape the destiny of the region. Much will depend on whether the citizens of the region will have political, social and economic freedom to mobilise their energy to construct a new future. Much will depend on whether the people of South Asia secure their second freedom.

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CHAPTER 1

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Wealth of Nations

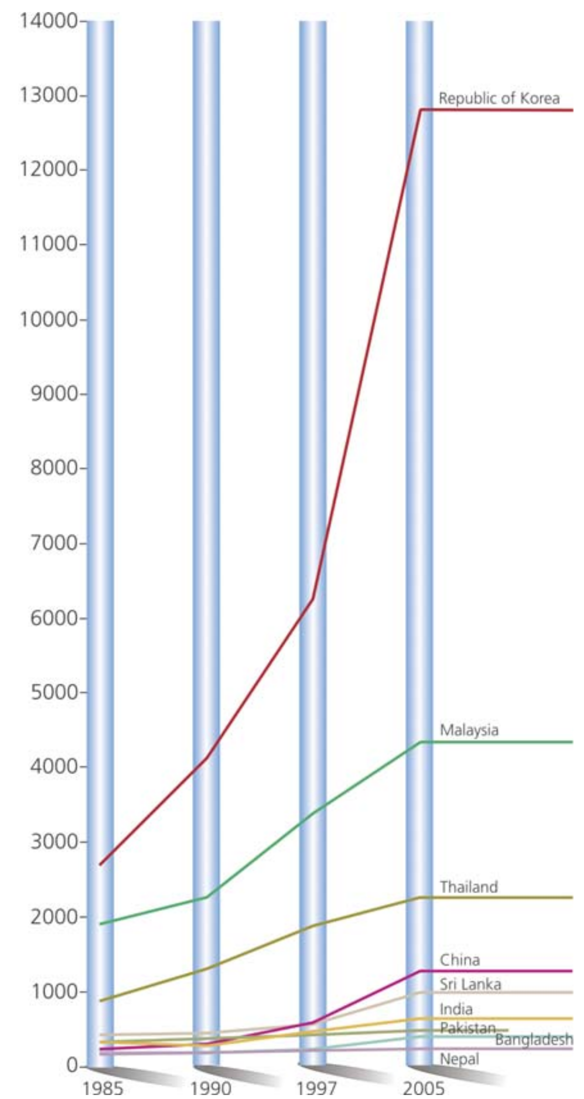
Once upon a time, South Asia was the wealthiest region of the world, ahead of North America and Europe. About fifty years ago, it had fallen behind the West but it was comparable to most parts of Asia. Presently, an average Chinese, Korean, Thai or Malaysian is anywhere from 3 to 30 times better off than an average Indian, Pakistani, Bangladeshi or Nepali person.

In 1750, South Asia accounted for about a quarter of the world's GDP. By 1950, it had been reduced to a set of colonies of Western powers, just freed and made into a set of modern states. At that time, it seemed to deliver more hope than other parts of Asia. Most East Asian cities then barely had street-lamps and the West Asian cities had yet to use oil as an instrument to promote hotels and banks. In 1965, barely 40 years ago, Pakistan and India, as well as South Korea and Thailand, had almost equal per capita income of around US $90. By 1985, South Korea's per capita income had increased to over US $2,500 and that of Thailand to over US $800, while India and Pakistan had improved to US $300. China lagged behind South Asia with a per capita income of US $200.

In the last 20 years, South Asian countries have barely doubled their per capita income while China has increased it 6 times and the rest of the East Asian countries have managed to treble or quadruple theirs. A comparison with West Asian countries would not be appropriate as the West Asian growth was driven by oil and, in fact, most West Asian countries saw a steep decline in their per capita income between 1981 and 2001. The comparison with East Asian countries is vital since they share a similar culture to the South Asians.

Per Capita Income

(in US $)



Source: Human Development Report 1999, 2004

Size of Economy

(US $ Billion)

	2005
Bangladesh	55.0
India	616.0
Nepal	6.1
Pakistan	70.1
Sri Lanka	19.4

Note: Figures have been calculated taking GDP figures for the year 2002 from the Human Development Report 2004, and then by estimating on the basis of actual growth rates for the respective countries.

Malaysia is a multi-ethnic society. South Korea has a nuclear-armed hostile neighbour. China has a huge population. Why is it then that the countries that were on par only 40 years ago have provided a much higher standard of living to their people than those in South Asia?

Moreover, it is necessary to examine the quality of growth. Bangladesh and Nepal continue to be poor. India had a low growth rate until twenty years ago and has seen its income level rising parallel to the opening of its economy. Pakistan's economic life improves whenever its military leaders secure external aid or export manpower and it deteriorates whenever its external respiratory system is loosened. Sri Lanka is the only country that has managed to pursue a consistent pattern of growth, with a per capita income double that of others in the region, though somewhat below China and half of that of the East Asian nations. Overall, South Asia, that was once upon a time the wealthiest part of the world, is now competing with Sub-Saharan Africa to be the poorest one. Must it not cause introspection?

CHAPTER 2

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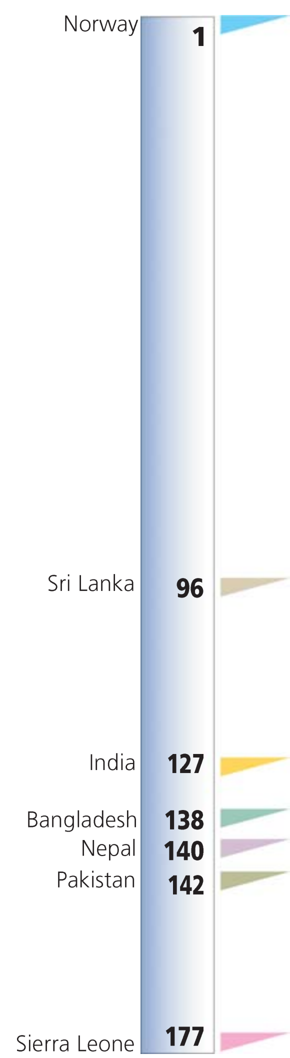
Human Development

It is not merely in terms of per capita income that South Asian countries are lagging behind. They belong among the bottom one-third on the scale of human development indicators.

According to the Human Development Report 2004, Sri Lanka ranks 96 among 177 countries. All other South Asian countries are placed below 125. The countries that once formed the wealthiest region in the world are, in terms of human development, today below Guyana, Guinea, Gabon, Fiji and Peru, not to mention their East Asian neighbours. Of course, South Asian governments can take pride in the fact that they have offered higher human development to their people than those in Zimbabwe, Rwanda, Angola, and Burkina Faso. With the mere exception of Haiti and Yemen, South Asia's human development indicators are below that of any country in Asia or Latin America, North America or Europe. In other words, South Asia's quality of life is just better than Sub-Saharan Africa.

With regards to human development, South Asia was behind the rest of the world even 20 or 30 years ago. In 1975, China had a per capita income lower than that of most South Asian countries. But its human development index was 0.523 as compared to India's 0.411 and Pakistan's 0.346. Other East Asian countries had a human development index well above 0.600, a level crossed by Sri Lanka then and ever since. Thus, the current state of human development in India, Pakistan, Nepal and Bangladesh is almost 30 years behind their East Asian neighbours. This clearly highlights the fact that East Asian countries have given priority to human development and continue to do so. In South Asia, human development index has improved in the last three decades but not enough to meet the East Asian standards of even 1975. At this rate will South Asia manage to come up to the East Asian standards of 2005 at least by 2025? And for a region that merely two-and-half centuries ago boasted of better standard of living than North America and Europe, is it a day-dream to think of meeting the human development standards of the West in the next half century? To what extent does this bother the leaders of the region as their most crucial concern?

Human Development Ranking



Source: Human Development Report, 2004

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Poor Man's Burden

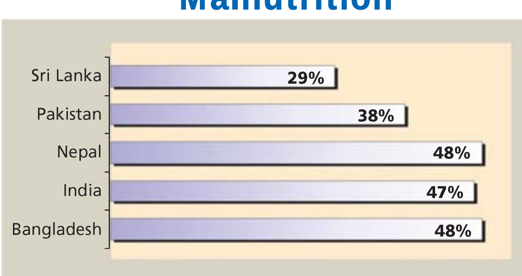
Low level of human development in South Asia seems natural when a large segment of population, that is dependent on agriculture, has to share a small proportion of national income.

Sri Lanka is the only country with a human development rank in the top 100. It has about a third of its labour force employed in farming, which provides 18 per cent of national income. Other South Asian countries have 50-80 per cent of their labour force in agriculture, which provides 23-40 per cent of national income. Thus, too many people seem to be earning too little income. Conversely, prevalence of a few opulent cities suggests too few people earning a large sum. The resulting paradox is most effectively demonstrated in the 50 million tonnes of surplus food, stocked up in the South Asian granaries, failing to prevent more than 5,000 hunger deaths in the region in the first half of the first decade of the twenty-first century. The mortality rate for children under 5-years of age is around 10 per cent. Thus, out of about 200 million children below five, about 20 million kids are going to die in South Asia before they have an opportunity to learn ABCD in local languages. The proportion of under-nourished children is 40-50 per cent, except in Sri Lanka. Thus, approximately 100 million children are under-nourished when 50 million tonnes of foodgrains are lying unused.

Life is not easy for the children who manage to survive beyond the age of five. Almost 40 per cent of the children in Bangladesh, India and Nepal and over 50 per cent in Pakistan drop out of school before they complete their primary education. In the absence of any education or skills, they remain menial labourers. As a result, they are unable to escape their dependence on the farming sector with the lowest level of return for their labour. They exist, but do not live a life beyond mere struggling for survival, unless they can manage to join a criminal gang or a terrorist network.

Is it possible to conceive the death and entrapment of families belonging to farmers when the farming community is producing surplus food, in any other democracy? Democracies are supposed to deliver satisfaction for the largest number of people. South Asian democracies have provided death and suffering to its farmers in return for the largest number of votes and large quantities of milk and food. Is this the failure of economics or politics?

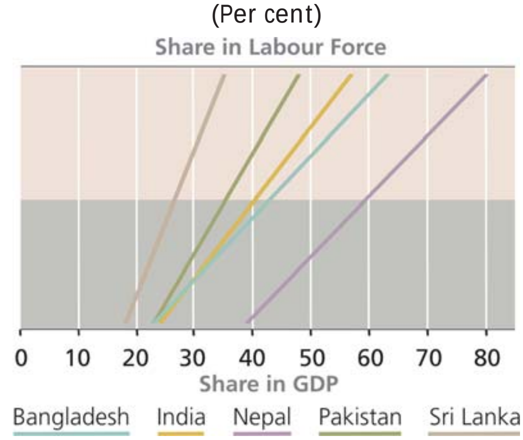
Children Below 5 years Suffering Malnutrition



Source: World Development Report, 2005

Agriculture Dependency

(Per cent)



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CHAPTER 4

Farmer, the Prisoner

The farm sector in the region suffers from a deficit of freedom. Unless the farmer is freed, it will be impossible to rescue the rural poor from the poverty trap.

Several methods are devised to control the market freedom of the farmer, mostly designed to protect him. But, in reality, these draconian laws disable farmers from taking independent decisions with regard to the dynamics of market demand-supply forces. On the other hand, where positive interventions are required, the state is blithely unconcerned.

- All countries in South Asia have restrictions on the movement of agricultural outputs. India and Pakistan have restrictions on the movement of farm goods between administrative units. Nepal's Vehicle Transport Management Act requires agricultural goods to pass through check-points, which are gateways for official and unofficial payments to tax authorities and the police.
- All countries have weak laws to enable farmers to organise themselves in cooperatives or associations. Where cooperatives exist, they are run in such a way that the cooperative bosses can enrich themselves at the cost of farmers. This is possible due to the legal obligation on farmers to sell their produce to designated cooperatives only, placing them at the mercy of the management of such cooperatives, and the prohibition on starting parallel cooperatives to challenge the corrupt ones.
- India's Agriculture Produce and Marketing Committee Act forces farmers to sell their goods to government agencies or traders licensed by local governments, enabling middlemen to fleece them.
- In all countries in the region, import of fertilizers and other inputs are highly regulated. The result is that the South Asian farmers pay more than double the international market prices while fertilizer companies grow on market inefficiencies.
- All countries in the region restrict the sale, lease, and transfer of land in rural areas, undermining the potential of land as a tradable asset.
- All countries in the region suffer from fragmentation of land due to progressive distribution of family assets. On the other hand, Pakistan, Nepal, and parts of India have large farmers with massive land holdings, co-existing with progressively marginalized small farmers. In Sri Lanka the state owns huge tracks of land. Fifteen years after the reform process, there is no indication of any policy attention to land optimisation reforms.
- The region has more than 100 million hectares of unutilised land. In the absence of land optimisation reforms, landless labourers incur opportunity loss of cultivating about a third of it for farming and about a third for forestry and animal husbandry, thus unable to convert what is effectively wasteland into a productive asset.
- All countries in the region have a weak irrigation policy. While Pakistan has the largest contiguous irrigation network, it is poorly maintained, with almost half of the water not reaching its intended destination. India has not brought more than half of its cultivated land under irrigation.

The farmer in South Asia thus faces a paradox, both due to over-regulation and neglect.

CHAPTER 5

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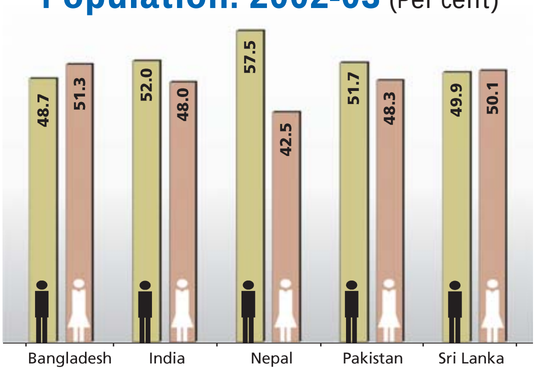
Better Half, Worse Off

The situation of women in the South Asian region is one of the worst in the world. For every 100 men, there are 93 women, against the global norm of 106 women for every 100 men. This reflects passive and active infanticide through the unequal allocation of health, nutrition and other resources. Girls born in India, Pakistan and Bangladesh are 30-50 per cent more likely to die before their fifth birthday than boys.

Due to sharp gender bias, there has been a higher rate of mortality among women in South Asia than in other parts of the world. This excludes Sri Lanka where status of women is better compared to other countries in the region. A peculiar aspect to discrimination against women in the region is that it starts at a very early age, sometimes even before they are born. Culture-specific forms of violence include rape, sexual harassment, honour killings, incest, trafficking, acid attacks, public mutilation, stove-burnings and forced temple prostitution. In 2004, Pakistan reported 546 cases of honour killings, Bangladesh reported 300 deaths due to *fatwas* apart from acid attacks and domestic violence. India reported 6,851 cases of dowry deaths in 2001 while in Nepal women are more victims of trafficking.

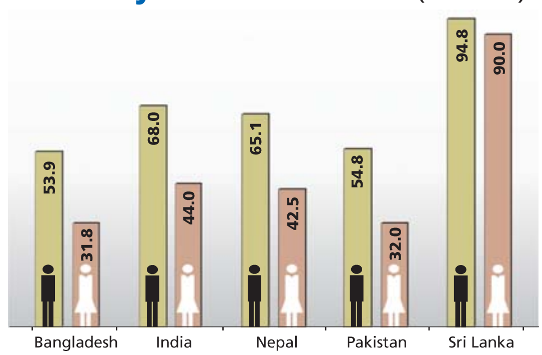
Population: 2002-03 (Per cent)



Source: Government reports of respective countries

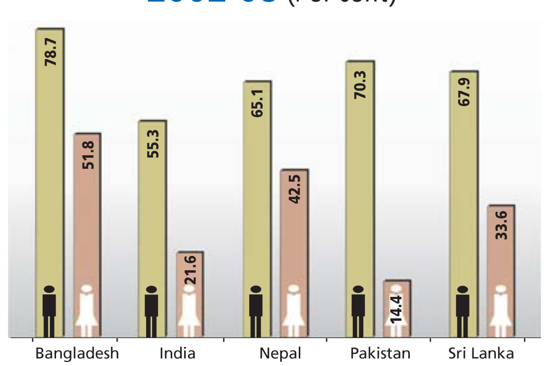
South Asia, however, represents a unique paradox. Almost every country in the region, with the exception of Nepal, has or had a woman leader at its helm at some point in time, a phenomenon unparalleled in other regions of the world. India, Sri Lanka and Bangladesh have had the unique distinction of two women leaders in the course of their political history. Nevertheless, women who are proverbially described as the 'better half' are worse off than South Asian men on all parameters.

Literacy Rates: 2001-02 (Per cent)



Source: Government reports of respective countries

Labour Force Participation Rates: 2002-03 (Per cent)



Source: Government reports of respective countries

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CHAPTER 6

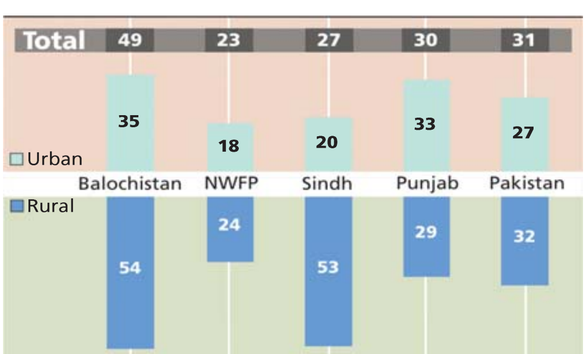
Regional Inequalities

South Asian economies excel in inequitable performance. It has already been indicated how farmers and women are neglected by the development process in all the countries of the region. It is also easy to discern that some provinces are much behind others within each South Asian country, while South Asian countries are behind their counterparts in other parts of Asia.

In India, southern and western states are on a dynamic growth trajectory, while the northern and north-eastern states are on a slow growth path. The dynamic states have a per capita income in the range of Rs.13,000-26,000, while the stagnant states have a per capita income in the range of Rs.10,000-13,000. In the case of Bihar, the most stagnant of them all, it is only Rs.6,000. The dynamic states have attracted 80 per cent of investments. Their literacy rate is above 65 per cent, except in the case of Andhra Pradesh and Rajasthan with 60 per cent. The stagnant states' literacy rates are below 65 per cent. In the dynamic states, infant mortality rate is below 60, with the exception of Rajasthan at 78 per 1000 live births. In the stagnant states, it is above 60 per 1000 live births. The overall population of the country is almost equally divided between dynamic and stagnant states. As these inequities have a geographical basis, there are dangers of fault-lines emerging between the geo-political tectonic plates of the country. Most of the stagnant states are home to Naxalite or ethnic insurgency.

Nepal also suffers from stark inter-regional disparities. The mid-western districts have the lowest per capita income at US $181. It has a low health capacity index and infant mortality rate of 103 per 1000 live births, one of the highest in the world. It is an area where the Maoist insurgency first found its popular base.

Pakistan: Income Poverty: An Inter-provincial Comparison, 1996-97
(Per cent)



Source: Social Development in Pakistan, Annual Review 2000, Social Policy And Development Centre, Pakistan

Sri Lanka: Inter-Region Comparison

	Population	Per Capita Income	Poverty	GDP Growth
	(in mln)	(SL Rs.)	(%)	(% Change)
Western	5.36	50,244	9.2	13.1
Southern	2.27	31,176	23.6	12.6
Sabaragamuwa	1.79	24,432	28.9	12.4
Central	2.42	31,476	20.8	10.0
Uva	1.17	30,336	31.8	7.8
Eastern	1.10	21,324	>30.0	8.1
North Western	2.16	32,604	22.3	6.7
North Central	1.11	29,244	18.1	13.5
Northern	0.19	22,224	>30.0	8.9

Source: Department of Census and Statistics 2002, 2003
Central Bank of Sri Lanka 2003

India Inter-State Comparison: 2004

	Population	Per Capita Income	Annual Growth in Net SDP 2000-03	Proposed Investment (Aug 91-Nov 04)	Share in Investment	Literacy Rate	Infant Mortality Rate
	(in mln)	(Rs. '000)	(% change)	(Rs. Billion)	(%)	(%)	(Per 000 live births)
Growing States							
Andhra Pradesh	76.2	18.7	4.98	1,534	10.21	60.47	37
Chhattisgarh	20.8	12.5	7.94	772	5.14	64.66	73
Gujarat	50.7	22.0	2.49	2,375	15.81	69.14	60
Haryana	21.1	26.6	5.86	435	2.90	67.91	62
Himachal Pradesh	6.1	22.6	3.98	124	0.82	76.48	52
Karnataka	52.8	18.5	4.20	797	5.31	66.64	55
Kerala	31.8	21.3	5.02	112	0.74	90.86	10
Maharshtra	96.9	26.4	2.56	2,587	17.22	76.80	45
Punjab	24.4	25.7	3.34	589	3.92	69.65	51
Rajasthan	56.5	13.1	0.09	431	2.87	60.41	78
Tamil Nadu	62.4	21.7	3.15	1,261	8.39	73.45	44
Uttaranchal	8.5	13.0	4.77	97	0.65	71.62	41
West Bengal	80.2	18.8	6.89	580	3.86	68.64	49
Stagnant States							
Assam	26.6	11.8	3.64	83	0.55	63.25	70
Bihar	83.0	6.0	4.65	45	0.30	47.00	61
Jharkhand	26.9	10.0	6.67	172	1.15	53.56	51
Madhya Pradesh	60.3	11.4	-3.19	492	3.27	63.74	85
Orissa	36.8	10.3	1.85	820	5.46	63.08	87
Uttar Pradesh	166.2	9.9	3.85	927	6.17	56.27	80

Source: Indian Economic Survey 2003-04. Secretariat for Industrial Assistance Statistics, Ministry of Industry. Handbook of Statistics on Indian Economy, Reserve Bank of India

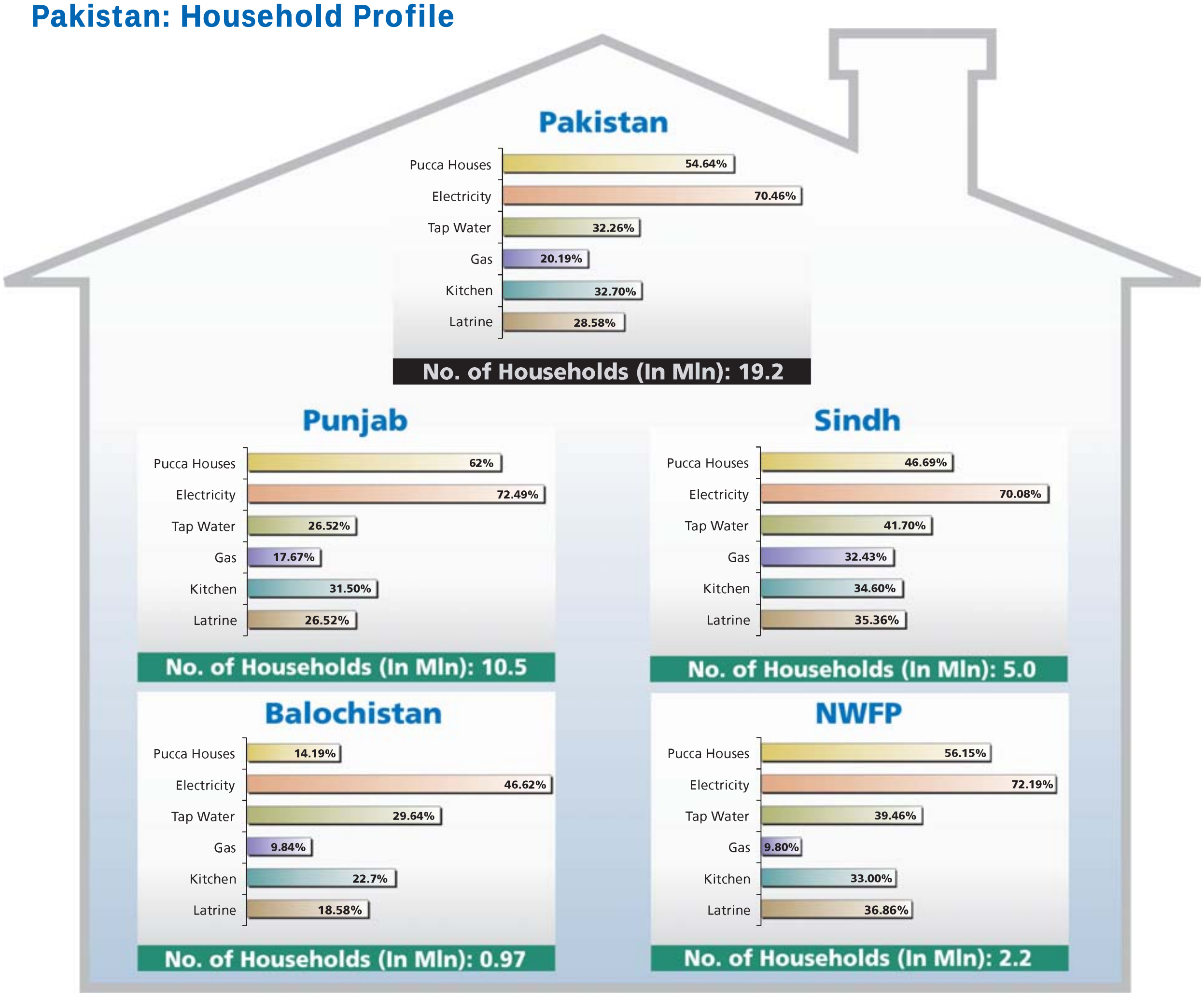
Nepal Inter-Region Comparison for 2001

	Population	Human Poverty Index	Per Capita Income	Gross Domestic Product	Health Facilities	Literacy Rate	Infant Mortality Rate
	(in mln)		(US $)	(Rs. Million)	(Capability Index)	(%)	(Per 000 live births)
Regions							
Eastern	5.3	37.1	221	83,392	0.612	12.5	61.4
Central	8.0	39.7	293	166,487	0.582	41.7	63.5
Western	4.6	36.7	230	74,363	0.313	36.1	58.9
Mid-Western	3.0	46.3	181	38,629	0.260	52.3	103.1
Far-Western	2.2	45.9	198	30,693	0.192	46.1	84.4

Source: Nepal Human Development Report 2004

The story is repeated in Pakistan. The farmers of Balochistan and Sindh suffer from acute poverty. More than half of the rural population in the two provinces is below the poverty line. The human development index is below 0.500 as compared to 0.657 for urban Punjab and 0.557 for rural Punjab. Balochistan has the lowest literacy rate of 27 per cent. Punjab has the highest literacy rate of about 50 per cent. Sindh also has a literacy rate of 50 per cent, but, it is not a reliable indicator of realities on the ground as the statistics of metropolitan Karachi can blur the rural picture. Out of the 26 districts in Balochistan, 24 districts are classified as having low development level, close to 100 per cent of the province as compared to the national average of 58 per cent. Balochistan has been stagnant for the last twenty years, while Sindh has declined from a relatively prosperous state in 1985 to an increasingly impoverished one in 2005. NWFP and Punjab have been relative beneficiaries of the development pattern in the last two decades. Balochistan has begun to experience violent insurgency. In rural Sindh, the nature of protest is relatively pacific, but the language of separation is vehement and the message is clear.

Pakistan: Household Profile



Source: Population Census Organisation, 1998. Pakistan Development Forum, Islamabad, 2003
Household Integrated Economic Survey, 2001-02

CHAPTER 7

The Second Freedom

Insignificant Trade

The trade within the South Asian region is insignificant. It is about a tenth of India's trade with East and South-east Asia. The South Asian intra-regional trade volume is very low relative to other regions of the world. According to some estimates, it is currently around US $5 billion per year. India dominates the region's trade. While there have been fluctuations in the trade levels over the last decade, generally, less than one per cent of India's total imports came from South Asia and 4-5 per cent of its exports went to the region.

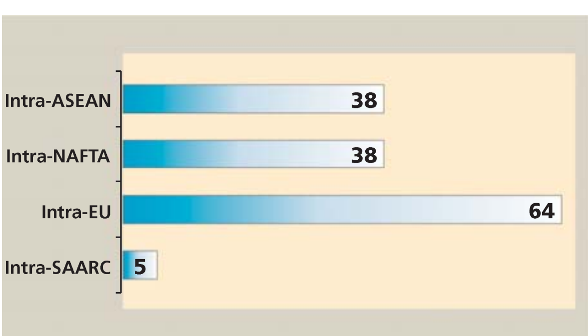
Once a protagonist of protection and a staunch supporter of the WTO, India is now looking at Free Trade Agreements (FTA), especially with East Asia, as a new axis for development of trade and investment. Within the region, the India-Sri Lanka bilateral FTA has shown tremendous potential. India and Nepal effectively have an FTA in operation. Trade between India and Pakistan hovers around $200 million due to artificial restrictions. However, a new regional FTA is now being envisaged with the hope to enhance volumes within the region.

The South Asia Free Trade Agreement (SAFTA) charter envisages removing barriers to trade (tariff) on commodities between nations. As the first stage, there is no plan to remove barriers to service trade. The idea is that once SAFTA is achieved, service sector trade barriers would be removed. In this respect, the models of the EU/NAFTA are being followed which remove barriers on commodities first followed by that on services. Unfortunately, this may not be the right model in the South Asian context, as it would lead to little gains for the member nations. As a result, members would have little inclination to focus on the second stage of integration i.e. free movement of services, wherein gains are large.

If SAFTA is to contribute towards increased intra-SAARC trade, there needs to be an expansion in the basket of tradable commodities. SAFTA must necessarily lead to trade creation and not trade diversion. The list of tradable goods under SAFTA does not include many goods that have significant trading potential.

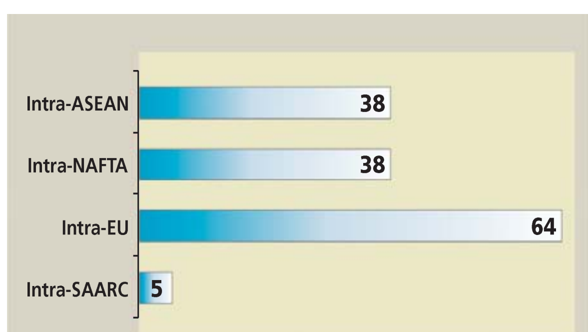
SAARC Trade in Perspective

(In US $ Billion)



Intra-SAARC Trade - 2003-04

(In US $ Million)



Source: Government sources of respective countries

Trade within SAARC - 2003-04

(In US $ Million)

Bangladesh's Trade	Exports	Imports
Pakistan	45.9	195.0
Nepal	9.0	5.6
India	95.0	1200.0
Sri Lanka	3.5	9.0

India's Trade	Exports	Imports
Bangladesh	1200.0	95.0
Nepal	1091.6	417.7
Pakistan	382.4	93.7
Sri Lanka	1319.0	194.2

Nepal's Trade	Exports	Imports
Pakistan	3.7	2.6
Bangladesh	5.6	8.9
India	417.7	1091.6
Sri Lanka	0.01	1.87

Pakistan's Trade	Exports	Imports
Bangladesh	195.0	45.9
Nepal	2.6	3.71
India	93.7	382.4
Sri Lanka	97.8	48.4

Sri Lanka's Trade	Exports	Imports
Pakistan	48.4	97.8
Bangladesh	9.0	3.5
India	194.2	1319.0
Nepal	1.87	0.01

Source: Government sources of respective countries

The agreement on SAFTA has left several issues un-addressed. Evading trade-investment nexus that takes care of trade deficits between the trading partners through investment flows or capital account, SAFTA neglects vertical and horizontal integration of industries that benefits from the respective relative advantages and is crucial to global competitiveness. Also, unlike NAFTA, the issues covered under SAFTA are not comprehensive; the scope in confined only to trade in goods. Cross-border trade among member countries would get energized only if issues such as treatment of foreign investments, transportation, tourism, investment, insurance, energy, movement of labour and abolishing barriers to trade in services are included in SAFTA.

The South Asian nations need to diversify their export structure in favour of more knowledge-intensive products and sharpen the global competitiveness of exports. This also calls for a strategic response at the national and regional levels and the challenges include, increasing value addition in traditional exports such as tea, coffee, basmati and other commodities: preparing the textile industry to face the post MFA scenario; preparing to deal with the emerging environment and health-related non-tariff barriers such as SPS (sanitary and phyto-sanitary standards) and TBT (technical barriers to trade) measures in developed countries, besides giving thrust to R&D activity to strengthen competitiveness of knowledge intensive products.

CHAPTER 8
The Second Freedom
Informal Trade

Informal trade matters more than formal trade in South Asia. In fact, only India-Sri Lanka trade is dominated by formal channels. The sub-continent is under the spell of smugglers.

India is the only country, which shares its borders with most of the South Asian countries. At the same time, no country shares its border with countries other than India within South Asia, making India the central actor in informal trade. India's long and porous borders with Pakistan, Nepal and Bangladesh facilitate informal trade routes through land borders. Informal trade with Sri Lanka takes place mainly through air passengers, with marginal proportions being carried out by sea using country boats.

As per the latest available statistics, total informal trade in the South Asian region exceeded US $3 billion, which is more than the formal trade in the region. India's informal trade with Pakistan is almost ten times the formal trade, while its informal trade with Nepal and Bangladesh is equal to the formal trade itself, and its informal trade with Sri Lanka is almost one-third the formal trade. Of the US $2 billion informal trade between India and Pakistan, almost half is traded through third countries like Dubai, Central Asia and Afghanistan, while the rest is through cross border informal trade.

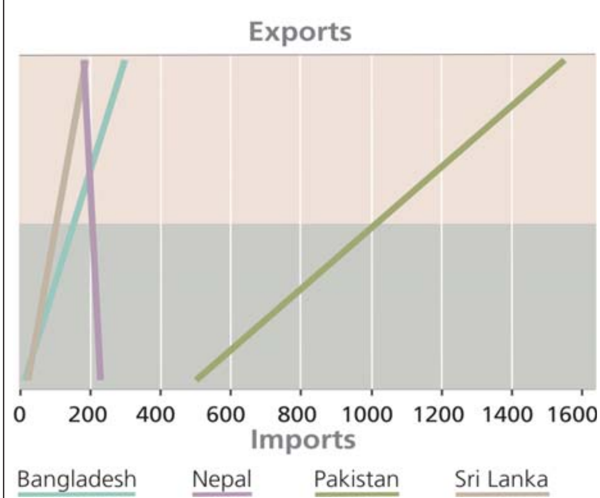
India's informal exports to Pakistan: machinery, cement, tyres, tea, medicines, videotapes, alcoholic beverages, chemical products, steel utensils, a range of low-cost mass produced commodities, items like Tata's Tetley Tea and products made by Dabur and Pioma Industries.

Pakistan's informal exports to India: food items, synthetic fibres and chemical products.

India's informal exports to Bangladesh: cattle, raw cotton, sugar, kerosene oil, bicycles, automobile components, other consumer goods like plastic items, razor blades, medicines, fruits, fish, spices, medicines, sarees and coal.

Bangladesh's informal exports to India: synthetic fibre, spices, Hilsa fish, palm oil, polythene, plastic shoes, and other consumer items.

India's Informal Trade with South Asia
(In US $ Million)



Source: Partly taken from *Informal and Free Trade Arrangements,* by Nisha Taneja, South Asian Journal, April-June 2004

India's informal exports to Nepal: textiles, unprocessed food, cement, hardware, automobiles and spare parts, electrical goods, utensils, plastic, live animals, fuel, sanitary items, medicines, fertiliser, machinery and parts, coconut oil, spices, dry fruits, electronics, tobacco, etc.

Nepal's informal exports to India: bags/suitcases, spices, electronic goods, footwear, betel nut, medicinal powder, crockery items, cosmetics, beverages, processed food, lighters, fuel, etc.

India's informal exports to Sri Lanka: sarees, electrical and mechanical items, textiles and utensils.

Sri Lanka's informal exports to India: spices, electronic items, cosmetics, liquor and cigarettes.

The Second Freedom

CHAPTER 9

A Bridge Too Far

If India and Pakistan, the two largest economies of the region, grow consistently at 6 per cent during the next two decades, South Asians will be more than 25 years behind at least 50 countries in the world in 2025. If India grows at 6-7 per cent consistently, it will find it impossible to catch up with the 2001 per capita levels of OECD countries by 2050.

Most economists predict a growth rate of 5-8 per cent for India during 2005-2025, though the convergence is around 6-7 per cent. In the case of Pakistan, it is easy to increase per capita income at impressive rates. In 2004, a simple revision of the national accounts system enabled Pakistan to increase its per capita income by over 50 per cent in a matter of two years, from US $408 in 2002 to US $650 in 2004. It further improved to US $700 by January 2005 when the Prime Minister of Pakistan presented the country's economic profile at Davos. If Pakistan's outstanding statistical skills are imported by other South Asian countries, all of them will probably surpass the entire world in per capita by the end of the decade.

On the other hand, if the optimistic economists at Goldman Sachs are to be believed, India, the largest South Asian economy, will have a per capita GDP of US $2,331 in 2025 at 2003 terms. At that time, China will have a per capita income 3 times more, Brazil and South Africa 4 times and Russia 7 times that of India. The United States will have a per capita income of more than 20 times that of India.

India's per capita income in 2025, on the basis of 6 per cent growth rate, will be much lower than the 2001 per capita income level of all OECD countries, entire Eastern Europe, most of Latin America and countries such as Botswana, Jamaica, Turkey and Malaysia. Thus, if India grows at 6 per cent per annum, it will be more than 25 years behind 50 countries in the world. It will continue to be 50 years behind most OECD countries until 2050.

If India grows at 7.6 per cent, it will have a per capita income of US $2,800 in 2025. With a growth rate of 9 per cent, it will have a per capita income US $4,200. It will then still be just over half the projected per capita income of Brazil and China.

If Pakistan grows at 6 per cent, during 2005-2025, and if its economic performance is measured by neutral experts, it will have a per capita income comparable to India, since it is marginally below India in 2005. Bangladesh and Nepal cannot grow at 6-7 per cent over the next 20 years on a consistent basis, and even if they do, their per capita income will not be above US $1,500

Per Capita Income in 2001 of Select Developing Countries

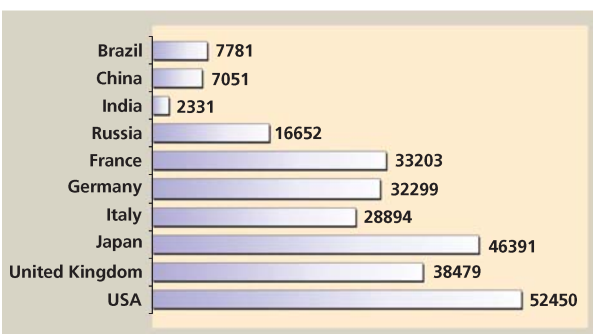
Country	In US $
Botswana	3,630
Chile	4,350
Costa Rica	3,950
Jamaica	2,720
Panama	3,290
South Africa	2,900
Turkey	2,540
Venezuela	4,760
Malaysia	3,640
Mexico	5,540

Source: World Development Report, 2003.

for Bangladesh and US $1,000 for Nepal, considering a weak start. Sri Lanka has a potential to reach the per capita level of more than double that of India, around US $6,000-7,000 or more, if it grows at 7-8 per cent rate during 2005-2025. However, with less than 5 per cent share in the region's economy, improvement in the income level of Sri Lanka alone will not place South Asia as a region on a higher scale.

It is obviously unrealistic to expect that India and Pakistan will have a growth rate of 6-7 per cent consistently for two decades. There are bound to be obstacles in the form of natural calamities, adverse developments in the global economy, and other externalities. Nevertheless, even in the eventuality of unimaginable luck, the maximum that the region can hope is an income level of 3 to 4 times that of the present, which would be 25 years behind more than 50 countries in 2025.

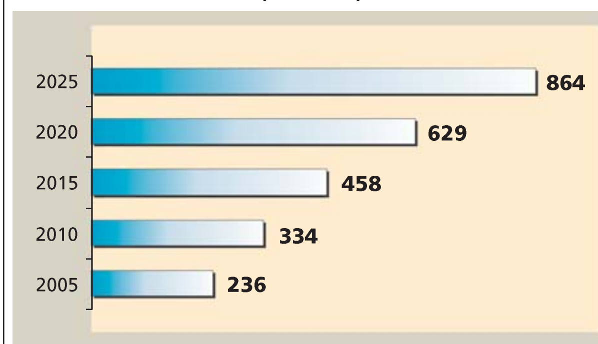
India's Per Capita Income in 2025 in Comparison with Rising Economies
(In US $)



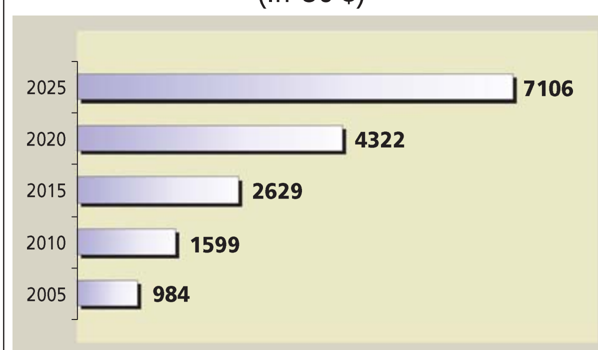
Source: Goldman Sachs, Dreaming with BRICS Global Economics Paper No. 99, October 2003

If the region must reach beyond this level, India, Pakistan and Bangladesh that constitute almost 95 per cent of the economy of South Asia must grow at a rate much, much higher than 6 per cent per annum. If they increase their per capita income 10 times, they would still be 25 years behind Mexico. South Korea and China have demonstrated that it is possible to increase per capita income 5 to 10 times in 20 years, with double-digit growth rates for several years in a row. Can the South Asian countries hope to do so during 2005-2025?

Nepal's Per Capita Income: 2005-2025
(In US $)



Sri Lanka's Per Capita Income: 2005-2025
(In US $)



CHAPTER 10

Class of 2025

There is no such thing as the middle class in South Asia. There is business class, bike economy class and bullock cart economy class. The business class economy is the segment that can afford to purchase cars, computers, and other symbols of global economy. Those belonging to bike economy can afford to purchase two wheelers and some basic comforts. Those belonging to bullock cart economy have no access to market because of low purchasing power.

If the region grows at 6-7 per cent during 2005-2025, there will be 1.2 billion people in the bullock cart economy class in the region in 2025, more than India's entire population in 2005.

The analysis of consumption patterns in India reveals that there are 6 million households who belong to the business class economy and this concurs with the analysis of income patterns by the National Council for Applied Economic Research (NCAER). According to the NCAER, only 12 million households have an income of more than US $300 per month. If it is assumed that half of them have an income of more than US $600 per month, which is the bare minimum required to purchase cars and white goods, about 6 million households have the requisite purchasing power. Parliament records show that there are only 70,000 Rupee millionaires in India. Even if it is assumed that there is high tax evasion in the country, the total number of households with income more than one million rupees (US $22,000) per year would be no more than a million. Thus, all indications show that the business class economy is not larger than 6 million households by using different estimates.

The liberalisation of the 1990s has certainly contributed to the growth of the business class economy at the rate of 10 per cent per year. If GDP grows at 6-8 per cent in the future, business class will expand by 10 per cent to reach a population size of 17 million in 2015. If consistent growth is achieved by this time, expansion will gather momentum and take the size of this segment of the economy to 44 million in 2025. It will then account for 13 per cent of the population. By this time, the bike economy will grow to 27 per cent of the population. Bullock cart economy will shrink from 81 per cent in 2005 to 60 per cent in 2025. It will also decline in absolute numbers from 870 million to 810 million. Nevertheless, 810 million people without market access are a large number.

Sri Lanka has a business class economy of 3 per cent of its population and a bike economy of almost 20 per cent of its population. With the likely containment of the ethnic conflict, and the signing of free trade area agreements, Sri Lanka seems set on a high growth trajectory. It is expected that Sri Lanka's business class economy will grow by 10 per cent and bike economy by 5 per cent during the next two decades. With this, Sri Lanka will be able to bring down the share of its bullock cart economy class to little over 40 per cent of population in 2025, or about 11 million people.

Pakistan's growth will remain very erratic. As such, a growth rate of 5 per cent for both business class and bike economy is expected on an average. It will enable the country to almost double the share of population in these two relatively prosperous segments. This will reduce the proportion of people depending on the bullock cart economy. However, in terms of absolute numbers, the size of the bullock cart economy will expand from 133 million people in 2005 to 173 million in 2025.

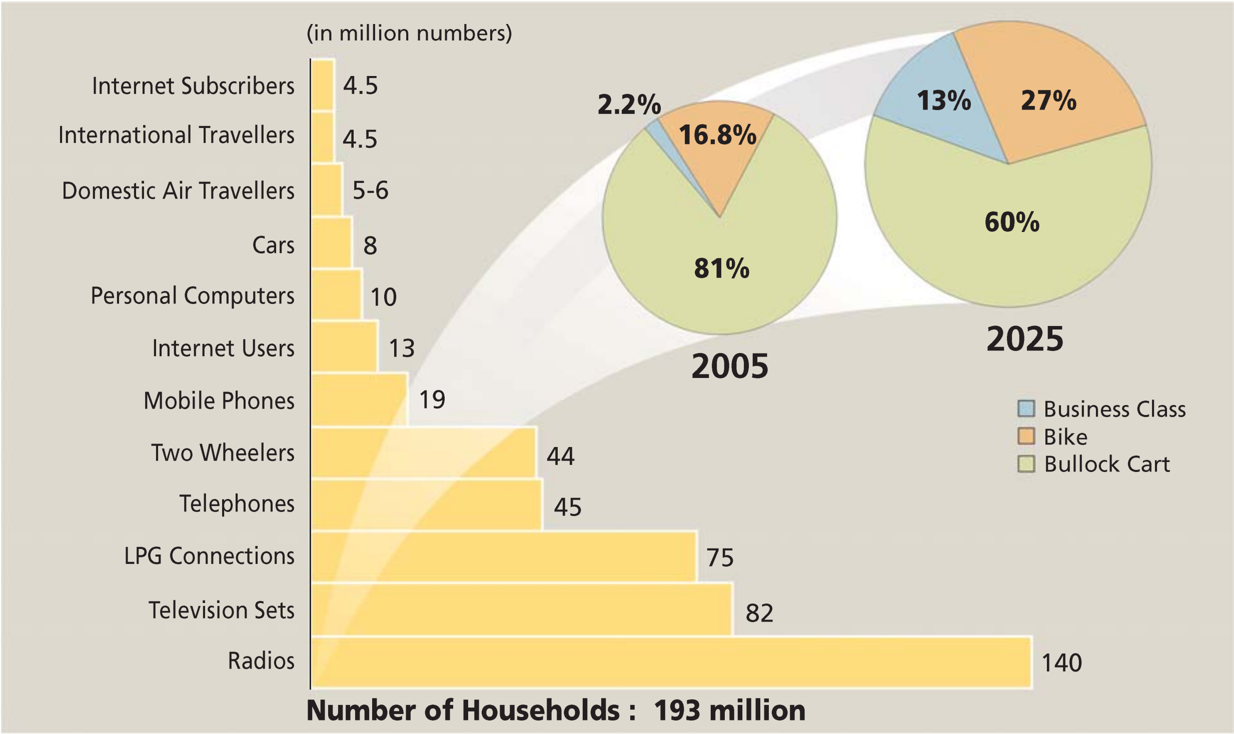
Similarly, Bangladesh and Nepal will witness a rise of its bullock cart economies — in case of Bangladesh from 123 million to 177 million and in case of Nepal, from 24 million to 35 million. Nepal can at least hope to shrink the bullock cart economy as a proportion of the total population if its business class and bike economy grows at 5 per cent. In the case of Bangladesh, the size of business class and bike economy segments in 2005 is so negligible that a 5 per cent growth for 20 years will make a marginal difference.

South Asia in 2025 will have the daunting challenge of over 800 million people in the bullock cart economy in India and almost 400 million in Bangladesh, Nepal and Pakistan. If the rate of GDP growth slides below 6-7 per cent, the number of people living in the bullock cart segment will swell further.

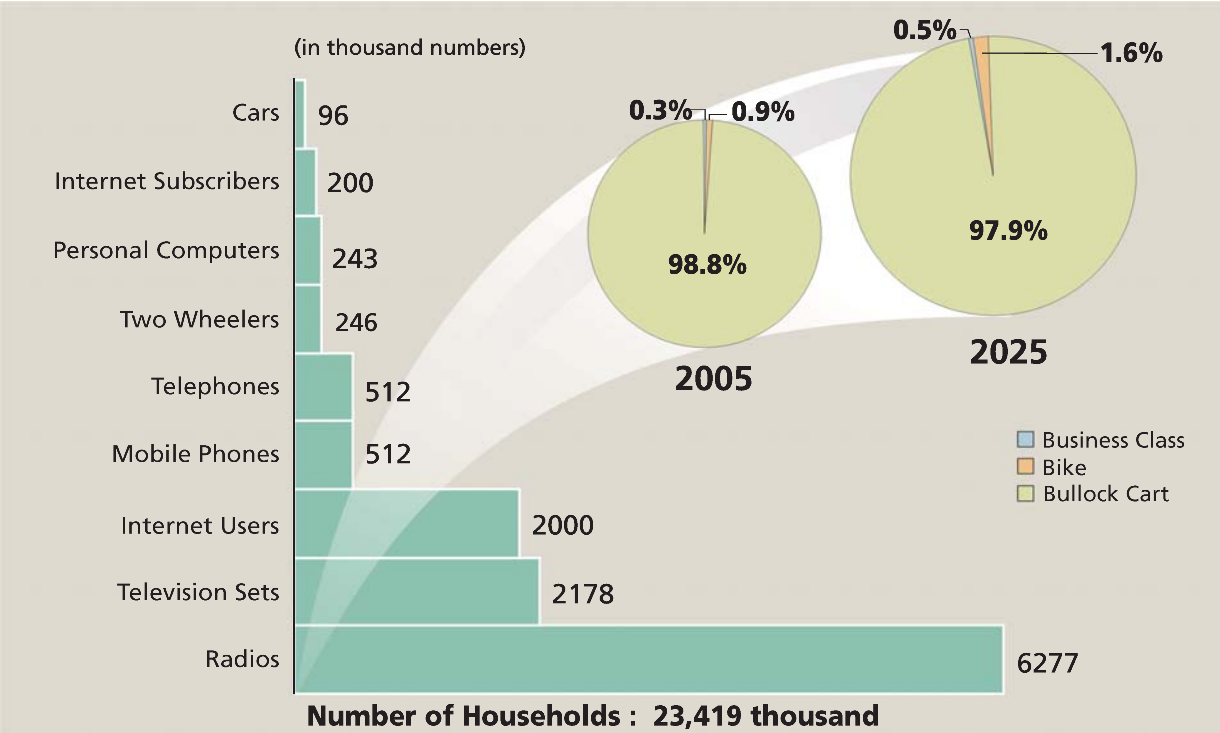
Linear trends in growth are not realistic over a long period of two decades. It is possible to envisage situations, which can increase or slow down the growth process. The projections made above, on a reasonably optimistic hypothesis, indicate that even with a consistent growth rate, South Asia will have a serious challenge twenty years hence. The only exception may be Sri Lanka.

The key challenge for South Asia is to transform a maximum part of its bullock cart economy into a bike economy and transform its bike economy into a business class economy. As the current rates of growth will not mitigate the challenge significantly, double-digit growth rates are required. Moreover, they have to encompass a bulk of the population. It might not be feasible to transform the entire bullock cart economy by 2025 even with very high growth rates. However, if half or more than half of the bullock cart economy is transformed, it will generate hope in the minds of the youth and propel them to strive for their own betterment. This will obviously have a salutary impact on the society at the macro level. On the other hand, if the business class and bike economy growth process has a narrow trickle down effect, affecting only a small section of the bullock cart economy, it is bound to fuel the latter's sense of despair. With every passing year from 2005 onwards, will maximum number of people in the region feel a sense of greater hope or greater despair?

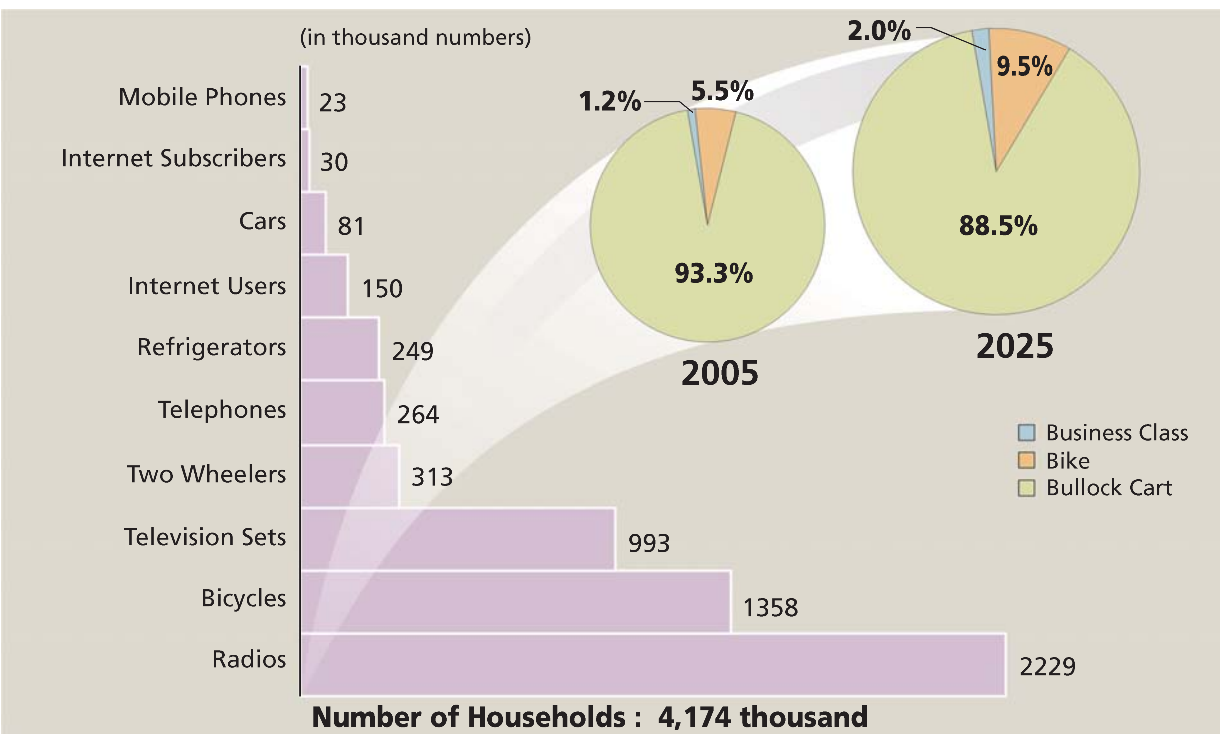
Consumption Patterns and Economic Classification of India



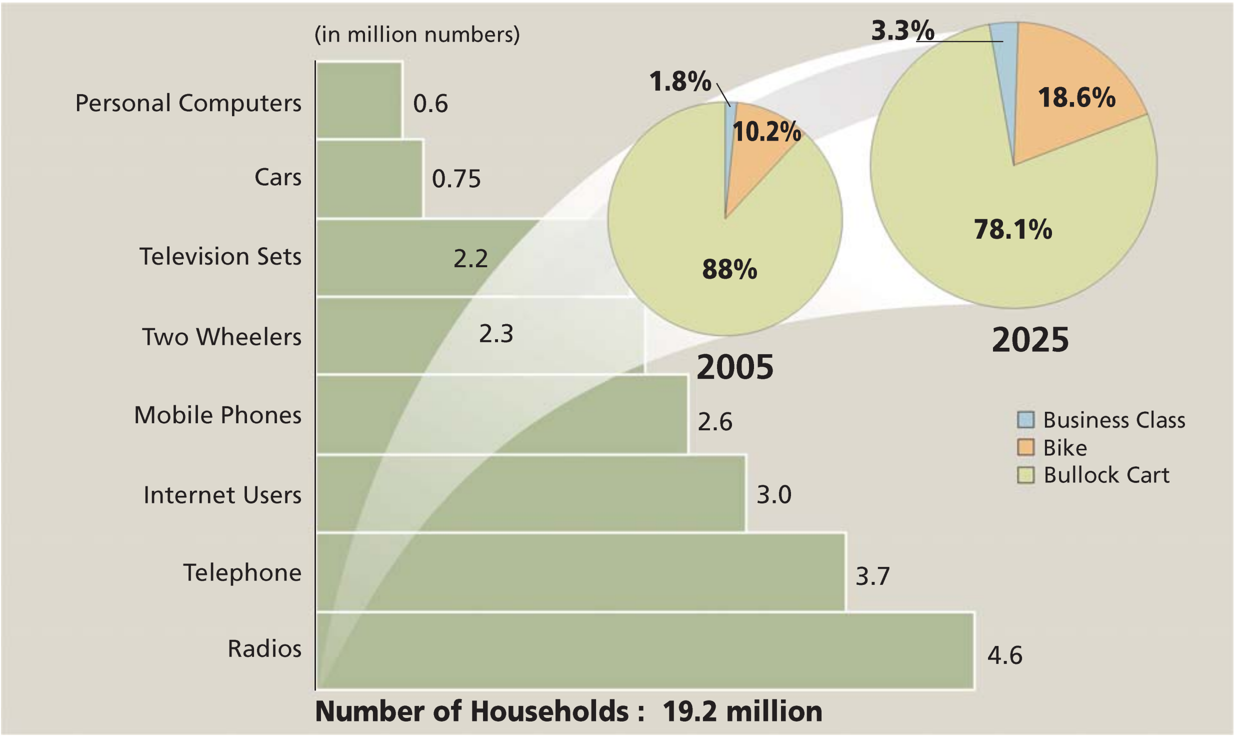
Consumption Patterns and Economic Classification of Bangladesh



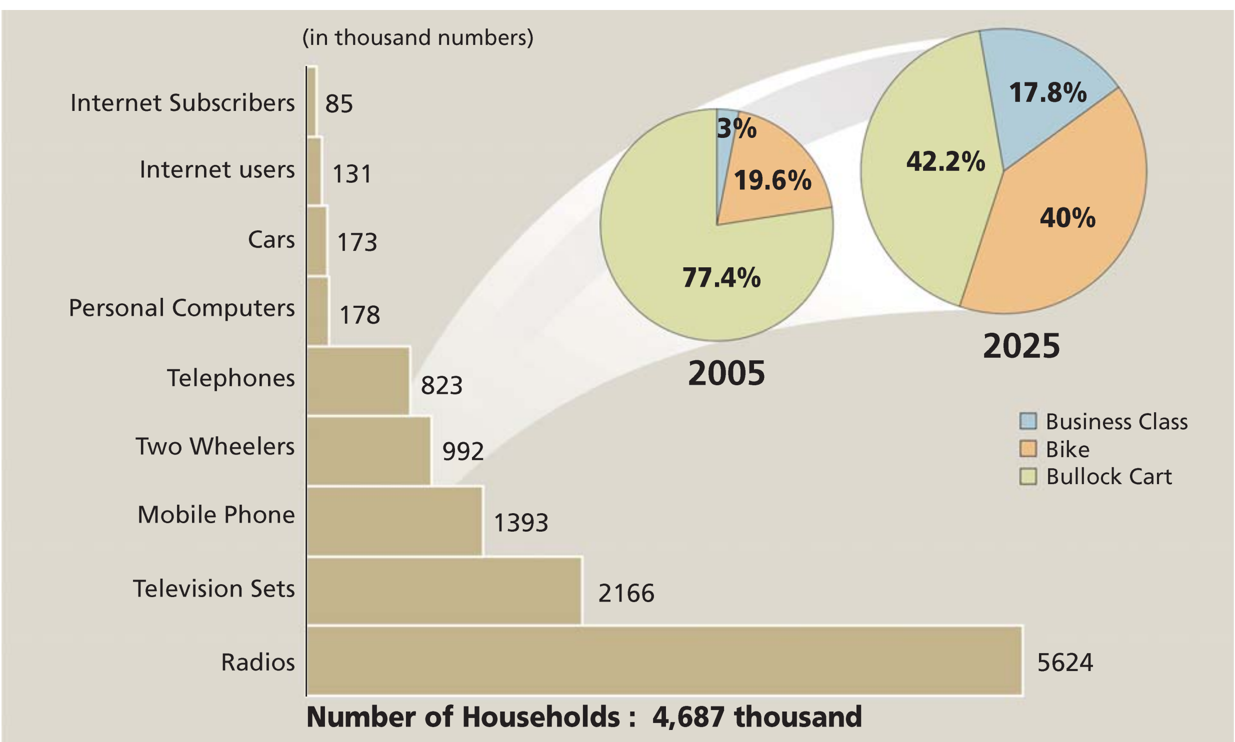
Consumption Patterns and Economic Classification of Nepal



Consumption Patterns and Economic Classification of Pakistan



Consumption Patterns and Economic Classification of Sri Lanka



The Second Freedom

CHAPTER 11

His Majesty, His Military

Nepal and Pakistan have concentrated on enriching His Majesty and His Military respectively. So long as these two institutions dominate the two countries, the rest of the population, except the small charmed circles around the monarchy and military, can be certain of gradual impoverishment. Economic democracy does matter.

Nepal King's Corporate Ventures

- The King of Nepal has stakes in the country's largest-selling cigarette factory, a five-star hotel in Kathmandu, a vibrant trading company and a tea garden in eastern Nepal. His income from various business interests are exempt from all taxes.

- The principal assets of the King include a large stake in the Soaltee Group, the third largest business group in Nepal by turnover — its net assets are worth US $100 million. The group provided an estimated 12-14 per cent of total revenue to the government exchequer in 2001.

- Surya Nepal, earlier known as Surya Tobacco Private Ltd, is Nepal's largest private sector company with an annual turnover of Nepalese Rs.4.7 billion (US $65.3 million). In August 2002, its turnover was Nepalese Rs.3 billion (US $41.7 million). It is also the single largest contributor to Nepal's exchequer, providing some 4 per cent of total revenue. Surya Nepal enjoys a 61 per cent volume share of Nepal's cigarette market. The exclusive brands like Surya Luxury Kings and Shikhar Filter Kings rank high in the premium segment, along with popular brands like Khukuri and Bijuli, the largest selling in the regular and plain segments.

- The royal family owns two of Nepal's four legal casinos. A cousin owns the Hotel de l'Annapurna in Kathmandu, which includes the Casino Anna, and the 50-room Fish Tail Lodge in Pokhara in northern Nepal, the town from which most treks to the Annapurna region begin.

Pakistan Military's Corporate Ventures

Pakistani military's business activities revolve around four major foundations: *Fauji* Foundation, Army Welfare Trust, *Shaheen* Foundation and *Bahria* Foundation. These four major welfare foundations operate a number of corporate ventures with interests ranging from sugar, cereal and fertilizer production, aviation, real estate, education and advertising. These assets run into millions of dollars, with little accountability.

The largest by far, is the *Fauji* Foundation, with declared assets amounting to Rs.9.8 billion in 2003 with a total of 11 major projects out of which six are shareholding projects.

Building on its *Fauji* Foundation-led experience, the Army established another foundation: the Army Welfare Trust. Although the Trust became fully operational in 1977, it was originally registered as a 'society' in 1971 under the Societies Registration Act of 1860 with an endowment of Rs.0.7 million. The trust runs 26 independent projects valued at Rs.17 billion.

The Army's General Head Quarters fully manages these organizations. The chief of the service is the head of the governing board that includes all the senior staff officers of the Army Chief. The division of business under the two heads — Army Welfare Trust and Askari — is linked

Pakistan Military's Corporate Ventures

Army Welfare Trust

- Askari Stud Farms
- Askari Farms
- Askari Welfare Rice Mill
- Askari Welfare Sugar Mill
- Askari Fish Farm
- Askari Cement
- Askari Welfare Pharmaceutical Project
- Magnesite Refineries
- Army Welfare Shoe Project
- Army Welfare Woolen Mill
- Army Welfare Hosiery Unit
- AWT Commercial Plazas
- Army Welfare Shops
- Army Welfare Commercial Project
- Askari Commercial Bank
- Askari Leasing Limited
- Askari General Insurance Company
- Askari Welfare Saving Scheme
- Askari Associate Limited
- Askari Information Service
- Askari Guards Limited
- Askari Power Limited
- Askari Commercial Enterprises
- Askari Aviation
- Askari Housing Scheme (At six different locations)
- Three travel agencies

Bahria Trust

- Falah Trading Agency
- Bahria Construction
- Bahria Travel and Recruiting Agency
- Bahria Paints
- Bahria Deep Sea Fishing
- Bahria Complexes
- Bahria Town and Housing Schemes
- Bahria Dredging
- Bahria Ship Breaking
- Bahria Diving and Salvage International
- Bahria University
- Bahria Shipping
- Bahria Coastal Services
- Bahria Security & System Services
- Bahria Catering and Decoration Services
- Bahria Farming
- Bahria Holdings
- Bahria Harbor Services
- Bahria Bakery

Fauji Foundation

- Fauji Sugar Mills
- Fauji Cereal
- Fauji Corn Complex
- FONGAS (Natural gas supply company)
- Fauji Poly Propylene Products
- Fauji Fertilizer Company (FFC)
- Fauji Jordan Company (FJFC)
- Mari Gas Company
- Fauji Cement
- Fauji Oil Terminal Company Project (FOTCO)
- Fauji Kabirwala Power Company (under construction)

Shaheen Foundation

- Shaheen Air International
- Shaheen Air Cargo
- Shaheen Airport Services
- Shaheen Aerotraders
- Shaheen Insurance
- Shaheen Complex
- Shaheen Pay TV
- FM-100 (Radio channel)
- Shaheen System (Information Technology)
- Shaheen Knitwear

with privatization. Projects having majority private equity fall under Askari management.

The other two defence forces disapproved the complete domination of corporate activities by the Army. The Pakistan Air Force (PAF) was the first to respond by establishing the *Shaheen* Foundation in 1977 under the Charitable Endowments Act, 1889. The Foundation had an initial investment of Rs.5 million, donated equally by the PAF and the federal government. Today, the *Shaheen* Foundation claims to have an annual turnover of Rs.600 million. Reportedly, 10-20 per cent of the annual profits are spent on welfare activities. At present, 10 projects are completely controlled by the *Shaheen* Foundation through its board of directors headed by the service chief.

The Navy was the last to start its own welfare foundation. It did so in 1981 with an initial grant of Rs.3 million from the Pakistan Navy's own welfare funds. Unlike the other foundations, *Bahria's* ventures are fairly small and rely mostly on private investment. The foundation at present has 19 projects.

Apart from its involvement in corporate activities, the military also holds several key positions in economic institutions. In General Musharraf's journey from the CEO to becoming the President of the country, over 1,000 retired military generals were appointed to important civilian institutions. Most economic institutions, especially in the infrastructure sector, are run by persons having military background. These appointments have indirectly helped military-supported corporate entities.

The military of Pakistan has pervaded every segment — industry, commerce, diplomatic services and civil institutions. The four foundations represent the biggest business conglomerate in the country. Even private corporate companies find it difficult to compete with these military organisations as the latter enjoy several tax exemptions, subsidised electricity, strong political connections and virtual freedom from accountability. Their stakes in Pakistan's economy are high.

CHAPTER 12

Deficit of Freedom

India and Bangladesh do not need the monarchy or the military to distort the economy. They have bureaucrats, who can inspect, arrest, squeeze entrepreneurs and kill their entrepreneurial spirit. India's inspection raj will deliver an opportunity loss of US $2,000 billion in missed industrial growth over the next two decades. In Bangladesh, the losses for the government alone are expected to be US $100 billion during the same period. The opportunity losses for the farm sector can be astronomical during the 2005-2025 period.

In India, an industrial unit needs up to 60 clearances. A small-size industrial unit, with less than 20 employees or less than Rs.10 million turnover, is subjected to 12-20 visits from various inspectors every year. As the size grows beyond this threshold, the industrial unit can be subjected to 20-40 inspections, depending on the size and sector. Some of the additional inspections, which apply above the threshold level mentioned, are justified under labour laws and the excise act.

In 2005, there were 4 million small-scale industrial units in India. A field survey revealed that approximately 10 per cent of them have a potential to cross the Rs.10 million turnover, and grow into larger units generating employment and income in the country. However, about 25 per cent of those capable of expanding, or 2.5 per cent of the existing small scale units, refuse to grow simply to avoid the draconian interface with the inspections raj. This results in involuntary crippling of 100,000 capable units. If these units were encouraged to grow, they would generate an extra output of Rs.4-5 million (40-50 per cent above the threshold level). Thus, the turnover loss for the Indian industry would be Rs.400-500 billion or about US $10 billion in 2005 alone. The companies that decide to inhibit their growth would have expanded further during 2005-2025. Some of them could become mega enterprises.

Even if it is assumed that they would have grown at the conservative rate of 5 per cent per year, they would have added US $200 billion to the gross industrial output over 2005-2025. As more and more companies retract from growth each year, the total losses over the next two decades are estimated to be US $2,000 billion, on the most conservative level. These calculations do not take into account the multiplier impact on the economy due to consumption and savings that could have been generated by the expanded businesses. Also, success breeds success through demonstration effect. If young people see entrepreneurs succeeding, more and more will consider setting up enterprises, mobilising capital and generating employment.

It must be borne in mind that the above calculations are presented in the simplest form. In reality, entrepreneurs consider various options before they decide to quit, which may include establishing a couple of units within the limits of the turnover and labour laws that could attract minimum interference. This may also include simply disregarding the laws and bribing their way out to ensure survival. However, all such requirements dissipate creative energies of the entrepreneur away from generating income and employment. It must be noted that there is a gradual tendency to free the spirit of entrepreneurship, but it is not enough.

In Bangladesh, too, the number of visits by inspectors can be anywhere from 10 to 40 per year depending on the size of the units. Customs and tax authorities top the list. It can take anywhere from 6 to 9 months to set up a unit due to delays in securing electricity, gas and telephone connections. Opportunity loss in Bangladesh has been a subject of studies by institutions within and outside the country. Some of the salient observations from select studies highlight the following:

- According to Bangladesh Enterprise Institute, managers spend 5 per cent of their time dealing with inspectors, while most firms appoint special interlocutors at the cost of Tk 600,000 per annum to save the time of their own managers. Many more simply refrain from further business investments to avoid dealing with *babudom*.
- According to the World Bank, if Bangladesh had reduced corruption, its growth rate would be higher by 2 per cent per annum and the per capita income would have been US $413 in 1997, instead of US $350, probably taking it to more than US $500 by 2005.
- According to Transparency International, the government of Bangladesh incurs losses due to corruption to the tune of 5 per cent of GDP. This would amount to US $3 billion in 2005 alone. If Bangladesh grows at 5 per cent per year during the next two decades, and if the government continues to lose revenue at the same rate, the total losses to the government will be US $100 billion.

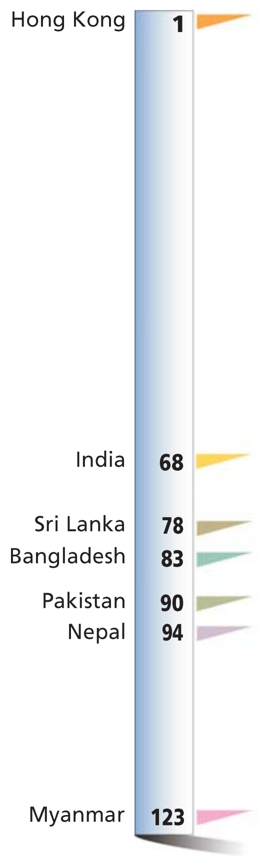
The opportunity loss of the Indian industry and revenue losses to the Bangladesh government are only illustrations of how deficit in freedom can undermine the potential of growth. If all possible means of such deliberate interventions in the market are catalogued and their multiplier impact is assessed, the total value of opportunity loss for South Asia would be in trillions of dollars by 2025.

The opportunity loss for farmers in the region is expected to be equally significant due to over-regulation on the one hand, and neglect of the farm and agro-industrial sector in the reform process on the other. There are approximately 1,000 districts in South Asia. The market-entry barriers in commercial farming, food processing and agro-industries deter at least 2 to 5 persons in each district each year, who are otherwise capable and resourceful, from establishing farming or agro-industrial units or large companies or set up agro-growth centres to do the same. If such policies continue, South Asia will lose new enterprises in the range of 2000-5000 per year or 40,000-100,000 in the next two decades. Even if each unit were to generate an output of US $50,000 per year, the region will potentially lose several billion dollars of farm income in the impoverished rural sectors during the next twenty years.

The Fraser Institute in Vancouver prepares an Index of Economic Freedom of the World. According to its latest report published in 2004, all South Asian countries are in the lower half of the global ratings for 123 countries. Even former Soviet republics such as Czech, Slovak, Estonia and African countries such as Zambia, Kenya, Namibia have a higher rating than that of any South Asian country. In the case of India, overall assessment of economic freedom has increased from 4.9 in 1985 to 6.3 in the early part of this decade. In Pakistan and Sri Lanka, the improvement has been marginal from 5.1 in 1985 to close to 6.0 in early 2000. Nepal has remained static in the last two decades, which has in fact deteriorated after the imposition of emergency in 2005.

The deficit of freedom in the South Asian economies particularly disables small entrepreneurs and small farmers. The large players have political and financial resources to purchase or manage their options. Is it viable to treat freedom as a commodity that only the rich and powerful benefit from, rather than as an essential ethic?

Economic Freedom Ratings



Source: Economic Freedom of the World, 2004

The Second Freedom

CHAPTER 13

Quality of Labour

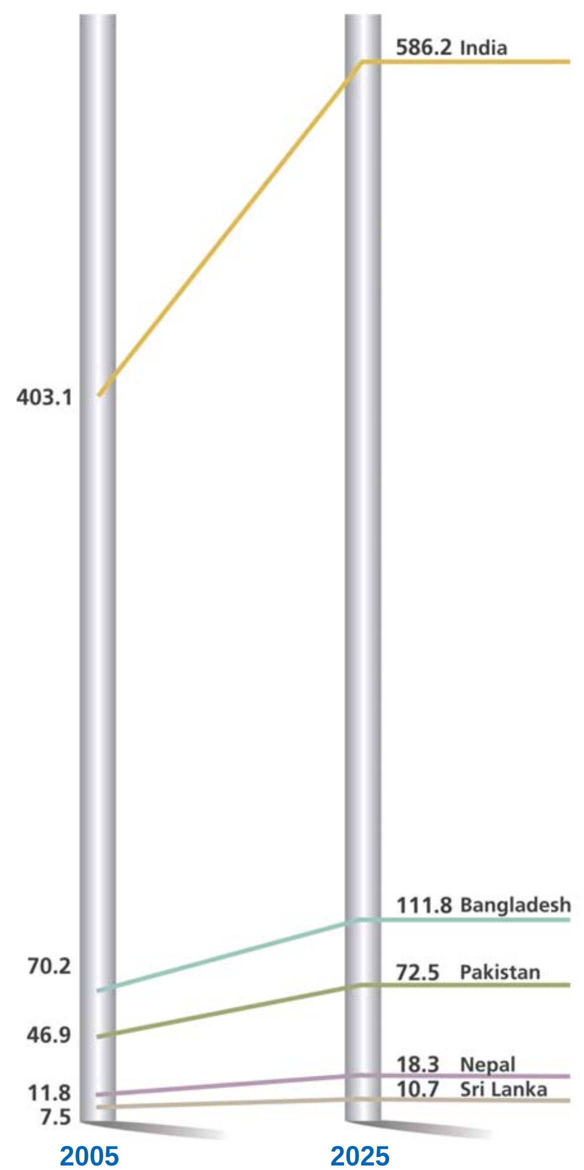
The South Asian workforce in 2025 is expected to be mostly unqualified, outside small clusters of a few million privileged youth. Out of the roughly 800 million labour force in the region in 2025, around 560 million will not have completed their school education and only a few million will have higher professional qualifications to their credit.

Currently, in Pakistan, of the 20 million primary students enrolled, only 2 million complete secondary school. About one million join universities and vocational institutes; three-fourth of them in arts and science colleges. Out of them, barely 162,000 seek admission in professional courses. Thus, 80 per cent of the workforce in Pakistan is not even matriculate and less than 1 per cent has professional skills. If this situation continues, out of the 72 million labour force that Pakistan is expected to have in 2025, almost 57 million will not even be matriculates. Of the remaining 15 million, less than one million will have professional education. They can improve it by starting small enterprises, in which case they may suffer from deficit of freedom.

In India, out of the 100 million students in the primary level, only 35 million complete secondary school. Out of these 35 million, about 10 million join colleges, 5 million join industrial training institutes and the remaining 20 million join the labour market devoid of further education. This is in addition to the 65 million young people who join the labour market without even matriculation. Out of the 10 million who pursue higher education, 2 million complete graduation and half-a-million acquire post-graduate education or training in professional courses. Thus, about 7 million join the labour force without completing college education. In

Labour Force: 2025

(In Million Nos.)



2025, out of the 600 million labour force, about 400 million will not even be matriculate and 150 million will be non-graduates. Only 50 million will constitute a well-educated labour force, out of which 5 million will be employed in the IT, pharmaceutical and other sunrise sectors. The remaining 45 million will find jobs in manufacturing and service activities in private and public sectors.

There is paucity of information on Bangladesh and Nepal. Bangladesh will have a labour force of 112 million in 2025. Since it has the same drop out and literacy rate as India, it is also expected to follow a similar pattern with 75 million non-matriculate labour force. Nepal's drop out and literacy rates are comparable to Pakistan. Out of its labour force of 20 million in 2025, about 16 million would not have completed school education. The data on professional graduates is not available for these two countries.

Sri Lanka is the only country in the region that is expected to have a skilled labour force of 10 million in 2025.

Overall, in South Asia, out of the approximate 800 million labour force in 2025, 560 million will be without school education.

CHAPTER 14

The Second Freedom Illusion

There is great hope in South Asia of information technology, software and related sectors bringing economic prosperity to the region, particularly India. In reality, however, out of an 800 million strong labour force in 2025, only 10 million will be employed in these sectors in South Asia.

The supply of technical manpower in software and related industries has increased dramatically by 100 times from around 10,000 in 1985 to one million in 2005. This includes software development, information technology, design, back office and R&D. As of 2005, it is expected that US companies will employ several thousand Indian engineers.

Currently there are 4,800 technical and management institutions approved by the central government. Out of them, 50 are meant to possess global standards. The total outflow of engineering graduates is expected to be about a quarter of million per year from 2005 to 2010, slowly rising in the next decade. If judged by current trends, approximately 150,000 reach the equilibrium of demand and supply. This number will increase with the expansion of technical education capacity in the next 20 years. As a result, the total addition to the highly qualified technical workforce will be 3-5 million during 2005-2025. In other words, Indian technical staff will be a maximum of 5 or 6 million in 2025.

In the case of Pakistan, less than 80,000 engineering students of high quality graduate every year. At this rate, about 2 to 3 million technical staff will be available. Sri Lanka will also absorb similar numbers. Overall for the region, barely 10-12 million or 1.5 per cent of the total labour force will be employed in the high technology sectors. The direct beneficiaries from high income will thus be about 0.5 per cent of the total population. Together they may generate income of more than US $100 billion, through outsourcing and exports.

There will undoubtedly be wider indirect benefits through technological growth in the region. People, including illiterate workers, may benefit as consumers. Therefore, the pursuit of high technologies is absolutely essential. At the same time, it is necessary to bear in mind its limits in employment generation. To suggest that IT will place the region on a new development path is not realistic. To expect that it will bring prosperity to large sections of the population is an illusion.

Employment Generation in IT: 2005

(In Millions)

India	5-6
Pakistan	2-3
Sri Lanka	2
Nepal, Bangladesh	1
Total	10-12

Note: Total labour force in 2025 will be 800 million in South Asia.

CHAPTER 15

Cost of Conflict

A comparison between Nepal and Sri Lanka proves that peace pays while conflict undermines growth in a small country. The economic prospects of the two countries will depend on whether they are at peace or war with themselves during 2005-2025.

In Nepal, according to the MIPT database maintained by RAND Corporation, Maoist insurgency has targeted the government and businesses the most. Of 226 incidents till late 2004, 44 per cent of the target was the government and 11 per cent was business.

Clearly, political instability and the conflict with the Maoists have brought about a sharp fall in output and per capita income. GDP growth fell from 5.1 per cent per annum during the pre-war period to 3.8 per cent during the war period. Non-agriculture GDP saw a sharp decline from 6.6 per cent to 3.9 per cent, primarily due to a fall in transport, commerce, hotel services and manufacturing. Several industries with foreign participation closed down, as they were the targets of Maoists.

The uncertain environment has also had a damaging effect on trade. Exports, which were growing at the rate of 26 per cent per annum in the pre-war period, fell to 16 per cent in the latter half. Tourist arrivals also fell as war broke out between the government and the Maoists.

The government has already deployed its limited resources in combating insurgency, and foreign aid has also been declining. As a result, capital formation in the economy, especially in the private sector has declined.

If the war with the Maoists continues, Nepal's survival will be doubtful. As damage to institutions, infrastructure and human capital continues, its growth prospects will diminish. The country would be unable to continue as a state without international support.

In Sri Lanka, since the process of negotiations began in 2002, defence expenditure has been substantially pruned. The peace-negotiation phase saw a reduction in defence expenditure from a peak 6 per cent of GDP in 1996 to 3.4 per cent of GDP in 2004. If the peace process continues, defence expenditure would further decline as per cent of GDP.

Evidently, peace has brought benefits for Sri Lanka in terms of higher FDI. Since 2002, Sri Lanka has on average received FDI to the tune of US $165 million per year between 2002-2004. Between 1995 and 2004, the peak investment in a single year was in 2002 of US $181 million. Correspondingly, during the period of conflict from 1995 to 2001, the average FDI received was US $120 million (excluding the exceptional dip in 2001). Clearly, peace dividends are reflected in the FDI inflows, which shot up by 38 per cent.

The tourism sector has suffered a massive setback due to the war. Prior to the commencement of war, between 1975 and 1982, tourist arrivals increased by over 22 per cent annually. Since the war commenced, tourist arrivals have been erratic. During Eelam War I, tourist arrivals fell by 14 per cent annually. The arrivals shrunk from a high 337,530 in 1983 to 182,620 in 1987. In just a span of five years, tourist arrivals shrunk by 45 per cent.

During the period 1991-95, tourist arrivals in fact increased rapidly, touching the 1982-level of tourist arrivals of 407,000. The fluctuations in flow of tourists since 1995 is very sharp, with a decline in certain years when either violence escalated or natural disasters affected the country.

The actual arrivals in 2002 were similar to those in the early 1980s. It can thus be argued that two decades of turmoil in Sri Lanka has not seen any increase in tourist arrivals. They have remained static, peaking to about 400,000 in a few years. Incidentally, during the peaceful phase of 2003, tourist arrivals once again grew by 22 per cent.

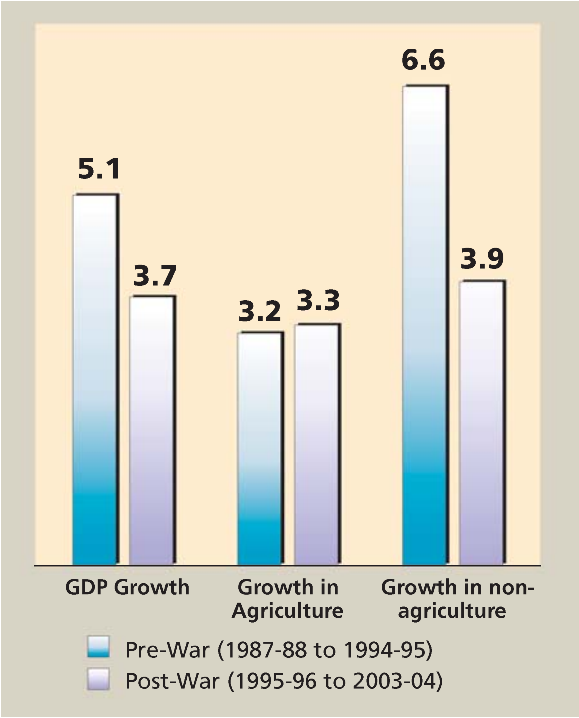
In 2005, Nepal and Sri Lanka are at the threshold of a civil war and conflict. Sri Lanka has an uneasy ceasefire while Nepal is in the midst of a conflict. Politics will determine which trajectory they will choose in the next two decades, but in either case it will have an impact on their economies.

The situation is different with regards to larger conflicts like India-Pakistan, which has to be measured on a multiple scale. Strategic Foresight Group's recently published report, *Cost of Conflict between India and Pakistan*, has made a comprehensive assessment of the conflict between the two countries which takes into account economic costs, socio-political damage, military costs, diplomatic costs, human costs and even the implications of nuking of Mumbai and Karachi. Some of the main observations were as follows:

- India and Pakistan have followed a "swing" model of relations whereby the pendulum of the relationship swings between peace and conflict.
- The Siachen conflict alone will cost India Rs.7,200 crore and Pakistan Rs.1,800 crore in the next five years. Together they will lose about 1,500 soldiers in the next five years in Siachen without fighting a war.

Nepal: Growth in GDP

(% Change)



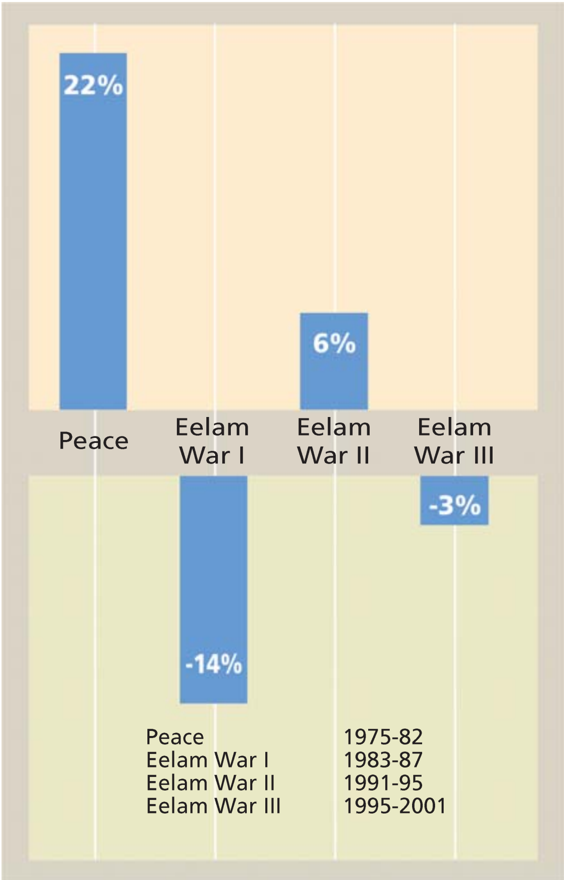
Nepal: Real Per Capita Income

(in US $)

Country	Pre-War (1987-88 to 1994-95)	Post-War (1995-96 t0 2003-04)
Real Per Capita Income	232	163

Sri Lanka: Loss of Tourism

(Per Cent Increase Annually)



- If the troops are mobilised again in the future on the pattern of 2002 for a year, it will cost India 0.46 per cent of GDP and Pakistan 2.25 per cent of GDP.
- The bilateral conflict between India and Pakistan depresses investment climate to undermine GDP growth rate by 2 per cent.
- Both the countries have incurred heavy diplomatic costs by blocking each other in different multilateral organisations such as ASEAN, ARF, UN Security Council, Commonwealth and OIC.

If past experiences are any indicator, then conflict will pull down GDP growth rates by 1-2 per cent in every South Asian country during 2005-2025.

Sri Lanka: Loss of Growth due to Increased Defence Expenditure

	Defence Expenditure	Current share to GDP	Defence Expenditure at 2.5% of GDP	Resources available for development
	(Rs. billion)	(%)	(Rs. billion)	(Rs. billion)
1995	36.35	5.4	16.7	19.66
1996	46.29	6.0	19.2	27.06
1997	46.60	5.8	20.1	26.51
1998	56.20	5.5	25.5	30.75
1999	48.71	4.4	27.7	21.06
2000	70.94	5.6	31.5	39.49
2001	71.16	5.1	35.2	35.99
			Total available funds	200.51
During Period of Ceasefire				
2002	64.14	4.4		
2003	61.61	3.5		
2004	68.21	3.4		

Source: Defence Expenditure data taken from the Central Bank of Sri Lanka website

CHAPTER 16

Extremist Economy

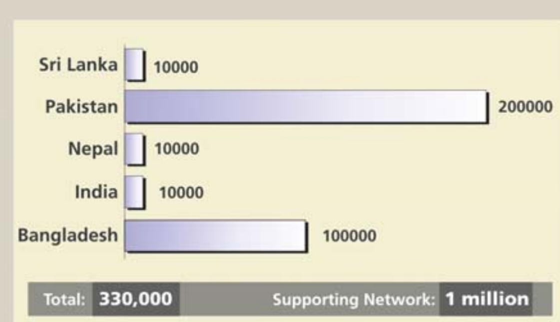
South Asia has a large terror economy with about 330,000 armed combatants and over a million-strong supporting network. The total visible Gross Terror-economy Product (GTP) of the region is US $2 billion. Invisible GTP is normally 3-4 times that of visible GTP.

Invisible GTP includes expenditure met by intelligence agencies, involvement of terror groups in drug trade and other criminal activities and capital expenditure on terror facilities. Therefore, total GTP, including visible and invisible components is around US $8 billion, or 1 per cent of the region's GDP of US $750 billion in 2005. This can reach a sizeable proportion of the regional GDP by 2025.

Pakistan's conflict with India, Iran and the Shi'a community and most significantly its involvement in Afghanistan has led to it having the largest terror economy in the region. Pakistan's GTP has four components; the jihadi forces, the ISI, a share in Afghanistan's drug economy and a share in the black economy. The jihadi forces in the country spend around $1.3 billion annually in maintaining its combatants, networking, training and propaganda. Armed combatants number around 200,000. It has been estimated that Pakistan has a share of at least 50 per cent in Afghanistan's drug economy, which amounts to about $1 billion. Put together, Pakistan's gross terror-economy product —visible and invisible — is estimated to be $4.4 billion.

Bangladesh has the second largest pool of armed combatants, mostly belonging to extremist groups — a total of 100,000. According to Abul Barakat, professor of economics from Dhaka University, Muslim funda-mentals in the country make a yearly net profit of around $200 million through businesses which include financial institutions, NGOs, diagnostic centres, pharma-ceuticals, education, transport, real estate and media. At least 10 percent of the profit of fundamentalist forces is used for organizational purposes like carrying out regular party activities, providing remuneration and allowances for party cadres, and running military training centres. The economy of fundamentalists has grown at the rate of 7.5-9 per cent a year since the 1970s, compared to the 4.5 per cent growth of the national economy.

Armed combatants in South Asian Terror Groups, 2005



Overheads	
Armed combatants	Indian Rs. 100,000 per year
Supporting network	Indian Rs. 50,000 per year

Visible expenditure Rs. 83 billion or US $ 2 billion per year in 2005.

In Sri Lanka, the Liberation Tigers of Tamil Eelam (LTTE) has a yearly income of $200-385 million. Funds received by LTTE are enough to maintain a force of 15,000, a formidable and sophisticated navy, army and air force. It also spends a large sum on weapons procurement, international propaganda and lobby efforts. Its commercial ventures include operating ocean liners to maintaining restaurants. Another source of revenue is drug money. It is estimated that the annual smuggling of drug cartels linked to LTTE is about 1,000 kg, worth $250 million.

GTP takes a long time to generate the first billion dollar turnover. However, once terror economy gathers momentum, it can increase exponentially until the cycle of terror and conflict is broken. For instance, Nepal had hardly any GTP in 1995 and Pakistan in 1985. Generation of GTP mostly occurred in the region during the 1990s, building upon the trend that was initiated in the earlier decade.

If the next two decades see a quantum leap, GTP of 2025 could be around 5 per cent of the region's GDP then. Thus, there is a high risk that South Asian economies will get terrorised, after significant sections of them having been criminalized and militarised. The combined effect of crime, militarisation and terrorism in the region will lead to a negative transformation of these countries.

The Second Freedom

CHAPTER 17

Cooperation and Confrontation

The end of Multi-fibre Arrangement (MFA) will deliver a blow to Bangladesh and Sri Lanka, while it will benefit India and Pakistan. As Sri Lanka emphasises cooperation with other neighbouring countries, it will transform this transition into an opportunity to innovate its trade strategy. If Bangladesh continues with its policy of confrontation with neighbours, it will force its economy to collapse.

The clothing and textile sector is significant for all South Asian countries. For Bangladesh and Sri Lanka the share of readymade garments (RMG) in the exports of 2003-2004 was 60 per cent and 50 per cent respectively. For Pakistan, cotton accounted for 62 per cent of exports in the same year. These countries have thrived on the quota-system under the MFA that ended at the beginning of 2005.

In the post-MFA regime, these countries will witness a closure of inefficient firms that will not be able to compete, thus leading to job losses. It is also possible that some countries see a collapse of their textile and RMG industry, with domestic capital shifting to other sectors. With the right policy environment, however, emergence of new industries in these countries cannot be ruled out.

Bangladesh

The impact of MFA phase-out would be felt most by Bangladesh as the garment industry is its top earner and all its exports are under the quota system. The economy is overly dependent on the apparel industry, with weak social safety nets and few opportunities for employment in other sectors.

Significance of Textile & RMG Industry to Bangladesh's Economy:

- The textile and readymade garment industries together employ over 70 per cent of manufacturing labour force; employ 2.6 million people directly and another 15 million indirectly. Around 90 per cent of the workers in the textile industry are women.
- Value added from the textile and RMG industry is over 50 per cent of manufacturing and accounts for around 8 per cent of GDP.
- Export of RMG accounts for 10 per cent of GDP, and earns about 60 per cent of total foreign exchange.
- There are approximately 2600 RMG factories operating in the country.
- Being highly import intensive, the net foreign exchange earning from the RMG industry is extremely low. Only 30 per cent of the proceeds from the

Source: Annual Report 2003-04 Bangladesh Bank industry remain in the country, the rest 70 per cent is used to import fabric.

- Textile workers in Bangladesh are paid 20-40 per cent less than in China and India.
- In Bangladesh, of the present demand of about 3 billion yards, 85-90 per cent is imported and fabric requirement is growing at the rate of 20 per cent per annum.

Impact of MFA Termination on Bangladesh

- Potential 1-1.5 millon workers will be displaced. In other words, families of these workers will also feel the pinch, which implies on average about 4-6 million people being affected.
- Bangladesh government fears that around 600 garment factories will face closure and 800,000 garment workers would be jobless as immediate fallout of the MFA phase-out in 2005.
- Bangladesh is likely to lose US $1.05 billion by 2006 due to the elimination of MFA.
- Government revenues will falter, increasing its dependence on aid. This in turn will deter foreign investments.
- A shrinking of the economy can have serious social implications at this stage when fundamentalism is on the rise.

To calculate the impact of MFA phase-out on Bangladesh economy, the following assumptions are made:

- Bangladesh has to openly compete to secure markets in the West, from January 1, 2005.
- The value added from apparel sub-sector is 20 per cent of total manufacturing value added, as based on data from UNIDO.
- The manufacturing sector holds a share of 16.25 per cent to total GDP in 2004.
- The value added per employee in the apparel sector is US $848.
- In fiscal 2004-05 approximately 200,000 garment workers lose their jobs, and in 2005-06, another 800,000 are rendered jobless.
- If the MFA had not to take effect in 2005, Bangladesh's economy would have continued to grow at 5 per cent per year.

The year 2006-07 would face the full impact of the decline in the garment industry and its cascading effect on government revenues, employment and domestic demand.

In the worst scenario, failure to maintain competitiveness will lead to closure of several factories. There are serious doubts whether Bangladeshi companies can remain competitive in the face of international competition.

Impact of MFA Termination on Bangladesh's Economy

(US $ million)

	Total Manufacturing Value Added	Apparel Value Added	GDP (at constant factor cost)	Assumptions
2003-04	6,653	1,331	40,935	
2004-05	6,985	1,397	42,982	@5% GDP growth
		Impact of MFA		
2004-05	6,816	1,228	42,813	Loss of US $424 million VA from apparel industry
	Actual GDP growth in 2004-05	*4.6 %*		
2005-06	6,452	748	44,104	Loss of US $678 million VA from apparel industry
	Actual GDP growth in 2005-06	*3.0%*		

Bangladesh imports huge quantity of fabric and yarn from the ASEAN and Indian markets, but in turn has not gained access into these markets. However, in the post-MFA regime when the suppliers of yarn and fabric start competing for a share in the garment market, their supplies to Bangladesh will dwindle. Hence, Bangladesh will witness a definite reduction of its garment industry.

The economy will be on the downward spiral — Bangladesh's economy would languish till 2010 with GDP growth remaining trapped in the 2-4 per cent rate till other sectors emerge to fill the vacuum.

Sri Lanka

Sri Lanka has been preparing itself for a post-MFA strategy, and is one country that plans to focus on vulnerable firms that might be susceptible to closure, making arrangements for overnight closure of firms as well as retraining workers. The country has identified the nursing and hospitality industries as alternative sectors for re-employing garment workers.

Significance of Textile & RMG Industry to Sri Lanka's Economy:

- The textiles and garment sector of Sri Lanka accounted for nearly two-thirds of growth in industrial activity during the 1990s.
- The garment sub-sector provides direct employment to 280,000, mostly low-income women and indirect employment to another 320,000 people. It accounts for over one-third of the total employment in the manufacturing sector.
- There are over 890 RMG companies operating in Sri Lanka, most of which were located around Colombo.
- About one-third of total RMG exports from Sri Lanka are done by 33 large scale manufacturers who posses the capability to face competition.
- Apparel exports account for 54 per cent of total exports and 71 per cent of Sri Lanka's total industrial exports.
- Garment exports account for 7 per cent of GDP.
- Nearly 97 per cent of all garment exports from Sri Lanka are quota-bound.
- Value added from the textile and garment industry accounts for 31 per cent of total industrial value added.

Impact of MFA Termination on Sri Lanka

- In 2000, there were around 890 RMG companies operating in Sri Lanka, of which 164 factories were of large and very large size, employing approximately 131,250 workers. While official data for 2005 is not available, it is not expected to deviate much. These

Impact of MFA Termination on Sri Lanka's Economy

(US $ million)

	Total Manufacturing Value Added	Apparel Value Added	GDP (at constant factor cost)	Assumptions
2003-04	6,653	1,331	40,935	
2003-04	1,680	311	10,287	
2004-05	1,764	326	10,801	@ 5% GDP growth
		Impact of MFA		
2004-05	1,675	237	10,712	Loss of US $89 million VA from apparel sector
	Actual GDP growth in 2004-05	*4.1%*		
2005-06	1,669	185	11,000	Loss of US $152 million VA from apparel sector
	Actual GDP growth in 2005-06	*2.7*		

factories face less possibility of closure and can compete globally with some support from the government. However, the remaining 80 per cent or 727 factories in the small and medium categories face the possibility of closure, rendering approximately 148,000 people job less.

- In 2000, the value added per employee in the garment sector in Sri Lanka was US $2,410, as per data compiled by UNIDO. At this value, redundancy of 148,000 workers would imply loss of US $356.7 million in value added.

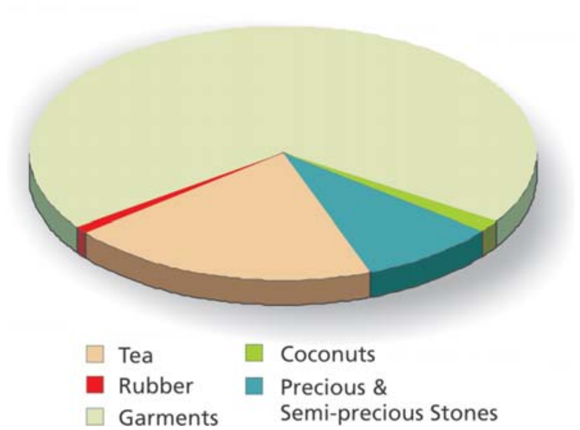
To calculate the impact of MFA phase-out on the economy, we make the following assumptions:

- Sri Lanka has to openly compete to secure markets in the West, from January 1, 2005.
- Share of apparel value added is 18.5 per cent of total manufacturing value added.
- The manufacturing sector holds a share of 16.3 per cent in total GDP in 2004.
- The value added per employee in the apparel sector is US $2,410.
- Around 100,000 garment workers lose their jobs in the initial impact.
- If the MFA had not to take effect in 2005, Sri Lanka's economy would have continued to grow at 5 per cent per year.
- The GDP growth for 2004-05 neither takes into consideration the impact of Tsunami nor the concessions being given by the developed countries to Sri Lanka to mitigate the impact of Tsunami in terms of securing apparel markets in the US and EU.

The Garments Association of Sri Lanka has identified a clear strategy for meeting the challenge of MFA termination and the government aims to provide full support to the association to do so. In addition, the Sri Lanka government is seeking quota free access into OECD markets to assist the industry. Quota free access for Sri Lankan garments into the EU market has already been secured.

Sri Lanka's Free Trade Agreements with Pakistan and India is a step towards securing raw material supplies to this major revenue-earning sector. Till the MFA existed, Sri Lanka's utilisation of quota for readymade garments (8 million pieces of which 6 million should be from Indian raw material) under the India-Sri Lanka FTA remained below 5 per cent. Also, limitation imposed by India on entry ports for these goods inhibited their trade. Post-2005, as Sri Lanka begins to compete with other players in the US and EU markets, the FTA signed

Sri Lanka's Major Export Earnings: 2002



Source: Statistical Abstract, 2004, Department of Census and Statistics

Pakistan's Major Export Earnings: 2003-04

Source: Pakistan's Economic Survey, 2003-04 with India will be a major factor in protecting its readymade garment industry. Also, Sri Lanka's positioning as a Gateway to South Asia, its signing of FTA's with South Asian neighbours and countries outside the region and its liberal investment policy will enable it to diversify its trade structure and overcome the crises generated by the end of the Multi-Fibre Arrangement.

In the post-MFA period, regional blocs will play an important role. During the transition period of quota liberalization since the 1990s, the developed countries successfully formed effective trade blocs. More than 60 per cent of the total trade within the EU is intra-regional. In North America FTA, a similar situation prevails and trade is likely to increase with the full implementation of the WTO. For instance, Mexico which is a member of NAFTA has experienced an unprecedented increase in knitwear exports to the US since the last 10 years.

India-Sri Lanka Bilateral Trade

($ Million)

	India's exports	Sri Lanka's exports	Total Trade
1998	539	38	577
1999	512	49	561
2000	600	58	658
2001	602	72	674
2002	835	171	1,006
2003	1,093	245	1,338

Source: Statistical Abstract 2004, Department of Census and Statistics

India-Sri Lanka Terms of Trade

($ Million)

	India's exports	Sri Lanka's exports	Terms of Trade
1998	539	38	-501
1999	512	49	-463
2000	600	58	-542
2001	602	72	-530
2002	835	171	-664
2003	1,093	245	-848
Annual Growth 1998-2003	15.2	45.2	11.1
	Projections		
2004	1,257.0	355.3	-902
2005	1,445.5	515.1	-930
2006	1,662.3	746.9	-915
2007	1,911.7	1,083.0	-829
2008	2,198.4	1,570.4	-628
2009	2,528.2	2,277.1	-251
2010	2,907.4	3,301.7	394

CHAPTER 18

The Second Freedom

Dream Merchants

The concept of South Asian Free Trade Area (SAFTA) is designed in such a way that it is likely to remain a dream in 2025. The current trade amongst South Asian countries is 5 per cent of the total trade. The value of trade may increase three-fold in the next decade but will still remain at 5 per cent of the total trade. SAFTA without freedom of investment and services is going to be treading on dreams.

SAFTA was signed in January 2004. It has a very limited objective of reducing tariffs, para-tariffs, and non-tariff barriers within a certain time-frame. It recommends additional measures in Article VIII. These include harmonisation of standards, simplification of customs clearance, simplification of banking procedures for import financing and simplification of business visas. It even proposes removal of barriers to intra-SAARC investments and promotion of venture capital. However, Article VIII is merely a statement of intentions. There is no plan of action to implement it. The only action plan that the treaty mentions is for the removal of tariff barriers by 2015.

Independent experts forecast intra-SAARC volume of trade to increase from US $5 billion at present to US $14 billion in 2015. As overall trade will also grow in the next decade, intra-SAARC trade at US $14 billion will still be around 5 per cent of total trade. Experts also dream about horizontal specialisation across the region leading to vertical integration of production processes. This is bound to remain a dream in the absence of transportation linkages, common standards, and a free investment regime.

All South Asian countries have surplus of labour and shortage of capital. As their comparative resource endowments are the same, they cannot accrue any competitive advantage from mutual trading. Their natural trading partners are bound to be those outside the region.

SAFTA is an agreement of trade in goods. It might just be able to bypass the Pakistani reluctance to give India MFN status and restrict free trade in 600 commodities. However, it is meaningless, since the real potential for SAFTA would be in services and investments- e.g. tourism, hydro-electricity, transit rights for gas, and goods. For instance, India may find it in its interest to offer Bangladesh transit fees for trade with India's own North Eastern states and Burma or offer Pakistan transit fees for trade with Afghanistan and Iran. Such transit facilities would be of much greater value than direct trade in goods between India, Pakistan and Bangladesh. Similarly, there is scope for joint tourism packages and hospitality services as well as joint development of utilities.

SAFTA will be meaningful if it is converted into SAFIA- South Asian Free Investment Area. India's Tata Group had announced an intention to invest US $2 billion in Bangladesh. Other Indian groups may also invest a comparable amount. Thus, a free investment regime can generate investment of anywhere from US $5 billion to US $50 billion during the next two decades. Such investments will have the potential to convert South Asia into a real economic community. However, the current mood of South Asian countries is not to permit the mobility of labour and capital. Moreover, it will be absolutely essential to curb terrorism completely to facilitate the movement of factors of production. The choice that the South Asian countries have to make between 2005 and 2025 is between a house of terror and a home of prosperity, the latter built on the foundation of a genuine SAFTA and a dynamic SAFIA.

The Tripartite SAARC Expert Group (SEG), 1997, and the SAARC Group of Eminent Persons, 1997, have favoured the goal of establishing a South Asian Economic Union by the year 2020 in a phased manner. The first stage is the establishment of a South Asian Free Trade Area (SAFTA) by 2008-11, to be followed by a South Asian Customs Union (SACU) by 2015 and eventually by a South Asian Economic Union (SAEU) by 2020. In the interim, a number of steps need to be taken covering trade and transport facilitation measures, investment area and creation of regional institutional infrastructure such as a regional development fund and a bank, an energy grid, besides coordination of macro economic policy.

Ideally, the pinnacle of success of the SAFTA lies in the formation of a single unified currency under the SAEU. However, a currency union requires fundamental conditions to be met before it can come into existence. South Asia has 25 per cent of the world's population, 2 per cent of global GDP and less than 1 per cent of global trade. In the circumstances, it is advisable for South Asian policy makers not to eye Europe as a model for immediate emulation. Economic, financial and political convergence is necessary to ensure the symmetry that is required for a currency union.

Currency Union is a technically complicated matter that traditionally involves the concept of optimum currency areas. Important criteria in identifying an optimum currency area include the level of flexibility in real wages, the possibility of high labour mobility, and the low incidence of asymmetric shocks, i.e., all countries in the proposed union must be similarly affected by external developments, as this indicates higher prospects for integration.

The actual introduction of the common currency involves three stages of implementation. First stage, the free movement of capital, stabilization of the exchange rate mechanism, closer cooperation between central banks and coordination of economic policies. The second stage involves synchronization of economic and monetary policies, and in the third stage introduction of a single currency. This is a systematic process based on very high levels of cooperation. It is difficult to visualise countries that go to war over rocky bits of terrain and which deny over-flight permissions to neighbours on the slightest provocation being able to undertake such complex and synchronised multi-lateral measures.

The agreement has the potential to completely transform the politics as well as economics of the region. However, it still has many loose ends that need to be tied, such as the rules of origin, revenue loss compensation mechanism synchronisation of domestic policies and product coverage issues. While establishing a South Asian Development Bank, South Asian Development Fund, South Asian Energy Grid, SAARC must fully exploit the trade-investment nexus, liberalise trade and promote investment, withdraw restrictions on travel and free flow of information across frontiers, create the South Asian Free Investment Area and undertake vertical and horizontal industrial integration. Yet, if the region manages to implement the agreement successfully, it would change the face of South Asia. The regional economic integration in South Asia could generate billions of dollars of new income, employment, trade and could help the region in its fight against poverty. A strong SAARC with stronger objectives is an investment for peace in the South Asian region.

CHAPTER 19

The Second Freedom

Tumbling Transport

South Asia's ambitions for regional trade will completely depend on developing a dependable transport network. If road, sea and air connectivity is improved by five times by 2015, it will facilitate close economic interface in the following decade. Otherwise, come 2025 and SAFTA will still be a subject of academic discourse.

SAARC wants to promote business. But it is not easy for business travellers to fly directly from one capital or commercial centre to another. Of all the Asian cities, Dhaka by far has the best connectivity, with direct air links to three major Indian cities — Mumbai, Delhi, Kolkata — and Kathmandu, Paro, Lahore and Karachi. The Dhaka-Kolkata sector has the highest frequency of flights with 21 flights operated per week. Dhaka-Mumbai and Dhaka-Delhi have hardly 2 flights per week. The Dhaka-Kathmandu route has daily flights, while for the moment flights on the Dhaka-Paro sector have been suspended due to lack of passengers.

Colombo is another city that has direct flights to five Indian cities — Mumbai, Chennai, Bangalore, Delhi, Thiruvananthapuram — as well as Male and Karachi. In future, air links between Colombo and Kathmandu and Colombo and Dhaka are likely to begin. Presently, Nepalese and Bangladeshis visit Sri Lanka via Singapore.

The frequency of flights between Colombo and cities in India are among the highest in South Asia. Around 30 flights are operated per week on the Chennai-Colombo sector, 14 flights per week between Colombo-Delhi, daily flights between Mumbai-Colombo and around 11 flights per week to Thiruvananthapuram. This air connectivity between Colombo and cities in India are indicative of the close ties between the two countries, whether for business or tourism.

Karachi and Lahore have the weakest air links with cities in South Asia with no daily flights to any of the important cities in the region. Delhi is well connected with direct air links to Lahore, Colombo, Paro, Kathmandu, and Dhaka. Mumbai is another city that is similarly connected to the same cities, except for Paro and is connected to Karachi, instead of Lahore.

India-Pakistan direct air links have considerably improved with Delhi-Lahore, Delhi-Karachi and Mumbai-Karachi flights. In future perhaps, Lahore-Mumbai flights will become possible. Alternatively, if relations between India and Pakistan deteriorate, direct flights could revert to being routed via a third city like Dubai.

There is tremendous potential for air travel within SAARC either linked to tourism or familial ties, especially on unconventional routes. The Hyderabad-Karachi sector could generate tremendous traffic due to religious affinity and ancestral associations. Bangalore can be directly connected to cities in Pakistan and Nepal.

Port Network in South Asia

Coutries	No. of Major Ports	Traffic (Million Tonnes)	Container (Million TEUs)
Bangladesh	2	12.46	0.50
India	25	287.57	3.01
Pakistan	2	39.92	0.58
Sri Lanka	2	26.27	1.76
South Asia	32	366.22	5.85

Source: RIS South Asia Development and Cooperation Report 2004

Currently, India has a fleet of 180 civilian aircraft, equivalent to one per cent of the global stock. All over South Asia, the fleet strength is around 1-2 per cent of the global fleet. It should be possible to double the fleet in the next five years. The regional investment in civil aviation is expected to be around $50 billion during 2005-2010. If this grows in conjunction with a SAARC open skies policy and tourism promotion, this will create a few million jobs for people in the region.

The connectivity between seaports is weaker than the connectivity between South Asian airports. Colombo has become a hub port for the South Asia region. There are regular feeder services between Colombo and most South Asian ports but there are no direct calls among the ports of Bangladesh, India and Pakistan. For example although Karachi port is near the Mumbai port, there is no direct call between the two ports.

Another problem is that maritime ports in South Asia are generally considered less competitive than those in East Asia. Infrastructure and efficiency in ports in South Asia are poorer than those in East Asia. For example, it takes only a couple of hours at the ports of Singapore or Laem Chaband in Thailand to clear a vessel. In contrast, it takes 2 to 3 days for ports in Bangladesh.

While India, Pakistan and Bangladesh are involved in political confrontation, Colombo offers hope for a cooperative journey to 2025. The Colombo port has the strategic advantage of being on the main shipping lanes of world cargo movement. Twenty-three major shipping lines and 7 feeder services operate out of Colombo. The deviation time for a ship from the main international shipping route to Colombo is barely 8 hours compared to 20 hours for India's nearest port Tuticorin, 31 hours for Mumbai, 35 hours for Chennai and 90 hours for Karachi. In fact, India's Shipping Corporation also uses Colombo as a hub to feed mainland India.

Even for Indian companies, it makes perfect sense to access southern Indian markets through Sri Lanka. Shipping products from Sri Lanka to South India is not only cost-effective but also time-efficient. It takes approximately eight days for goods to reach from North to South India by road, whereas shipping from Sri Lanka is possible in one-and-half days. The freight on a 20-ft container from Sri Lanka to south India could be as low as US $180 to US $350 per container. By road, from North India to the South, the container could cost between Rs.12,000 (US $260) and Rs.18,000 (US $392).

The Colombo port has a strategically located South Asia Gateway Terminal on the main East-West shipping route in the Port of Colombo. Placed in the centre of the main international East-West shipping routes, it has earned a

Estimated Mainline Vessel Deviation Costs (4,000 TEU Vessel) 2004

Port	Deviation time	Time in port	Vessel deviation time cost	Port access charge	Cost of time in port
	(days)	(days)	(US $)	(US $)	(US $)
Chennai	1.10	1.0	24,750	28,000	22,500
Chittagong	2.25	1.0	50,625	20,000	22,500
Cochin	0.13	1.0	2,925	28,500	22,500
Colombo	0.06	1.0	1,350	10,000	22,500
Dubai	2.37	0.5	53,325	5,500	11,250
JNPT	0.85	1.0	19,125	26,500	22,500
Karachi	1.33	1.0	29,925	20,000	22,500
Mundra	1.30	1.0	29,250	28,000	22,500
Tuticorin	0.09	1.0	2,025	33,500	22,500

Source: South Asia Gateway Terminals (Pvt) Ltd., Port of Colombo reputation of being the ideal trans-shipment hub. Also, continuing development of the ports in Galle, Hambantota and Trincomalee can further consolidate Sri Lanka's position as a major force in the global shipping industry.

The Colombo port is primarily dependent on trans-shipment cargoes for its existence. Trans-shipment cargoes offer an opportunity to develop businesses at a faster rate. As South Asian trade volumes grow, the additional Colombo call for services between Asia and Europe will be increasingly attractive, as the deviation involved is minimal and provides access to a range of markets, especially India and Pakistan.

A UNESCAP study on trans-shipment, forecasts Colombo trans-shipment volumes to increase fourfold to be in excess of 4 million TEU by 2011. At this level, trans-shipment would account for around 75 per cent of total port throughput. Also, almost 80 per cent of the total trans-shipment traffic through the port is expected to either originate in, or be destined for, an Indian destination. The remainder would be destined for Pakistan, Africa or the Persian Gulf countries, with a minor contribution from cargoes from East and South East Asia relaying at Colombo on the services to the North American East Coast via the Suez Canal.

Finally, there is tremendous scope for road and inland waterway networks:

India-Pakistan

■ Munabao-Khokhrapar Rail Link

This link was severed in the wake of the 1965 war. Reports claim that India is willing to help Pakistan share the burden of the cost of about Indian Rs.200 crore. It is believed that Pakistan Railways has prepared a feasibility report on the proposal and has handed it over to the Federal Planning Commission. The study includes up-gradation of 12.3 km track between Khokhrapar and Munabao to broad gauge.

Most of this estimated amount is needed for conversion of the track from meter gauge to broad gauge. To resume the rail link, Pakistan would have to build from scratch the immigration posts and other facilities for commuters from both sides. The main hurdle from the Pakistani side is the railway line leading to Khokhrapar. The 128 km long line between Mirpurkhas and Khokhrapar in Sindh is in bad condition.

■ Srinagar-Muzzafarabad Road Link

India and Pakistan agreed to start the bus service between Srinagar and Muzaffarbad on February 16, 2005 after a gap of 53 years. The bus service commenced on April 7, 2005.

■ Amritsar-Lahore Rail and Bus Links

The bus link is expected to commence in August 2005 and will include Sikh religious places of worship like Nankana Sahib.

■ Mumbai-Karachi Ferry Link

There is tremendous potential for cargo traffic between the two countries. Shipping analysts believe that if the Mumbai-Karachi sea link is reopened, cargo traffic could go up to US $1 billion in the first year and reach US $2 billion within the next two to three years. At present, several Indian goods move to Pakistan via Dubai, and that takes a minimum of five days by sea. A direct route will reduce the voyage time by two days. The freight cost will come down, almost by 50 per cent.

■ Jammu-Sialkot and Poonch-Rawalakot Bus Link

These cities were originally linked by rail prior to partition. Now, if the Srinagar-Muzzafarabad link proves to be successful it is very likely to lead to the emergence of the Jammu-Sialkot and Poonch-Rawalakot bus link, although as of now, no immediate date has been set for its operation.

Thailand-Burma-India

The proposed road link would be over 1,300 km long, running from Moreh in India to Mae Sot in Thailand, through Rangoon in Burma. The Trilateral Highway project, as it is known, is expected to be completed in three phases.

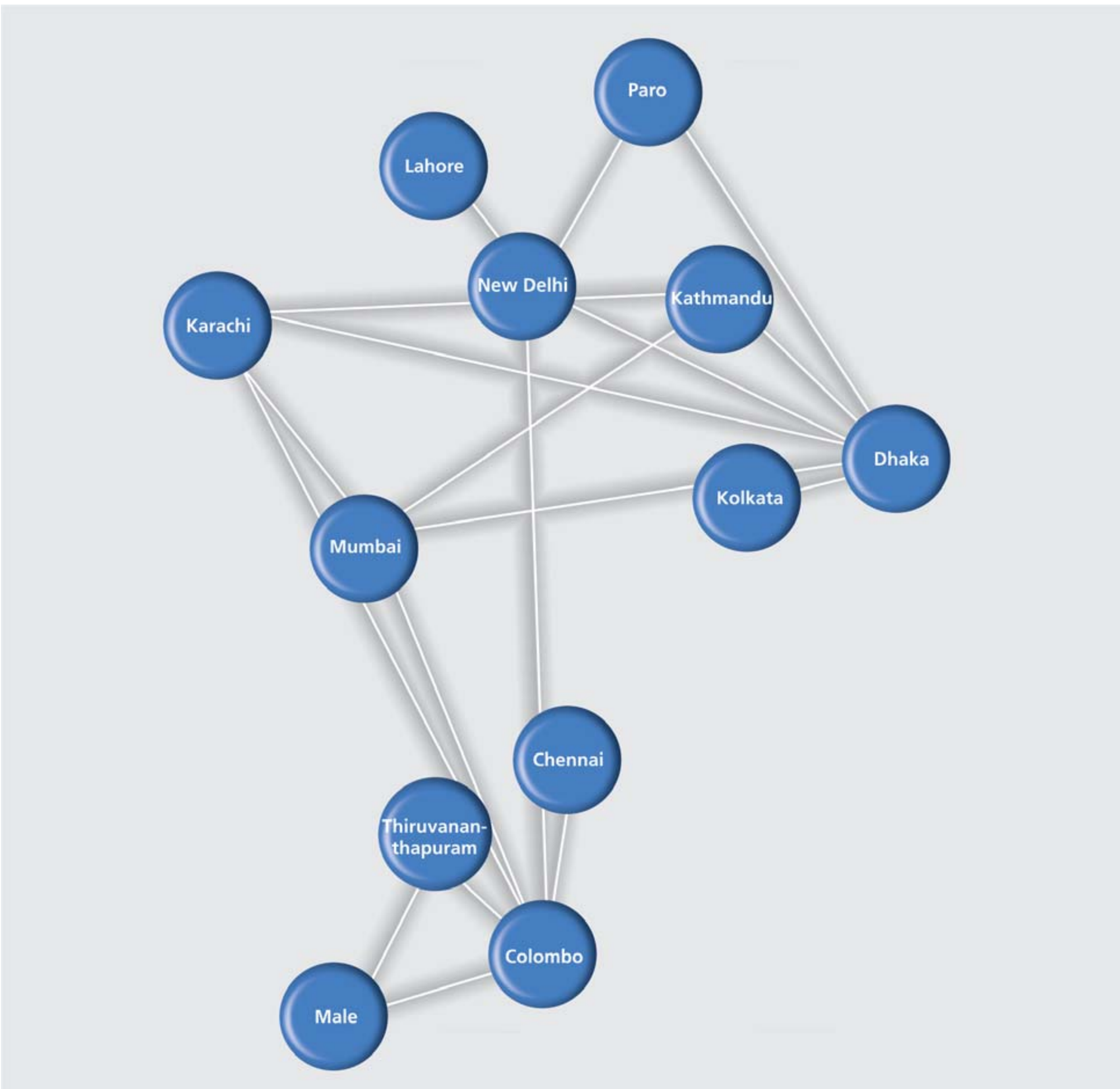
Asian Highway

Two priority routes have been identified in the Asian Highway touching upon South Asia. One is a 10,784 km stretch starting from Bazarjam (on the Iran-Turkey border) and crossing Iran, Afghanistan, Pakistan, India, Bangladesh, India, Myanmar, Thailand, Vietnam and ending at Saigon. The missing links are in Myanmar and Bangladesh where six major bridges have to be constructed. The second priority route of the Asian Highway, passes through Iran, Pakistan, India and meets Nepal at Banbasa from where it re-enters India at Siliguri and further reaches Imphal via Bangladesh and then extends to Myanmar.

Trans-Asian Railway

The railways of India and Bangladesh can also be

Air Connectivity between SAARC Countries



brought in under this banner consisting of the railway systems of Pakistan, India and Bangladesh. The link connects Pakistan through Sibi, Rohri and Lahore Junctions and passes through Amritsar, Delhi, Mughal Sarai and Calcutta in India and extending to Bangladesh Railways via Goalnanda Ghat from where ten hours steamer journey has to be taken to reach Narayanganj from where the route extends to Dhaka, Akhura, Chittagong and Dohazari through a metre gauge line.

India-Sri Lanka Land Bridge

The proposal envisages the construction of a land bridge linking the Sri Lankan and Indian cities of Talaimannar and Dhanushkhodi respectively. This permanent link will facilitate the effective and efficient movement of both passengers and cargo, resulting in increased economic opportunities for both countries.

Currently Adam's Bridge which connects Mannar Island (Sri Lanka) with Pamban Island (India) is mostly composed of shifting sandbanks with intricate channels between them. The land bridge proposed, is to be built by connecting the offshore islands found across this ridge with landfills, causeways and/or bridges. It is envisaged that this proposed land bridge would consist of a four-lane highway with a parallel single rail track.

For Sri Lanka, the land bridge project offers linkages to industries and agro-industries in southern Tamil Nadu that typically are not in direct competition with industrial and agro industrial activities in Sri Lanka. The city of Madurai in South India all the way down to Kanya Kumari will provide a hinterland, which can access ports in Tuticorin, Colombo, Trincomalee and Chennai once the land bridge is built. This will give Southern Tamil Nadu greater port access than is currently available.

Inland Waterways Network in South Asia

Nepal, Bhutan and Bangladesh and India are located in the Ganga, Brahmaputra-Meghna basin which can be developed for facilitating freight movement through waterways. The rivers are integrative and if harnessed for inland waterways, transportation could be developed which would also be cost effective. The Ganga, Brahmaputra and Meghna waterways can be integrated with the sea ports in India and Bangladesh. Nepal can transport its cargo from Calcutta or Haldia port to Patna through river transport from where goods can be transported by road to Nepal. Hence, inter-modal transport links are required for the overall development of the transport facilities between India, Bangladesh, Nepal and Bhutan. Inter-modal transport requires overall development in all the modes of transport.

CHAPTER 20

Energy Security

India and Pakistan will face a growing shortage of oil and gas in the next two decades, especially given the rising demand from China. Their supply options will be threatened by their rivalry and antagonistic relations with other neighbours in South Asia.

Global Scenario

Global Supply

- Global oil demand will rise by about 1.6 per cent per year, from 75 million barrels per day (mb/d) in 2000 to 120 mb/d in 2030.
- Analysts are doubtful if the world can produce more than 100 mb/d of oil, some 20 per cent more than the current output of about 82 mb/d.
- Theorists are divided about when oil production will peak. Some believe that oil production peaked in 2000, while others argue that it will peak between 2004 and 2020. The debate crystallizes around the factors that will determine the future of oil production:
  - International oil companies access to known reserves
  - Exploration success in new oil territories
  - Technological innovation and prices
  - Geopolitics.
- The number of major discoveries has declined in recent years and exploration costs have risen. West Africa and the Caspian will not, on their own, offer enough large-scale projects to satisfy the oil majors. Iraq and Russia still offer hope, especially if the latter manages to clear up the Yukos related problems.
- In terms of technological innovation, an across-the-board 1 per cent increase in recovery rates adds approximately 11.1 billion barrels globally of recoverable reserves. Given recovery rates that are on average below 40 per cent, there is plenty of room for growth here. Oil companies will hope to benefit from new technologies as they increasingly focus on mature fields and employ enhanced recovery techniques. Technology will also dictate the pace of oil sand development, as will the oil price itself.
- The total investment requirement for energy-supply infrastructure worldwide over the period 2001-2030 is US $16 trillion. This investment is needed to expand supply capacity and to replace existing and future supply facilities that will be exhausted or become obsolete during the projection period. Much of the new production capacity brought on stream in the early years of the projection period will itself need to be replaced before 2030. In total, 51 per cent of investment in energy production will be needed simply to replace or maintain existing and future capacity. The remaining 49 per cent will provide the capacity to meet rising demand.
- Political instability in the Middle East, Central Asia, Russia, South America and Southeast Asia are also likely to affect the supply of global energy resources. The main effects will be soaring energy prices and short-term disruptions in energy supplies. In the long term, as the petroleum production peak approaches, countries like the US will make more efforts to directly control energy resources in the Middle East and Central Asia, which is likely to have political ramifications.

Global Demand

- Total world consumption of primary energy is expected to expand by 54 per cent from 404 quadrillion British thermal units (btu) in 2001 to 623 quadrillion btu in 2025.
- In the developing world, primary energy consumption is projected to grow at an average annual rate of 2.7 per cent between 2001 and 2025.
- In contrast in the industrialized world energy demand is expected to grow at a slower rate of 1.2 per cent per year over the same period.
- Oil is expected to remain the dominant energy source until 2025 with its share of total world energy consumption remaining unchanged at 40 per cent through 2025. Total world oil consumption is expected to increase by 1.9 per cent per year over the projection period, from 77 million barrels per day in 2001 to nearly 121 million barrels per day in 2025.
- Natural gas will be the fastest growing primary energy source worldwide maintaining average growth of 2.2 per cent annually over the 2001-2025 period. Total world natural gas consumption is projected to rise from 90 trillion cubic feet in 2001 to 151 trillion cubic feet in 2025.
- Coal consumption worldwide is projected to increase by 2.3 billion tonnes between 2001 and 2025.
- Substantial declines in coal use are expected for Western Europe and Eastern Europe where natural gas is increasingly being used to fuel electric power generation and other uses in the industrial and building sectors.
- In the developing world, larger increases in coal use are projected for China and India. Both account for 85 per cent of the projected rise in coal use in the developing world and 70 per cent of the total world increment in coal demand over the forecast period.
- Electricity generation is anticipated to nearly double between 2001 and 2025 from 13,290 billion kilowatt hours to 23,702 billion kilowatt hours. Strongest growth is projected for the countries of the developing world where net electricity consumption rises by 3.5 per cent per year compared with a projected average increase of 2.3 per cent per year worldwide.

South Asia

Pakistan

Oil Sector

Annual oil consumption is expected to grow at approximately 5 per cent. Domestic crude production is expected to reach a maximum of 100,000 billion barrels per day (bbl/d) between 2010-2011. While there is no prospect for Pakistan to reach self sufficiency in oil, the government has encouraged private (including foreign) firms to develop domestic production capacity.

A major planned project is the Iran-Pakistan refinery, which would have a capacity of 130,000 bbl/d. The refinery will be located near the border with Iran in Balochistan province and would be a 50:50 partnership between Pakistan's Petroleum Refining and Petrochemical Corporation (PERAC) and the National Iranian Oil Company (NIOC). Oil processed at the Iran-Pakistan refinery would come almost exclusively by sea from Iran, and would be unloaded at a terminal to be built for the refinery. The project has failed to reach financial closure.

Pakistan's Oil Sector

(barrels per day)

Year	2002-2003	2010	2015	2020
Production	63,298	100,000	100,000	100,000
Consumption	208,219	286,847	366,097	467,243
Imports	144,921	186,847	266,097	367,243

Natural Gas Sector

Natural gas demand grew at an average rate of 6 per cent per annum against a total energy demand growth of 4.8 per cent, a rate expected to remain till 2010. By 2015, the country's total gas demand would go up to 4,452 million cubic feet per day (mmcfpd) from the present level of 2,061 mmcfpd with bulk of it going for power generation.

The supply-demand gap is expected to be met by imports of natural gas. These numbers already assume increased domestic production from fields discovered in recent years. The demand for natural gas is expected to keep increasing in all sectors and, unless major new domestic discoveries are made, imports of natural gas could reach a billion cfpd (1000 mmcfpd) by 2020.

India

Energy Demand

India ranks sixth in the world in terms of energy demand. With the Indian economy expected to grow at an average rate of 5-8 per cent in the next two decades, energy demand is projected to grow at an average rate of 4.8 per cent. Moreover, the country's population of over a billion, growing at the rate of 1.7 per cent per year, is expected to touch 1.19 billion in 2010 and 1.41 billion by 2020. The share of urban population is projected to increase from 28 per cent in 2001 to 43 per cent in 2020. More than 60 per cent of Indian households depend on traditional sources of energy like fuel, wood, dung and crop residues to meet their cooking and heating needs. Out of the total rural energy consumption, approximately 65 per cent is met from fuel wood.

Pakistan's Planned Refineries

(barrels per day)

Owner/Operator	Capacity
PARCO expansion	50,000
Perac refinery	130,000

Projected Supply and Demand of Natural Gas Supply in Pakistan

(mmcfd)

Year	Supply	Demand
2010	3,300-3,381	3,700
2015	2,498	4,452
2020	1,567	5,175

India's opportunity for achieving a higher GDP growth could be thwarted by chronic energy shortages, as the gap between India's energy demand and energy production continues to expand. The increase in India's commercial energy demand is expected to be the highest in the world spurred by sustained economic growth, rise in income levels, electricity generation, and transportation.

Coal Sector

Coal will continue to remain the principal source of commercial energy till the end of the decade and beyond. Between 2006-2007, coal will account for 45 per cent of commercial energy consumption and this will increase to 46 per cent by the end of the decade. In fact, the demand for coal is predicted to surge by 14 per cent between 2020 and 2025, the highest increase in five years.

Oil Sector

After coal, oil constitutes around 35 per cent of commercial energy demand. Current crude oil production is 33 million tonnes per year (approximately equivalent to 0.6 million barrels per day) and will rise to no more than 50 million tonnes (approximately equivalent to 1 million barrels per day) between 2004 and 2006, further widening the gap between oil demand and supply.

India's Growth Rates Per Year

(per cent)

GDP	5-8
Population	1.7
Energy Demand	4.8

Source: Planning Commission, Tenth Five Year Plan 2002-2007, Government of India.

Oil imports in 2002-2003 accounted for 70 per cent of the domestic crude requirements. By 2015, India will be importing 80 per cent of its crude oil requirements and by 2020, India's dependence on oil imports will grow to 90 per cent.

India's Refining Capacity

Self-sufficiency in refining capacity is likely to be sustained for the next decade considering the number of refinery projects coming up in the country. In 2003, there were around 20 projects in the pipeline seeking to add a massive 142.25 million tonnes of refining capacity, of which seven projects of a total 49 million tonnes are already under implementation.

India's consumption of petroleum products is growing at an annual rate of 6.7 per cent since 1996-97. The demand for petroleum products in 2001-02 was 98.57 million tonnes. *India Hydrocarbon Vision 2025* has estimated domestic demand for petroleum products to reach 195 million tonnes in 2011-12 and 368 million tonnes in 2024-25. Assuming that the refinery projects envisaged fructify without time overruns, India's refining capacity can reach up to 255 million tonnes by the middle of the next decade. The new refining capacity envisaged in the coming decade is reassuring and has the potential to meet domestic requirements. However, India will have to contend with an increased dependence on crude oil imports.

Natural Gas Sector

At present natural gas represents less than 10 per cent of India's commercial energy demand, and will rise to approximately 10.5 per cent by 2011-2012. The *Hydrocarbon Vision 2025*, released by the Indian government in 2000, has forecast that natural gas will account for 20 per cent of India's total energy consumption by 2025 as against less than 10 per cent now. Power and fertilisers are the two largest consumers of natural gas in India, together accounting for over 60 per cent of total natural gas consumed in the country. Domestically the need for natural gas can not be met as production has stagnated at 90 million metric standard cubic metres per day (mmscmd) of gas, while the requirement has already crossed 120 mmscmd.

India's Overseas Oil Investments

ONGC Videsh Ltd has heavily invested in exploration projects in energy rich countries around the world.

ONGC aims to produce 20 million tonnes a year of equity oil and gas abroad by 2020. Oil analysts say that ONGC's purchases in Sudan, Angola and Russia will help the firm produce almost 6.5 million tonnes of crude by 2006 to help meet its production target.

India's Total Estimated Energy Demand

(million tonnes oil equivalent)

Primary Fuel	2006 - 2007	% of Total Energy Demand	2011 - 2012	% of Total Energy Demand
Coal	184.23	33.04	254.93	35.21
Lignite	15.51	2.78	22.05	3.04
Oil	144.58	25.94	185.40	25.61
Natural Gas	42.70	7.66	57.60	7.96
Hydro Power	12.73	2.28	18.54	2.56
Nuclear Power	6.04	1.08	14.16	1.95
Wind Power	0.35	0.06	1.00	0.14
Total Commercial Energy	406.14		553.68	
Non Commercial Energy	151.30		170.25	
Total Energy Demand	557.44		723.93	

Source: Planning Commission, Tenth Five Year Plan 2002-2007, Government of India.

The Government is prepared to spend US $1 billion a year for 15 years to buy stakes abroad and is supporting ONGC which is competing with mainly Chinese firms for acquiring stakes in foreign projects. India's current five-year plan has proposed an expenditure of Rs.130 billion (US $2.9 billion) on overseas oil projects between 2002 and 2007.

It is clear that between the present and 2025, India will increasingly become a net importer of energy in order to satisfy its energy demand. To this end, India will have to increase its energy investments abroad. The regions that have the potential to satisfy India's quest for energy security are Central Asia, South Asia, Southeast Asia, Russia and even China. The Middle East, though, will still remain the main supplier for the next two decades. India will, however, need to ensure that it has a stake in the energy sectors of many countries to be able to offset any unforeseen energy disruptions or shortages.

Bangladesh has the potential to be an important energy source for India only if political relations with India improve. Bangladesh has refused to sell natural gas to India and to this end, Indian energy companies continue to find their hands tied. For example, Tata Group of India wants to invest around US $2 billion in Bangladesh in various projects.The proposed investments by Tatas include a 2.4 million tonne steel plant, a 1,000 MW power plant and a one million tonne fertilizer plant. Since Bangladesh will not export energy to India, corporate houses, like Tatas, are setting up plants like this with the aim of using Bangladesh natural gas and oil with the intent to sell the finished products back to India. This is one attempt at bypassing the hurdle of sour bilateral relations.

India's Coal Consumption

Year	2005	2010	2015	2020	2025
Million tonnes	346.4	390.9	428.1	462.0	526.0

Source: Indiastat.com

India's Oil Consumption

(million barrels per day)

Year	2005	2015	2020	2030
Consumption	2.5	3.5	4.4	5.5
Imports	1.8	2.8	4.0	5.0
Imports as a % of Consumption	70	80	90	90

Sources: Energy Information Administration, International Energy Outlook 2004, Hydrocarbon Vision 2025.

South Asian Energy Cooperation

South Asia is located in close proximity to the Persian Gulf, as well as Central Asia, both regions rich in natural gas.

- The countries of South Asia, specifically Pakistan and Bangladesh, are also important natural gas sources and transit corridors for any pipeline destined for India.
- Turkmenistan has huge gas reserves, with estimates that the country contains at least 71 trillion cubic feet (tcf) of gas, and an estimated 546 million barrels (74.5 million tonnes) in proven oil reserves.
- Kazakhstan sits astride the northeast portion of the Caspian Sea and claims most of the Sea's biggest known oil fields. Kazakhstan's combined onshore and offshore proven hydrocarbon reserves have been estimated to be between 9 and 17.6 billion barrels.
- Iran contains an estimated 940 trillion cubic feet (tcf) in proven natural gas reserves and 125.8 billion barrels of proven oil reserves. Iran is uniquely located on the transit point for the Caspian and the Central Asian gas. If these countries were to supply natural gas via pipelines, it would cost 35 per cent less than the cost of liquefied natural gas (LNG) in India and Pakistan.

Oil Demand

(million barrels per day)

	India	China	India	China
2005	2.5	6.8	1.8	2.5
2015	3.5	10.0	2.8	6.6
2025	5.0	12.8	4.5	9.5

Gas Pipelines

Turkmenistan-Afghanistan-Pakistan (-India) Pipeline

This project has been pursued by a consortium led by Unocal and the Government of Turkmenistan. The proposed pipeline, according to World Bank estimates, would cost a total of US $2.5 billion and would deliver 2.0 billion cubic feet per day (bcfpd) of gas. Tapping gas from Turkmenistan via Afghanistan and Pakistan pipeline will cost India US $2.5 per btu while currently sourcing LNG from Qatar via Iran costs India $3.5 per btu.

Iran-Pakistan (-India) Pipeline

The most economical route will be from Banda Abbas (Assaluyeh gas field) in Iran to Multan in Pakistan, with a branch line from near Khuzdar to Karachi. The other route would run from the giant South Parts field offshore Iran to Pakistan. Either of the proposed routes could be extended to India. The length of the pipeline from Iran through Pakistan to India would be about 2,700 km and would cost around US $5 billion to build and deliver about 3.3 bcfpd of gas. The completion of such a pipeline would have substantial benefits for Pakistan. It has been estimated that it would obtain a total estimated income of US $14 billion over 30 years, of which US $8 billion would be the transit fee that Iran has reportedly offered the country, plus US $1 billion in taxes and US $5 billion in energy cost savings.

Pakistan-India Pipeline

The cost of gas delivered to north-western India from a pipeline through Pakistan could be about US $2.70-3.00 per thousand cubic feet. Importing it as LNG and then sending it via a domestic pipeline from the west coast of India is likely to cost around 50 per cent more.

Given an anticipated demand for natural gas in India of more than 7 billion cubic feet per day by 2010, a pipeline would save India about US $1-2 billion annually. Pakistan also stands to reap substantial benefits of more than US $14 billion over the first 30 years — about US $8 billion in transit fees, US $1 billion in taxes and US $5 billion in energy cost savings.

ONGC Videsh Ltd. (OVL) Overseas Energy Investments

Sakahlin I (Russia): Estimates indicate that Sakhalin-I has 1.15 billion tons of in-place oil and 700 bcm of gas. The recent evaluations of the block indicate that the production could be as high as 350,000 barrels per day, along with further possibilities of upside in the reserves and production.
The total project cost is estimated to be US $12 billion. Oil production is expected to commence from 2005, reaching a plateau oil production of 250,000 barrels per day and gas production of 1030 mmscfd.

Myanmar Rakhine Coast: A-1 and A-3 blocks. A-1 gas discoveries vary between 4-6 tcf as of January 2005, exploration phase is to last for 5.5 years starting from October 2000. A-3 field discovered in February 2005 and details not available.

Iran: Farsi offshore exploration block, 5 wells have been drilled on three prospects, out of which 2 wells produced about 3,300 bpd. Reserve expectation from the block is about 540 million barrels. Contract was signed in December 2002, first phase of the work has been completed, second year of exploration is going on presently.

Sudan The Greater Nile Oil Project (GNOP): Estimated to have 1 billion barrels, plateau oil production 270,000 bpd Total investment US $720 million.

Vietnam: Dry gas reserves estimated at 2 tcf, project chain compromises of three mainstreams (upstream, midstream, downstream) and three stages of production of which Phase 1 has commenced and gas is being presently delivered to buyers.

Libya: Blocks NC -188 and NC-189 in Libya, south of Tripoli, estimates are between 500 million barrels to 1 billion barrels of crude oil. Drilling of the first exploration block began in 2003.

Syria: Block 24 is located about 400 km north-east of the capital Damascus, OVL in association with IPR (a US-based E&P company) has decided to bid for the block.

Iraq: Exploration block 8, expectation of about 645 MMbl, contract was ratified by the Government of Iraq and Ministry of Oil, on 15th May, 2001. Implementation of the project has not yet begun.

Bangladesh-India Pipeline

Unocal has proposed a 1,360 km pipeline from Bangladesh to Delhi that will link up to the pipeline system in northwestern India. The pipeline will start from the Bibiyana fields in Bangladesh to Delhi, through West Bengal, Bihar and Uttar Pradesh. The US $1.2 billion pipeline would provide 500 mmcfpd of gas and is expected to increase to 4 bcfpd by 2010. The supply shortfall in this area is about 1 bcfpd a day and expected to increase to 4 bcfpd by 2010. Most of this gas would be used for power generation and fertilizer production. According to Unocal, Bangladesh would earn US $3.7 billion in revenues and tax receipts during the estimated twenty-year life of the project.

According to the report on the proposed pipeline prepared by Unocal, the Bangladesh gas market will be unable to absorb gas volumes from Bibiyana until 2007 at the earliest. Further, it is anticipated the Bangladeshi gas market will be unable to utilize the field's maximum production volumes until 2015 or later.

Myanmar-Bangladesh-India Pipeline

In July 2004, Bangladesh agreed to a proposal for a pipeline to pass through its territory to carry New Delhi's share of gas from Myanmar. India has been considering building a cross-border pipeline to pump gas from the A-1 Myanmar offshore fields in which Indian oil companies, ONGC-Videsh and Gail, own a 30 per cent stake. These oil and gas fields are estimated to have over 6 tcf of reserves. The proposed pipeline will enter Bangladesh from the Indian state of Tripura, which borders Myanmar, and will cross into West Bengal through the Rajshahi border. A pipeline through Bangladesh will also help unlock the gas trapped in ONGC's fields in Tripura. Bangladesh will earn a yearly income of US $100 million in transit charges and US $25 million in maintenance charges.

Oil Pipelines

Trans-Asian Pipeline

The pipeline would link Kazakhstan and India and will have to pass through Pakistan and Afghanistan. If these transit countries were bypassed there is the risk of the project becoming more expensive and practically unfeasible. The pipeline would then have to pass through the city of Kashi in north-western China and then across the Siachen Glacier into Indian Kashmir.

Russia-China-India Pipeline

The much-talked about pipeline will stretch from Russia through Turkmenistan, Uzbekistan, Kazakhstan, to Chinese Xinjiang. It will enter India via Ladakh, crossing the Siachen Glaciers and the India-China Line of Control (or alternatively through Himachal Pradesh) to supply gas to northern India. The proposed pipeline would extend over an extremely long stretch of varied terrain and may cost up to US $15 billion to build, or slightly less if connected through already operational pipelines. More details about the cost and the quantity of oil delivered to China and India are not available.

Supply-side Constraints

The vision of South Asia energy cooperation outlined above will be shaped not only by internal dynamics within the region but also developments outside.

The Middle East, Central Asia, Western China, Myanmar are the regions which would be either sources of supply or transit of oil and gas. These are precisely the areas where regimes are extremely unstable and likely to change in an abrupt manner in the next 20 years. It is difficult to foresee the nature of regimes that will succeed the present ones in these countries, and the manner in which the regime change will occur. Therefore, some of the visions may remain an illusion because of factors beyond the control of decision makers in South Asia. If at least South Asians narrow their own differences, they will have some hope of minimizing adverse impacts of external uncertainties. There is no alternative to understanding and cooperation in the face of a highly unpredictable supply side dynamics.

Hydroelectricity

Bhutan-India-Bangladesh

Bhutan possesses hydroelectric potential of 30,000 MW and this can be exploited to export power to India and Bangladesh. Currently the two major hydro power projects in Bhutan are the Chukha (336MW) and Kurichu (60MW).

Bhutan is currently exporting 80 per cent of its energy generated to India, which accounts for 30 per cent of its GDP. In return, Bhutan imports all its requirements of petrol from India.

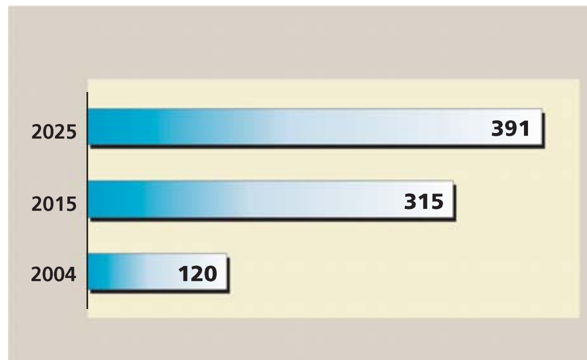
For greater access to Bhutanese power, India will have to upgrade its transmission lines to reach the states of West Bengal, Bihar and Uttar Pradesh and may even need help from Bangladesh to allow a corridor for such lines. Similarly, Bangladesh can also be supplied Bhutanese power through India, especially since Bhutan is expected to add another 1080 MW capacity in the next 5 years.

India-Nepal

India's peak demand in 2003-04 was about 85,000 MW and gross energy consumption about 558 billion kWh. Yet, the volume of power trade between Nepal and India initiated through 19 exchange points across the border was increased only recently from 50 MW to 150 MW.

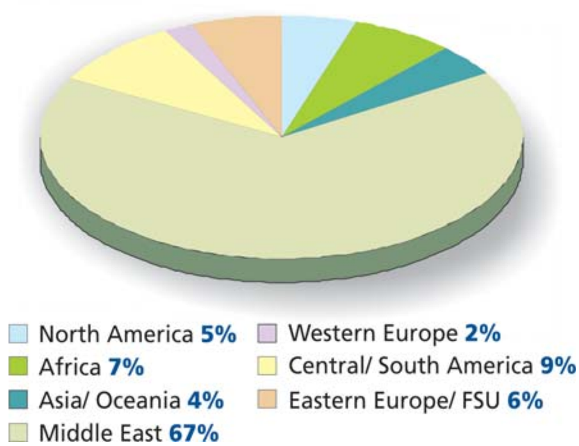
India, which offers a huge market for Nepal's electricity, is energy-starved as it is reportedly in urgent need of additional 111,500 MW between now and 2017. The shortfall in power in northern India, bordering Nepal, is expected to exceed 14,000 MW by 2015.

India's Natural Gas Demand
(mmscmpd)



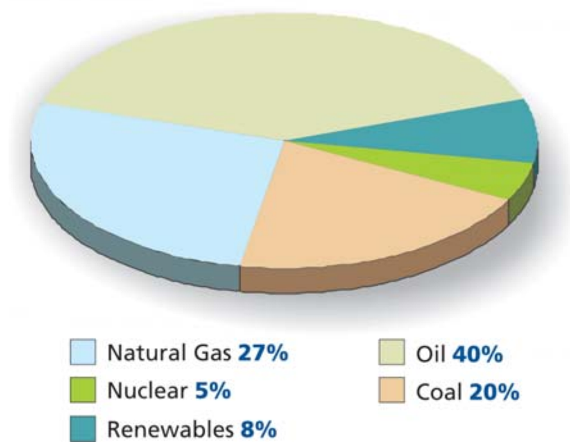
Source: Petroleum Minister's Memo to the Prime Minister, The Sunday Financial Express, July 18, 2004

Location of the World's Proven Oil Reserves



Source: Energy Information Administration

Projected Energy Consumption by Fuel - 2020



Source: Energy Information Administration

CHAPTER 21

The Second Freedom

Politics at Peril

Governance in South Asia is at peril. Politicians are losing their credibility very fast. In the first 27 years after independence, three top political leaders were assassinated. In the last 30 years, about a dozen heads of government in the region have been assassinated. At this rate, another dozen top leaders can be expected to be killed by 2025. Also, religion has made inroads into the political systems of all the five countries, a trend which is likely to be strengthened in the next two decades.

In 1995, all the five big countries in South Asia were democracies. Since then two have embraced dictatorship and the future of one more is uncertain. Only Sri Lanka and India can be expected to continue with commitment to the democratic practice from 2005 to 2025.

People are not willing to trust politicians in either democracies or dictatorship. Therefore, leaders of parties and militaries alike have nurtured the induction of religious forces in politics. Twenty years ago, there were hardly any religious parties in legislatures or in positions from where they could influence higher commands of the armies. A little over 20 years ago, General Zia-ul-Haq of Pakistan introduced religious extremism in politics as a non-legislative partner of the army. Today, religious forces are present in great strength in the legislatures, as well as streets of South Asia. In the next ten years they seem to be in a position to gather further strength. What happens during 2005-2015 will determine the shape of politics in the following decade, 2015-2025.

The declining credibility of politicians is also reflected in the shortening life of every government. In the last

Politicides in South Asia

Name	Country	Year
Mahatma Gandhi	India	1948
Liaqat Ali Khan	Pakistan	1951
Solomon Bandaranaike	Sri Lanka	1959
Sheikh Mujibur Rehman	Bangladesh	1975
Syed Nazul Islam	Bangladesh	1975
Tajuddin Ahmed	Bangladesh	1975
Mohammad Mansur Ali	Bangladesh	1975
Zulfiqar Ali Bhutto	Pakistan	1979
General Zia-ur-Rehman	Bangladesh	1981
Indira Gandhi	India	1984
General Zia-ul-Haq	Pakistan	1988
Rajiv Gandhi	India	1991
Ranasinghe Premadasa	Sri Lanka	1993
King Birendra Bir Bikram Shah Dev	Nepal	2001

Rise of Regimes, 1985-2005

Country	Change in Governments since 1985
Bangladesh	4
India	9
Nepal	16
Pakistan	11
Sri Lanka	4

two decades India, Pakistan and Nepal have had more than 9 governments each. In the case of Nepal, there have been 15 governments in the last 15 years of democracy. Obviously the Nepalese democrats have treated politics as a game of subtraction, in which they have themselves been subtracted to the advantage of the Monarch and the Maoists. Bangladesh and Sri Lanka have had four governments in the last 20 years, but with tremendous internal conflict and volatility between each one of them. If the popularity graph of political leaders continues to fall, it is possible to envisage a situation whereby democratically elected governments lose power in 2-3 years and dictatorships are alone able to hold on for a longer time.

The worst indication of the perils faced by politicians is that a growing number of them are being killed. At the highest level, the number of assassinations quadrupled in the last 30 years, as compared to a corresponding period before that. This does not include unsuccessful assassination attempts. Two of the five current heads of government and an opposition leader have narrowly escaped death. More than 50 politicians at different levels have been killed in Sri Lanka and more than 500 in Kashmir in the last 15 years. In Bangladesh, at least eight politicians were killed in the last two years. At this rate a dozen heads and maybe a thousand politicians at lower levels will have to fear for their lives in the next two decades.

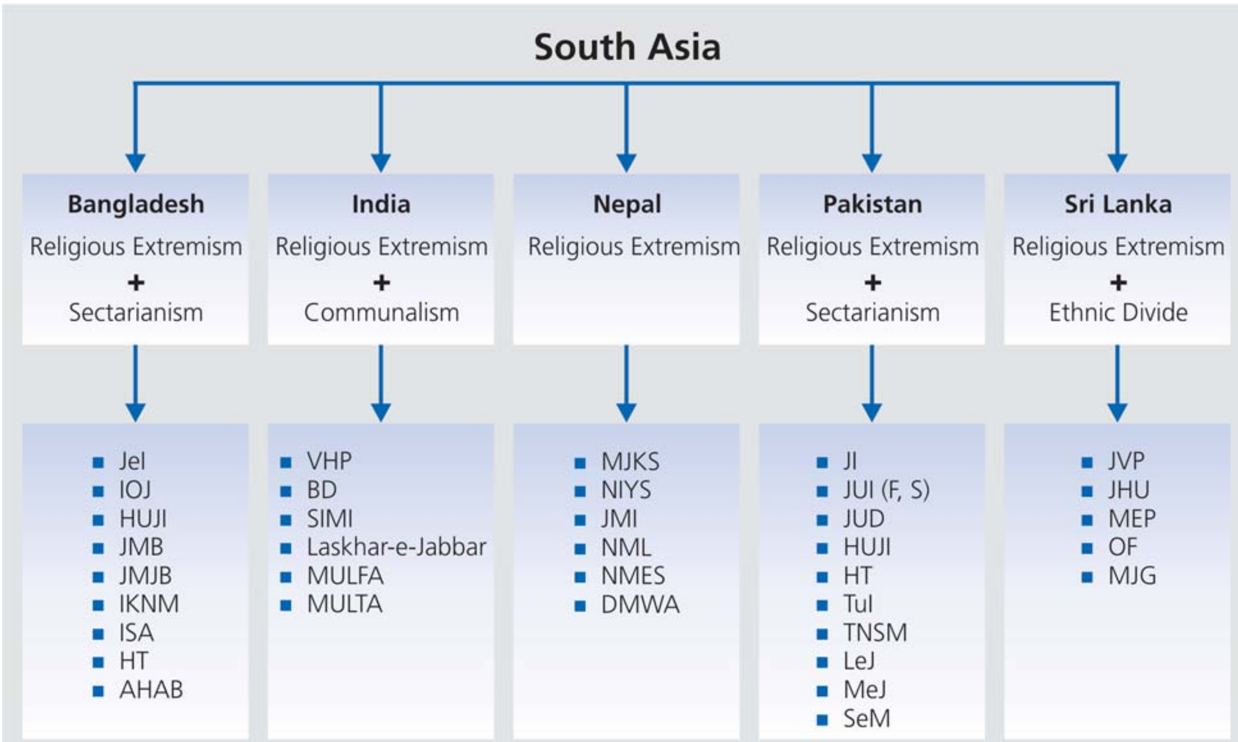
Political Institutions

Country	1995	2005
Bangladesh	Democracy	Democracy
India	Democracy	Democracy
Nepal	Democracy	Monarchy
Pakistan	Democracy	Military
Sri Lanka	Democracy	Democracy

Rise of Religious Parties

Country	% Seats in Parliament, 2005
Bangladesh	6
India	4
Nepal	20
Pakistan	4
Sri Lanka	4

Greatest Threat to Freedom:
Religious Extremism, Sectarianism, Communalism



Abbreviations:

AHAB	Ahle Hadith Andolan Bangladesh	**JVP**	Janatha Vimukthi Peramuna
BD	Bajrang Dal	**LeJ**	Lashkar-e-Jhangvi
DMWA	Democratic Muslim Welfare Association	**MeI**	Millat-e-Islamia
HT	Hizbut Tehrir	**MEP**	Mahajana Eksaath Peramuna
HUJI	Harkat-ul-Jihad Islami	**MJG**	Mettur Jetty Group
IKNM	International Khatme Nabuwat Movement	**MJKS**	Muslim Jan Kalyan Samiti
IOJ	Islami Oikyo Jote	**MULFA**	Muslim United Liberation Front of Assam
ISA	Islami Shashontantra Andolan	**MULTA**	Muslim United Liberation Tigers of Assam
JeI	Jamaat-e-Islami	**NIYS**	Nepal Islamic Yuva Sangh
JHU	Jathika Hela Urumaya	**NMES**	Nepal Muslim Ekta Sangh
JI	Jamaat-e-Islami (Pakistan)	**NML**	Nepal Muslim League
JMB	Jamaat-ul-Mujahideen Bangladesh	**OF**	Osama Front
JMI	Jamaat-e-Millat-e-Islamia	**SeM**	Sipah-e-Mohammad
JMJB	Jagrata Muslim Janata Bangladesh	**SIMI**	Students' Islamic Movement of India
JUD	Jama'at ud Da'awa	**TJP**	Tehreek-e-Jaffria Pakistan
JUI (F)	Jamiat-e-Ulema Islami (Fazlur Rehman)	**TUI**	Tanzeem-ul-Ikhwan
JUI (S)	Jamiat-e-Ulema Islami (Samiul Haq)	**VHP**	Vishwa Hindu Parishad

CHAPTER 22

The Second Freedom

Deepening of Democracy

The countries that have made a firm commitment to democracy will experience further deepening of the democratic principles during 2005 – 2025, through the emergence of local parties and decentralization of politics.

India

India has elected a government for 2004-2009. It is expected to last for the full term. Even if it does not, another coalition government will replace it.

Every state has one or two main regional parties, and smaller local parties representing regions within the state. Members of these small parties win at least two seats in the Parliament from each state. Therefore there are approximately 50-60 MPs from very small parties in the Lok Sabha. The big regional parties, namely, the Akali Dal, Rashtriya Janata Dal, Shiv Sena, Telugu Desam, Dravida Munnetra Kazhagam/ All India Anna Dravida Munnetra Kazhagam and Biju Janata Dal have the capacity to win at least 100 seats between them. Their fortunes vary in different Lok Sabhas. The Left Front usually gets around 40 seats, though presently it has 60 seats in Parliament. Thus, together, the regional parties secure around 200 seats in every parliament. This leaves 350 seats for competition among the national parties.

To form a majority government, a party requires a minimum of 271 seats, but ideally up to 300 seats. It is difficult for any single national party to get 300 of the 350 seats. Therefore, they will depend on regional elements. This situation will continue in this decade and beyond, at least until 2015.

The next decade of 2015-2025 may be characterized by the following three possibilities:

- **Rule of coalitions:** In continuation of the present trend, the Centre will continue to have coalition governments. Partners in the coalition will have immense leverage to influence allocation of resources for the areas they represent. Issues of governance and development will be fiercely debated, especially given the representation of small parties of hitherto marginalized constituencies. Regional development will become the most prominent issue in national politics. The gains made by coalition partners will further fuel the rise of smaller regional parties. In the longer term this could lead to substantive decentralization.

  However, this will also mean that the national party with maximum members in the Parliament will have to depend on consensus building in order to implement its policies. It will need to placate different parties on different issues. This could slow down decision-making. Coalition partners will be crucial in determining the future of economic liberalization in India.

- **Fragmentation of big parties:** The benefits accruing to regional and sub-regional parties could encourage dissenting factions to break away from bigger national parties. The rise of new parties as a result of break-up of old parties has been a common feature of Indian politics. The most recent example is the split within the Indian National Congress and the formation of the National Congress Party under the leadership of two regional leaders, Sharad Pawar and P. A. Sangma. In most of these cases, regional considerations and aspirations of regional leaders had led to the formation of smaller parties. Similar aspirations could lead to rise of factions within the BJP.

The outcome, as in the previous case, will be a further impetus to decentralization, with higher probability of slow down in decision-making due to multiplicity of actors and interests and less chances of resolution in the absence of a large influential party.

- **Rise of one big national party:** If existing national parties are able to co-opt smaller regional parties by creating a sound basis for a permanent coalition, then in the long term there is strong likelihood of the emergence of an umbrella national party such as the Congress of the first three decades after independence or a close knit front of like-minded parties. It will however be far more representative of regional interests and therefore more responsive to the demands of its members. This will minimize the cost of bargaining among various parties and put India on the fast-track to development.

  However, such co-option may also become a mere elite-bargain whereby the actual interests of the region may not get attention and only some elite may derive benefits of 'turning national'. In the long term this will trigger another cycle of resurgence of regional interests, leaders and parties.

Sri Lanka

The two main political parties in Sri Lanka are President Chandrika Kumaratunga's Sri Lanka Freedom Party (SLFP) and the United National Party (UNP) led by Ranil Wikremasinghe. However a major emerging party in Sri Lanka is the Janatha Vimukthi Peramuna (JVP) or Marxist People's Liberation Front — which more than doubled its parliamentary presence from 16 to 40 seats in the 2004 Elections. The JVP had a violent past since its inception in 1965. It launched two violent insurrections first in the early 1970s and again in the late 1980s and both failed. In the second insurrection, the UNP led government headed a brutal counter insurgency campaign by indulging in extra judicial killings and the entire politburo leadership save one member was murdered. However, the JVP has re-emerged as a major political contender, which is in a position to make or break coalition governments in Sri Lanka. The JVP is firmly against any demand for autonomy by the Liberation Tigers of Tamil Ealam.

Another newly emerging party is the Jathika Hela Urumaya (JHU) — the Buddhist party — which won 9 seats in the 2004 elections. The elections revealed a more pro-JHU support base in the urban areas even though traditionally rural Sri Lanka has been the monks' area of influence. It is stated that the reason for their appeal is that a growing number of people see it as an alternative to the existing political parties, which have become infamous for corruption, incompetence and violence. Though surveys have shown that 60 to 70 per cent of the people think that Buddhist monks should not contest elections and get corrupted by politics, there is a growing number of people who think that it is not a bad idea to have monks in politics. The JHU is seen as the key to preserve the Sinhala-Buddhist culture of the country, where almost 70 per cent of the people feel that foreign governments and West-funded evangelical churches are a threat to the indigenous culture and religion of Sri Lanka. However, JHU is not viewed as being totally anti-minorities. It is opposed to what they describe as blind and unthinking "minorityism" and openness which have led to the neglect of the majority Sinhala-Buddhist community. The party is against conversion of Buddhists into Christians by missionaries, who are mostly foreign-funded. It wants an anti-conversion law to be enacted immediately. This may alienate the Christians, who are politically very influential in the country.

The next two decades will see competition between the two large parties, with smaller parties gaining in the process. One or more parties supported by the LTTE will come in the fray to compete with small Sinhala parties.

Also, Sri Lanka will evolve into a Federal Parliamentary System with Interim Administration for the North and East. There is a possibility of the Government entering into some kind of arrangement with the LTTE which might involve the setting up of an interim administration in the North and the East. This however depends on the willingness of hard line parties like the JVP to adopt a more compromising stand, in the larger interest of the Sri Lankan economy.

CHAPTER 23

The Second Freedom

Authoritarianism to Anarchy

The countries that have weak democratic cultures and have shown preference for authoritarian rule — Bangladesh, Nepal and Pakistan, will face uncertainty from 2004-2010 and risk anarchy and breakdown from 2010 to 2025.

Bangladesh

The two main political parties in Bangladesh continue to be the Bangladesh Nationalist Party (BNP) led by Begum Khaleda Zia and the Awami League (AL) led by Sheikh Hasina. There is enormous personal animosity amongst the leaders of these major political parties. However, the antagonism between the ruling and the opposition parties goes beyond the leaders only. The split in the two parties is down to the last person.

Neither party - neither the BNP nor the AL – however, look likely to be able to obtain an absolute majority in Parliament and this has led to the emergence of Jama'at-e-Islami as a major coalition partner. The Jama'at which was viewed as an extremist organization, whose cadres, during the 1980s, participated in Afghanistan in the war against Soviet Union and had established a relationship with different Afghan Mujahideen groups, with Pakistani *jihadi* organizations and with HUJI, is today viewed as a party with strong ideological moorings, well-organised network, corruption-free image and being socially active. Its Islamic underpinnings are reported to have led to a sharp rise in Islamic extremism.

Assassination/assassination attempts at opposition leaders are a continuing phenomenon in Bangladesh.

The period 2005-2010 will see fierce competition between the two main parties to the advantage of the Jama'at-e-Islami.

The period 2010-2025 will see the following possibilities:

- **Enduring political instability:** With both parties continuing to employ violent/undemocratic means to retain power, the country will continue to witness political turmoil. Assassination of political leaders will pervade the political scene.
- **Growth of religious extremism:** The striking rise in religious extremism and a worsening law and order situation looks likely to continue. Bangladesh may become a major hotbed of Islamic terrorism.
- **Military takeover:** If the growing political instability in the country continues, and is compounded with economic insecurity, then it could pave the way for a possible military rule. Bangladesh has seen an intense politicization of the military in the past. Military takeovers have occurred in the past and are a possibility in the face of political instability, endemic poverty, intense factionalism among the various social groups and classes, organisational weakness and institutional fragmentation.

Nepal

Nepal's governance is contested by three forces, the King, the political parties and the Maoists. Currently the political parties are marginalized and there is competition between the King and the Maoists.

King Gyanendra Bir Bikram Shah Dev took over as Monarch on June 2001, after the palace murder. Relations between the King and the political parties have been at odds since the very beginning. The king is known to covet power. Those close to the palace say he is nostalgic for the type of government his father created in 1960. In February 2005, he declared a state of emergency, dismissed the assembly and proclaimed executive monarchy.

The King does not enjoy much popular support. Analysts argue that the Royal Nepalese Army (RNA) is the source of King Gyanendra's power.

Before it was first deployed to counter the insurgency in 2001, the strength of the RNA was around 52,000. Its present strength is 78,000 and there are said to be plans to add 22,000 more soldiers.

The military is gaining in strength. In terms of equipment, the army has received substantial military assistance, mainly from India, the US, and Britain. The assistance, in the form of weapons, equipment and training, has significantly strengthened its ability to take on the rebels. Of the 75,000 troops, half are deployed in Kathmandu. However, there is a general consensus both inside and outside the country that insurgency cannot be defeated militarily.

The RNA is gradually assuming the duties which previously remained in the ambit of civilian authorities. For example, security committees formed at the centre, regions, zones and districts are being effectively "guided" by army officers attending those meetings. Similarly, the ministry of defence, headed by a high-ranking civilian officer, has stopped issuing press statements and clarifications. This kind of task is now being handled at RNA headquarters, where army officers speak directly to the media. The royal government has placed the Nepal Police of 40,000 and the Armed Police Force of 18,000 under the army's "unified command". Since February 2005, the monarch has announced curbs on the freedom of press. The RNA is authorised to censor the press. By June 2005, about 1,000 journalists lost their jobs and Maoists had killed 35 media persons. Basically, the RNA and Maoists were dictating terms to the press.

The RNA is said to lack the capacity to contain the Maoist insurgency. The Maoists and the RNA are said to be fighting two distinct wars. The Maoists are following a guerrilla warfare plan in which territorial control is of minimal significance. The state is concentrating on defence of towns and key infrastructure.

More than half of Nepal is under Maoists control. Western Nepal is with the Maoists. In the remaining districts they can call their shots at will. But the Maoists are currently running out of sources of funding and are demoralized. They are supporting the *jihadis* in order to raise funds, by helping in the transit of *jihadis* from madrassas in Western Uttar Pradesh, through the Terai region in Nepal, to Bangladesh.

There are indications of differences between the two main Maoist leaders, Baburam Bhattarai and Pushpa Kamal Dahal *alias* Comrade Prachanda. It is learnt that Prachanda is keen on stepping up the cooperation with the Islamic fundamentalists in a bid to boost the operational capabilities of the Maoists. But Bhattarai is of the view that extended cooperation could lead to a loss of popular support in rural Nepal where most people are predominantly Hindu. The RNA has come out with a statement that Bhattarai and his wife have been removed from the organization.

During 2005- 2025 the following political scenarios are possible:

- **Monarchy backed by the army:** The 58 year old monarch of Nepal, Gyanendra Bir Bikram Shah Dev, is known to have a lust for power. The immaturity of the political leaders and their inability to control the Maoist insurgency provided an opportune opening for a Royal takeover. However, the King can rule as monarch only if the army remains loyal to him. Also his continuance in power will require external support. The King appears to be looking to China as the main fount of this support. Japan too is seeking to expand its influence in the Himalayan region. However, both the US and India will not readily allow either Chinese or Japanese influence on Nepal. What could emerge is a decision by the King to reinstate parliament, but, only a weak parliament that he can easily control.
- **Rule of coalitions:** Despite the growing frustration with multi-party functioning in Nepal, the political

parties still enjoy considerable support. A July 2004 nationwide poll found that 60 per cent of the respondents favour a democracy with a constitutional monarchy; 17 per cent democracy without a monarchy, and only 2 per cent an absolute monarchy (Greenberg Quinlan Rosner Research Inc). The political parties however show no sign of giving up their power games and continue to engage in petty party politics. Thus, there will be a continuance of fractious and weak coalitions.

- **Maoist rule:** The dismal socio-economic scenario and the bleak political situation has provided fuel for the growth of Maoists in Nepal. Presently, more than half of Nepal is under the Maoists (primarily Western Nepal) and in the remaining districts they have significant control. The Maoists are now endeavouring to takeover Kathmandu. If the alleged break-up in the Maoist leadership is true, it might either weaken the Maoist structure which is currently facing a financial crisis, or it could exacerbate the violence in Nepal. The takeover of Nepal by the Maoists will depend on their ability to seize Kathmandu, which is the present target of the Maoists.

- **Anarchy:** If there is further erosion of stability in Nepal, anarchy will replace monarchy. The fractious political set-up and the ongoing power tussle between the Monarch and the political parties will continue to strengthen the Maoists' position in Nepal. Nepal will thus see a perennial battle between the three forces and continue to plunge further down into economic and political chaos.

- **Military rule:** The economic and political disorder in Nepal could pave the way for a military takeover. This however depends on the internal structure of the Army which is currently in a state of disarray.

Pakistan

Of all the countries in South Asia, Pakistan has maximum experience of military rule. In the last 20 years, it has learned the art of *de facto* military rule with or without *de jure* democratic framework. The current regime in Pakistan is a hybrid of the military and democratic institutions in the form of legislatures. There is absolutely no guarantee of how long General Pervez Musharraf will survive as the Chief of Army Staff. He may be ousted or assassinated in the second half of 2005 or he may continue beyond that. Considering the weakness of political parties, the military is expected to be in command for the next two decades, or until the breakdown of Pakistan.

A new personality has emerged in the politics of Pakistan, both inside and outside the electoral process,

Political System: (2005-2025)

Country/Year	2005	2010	2025
Bangladesh	Democracy	Democracy/Military	Democracy/Military Rule/ Theocracy/ Anarchy
India	Democracy	Democracy	Democracy
Nepal	Monarchy	Monarchy/Democracy/ Military Rule/ Maoist Rule	Monarchy/Democracy/ Military Rule/Maoist Rule/ Anarchy
Pakistan	Military Rule	Military Rule/ Theocratic Military/ Democracy	Military Rule/ Theocratic Military/ Democracy/Anarchy
Sri Lanka	Democracy	Democracy	Democracy

known as the *jihadi* force. General Musharraf is expected to strengthen and constrain them at the same time selectively in the next five years. The net result will be a strengthened *jihadi* force. In the decade of 2010-2020, they may come into power in partnership with the military. Currently, the military is the senior partner in the axis with *jihadi* forces and it uses the latter as a tool. There is a high risk that in the next decade, the *jihadi* forces will emerge as a senior partner and use the former as a tool.

Pakistan is at the crossroads of the tussle between forces of modernism and religious orthodoxy. While socio-economic conditions provide a vast fertile ground for the growth of orthodoxy; the articulate middle and upper classes of society support modernisation. The top commanders can make a critical difference due to their control on the levers of power. In 2005, they seem to be on both sides of the battle. As the years pass by, they may lose their control on the power structure and succumb to the influence of *jihadi* forces by 2015 or even perhaps by 2010.

In the case of Pakistan, there is also a risk that the tussle between forces of orthodoxy and modernism may neglect the forces of separatism. This may result in the expansion of the separatist agitation in Balochistan followed by Sindh. After all, Pakistan is the only state in South Asia that has broken up since its independence. It happened in 1971. The Balochi and Sindhi agitations of 2005 are characterised by the rhetoric of comparison with 1971. It can be rationally argued that despite such rhetoric, the fault lines in 2005 are not as sharp as those in 1971. Whether they will get sharpened by 2010 is a question that will determine the future of Pakistan.

CHAPTER 24

Dalits and Damsels

For decades, Nepal's monarchy, aristocracy and democracy have neglected the Dalits in Western districts. Also, the male dominated social structure has exploited women. Now women and Dalit men have emerged as the real force behind the Maoists, who may take over the State by 2010.

The Communist Party of Nepal – Maoists (CPN-Maoists) have control over 40 out of total 75 districts in Nepal. They do not exercise control over the following valleys: Surkha, Dang, Pokhra, Kathmandu and Dharan. They are not keen on extending horizontally, the area under their control. Their primary aim now is to take over Kathmandu. The military is keeping a strong hold over Kathmandu. Of the 75,000 troops in the Royal Nepali Army, half are deployed in Kathmandu.

Nepal's politics have been plagued by factionalism and corruption since the inception of democracy in 1991. There have been 10 governments between 1991-2002. They have all been weak coalition governments who face constant defections within themselves. Relations between the political parties and King Gyanendra have been sore since the time of the Monarch's coming into power. There have been two royal takeovers since then. This has contributed to the exacerbation of social deprivation of the backward communities and Dalits.

The Dalits in Nepal constitute 20 per cent of Nepal's population; but, they own just 2 per cent of the land. Their literacy rate is a mere 17 per cent, as against the average national literacy rate of 43 per cent. The literacy rate of Dalit women is just 10 per cent. The life expectancy of a Dalit is generally 42 years as against the general life expectancy of 60 years.

Western Nepal is almost totally under Maoist control. It is reported that in the rugged zones of Western Nepal, many of the Dalits continue to live as bonded labourers.

Nepal is described as a "woman run subsistence agro-economy", where women form the majority of the rural community due to the massive outflow of young men and boys. Estimates of the internally displaced are more than 200,000. However, women who come to Kathmandu or go to India run the risk of being trafficked or getting entrapped in sexually exploitative jobs. Hence women stay back in the villages. They are mostly engaged in seasonal agriculture and are becoming members of the Nepali Maoists.

The Maoists have encountered financial difficulties. There are indications of differences between the two top leaders. In many districts, local ruffians pretend to be Maoists for the purpose of extortion. An organized state can defeat the Maoists. This is not likely to happen due to support of the underdogs – the Dalits and Damsels.

Discrimination and violence against Dalits and other backward communities in rural areas is commonplace all over South Asia. There are more than 20,000 reported cases of assault and intimidation per year in the region to restrict Dalits to menial jobs, to prevent them from marrying into families higher on the social ladder or to protest against those who insist on human dignity. Approximately 80 per cent of the intra-village traffic in the village is in the form of head-loads by Dalits and other backward communities. This is another way of disabling them from economic empowerment.

The Second Freedom

CHAPTER 25

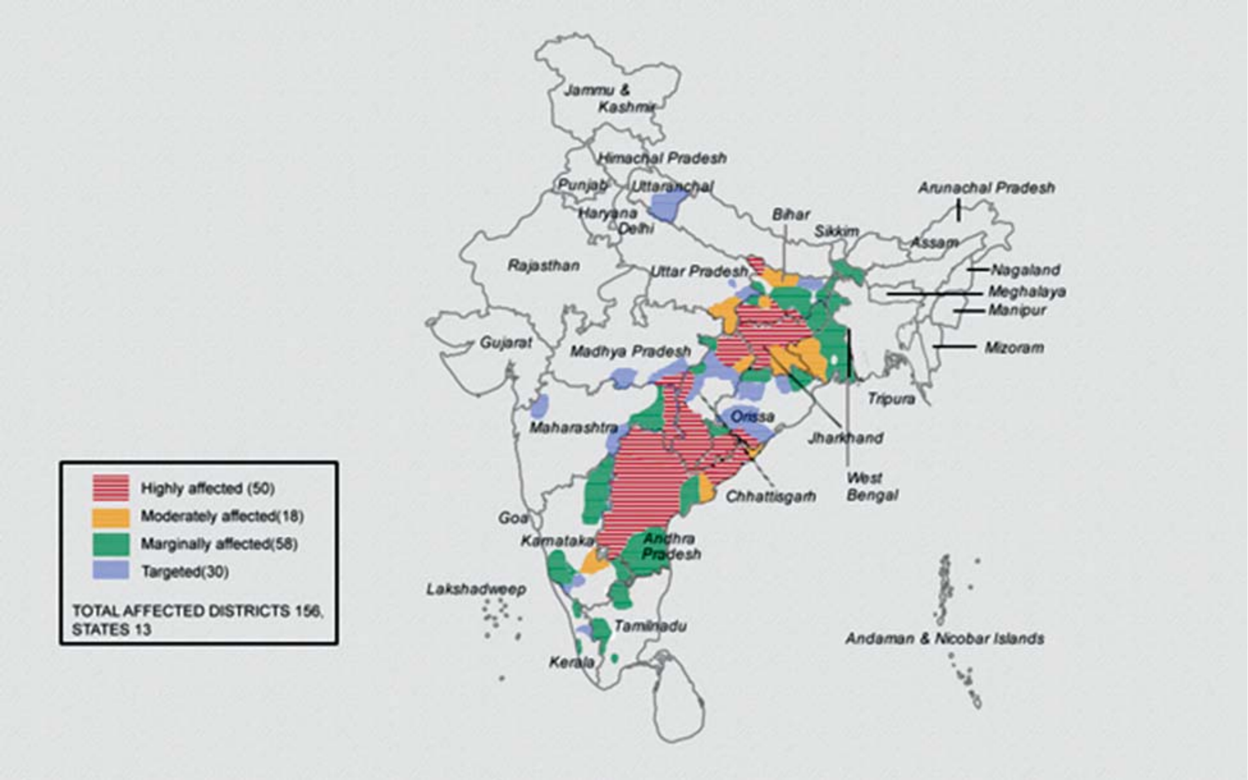
Red Terror's Flirtation with Green Terror

In India's North and North-east, leftist terror groups are turning to Islamic sponsorship for arms, funds and training. The flirtation of red terror with green terror is bound to turn the entire eastern part of South Asia into a colourful inferno between 2005 and 2025, most likely, during the 2010 -2015 period.

The most noticeable change is to be found in Assam. The United Liberation Front of Assam's (ULFA) initial slogan was an "armed struggle for self-defence…[against] the influx of foreigners… [which] caused a real threat to the demographic composition of Assam." Thus initially, ULFA was opposed to the influx of Bangladeshi refugees. However, there has been a major policy shift in the last decade, with ULFA saying that the Bengalis – Hindus and Muslims alike – have "immensely contributed to Assam….those of them who feel themselves as part of Assam should be treated as its legitimate dwellers."

Leaders of ULFA are said to be given haven in

Left-Wing Extremist (Naxalite) Affected Areas in India



Source: South Asia Terrorism Portal - http://www.satp.org/satporgtp/countries/india/images/naxalite%20Affected%20Areas%20map.htm

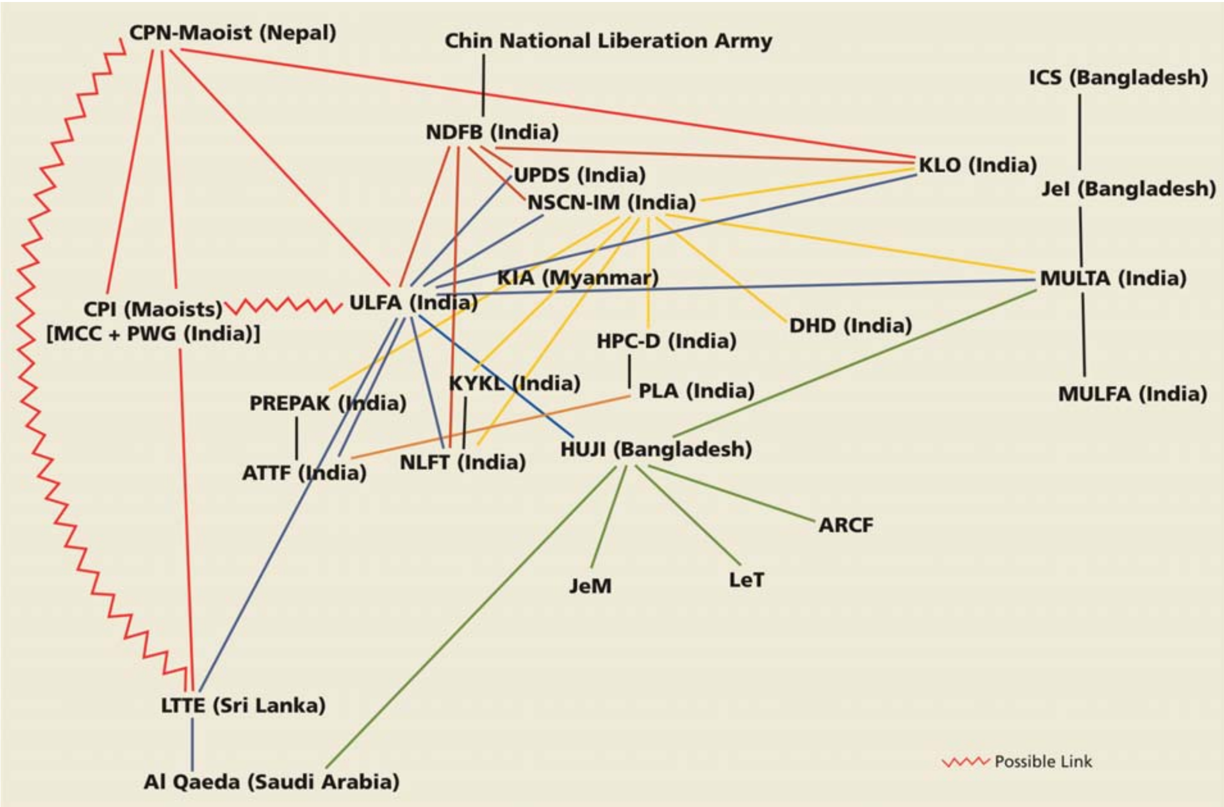
Bangladesh and provided access to weapons acquired from Thailand and infiltrated into India by the Bangladesh Intelligence services. Top ULFA cadres have been trained in Pakistan. Besides, ULFA has entered into collaboration with the Harkat-ul-Jihad Islami (HUJI) for training a large number of cadres in Bangladesh. HUJI's training camps typically impart skills in the use of sophisticated arms and explosives in Rangamari, Sundermari, Masaldanga, and other villages of Bangladesh.

HUJI has used its clout with ULFA and All Muslim United Liberation Forum of Assam (AMULFA) to establish linkages with the Maoists of Nepal and through them with the People's War Group in Central India.

There are also around 15 Islamic extremist organizations operating in Assam. All of them have links with terrorist organizations outside India for moral and financial support.

A grand alliance, namely, the AMULFA was reportedly

Terrorist Networks in South Asia



Abbreviations:

ARCF	Asif Reza Commando Force	**LeT**	Lashkar-e-Taiba
ATTF	All Tripura Tiger Force	**LTTE**	Liberation Tigers of Tamil Eelam
CPI (Maoists)	Communist Party of India (Maoists)	**MCC**	Maoist Communist Centre
CPN-Maoist	Communist Party of Nepal - Maoist	**MULFA**	Muslim United Liberation Front of Assam
DHD	Dima Halim Daogah	**MULTA**	Muslim United Liberation Tigers of Assam
HPC-D	Hmar People's Convention - Democracy	**NDFB**	National Democratic Front of Bodoland
HUJI	Harkat-ul-Jihad Islami	**NLFT**	National Liberation Front of Tripura
ICS	Islami Chhatra Shibir	**NSCN-IM**	National Socialist Council of Nagaland-Isaak Muivah
JeI	Jamaat-e-Islami	**PLA**	People's Liberation Army
JeM	Jaish-e-Mohammad	**PREPAK**	People's Revolutionary Party of Kangleipak
KIA	Kachin Independence Army	**PWG**	People's War Group
KLO	Kamptapur Liberation Organisation	**UDPS**	United People's Democratic Solidarity
KYKL	Kanglei Yawol Kanna Lup	**ULFA**	United Liberation Front of Assam

founded with the backing of the ISI (Pakistan) to coordinate the subversive activities of Islamist terrorist elements in the North-east region of India. The Muslim United Liberation Tigers of Assam (MULTA) and the Muslim United Liberation Front of Assam (MULFA), two organizations in Assam, are said to be members of AMULFA. Reportedly, MULTA and the other Islamist terrorist outfits in the State are working with the objective of waging a *jihad* against India, to ultimately set up a 'greater independent Islamistan' for the Muslims of Assam. It is claimed that the AMULFA is to be finally linked with the United Liberation Front of Seven Sisters (ULFSS), which is alleged to be part of a larger plan to destabilise India's North-east region. Two Manipur based organisations, namely, the People's United Liberation Front and the Islamic Liberation Army already operate under the ULFSS.

There is a growing effort to build mosques and madrassas in the Terai region in Nepal, bordering India. Between 1984 and 2004, approximately 275 mosques and madrassas have come up in the districts of Rupandehi, Banke, Kapilvastu, and Bardiya.

Reports reveal that the Maoists in Nepal, especially Puspa Kamal Dahal (alias Prachanda), is keen on cooperating with the Islamic fundamentalists in a bid to boost the operational capabilities of the Maoists. The Maoists have been helping to transport jihadi recruits across Nepal through the narrow Siliguri corridor into Bangladesh. However, Dr. Baburam Bhattarai has not been in favour of pro-Islamic cooperation. There are also indications of ISI-Maoist links in Nepal, a relationship forged by the ISI more for the anti-India sentiments among the Maoists.

There are reports indicating that the ISI has established about 60 modules in nine states across India. Many of these centres are in Uttar Pradesh, which borders Nepal and also in neighbouring Bihar.

The LTTE might be another source for future linkages between the Maoists and Islamic terrorism. The LTTE has connections with the People's War Group in India. Also more threatening is the possible linkages between the Nepali Maoists and the LTTE. Though there was no decisive evidence indicative of a direct link between the Nepali Maoists and the LTTE, the arrest of Maoist leader, C. P. Gajurel in Chennai raised speculation of a probable LTTE-Maoist linkage. Also there have been reports suggesting probable presence of Tamilians amongst the Maoist attack groups. This could enhance the chance of extending the red corridor up to Tamil Nadu in India. Further, there are alleged linkages between the LTTE and the most dreaded Islamic terrorist organization, the Al Qaeda. Western intelligence agencies are investigating the close and growing links between the LTTE and Osama Bin Laden's Al-Qaeda network. The LTTE-Al-Qaeda link is believed to exist in India as well, though the extent and depth of the relationship is not well-documented.

In the next decade there will be a multi–hued proliferation of terrorist organizations in South Asia.

CHAPTER 26 Networks

There is a growing trans-national network between the major terrorist organizations active in South Asia. These networks will transcend ideologies and will be based more on strategic sustainability. Unless the States make collective efforts to crack down, terror networks will emerge as the sixth column of South Asian politics.

These networks have been both of the formal and informal kind. A major formal network was formed by the Maoist groups in July 2001, when nine Naxal outfits of India, Nepal, Bangladesh and Sri Lanka came together to form an umbrella organisation, the Coordination Committee of Maoist Parties and Organisations (CCOMPOSA) with the purpose of unifying and coordinating the activities of the Maoist Parties and organisations in South Asia. It is believed that the Maoist Communist Centre along with the People's War Group, in India, and the Communist Party of Nepal – Maoists, in Nepal, were instrumental in the formation of the CCOMPOSA.

In September 2004, the Communist Party of India (Marxist Leninist) or People's War Group (PWG) and the Maoist Communist Centre (MCC) merged to form the Communist Party of India (Maoist) or CPI (Maoist). The CPI (Maoist) has stated that their renewed objective is to organize a "people's army" and to augment the on-going "agrarian revolutionary guerrilla war" throughout the country.

Thus, there appears to be continuing tendency for terrorist groups to unify.

While formal linkages are based on commonality of ideological, there are informal linkages being formed which completely ignore ideological moorings. The United Liberation Front of Assam (ULFA), which was an ethnic based secessionist organisation in India, has linkages with the Islamic, Harkat-ul-Jihad Islami (HUJI) in Bangladesh, the Communist Party of Nepal – Maoist (CPN-Maoist) in Nepal, and the secessionist, Liberation Tigers of Tamil Eelam (LTTE) in Sri Lanka. Further, Pakistan's ISI has got ULFA under its fold and is using this connection to further its agenda in India's North-east. ULFA has linkages with the Muslim United Liberation Tigers of Assam (MULTA) and Muslim United Liberation Front of Assam (MULFA) who are part of All Muslim United Liberation Forum of Assam (AMULFA) whose aim is to form a greater Islamistan.

Groups in CCOMPOSA

Co-ordination Committee of Maoist Parties and Organisations (CCOMPOSA)

India
People's War Group
Maoist Communist Centre
Revolutionary Communist Centre of India
Revolutionary Communist Centre of India (Maoist)

Bangladesh
Purba Bangla Sarbahara Party
(Maoist Punargathan Kendra)
Purba Bangla Sarbahara Party (CC)
Bangladesh Samaywadi Party (ML)

Nepal
Communist Party of Nepal (Maoist)

Sri Lanka
Communist Party of Ceylon (Maoist)

ULFA is reported to have renewed its linkages with the Naxalites in India. Another pertinent internal linkage of ULFA is with the National Socialist Council of Nagaland-Isak-Muivah (NSCN-IM) which, in turn, has linkages with numerous groups in North-east India: Arunachal Dragon Force (Arunachal Pradesh), Hynniewtrep National Liberation Council (Meghalaya), Achik National Volunteer Council (Meghalaya), National Liberation Front of Tripura (Tripura), Kanglei Yawol Kanna Lup (Manipur), People's Liberation Army Manipur), Kamtapur Liberation Organisation (Manipur), People's Revolutionary Party of Kangleipak (Manipur), Hmar People's Convention – Democracy (Manipur), United National Liberation Front (Manipur), Zomi Revolutionary Organisation (Manipur), Kuki National Army (Manipur).

The Kamptapur Liberation Organisation (KLO) in India was assisted in its formation by ULFA and maintains close contact with the latter. The KLO is instigated by ULFA and the ISI to commit subversion along the Siliguri Corridor of West Bengal. This corridor, also known as the "chicken's neck", is only 22 kms wide and a serious terrorist attack in this region can easily paralyse the vital communication links resulting in the whole of North-east being cut-off from the rest of India. This had happened in the past when a couple of crucial bridges in Assam were destroyed by Bodo militants.

Terrorist networks are likely to be strengthened and may form a force in themselves. Groups with completely non-religious objectives may become part of Islamic networks, like, for instance, ULFA, which has become part of the United Jihad Council which owes allegiance to Osama Bin Laden. ULFA's association with other smaller terrorist organisations may make the latter more amenable to also joining larger networks despite differences in initial aims and aspirations of the groups. This will be based more on strategic survival and continuance, rather than cohesion of ideologies.

CHAPTER 27

Den of Drugs

The total area of Afghanistan – the largest poppy producing country in the world — is 647,500 sq km. Even assuming that 10 per cent of the total area is used for poppy cultivation in the future, i.e., 64,750 sq km, Afghanistan is capable of producing 291,375 tonnes of opium. This is calculated on the basis of 2003 figures for area and production, which is 3,600 tonnes produced on an area of 80,000 hectares, which is equal to 0.045 tonnes per hectare. Currently, hardly 0.1 per cent of the area is under poppy cultivation. In 2004, production of opium increased by 17 per cent over the 2003 level despite bad weather and diseases. This rate of increase in opium production will continue till as long as Afghanistan remains unstable. Assuming a 17 per cent increase in opium production till 2025, the opium production could be 113,500 in 2025.

Thus, Pakistan which is the principal transit route for Afghan poppy is likely to see an increase in opium trafficking.

Till Afghanistan continues to witness an exponential growth in opium production, the "Golden Triangle" will see a gradual decline in production levels. Since 2000, the Golden Triangle has seen an average annual decline of 16.5 per cent in area under poppy cultivation. In 2000, around 127,700 hectares were under poppy cultivation in Myanmar and Laos, which declined to 74,000 by 2003. Poppy cultivation in the Golden Triangle will remain erratic, depending on Afghanistan's role, considering the latter's advantageous geographical location on the world's

Afghan Poppy Cultivation

Year	Quantity (in tonnes)
2003	3,600
2004	4,200
2010	10,700
2015	23,600
2020	51,800
2025	113,500

Poppy Cultivation in Myanmar, Laos and Thailand

(in hectares)

Year	Myanmar	Laos	Thailand	Total
2000	108,700	19,000	890	128,590
2001	105,000	17,300	820	123,120
2002	81,400	14,100	750	96,250
2003	62,200	12,000	-	74,200

Source: United Nations Office on Drugs and Crime drug map, as also its internal instability and lack of law and order.

As South Asia is located between Afghanistan and Myanmar, it has emerged as a strategic post for drug trade. The five big South Asian countries are production centres as well as transit routes. The two small countries serve as transit points.

There are close links between trafficking in drugs and arms. Currently there are 75 million small arms in South Asia. Out of them, 63 million are in the hands of civilians and 12 million are illicit, mostly with criminals and terrorists. There is a risk of illicit arms trafficking rising in the next two decades.

- The growing insurgencies in South Asia are increasing the demand for small arms. India and Pakistan are both suppliers as well as end-users. Bangladesh and Nepal, which were once transit routes, have also become end-users while Sri Lanka has joined the league of end-users recently. The largest consumers of small arms include insurgent groups, separatists, terrorists, drug cartels, extortionists and criminals.
- There is an increased manufacture of counterfeit arms indigenously by insurgent groups.
- Weapons are being used by drug lords for protection

Drug Networks in South Asia

Country	Status	Major drugs involved	Source of drugs	Destination
Bangladesh	Producer and Transit country	cannabis, heroin, opium, marijuana, codeine-based cough syrups like Phensedyl	Myanmar, India, and local production in northwestern districts	India by land; and Western countries through Chittagong port and Dhaka airport
Bhutan	Transit country made use of mostly by insurgents in northeast India	cannabis, heroin	Southeast Asia	India by land and air routes
India	Producer and Transit country	opium, heroin, cannabis, pharmaceutical drugs	Southeast and Southwest Asia and local production in central, north and northeast India, and Western Ghats	Western countries
Maldives	Transit country	cannabis, heroin cannabis, heroin,	India, Central and Southeast Asia	West Asia, and Europe and for local consumption
Nepal	Producer and Transit country	marijuana, codeine-based cough syrups like Phensedyl	Pakistan, Myanmar, India, and local production	India, and West Europe through land and air routes
Pakistan	Producer and Transit country	cannabis, hashish, heroin, opium	Afghanistan, and local production	India, Nepal, Bangladesh, Sri Lanka, Iran, Turkey and western countries
Sri Lanka	Producer and Transit country	cannabis, heroin	Indian sub-continent, and local production	Europe and West Asia

Source: Institute of Peace and Conflict Studies during transportation and also as barter with separatists/ insurgent groups in return for increased poppy cultivation by poor rebels.

- There is a rising demand for small arms by criminals and criminal gangs which are growing due to socio-economic backwardness in South Asia.

- Terrorist dominated regions are the primary routes of arms trafficking in South Asia. A frequented route is across the hilly terrain of Bhutan through the forest of Buxa Tiger Reserve, the banks of the Sankosh river and then on to Cooch Behar (West Bengal - India), into Assam - India, into Tura (Meghalaya - India), and then to Cox's Bazaar (Bangladesh). The return route point of entry into India is via Mancachar in Assam.

- There is political patronage of arms transfer. In April 2004, a huge cache of arms were seized in Chittagong (Bangladesh). However, no serious investigation was undertaken and the BNP government has been accused of taking steps to weaken the probe. The Ansars (paramilitary force personnel) have in fact alleged police involvement in the operation.

The Second Freedom

CHAPTER 28

Of Inhuman Bondage

Women and children are the greatest victims of growing crime and terrorism in South Asia. In the next twenty years, more than a million women and children will be sold to brothels and bonded labour.

Organised groups smuggle out nearly 25,000 Bangladeshi women and children each year into Middle Eastern and other South Asian countries for the purposes of prostitution and low-paid labour. With the possible closure of the textile industries, pursuant to the WTO, there is a fear that women employees who might be rendered unemployed may become victims of trafficking.

The data on other countries is not available. But, it would be safe to assume that in the rest of South Asia, the number of illegally trafficked persons is at least the same number as in Bangladesh alone.

The internal trafficking of Pakistani women is on the rise.

Poverty and civil unrest are cited as main reasons for the growing sex trade. If the ethnic conflict is resolved in Sri Lanka, there might be a decline in trafficking. However, the recent Tsunami in 2004 has raised concerns of rise in child prostitution/trafficking.

Trafficking in South Asia

Country	Destination Country	Purpose
Bangladesh	India, Pakistan, Bahrain, Kuwait, United Arab Emirates	Sexual Exploitation, Involuntary Domestic Servitude, Debt Bondage, Camel Jockeys, Beggars
India	Europe, USA and Middle-East	Commercial Sexual Exploitation, Domestic Servitude, Debt Bondage, Camel Jockeys
Nepal	India, Hong Kong, Thailand, Europe, USA, Saudi Arabia, Malaysia, the United Arab Emirates, and other Gulf countries	Commercial Sexual Exploitation, Domestic Servitude, Forced Labour, and Work in Circus
Pakistan	Middle East	Commercial Sexual Exploitation, Temporary wives, Farm Labourer, Domestic Worker, Camel Jockeys
Sri Lanka	Lebanon,Saudi Arabia, Kuwait, United Arab Emirates, Bahrain, Qatar	Coerced Labour, Commercial Sexual Exploitation

CHAPTER 29

Global Brands

South Asian terrorist groups are likely to replace Al Qaeda as premier global brands of terrorism. In 2005, the leading contenders are Harkat-ul-Jihad Islami (HUJI) based in Bangladesh and Lashkar-e-Taiba based in Pakistan. They may replace Al Qaeda as the brand leaders during 2005-2010. New entities may come up between 2010 and 2025.

There are about 170 major terrorist groups in Asia and the Middle East. Out of them, 70 are based in South Asia. Most of the groups based in South Asia have regional or local ambitions. However, some of them have global ambitions. Their strategy is to takeover the states of Pakistan and Bangladesh, break or weaken the state of India, and then use assets of the three countries to launch a worldwide *jihad*. They are different from Maoist or Naxalites as well as LTTE and JKLF, which are all local groups with localised ambitions.

The globally ambitious groups include:

- Harkat-ul-Jihad Islami
- Lashkar-e-Taiba
- Harkat-ul Mujahideen
- Jaish-e-Mohammad
- Sipah-e-Sahaba.

These groups are associated with the issue of Jammu and Kashmir in the public mind. However, they consider Kashmir as a small irritant that needs to be addressed before achieving the secondary objective of breaking India. Their primary objective is to win a global *jihad* against the West. In fact, Hizbul Mujahideen, which was focussed on Kashmir so far, has now declared its aspirations to be active in many different parts of the subcontinent.

HUJI has established its presence in 24 countries in the last decade. Nevertheless, it is not listed as a terrorist group by the United States, EU, UK or Canada. The global strength of Lashkar-e-Taiba is not known, but there are indications of its presence in the United States and Iraq. It is possible that these organisations may expand to 60 or 70 countries like Al Qaeda in the next decade. Jaish-e-Mohammad is another organisation with the potential to establish itself as a global brand. It came into existence soon after General Musharraf took over as the Chief Executive of Pakistan in October 1999. The group continued to flourish along with General Musharraf's career graph until 2002. Since then, it has been lying low because of its linkages with the Taliban and the western pressures on all groups having anything to do with Afghanistan under the Taliban. It is possible to foresee re-emergence of this organisation, depending on the will of the General Head Quarters. Together these groups function like multi-purpose vehicles active in social and political sectors, along with terrorism. They are huge human machines with a few hundred thousand members, unlike Al Qaeda with less than 1000 combatants. They are the future face of terror in the next two decades in South Asia and the world.

CHAPTER 30

Kiss and Kill

Between 1999 and 2004, India-Pakistan bilateral relationship followed a swing model where the pendulum swung back and forth between peace and confrontation every few months. Since April 2004, the two countries have adopted a 'kiss and kill' model based on simultaneous reliance on both strategies. It will not be tenable to pursue such a dual track approach. By 2025, India and Pakistan must either kiss or kill.

The peace process between the two countries since April 2004, culminating in the start of the Srinagar-Muzaffarabad bus route followed by a summit meeting has attracted media attention. During the same period India and Pakistan conducted about 20 missile tests and acquired a whopping defence shopping list, as if they were preparing for high intensity war, moving far away from the rhetoric of peace.

Pakistan's Arms Acquisition

Country	Item	Number
Libya	Mirages	50
USA	F-16 P-3C Orion Surveillance Aircrafts TOW-2A anti armour guided missiles Harpoon missiles and radars AN/TPS-77 air surveillance radars L-88 aerostat radars	41 8 14 Unspecified numbers (worth US $365 million) Unspecified numbers (worth US $100 million) 6
China	Frigates	4

India's Arms Acquisition

Country	Item	Number
Russia	*Admiral Gorkshkov* aircraft carrier MiG-29K MiG-29KUB Kamov Ka-28 anti-submarine warfare Ka-31 airborne early warning helicopters A-50 Illushin IL-76 transport aircraft to be fitted with Phalcon	1 12 4 Unspecified number Unspecified number 3
Israel	Phalcon airborne early warning systems Eagle/Heron UAVs	3 50
USA	Firefinder radars	12
UK	Hawk Advanced Jet Trainer (AJT)	66

Arms Acquisition

India's Future

- There is an option to acquire a further 30 MiG-29s to equip the Indian Navy's three indigenous air defence ships planned for 2015.
- The Indian government reportedly possesses an extensive list of desired US-made weapons, including P-3 Orion maritime patrol aircraft, Patriot (PAC-3) anti-missile systems, and electronic warfare systems.
- India is also attracted to the US Missile Defence technology. Part of India's attraction to missile defence stems from its potential to deal with the problem of missile proliferation. India has been powerless to deal with the proliferation of Chinese missiles and technology to Pakistan. From this viewpoint, many Indians are hopeful that US missile defence technology will provide a counter to the proliferation of Chinese missile technology. Deeper missile defence cooperation may not necessarily come out of the new agreement any time soon. As currently visualized, this agreement does not include US assistance to India to develop a theater missile defence system, such as the US seeks to develop with Japan, South Korea and possibly Taiwan.
- Although India has purchased a significant amount and variety of defence equipment from the US, if the reluctance by the US to license high-leverage military technologies for fear of undermining regional stability, combined with New Delhi's fear of Washington's reliability as an arms supplier continues, it will prevent the bilateral defence relationship from taking off.
- An optimistic scenario would involve the US genuinely perceiving India as its 'natural ally'. To this end, the Next Steps in Strategic Partnership (NSSP) will flourish to the point where there are no impediments to US high-end technology transfers to India. This scenario assumes that the US will view India as the natural dominant power in South Asia and will clearly elevate India's importance over Pakistan, which will be a departure from the usual policy of retaining the balance of power between India and Pakistan. Most importantly, this favourable situation will be characterized by more than just mutual familiarity between the two countries' armed forces and inter-operability but a genuinely sound

India's Ballistic Missile Tests

Date	Missile Name	Nature	Range
29 Apr 2003	Prithvi II	Surface-to-surface	150 kms
26 May 2003	Akash	Surface-to-air	-
2 June 2003	Akash	Surface-to-air	-
10 June 2003	Akash	Surface-to-air	-
22 June 2003	Trishul (test failed)	Surface-to-air	500 mts to 9 kms
23 June 2003	Trishul (test failed)	Surface-to-air	500 mts to 9 kms
22 June 2003	Trishul (test failed)	Surface-to-air	500 mts to 9 kms
22 June 2003	Trishul (test failed)	Surface-to-air	500 mts to 9 kms
3 July 2004	Agni - I	Surface-to-surface	700 kms
29 Aug 2004	Agni-II	Surface-to-surface	2,000 kms
7 Oct 2004	Prithvi III (Dhanush)	Surface-to-surface	350 kms
21 Feb 2005	Akash	Surface-to-surface	25 kms
24 Feb 2005	Akash	Surface-to-surface	25 kms
26 Feb 2005	Akash	Surface-to-surface	25 kms
19 Mar 2005	Nag	Anti-tank guided missile (tested with warhead)	Line of sight range (hit moving tanks at distance of) 4 kms

Source: Partly taken from Institute for Defence Studies and Analysis soundbilateral political relationship, where the US views India as an equal partner.

Pakistan's Future

With the failure to secure new US fighters, Pakistan Aeronautical Complex (PAC) and Chengdu Aircraft Industry in China are collaborating to produce the Joint Fighter-17 (JF-17). At present only two prototypes are flying and a third one is planned. Initial production of 16 aircraft will begin in 2006 - eight aircraft will be delivered to China's People's Liberation Army and eight to the Pakistan Air Force, four of which will be built in China and four assembled by PAC. It is thought that the Pakistan Air Force has a requirement of up to 150 JF-17s.

Missile Tests

India's Future

- India still continues to engage in a "missile superiority" battle with Pakistan.
- India is developing the Sagarika, submarine-launched-ballistic missile with a range of 300-350 km.
- As of March 2005, India had started preparations for:
  - The first test of the Agni-III nuclear-capable missile, which is expected to have a range of over 3,000 km.
  - Scientists are working on an aerial version of Nag and also on a portable system.

India's Cruise Missile Flight Tests

Date	Missile	Nature	Range	Status
29 Oct 2003	BrahMos	Cruise	290 km	Serial production to be deployed in Navy on surface warships in 2005
9 Nov 2003	BrahMos	Cruise	290 km	Same as above
23 Nov 2003	BrahMos	Cruise	290 km	Same as above
13 Jun 2004	BrahMos	Cruise	290 km	Same as above
3 Nov 2004	BrahMos	Cruise	290 km	Same as above
21 Dec 2004	BrahMos	Cruise	290 km	Same as above

Source: Institute for Defence Studies and Analysis

Pakistan's Ballistic Missile Tests

Date	Missile Name	Nature	Range
3 Oct 2003	Ghaznavi (Hatf III/M-11)	Surface-to-surface	280 km
8 Oct 2003	Shaheen I (Hatf IV)	Surface-to-surface	750 km
14 Oct 2003	Shaheen I (Hatf IV)	Surface-to-surface	750 km
9 Mar 2004	Shaheen II (Hatf VI)	Surface-to-surface	2,000-2,500 km
29 May 2004	Ghauri I (Hatf V/No-Dong)	Surface-to-surface	1,300 km
4 June 2004	Ghauri I (Hatf V/ No-Dong)	Surface-to-surface	1,300 km
12 Oct 2004	Ghauri I (Hatf V/ No-Dong)	Surface-to-surface	1,300 km
29 Nov 2004	Ghaznavi (Hatf III/ M-11)	Surface-to-surface	280 km
19 Mar 2005	Shaheen II	Surface-to-surface	2,000 km
31 Mar 2005	Abdali (Hatf II)	--	180 km

Source: Partly taken from Institute for Defence Studies and Analysis

Pakistan's Future

To counter a probable Agni III, Pakistan is developing the Ghauri III surface-to-surface ballistic missile with an estimated range of 3,000 km.

President Pervez Musharraf vowed (in March 2005) to further upgrade Pakistan's nuclear capability but with a "strict adherence" to non-proliferation as he watched the test-firing of the Shaheen II long-range missile which can carry a nuclear warhead. "The nation's nuclear capability..... was developed for Pakistan's own security and will continue to receive the highest national priority. The capability is here to stay, will continue to go from strength to strength and no harm will ever be allowed to come to it."

India's Missile Exports (April 2003 - April 2005)

Date	Exporter	Supply	Remarks
May 2003	New Delhi	Exports of anti-tank missiles and sub-systems of the Prithvi ballistic missile	Indian government reportedly exploring possibilities of missile sales. Some reports suggest that India may have already exported Prithvi ballistic missile sub-systems.
April 2004	Russia	Ship-and-aircraft-borne versions of BrahMos supersonic cruise missile	The Indo-Russian joint-venture company BrahMos Aerospace Ltd. signs agreement with Russia's main arms export agency Rosoboronexport to market the BrahMos cruise missile in international markets.
September 2004	South Africa Defence Exposition	BrahMos supersonic cruise missile	India displays BrahMos supersonic cruise missile at the South African Defence Exposition

Source: Nuclear Threat Initiative

Military Expenditure

	Defence Expenditure (in Rs. billion)		Defence Expenditure as per cent of GDP	
	2003	**2004**	**2003**	**2004**
India	560	603	2.5	2.4
Pakistan	159.7	180	3.3	3.3

Note: – India's military expenditure increased by 7 per cent from 2003 to 2004.
– Pakistan's military expenditure increased by 13 per cent from 2003 to 2004.

Response

CHAPTER 31

The Second Freedom

The Second Freedom Charter

The countries of South Asia gained their first freedom between 1947 and 1971. While the war of 1857 initiated the struggle for independence, the freedom movement acquired real momentum from the late 1880s to the late 1940s. Thus it took over 60 years for India, Pakistan and Sri Lanka to secure freedom. Almost 60 years later, the three countries along with Bangladesh, which gained its independence from Pakistan in 1971, and Nepal, which was never colonised, are in search of the Second Freedom.

The Second Freedom is the real freedom the countries of South Asia need from authoritarianism, repression, corruption, communalism, poverty, illiteracy, disease and conflict. It should be the aspiration of the people of all South Asian countries to secure their freedom in the next 20 years.

The achievement of Second Freedom is more difficult than the first freedom. It is a much greater challenge to mobilise against internal malaise than against foreign rule.

Once Second Freedom is attained, development will follow. South Asian countries should aspire to be as developed by 2025 as the South-east Asian countries are in 2005. It would obviously be rewarding if the South Asian countries scale even greater heights in the next 20 years, and achieve a level of economic and social development comparable to South Korea and Japan of today. If the South Asian countries succeed in reaching a development level comparable to the better off Asian countries by 2025, they can aspire to be a part of the Organisation for Economic Cooperation & Development (OECD) by 2050.

It is our central thesis that development is predicated on the Second Freedom. In fact, Second Freedom is also the objective of the first freedom. It is not enough to seek development merely through budgetary allocation of resources. It is essential to empower the free will and lift all curbs on human spirits. It is only through mass mobilisation of the free spirit of people who are particularly weak, that the South Asian countries can face the complex and inevitable challenges of the next two decades. While it is possible to envisage several hundred ways to attain Second Freedom, we propose below a 60-point Charter encompassing the most essential freedoms that the people of South Asia need and deserve.

Freedom from Authoritarianism and Abuse of Authority

1. The people of South Asia should insist on democratic governance managed by elected representatives as the basic premise of the organisation of South Asian societies. They should reject and dismantle any government, which is not representative, be it the rule of military, monarchy, theocracy or proletariat.

2. There should be complete independence of legislature, executive and judicial branches.

3. The elected institutions should have superiority and full control over the institutions of military and serving military officials should not be allowed to hold any constitutional office.

4. All bearers of high constitutional offices should be deprived of immunity if they violate the constitution of the country or indulge in corruption. There should be an institutional framework of checks and balances to review the conduct and use of authority by those holding the highest offices. Such reviews and the 20)

exclusion of immunity should extend to cover the heads of state, heads of government, heads of Supreme Court and heads of provincial governments. It should further extend to the heads of armed forces and security agencies. There should be freedom of press and association and special protection for those who expose misdeeds by the rulers and their families.

5. There should be guarantee of human rights and civil liberties, as per the provisions of the Universal Declaration of Human Rights and other international conventions.

6. It is necessary to free the democratic institution from internal authoritarianism. There should be term limits for high constitutional offices, as well as, the presidency of political parties. There should be free elections to ensure intra-party democracy.

7. There should be a compulsory retirement age for all constitutional offices, elected offices, civil service and army positions.

8. It is necessary to free the constitutional institution from crime and corruption. Elected offices should be open to those who have never faced conviction for certain offences, who have no tax arrears, and who do not have stakes in economic units that have outstanding debts.

9. It should be compulsory for all elected officials, senior civil servants and senior military officers to declare their assets as per agreed rules.

10. There should be constitutional freedom for all citizens to demand a scrutiny of the assets of officials of a certain level in departments with coercive authority, such as the army, paramilitary institutions, police, tax officials and other revenue agencies.

11. There should be a separation of power between ministers and administrative wings of the government, with the authority of the minister restricted to setting policies, norms and budgets. The ministers should not be allowed to interfere in the day-to-day administration, except to reverse an unconstitutional or unfair decision by civil servants through written orders of the minister or arbitrate conflict between two organs of the administrative apparatus.

12. All administrative entities should have a committee of Ombudsman with free access to the customers of such entities and the general public.

13. All senior administrative, police, military and judicial appointments should be made in a transparent manner.

14. There should be a constitutional right to recall representatives found guilty of any criminal act or misuse of authority on the basis of some procedure approved by the judiciary.

15. All parliamentary and provincial assemblies must have an ethics committee and public accounts committees with a mandatory requirement of the publication of their annual report in the leading media.

16. There should be compulsory disclosure of party accounts and the assets of senior party office bearers and their family members on an annual basis.

17. There should be partial state funding of elections and partial private funding with a mandatory requirement of financial contributions to political parties and candidates by cheque only.

18. There should be Right to Information to enable all citizens to obtain any information from any government body at a low cost and within a specific timeframe.

19. The provincial governments should have freedom from the central or federal government, with constitutional guarantees of provincial governance by elected officials in the respective provinces. India should introduce checks and balances in the application of Article 356 of the Constitution, which empowers the central government to dismiss state governments. Pakistan must grant all political rights to the Northern Areas on par with other provinces. The other three countries in the region must introduce elected provincial assemblies on district councils giving the authority to the local bodies to appoint administrative officials.

20| There should be a revision of fiscal relations between federal, provincial and local bodies. All countries should empower provincial governments and local bodies to raise revenue and determine public expenditure within their jurisdiction.

Freedom for Firms and Farmers

21| All South Asian countries need to set norms and exit policies for firms, that are clear and devoid of any discretionary authority to regulatory authorities, while ensuring that the firms do not exploit labour, customers or environment.

22| India and Bangladesh should minimize the interface between the firms and agencies of the state, particularly tax and customs authorities.

23| Pakistan and Nepal should free their industry and trade from the clutches of the military and monarchy respectively and create a level playing field for the private sector.

24| All South Asian countries should eliminate middlemen and allow farmers to sell their produce directly in the free market.

25| It is necessary to introduce a legal framework for farmers to form associations or cooperatives in such a way that small farmers are protected from exploitation by middlemen and the leaders of such cooperatives.

26| Entry barriers for the food processing industry should be lifted and backward linkages with the agriculture sector should be strengthened.

27| Facilitating trading of land and computerisation of land records should be taken up with earnest to improve efficiency and productivity in the farm sector.

28| Bangladesh, India and Pakistan should reduce taxes on input required for modernisation of the farm sector.

29| All South Asian countries should introduce simple and clear food safety laws, especially under the new WTO regime.

30| Reforms in the rural banking and financial systems should be expedited to improve credit availability and promote entrepreneurship.

31| India and Pakistan should introduce land reforms to redistribute land where it is monopolised and to optimise land holdings where they are excessively fragmented.

32| India and Bangladesh should convert land into a tradeable asset by introducing appropriate legislation with required caution to protect small farmers.

33| The government of Sri Lanka and Nepal should introduce land reforms to dilute monopoly of the state plantations and aristocracy and to democratise land holdings.

34| The farmers should be freed from ignorance and clutches of middle-men by creating facilities to enable them to acquire information and access to market through improved transportation and communications network.

35| All South Asian countries should necessarily undertake reforms in the labour market. Labour laws should be more broad-based to include the unorganised sector in a more substantive manner. Labour policy should focus on facilitation, and supervising of labour and industrial relations.

36| In order to free the farmers from the grip of the middlemen and vested interests in fertilizers and other industries in all South Asian countries, all subsidies which benefit the producers and middle-men should be eliminated, and the resources should be invested for capacity building and insurance of the poorest of the poor farmers.

37| In India and Nepal, special systems should be put in place for preventing discrimination and violence against Dalits and others belonging to backward communities. An important part of Dalit empowerment can be supply of low cost cycles and bullock carts as a Technology Mission.

38| In Pakistan and Bangladesh, special system should be put in place for preventing discrimination and violence against minority sects such as Ahmadiyas and Shi'as; this is especially necessary in rural areas where dominant interest groups deprive the minority sects of their land and other assets.

39 All South Asian countries need to introduce comprehensive strategies to liberate women from discrimination and structural disparities in all sectors of life.

40 Considering that young people in all countries of the region are in effect not free to exercise options for actualising their potential, due to poor health and educational conditions, it is essential to introduce reforms of the health and education sectors in order to make these essential public goods available to the poorest of the poor.

Freedom for Cooperation

41 All South Asian countries must remove all tariff and non-tariff barriers to trade in the region and accord MFN status to all the other member countries of South Asian Association for Regional Cooperation (SAARC).

42 India, Pakistan and Bangladesh should introduce freedom of travel for businessmen, media persons and even common citizens without any police reporting requirements or visa limitations in terms of cities (Nepal and Sri Lanka already have free travel for other South Asian countries).

43 All countries in the region should be freed from communication restrictions by introduction of telecommunication links between not only capital cities, but also other cities, if not small towns.

44 All countries in the region should negotiate maximum freedom for air travel for their citizens through a region-wide open skies policy.

45 The business communities should be freed from dependence on ports outside the region with the development of direct port calls between Karachi, Mumbai, Colombo, Kolkata and Chittagong; and the development of a new rail and road network connecting different parts of the region.

46 South Asian Free Trade Area should be converted from its current status of duty free trade to a genuinely common market with common standards, procedures and custom duties.

47 South Asian Free Trade Area should be complemented with the development of an energy grid, including gas pipelines and cooperation in the electricity sector.

48 South Asian Free Trade Area should be complemented with a regime for the free flow of services and investments to facilitate the free movement of factors of production and joint development of services such as tourism, transit rights and hospitality.

49 If South Asian Free Trade Area does not gain momentum, as an interim step, the countries that subscribe to the free trade principle should enter into bilateral free trade area agreements on the lines of India-Sri Lanka FTA.

50 Trade in the region should be freed from smuggling and criminalization, with the dual track policy of allowing trade in legitimate merchandise and the use of tough measures against illegitimate activities.

Freedom from Conflict

51 The greatest freedom that the region needs is the freedom from internal and regional protracted conflicts. All conflict-affected South Asian countries should engage in dialogue with concerned parties to resolve conflicts.

52 In order to create terror free environment, South Asian countries should implement the SAARC Regional Convention on Suppression of Terrorism of 1987 and the additional protocol on terrorism of 2004, in word and spirit. They should further consider amending the convention to remove some of its weaknesses and contradictions.

53 There should be a new regional protocol on the common definition of defence expenditure, which includes capital expenditure, pensions and other accounts currently not counted. South Asian countries should sign a regional protocol to introduce a ceiling on defence expenditure as 2.5 per cent of GDP and maximum of 2,500 troops per million population.

54 Gilgit-Baltistan should be made free from the Frontier Crime Regulations. Similarly, all South Asian countries should review draconian laws applicable to specific areas from time to time, ensuring that the laws are not abused to violate human rights.

55 All measures should be undertaken to liberate children and youth from forced induction in criminal and terrorist groups.

56 All measures should be undertaken to liberate traders and other business people from forced taxation and extortion by criminal and terrorist groups.

57 India and Pakistan should convert Line of Control in Jammu and Kashmir into a Line of Cooperation with the institution of Joint Economic Development Council of Jammu and Kashmir, fast track visa process for all Kashmiris who have bona fide business or family interests and joint patrolling of the LoC by Indian and Pakistani troops to stop the flow of criminals and terrorists who might get tempted to take advantage of the privileges offered under liberal trade and transit routes.

58 India and Pakistan should promote integrated water development of the Indus Basin to ensure water security in all parts and regions of the Basin, and particularly accord fair treatment to Sindh and Jammu and Kashmir, as the people of these two provinces feel discriminated under the present system.

59 A framework of devolution, reconciliation and reconstruction should be introduced for Jammu and Kashmir; new institutions should be put in place in Jammu & Kashmir to negotiate and monitor autonomy and cooperation between all parts of the state.

60 All South Asian countries should ensure freedom from fear for all their citizens and honour the right of all people to live, express, socialise, and actualise their potential in every respect.

Reforms and Growth
Impact on GDP Growth Rate (percentage point)

	Bangladesh	India	Nepal	Pakistan	Sri Lanka
Current rate	5	6	3	5	5
Freedom for Firms	+1	+1	-	+1	+1
Corruption Control	+2	+2	-	+1	-
Rural Reforms	+1	+2	+2	+1	-
Conflict	+1	+1	+2	+2	+2
Optimum Rate (with reforms)	**10**	**12**	**7**	**10**	**8**
Opportunity Loss (in the absence of reforms)	-5	-6	-4	-5	-3

South Asia: Prospects of Trade Cooperation

	2005-2015	2015-2025	2025 and beyond
Progress	FTA	Customs Union	Economic Community
Conditions	Common Standards	Commom duties and procedures, common foreign trade policies	Resolution of all political conflicts and end to terrorism

CHAPTER 32

The Second Freedom

Individual Initiatives

That the State needs to be reformed in South Asia is obvious. This is a task that leaders, institutions and mass organisations can undertake. What can an individual do to arrest the decay and contribute to regeneration of society? In order to seek answers to this question, Strategic Foresight Group had organised an essay contest, titled: Individuals in Action: The Role of the Common Citizen in Transforming South Asia, which was open to all South Asians in the region and outside. It attracted an enthusiastic response. However, most entries focussed on the problems and need for reforms or the measures needed at the macro-level. Only the entries that clearly concentrated on the role of the individual were considered for prizes. The jury also looked for clarity of thought and feasibility of ideas and approaches. ***Ms Asma Khalid*** *of Rawalpindi, Pakistan, was the winner of the first prize. The following is an adapted and edited version of her essay.*

It is known that the governments of all the South Asian countries are inefficient and ineffective in combating corruption, establishing just systems and delivering public goods to the masses. In particular, South Asian governance ignores the poor, vulnerable and needy. Being a concerned Pakistani citizen, I have focused on the case of Pakistan, where population is increasing day by day, concomitant of poverty, corruption, injustice and many other problems. The very rapid increase in population has exacerbated the situation, making the government incapable of delivering stable policies. However, it is not merely up to the governments to address urgent problems, arising from flawed governance. It is imperative for common citizens to play their vital role to make the process of governance efficient.

To write this essay, I conducted several verbal interviews in a semi-structured way with a cross-section of society. They included shop keepers, very poor people, beggars, well-off people and professionals such as doctors, teachers, anthropologists, and others. I had to confine the interactive research to my city for practical reasons. The objective behind the interviews was to get real insight into people's mind and a glimpse of their feelings, emotions and concerns about governance. The overall situation is quite grim. The Common Citizens do not want to bother about the rules of governance as they are entrapped in poverty, health crisis, unemployment, illiteracy and many other related problems. They feel that the government is patronizing them. They are too busy raising enough money to feed their children and obtain basic necessities of life. They expect the government to do everything for them. They yearn for a transparent, accountable and democratic system in the country, so that they can be heard, especially about their complaints and grievances. The Pakistani citizen finds it very hard to have access to government departments, to get any help and it is perhaps too much to expect that they will provide suggestions to improve the way of delivering public goods to them.

In this essay I view the common citizen as "someone having no access to information about the prevailing systems and structures of the Pakistani government." My concept of a common citizen includes people living far away in villages where basic necessities of life are not available, as well as urban professionals having high education. In either case, there is a sense of powerlessness and vulnerability. On the surface, it may appear that a powerless citizen can hardly do anything to challenge or improve governance. I hold a contrarian and constructive view as discussed below.

1. ***Individual honesty:*** First of all one should be honest at the personal level on three parameters. One should be committed to refrain from corruption even at the very basic level. One should resist injustice in many simple ways. And one should learn to believe in demanding accountability from government officials. The individuals who develop such value framework internally should be willing to share it with others in the society. To hold a conviction and to spread it is the best way to begin transforming the society. This will reduce corruption, injustice and inefficiency at the local level. Especially, teachers need to teach honesty in schools. Also parents should act so as to serve as role models for future generations. Although it is a long and slow process, we know that change takes much time.

2. ***Grassroots participation:*** It is necessary to be proactive, to acquire knowledge of the rules, policies and laws of the governments. It is very important for the common citizen to understand if policies, which the government has designed for them, actually serve them or not. It is obviously difficult for a common citizen to get the information if the person is illiterate. Therefore, basic literacy is important. Those individuals who have the skills and education can play their role individually by teaching children, women and adults at their level (mohalla, community or village level) and create awareness among them. As far as policies and laws are concerned, a literate person in a village, can seek information, share it with all the villagers and discuss the pros and cons. Thus, a few literate and concerned citizens can play their role very positively in raising awareness at the village level.

3. ***Local body system:*** It is mandatory for citizens to make the local body system active and efficient in their own interest. The common citizen must demand the authority to check and monitor the activities and work of the councillors, *Naib Nazims* (Assistants to the Head) and *Nazims* (Heads) of the area. In this a volunteer committee of common citizens must monitor the overall progress of the local bodies main functionaries. It is also a fact that a single person cannot do much, but, as a group they can be effective and efficient. If people are willing to work voluntarily, they can be effective in reducing corruption and improving the delivery of goods.

4. ***Awareness campaigns:*** Once people come together to form a small committee to monitor the local body, they can begin to expose corruption, injustice and the poor delivery of public goods. This must be initiated at the village level in the whole country. It is known that these types of campaigns have been launched in Pakistan and elsewhere with a view to raise the voice of common people against the government found abusing power at the local level. For example, a land labourer campaign in Okara and Khanewal, in Pakistan, is present in the current scenario. The people are standing up for their rights in front of the army sent by the government to occupy the land of the local people, who own this land since centuries and earn their livelihood by planting and harvesting crops. Similarly, another campaign is also gathering storm in Balochistan, against the building of Gwadar Port, which is not beneficial for the local people. These movements were initiated by individuals. They have now spread like fire against the might of the State. The organizers of such movements can use the media effectively in the modern age.

5. ***Project planning and implementation:*** Common citizens at the village level should seek a role in project planning and implementation at the local level. In this way the government will know the concerns of the common people, enabling planning and implementation. In Pakistan, the local body system is not functioning well, although the councillors and Nazims belong to the local level. The lack of citizen participation and over-politicisation of the system has destroyed the spirit of local bodies. Common citizens should form pressure groups to demand independence, decision making power and also the financial resources to implement projects with the involvement of local people. In this regard, it cannot be compared with other countries, like the Philippines where local bodies have been working for many years.

6. ***Institution building:*** Institutions, though present at every level in Pakistan are not efficient. They are corrupt and create injustice in society. It is the need of the hour for institutions to train the people. In this regard, individuals who have the knowledge, power or any other skill, can take the initiative at the individual level; but, for building the capacity of groups much work needs to be done. There is a gap between institution building and proper planning and implementation of projects. Groups need to be formed to fill this gap. Civil society and individuals need to play an important role to transform the society and country. The training of local groups to build institutions and the proper running of these institutions will enable common citizens to understand their rights and raise their voices against any injustice.

7. ***Role of Professionals:*** Individuals like doctors, teachers, lawyers, developmental activists, singers, actors, media personnel and others who strengthen society individually, can also play a pivotal role if they act collectively. In this manner, they can transform the society.

I have no illusion. I do not wish to suggest that the framework proposed above is a panacea to the problems of my country and my region. However, I do believe, that this framework can enable a common citizen to contribute to reduce injustice, corruption and inefficiencies. In the end, the State and the individual have to work together to produce a harmonious society. The challenge in South Asia is too big to be left to either one.

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