


# Focusing Development

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The fourth volume of **Focusing Development** is a compendium of development comments which Impact Consulting has contributed in the print media and shared on online social networks. The primary purpose of this publication is to encourage debate and promote dialogue around current development issues from different perspectives. Special efforts have been made to keep it accessible to a common reader and students of development studies.

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## The post-MFN Scenario

It does matter whether you export potato chips or computer chips — this phrase of economic wisdom seems more relevant now that traders and economists are rejoicing over the decision of the cabinet to grant Most Favoured Nation (MFN) status to India. The optimism related to trade openness has many reasons, such as the possibility of enormous increase in bilateral trade from the existing two to three billion dollars. The other reasons sprout from possibilities of peace in the region alongside reduction in economic inefficiencies.

Borrowing words from CK Prahalad, both countries are possibly entering into zones of opportunities while departing from zones of comfort. The zones of opportunities are the locales where potentials of rapid and equitable economic development are either realised or forgotten. A major indicator of such realisation lies in unleashing potentials of the productive sectors of both economies as well as creating more and better jobs. The story is not all about tariffs, restrictions and regulations. It is also about the organisation of production and human capital.

In fact, this is where economic capabilities matter and analysis must go deeper than 'shallow integration' models of trade flows that are based more on tariff reduction. The 'deep integration' models which rope in production networks and value chains help explore enormous opportunities and perhaps are more relevant to bringing peace in the South Asian region. The model helps carve out space for inter-sectoral articulation in economic activity more than just trade or business development.

Practical pathways run across the ideas of developing industrial clusters and facilitating technology transfers to operationalise strategic industrial and trade policies, pushing possibilities of production beyond the existing resource endowments. This is the way in which car manufacturing in Chennai and Pune can source components from Lahore and Karachi and some firms can collaborate to jointly conduct research and development in aviation machinery. This is where designers in Pakistan can source shoes from the Agra footwear cluster. Multiple sectoral articulations can make sure that value additions in textile and garments sectors are not stopped at Karachi and Lahore and enter Ludhiana as well. Perhaps the key lies in using manufacturing as the key driver for product-process innovations to make both economies diverse and complex.

Nothing can emphasise this point more than a recent report "The Atlas of Economic Complexity — Mapping Paths to Prosperity". The report argues that at the heart of complexity and diversity in economy is knowledge: "Ultimately, what countries make reveals what they know". This is where Pakistan and India need to focus and facilitate upgrades of manufacturing fortunes along with modernising agribusiness. An important lesson is: what makes economies grow out of potato chips to computer chips is primarily the ability to handle complex techniques of production, management and marketing.

At the same time, Pakistani firms need to understand the internal dynamics of Indian capitalism. *The Economist* projects in recent reports that a major part of the Indian economy

still revolves around families who run major industrial houses and influence policies. A possible way of collaborations might be reactivating the 'industrial' components of the chambers of commerce and industry to organise joint manufacturing competitiveness councils. Within Pakistan, the state and the private sector need to improve their diagnostic and strategic governance capabilities. We must remember that shallow integration can be blocked again but deeper integration is more resilient.

*Source: The Express Herald Tribune, OpEd, November 11, 2011.*

## Food Factor

Floods have ravaged hundreds and thousands acres of arable land and crops in many parts of Pakistan during the last couple of years, Sindh being the recent victim to torrential rains. One of the most visible losses, besides life, is the standing crops across hundreds of acres of land.

That simply means food inflation, even starvation. Signs of food deficiency are already very obvious in Sindh where peoples' entire belongings have been swept away and days go without eating food to one's fill or drinking clean water. But food inflation is not just the problem of Pakistan; many developing countries in this part of the world are struggling to feed the teeming millions.



When showing displeasure, the old Chinese would say, 'may you live in interesting times'. Apparently, our displeased Mother Earth has asked us to live in interesting times as well as try to have a peaceful society perching on inequitable distribution of food-related resources. So, the developing world, especially the South Asian region finds itself in a situation of frail food security system stressed under food inflation, and climate change related intense weather conditions, such as floods and other natural hazards.

Burden is multiplied onto the fragile institutional arrangements deployed for research, development and innovation, social protection, ensuring agriculture finance, and providing access to land and other input resources. Under the circumstances, South Asia, which accommodates 40 percent of the world's poor even before spike in food prices in 2008, needs special attention of donors, governments, and civil society organisations.

While analysing the grim side of the food situation, a recent global report 'Growing a Better Future: Food Justice in a Resource Constrained World' by Oxfam argues the case for a new prosperity. It argues for new global governance for agriculture which improves trade rules for the poor economies, new future for agriculture which witnesses improved investment agenda while ensuring a resilient ecological foresight which includes equitable distribution of scarce resources.

At this point, before discussing the food issues any further, it is worthwhile to have a cursory look at the dynamics of the agriculture system.

By the middle of the previous century, the Malthusian fear was effectively confined to texts books rather than frightening people in streets. Production was increased with high-yielding varieties. Under a complex system of macro-economic interventions and structural transformation, the farmers of the now-developed countries were able to get financing as well as technology to produce at reduced costs and in abundance.

Those who could not remain in agriculture went to industry in urban areas and enjoyed fruits of opulence and rapid growth in agriculture, industry, and lately in services.

The standards of living improved in the now-developed countries with substantial impact on demand for variety in food basket. Ultimately, the local became global which transformed the food economy around the world.

However, there were divergent effects of the development elsewhere. Some countries were able to reap productivity benefit from the surge in finances and technological diffusion under the Green Revolution while many others were left out not being able to compete in the market on quality, ensured delivery, and prices.



The crowded out, mostly living in the less developed countries, either fell into net food importers club or remained food importers with never-ending struggle to move out of the food insecurity trap. In addition, especially in Africa, the thinking that industry must be promoted at the expense of agriculture, led to stagnation of growth in agriculture which ultimately adversely affected the industry as well.

Such ambivalent developments set a stage for global inequalities in production and consumption of food around the world as well as within societies and different players in economy. Some studies argue that a host of factors, including agriculture and land management policies, and large scale industrial-food companies limited the space for small farmers and, thus, destroyed the local systems of subsistence farming, leaving people food insecure amid plenty of food production.

In the absence of a consistent human development approach and active labour policies, the economies could not sufficiently integrate people from farms to high-end modern sector of the economy which required skilled and educated human resources. The human insecurity which emerged from coordination failures of the government and under-developed private sector created a number of problems ranging from unplanned urbanization to conflicts of ethno-political nature.

However, the world is a place of 'hunger amidst plenty' as Amartya Sen calls it. Currently, in the words of Watts and Goodman, with global demand and internationalisation of the agro-food industry, the giant food companies and large retailers have aggressively transformed world agro-food economy. Now the designer organic vegetable serves the tables of the rich. On the contrary, in 2009, the world witnessed one billion people going hungry owing to price and supply shocks in food sector.

The Oxfam, in 'Nourish South Asia – GROW a Better Future for Regional Food Justice' has argued that the current food crisis has some windows of opportunity in which some seeds of change can be sown. The report argues that South Asia is actually passing through three challenges. The first is equity challenge which hands over land, food, and power in few hands. The second is production challenge which needs strengthening of productive capacity in agriculture to respond to population and growing demand for food. It also eyes for the need of effective human development strategies to attain productivity growth amongst the small farmers. The third is resilience challenge which is testing the resilience of

social and physical infrastructure under climate change and disaster situations amid supply side constraints and food price volatility. To respond effectively, the report suggests that a new vision in South Asia must guarantee the universal right to food, support smallholder agriculture, protect against climate change, and improve regional cooperation. One form of regional cooperation is to have a SAARC food bank.

While the above-mentioned reports have both the elements of warning and opportunities, it must be noted that in countries like Pakistan the food price escalation can worsen the poverty situation as well. The fact is that food is a major item of household budgets of the people living close to poverty line. It has been estimated that a 10 percent increase in food prices can lead to 2.2 percent increase in poverty while a 30 percent increase to 6.7 percent of poverty.



While the province of Sindh has witnessed 50 percent destruction in its agriculture produce owing to floods, it must be urgent and important for the policy makers to pay a serious heed to the advocacy by civil society organisations. Otherwise, a food insecure population is a more conflict-prone entity which Pakistan cannot afford.

*Source: The News on Sunday - Political Economy section, October 16, 2011*



## Manufacturing: The Neglected Area

There was a time when economists of neoclassical genre looked at industrialisation from the angle of trade policy rather than the other way round. It was argued that the process of trade would help discover comparative advantages in commodity production.



It was thought that it might induce competitive changes in techniques of production leading less-developed countries to move up the ladder of economic development. Following the process, the less-developed countries might become specialised and possibly industrialised from being predominantly agrarian.

The above-mentioned theory was thought to be the 'natural process' of economic development. Any policy-induced divergence through trade policy instruments such as export subsidies and regulation of the import and exportable were considered to be detrimental to trade and therefore for the whole economy. As a result, identifying priority sectors for industrial activity went out of favour in economic development policy, especially after the early 1980s. Many economies around the world were structurally adjusted to increase trade liberalisation and global integration in less developed countries with a few exceptions.

While the results in terms of robust growth in industrialization and manufacturing activity were either negative or mixed, this theorization has been questioned. Even in the case of Pakistan, many researchers argued that alongside the neoliberal reforms, industrial fortunes went into decline.

The country was not able to radically transform the structure of its economy from being agriculture to industrial which have had wide-ranging implications for its quality of growth. Most serious implication has been a serious neglect of advancements in science and technology as a key component of growth strategy.

Ultimately, it led to factor intensity i.e., increased use of factors of production like land, as major source of economic growth rather than innovations and productivity increases. The component of economic growth which comes from innovation with science and technology at its base has not really got currency in Pakistan.

There were a number of assumptions behind trade as engine for modernisation thesis. The most important was that the flow of information about sun-rise and sun-set businesses, labour retraining, and industrial up-gradation could be a costless and seamless process. The basic assumption being untrue, provided enough space to change perceptions around modernization of the real sectors of economy. It became evident from the development experiences of the late industrialisers such as Germany, Japan, East Asian economies and more recently China and India that trade policy must be looked at from the angle of industrialisation.

Therefore, economies need to be designed in a way that comparative and competitive advantages are built in manufacturing sector which diversify economy in new dimensions. It is also important to move productive capacity of the economy from low to high productivity activities.

Though constrained by changes in World Trade Organization, especially with extremely powerful agreements called TRIPS and TRIMS, the African countries are showing renewed commitment with industrial development to increasing manufacturing capability. This is a fact that the WTO law has put limits on many options of industrial and trade policy which were available to the now-developed countries at the similar levels of development.

According to a recent report of UNCTAD and UNIDO, 'Economic Development in Africa – Fostering Industrial Development in Africa in the New Global Environment', under the new global environment in which export subsidies, quotas and local content requirements are discouraged and banned, it is interesting to note that African governments are trying to re-vitalise efforts to structurally transform and diversify their economies.

Some examples may be as following: recently, South African government adopted the National Industrial Policy Framework. In addition, national development programmes of Egypt, Kenya, Namibia, Nigeria, and Uganda have industrialization as key component of growth strategies.

Apart from the New Partnership for Africa's development adopted in 2001, at regional levels, the African heads of States in February 2008, adopted a Plan of Action for the Accelerated Industrial Development of Africa. These trends must be instructive for Pakistan as well, which is facing almost similar challenges of food and energy prices along with global recession owing to financial crisis.

Pakistan needs to understand that manufacturing sector which is a part of industrialisation process along with mining and construction, has strategic importance for high quality growth. The first factor for this importance is that technology and innovation which is established and experimented with in manufacturing and also transferred to other sectors through manufactured goods.

The second factor is that it creates demand for goods of other sectors such as agriculture and services. With manufacturing the banking and insurance as well as communication services get a push. With labour-absorbing capacity of the manufacturing sector, it creates employment as well as high value makes export growth possible.

On the contrary, trends in Pakistan show a different picture. While setting up of new production units or their expansion is important for jobs, growth and stable supplies, the fixed private investment or capital formation has been falling rapidly since 2006-07. In 2007-08, it decreased by less than one percent. In 2008-09, private investment declined by 7.3 percent.

The fiscal year 2009-10 witnessed a double digit fall of 13.7 percent. A former IMF official Meekal Aziz argues, 'much of the data on small-scale manufacturing (SSM) are bogus. It is a fixed number put into the National Accounts each year. The decline in private investment is certainly worrying. With public sector investment also constrained, a fall in total investment has ominous implications for growth and jobs going forward'.

The economic managers of Pakistan need to focus on the bad shape of manufacturing sector in Pakistan which has serious implications for economic growth, social well-being, and jobs. The sector needs operationalisation of focused industrial, science and technology policy which encourages environment-friendly industrial development.

*Source: The News on Sunday - Political Economy section, September 18, 2011.*

## Social Movement and Cities

Social unrest which asks for a systemic change in the way countries and cities are governed, portrays interesting stories and show behind-the-camera shots. Be that London or Cairo and, more recently, the anti-corruption campaign of Team Anna are said to have some streams in common.



For example, it is estimated that events in India and the desire for democratic change in China and Arabian Peninsula is linked with increase in GDP per capita. Taking insights from Prof. Paul Collier, many analysts have argued that increase in GDP per capita beyond US \$ 2700 makes polity shiver for change. More authoritative and autocratic a country or region, more violent the expression for desire ensue.

The demand for better governance arises when the public's basic needs are being met. Literature on governance shares the insight that making people rich is comes with a price. The new rich and sometime educated class demands good value for money while consuming private and public goods and services. The demand which the poor cannot make because their domestic problems keep them occupied. Team Anna knows it well that the taxpayer has the right to question the functioning of the state.

The management cannot befool people for long; they either morph into a quality company or leave the room for new entrants. In India's case, the situation becomes complex in the sense that Team Anna politically supports the right-wing agenda with an extremely naïve concept of corruption.

Interesting though, without being able to decipher the nuts and bolts of what exactly a machine of corruption looks like, a cross-section of junta has shown the will to demand quality services from the public sector. Team Anna still needs to show muscles to make private businesses responsive towards social development needs of ordinary Indians.

In a democracy which is fast transforming itself into an open market, entrepreneur-based efficient systems may need more guts to rope in the thriving private enterprises, specially the bigger ones. London riots show an interesting face of social unrest. While demanding good quality government instead of lean and mean arrangement, many analysts have blamed the new public management idea system of Tories. They argue that a small government is efficient as long as things do not go wrong. In another instance, the blame has been put on emerging racism and cuts in social spending. These ideas might have been close to reality but another type of analysis is also warranted.

Prof. Richard Florida has argued that global and big cities have problems. The political economy of city life needs radical new thinking. It is not hooliganism and frustration around the falling UK's economy which matters. What matters is that globalisation has created richer classes living side by side with the extreme poor. The inequality which existed even during the 1940-1970s has been sharpened by during the last thirty years.

The cities have created promises for increase in wealth and quality of life. However, while distributing opportunities for such a change, it has sharpened the wedges of class and therefore identities and conflicts. It is being argued that without a new social compact emerging and mass political institutions articulating the vision for future, the underclass is becoming chaotically riotous.

The political economy of cities has emerged as an expression of inequality and anger living very close to one another. Making matters worse, the bail-outs to ward off recession has saved only the rich and the skilled people not the vulnerable and poor.

Richard Florida says that a new way of dealing with social unrest 'means early childhood development programmes and efforts to channel young people's talents into new urban enterprises and creative endeavours that benefit society. It must also focus on turning rapidly growing, currently low-wage, low-skill service jobs into higher-paying, more fulfilling and more productive work'.

To conclude, other than clubbing everything under the moral-political rhetoric, the political economy side of social unrest in recent times demands deeper understanding of social transitions alongside taking note of creation and distribution of wealth and opportunities. The understanding also demands action on the part of governments. The state has to be responsive and futuristically ahead of society otherwise, the case for chaotic riots and political violence stands there to challenge the status quo. One may ask: do we need to think of Karachi in the light of such socio-economic transitions?

*Source: The News on Sunday - Political Economy section, September 11, 2011.*

## Balochistan: Economic Prospects

Desiring an economic growth impetus in Balochistan is asking for a moon, or so it seems. Many argue that unless peace is restored, growth will remain alien to the province and, therefore, poverty has to keep stinging the frail bodies. Flipping the argument upside down, there are people who argue that carefully managed growth in itself can create conditions for peace and socio-political stability. Factually speaking, the causality may run either way.

A more complex proposition is that economic growth will be rootless and possibly ruthless until rights of people are not recognised and respected. In principle, the proposition holds water partially albeit bending the stick too much on the other side.

For the proposition being partially true, the reason is simple. If history can be a guide, growth can be made inclusive and it can copilot with rights being accorded to people. Higher incomes, human development and well-being even help create weather systems in which the progeny of rights can be more meaningfully nourished.

Apart from the theory of growth and equity in rights, the fact is that Balochistan province is having more than fifty percent of its population under below the poverty line while in rural areas the poverty touches seventy percent according to some reports. The situation required at least two basic features of human activity to take some shape as Prof. Paul Collier has argued in his lectures on ending poverty of the billion. First is compassion and the second is operationalisation of enlightened self-interest.

Compassion is something which helps activity to get started while enlightened self-interest keeps people serious about growth for poverty eradication. Compassion demands creation of visionary inclusive growth strategies while enlightened self-interest demands facilitating the entrepreneurs and firms which form the building blocks of an economy.

Practically, what is being suggested is to use fiscal and administrative powers of the state to articulate a growth framework and build technical and commercial skills of people in the direction of growth strategy. In this article, a case for building productive capacity of the economy of Balochistan for agro-based high value food industries is argued.

Estimates by many experts show that agro-food industries are sun-rise industries for many years to come and will generate profits for firms and growth benefits for the economy. However, care needs to be taken that the development gains are shared with most people and inequalities across class, ethnicity, and geographical expressions are taken care of.

This care is actually weaved through many interventions such as by creating good quality social security systems as well as engendering labour-absorbing growth momentums. However, to make sure that economy does not go into deficit, the inclusive growth strategy needs sufficiently efficient system of revenue collection.

The most important step is to consider insights of behavioural economics. The theory says that endowment effects have to be created in an economy because people value the things more which they own. Therefore, utilisation of growth channels should not create resource curse-like situation which give power to a minority elite — both foreign and local — to be the exclusive and primary beneficiaries of a booming economy.

Around the world, the chances of increase in production and consumption of high value foods such as fruits, vegetables, meat, and dairy seem inevitable. The emerging middle classes in three economic powerhouses: China, India and Russia bordering Pakistan create opportunities for such businesses.

It is important to know that around forty percent of Pakistan's livestock is based in Balochistan while the province also gets around forty percent of GDP from this sector. Presently, the province has around 17 poultry farms, 15 dairy and cattle farms while one disease diagnostic laboratory and one animal science institute is there to serve the livestock sector.

This means that there is need of big push to formally organise and modernise the sector in terms of production but also in terms of domestic and international trade. Facilitation in trade means more than just finance but also awareness and laboratory certifications about health and technical standards.

These steps can help create globally acceptable and respectable brands to become competitive in national and international markets. Ironically, the governments at this moment is not spending enough money or providing friendly support for the creation and operationalisation of firms. For example, according to reports in the press, a meagre amount of Rs280 million has actually been allocated for the livestock sector in Public Sector Development Programme (PSDP), which is insufficient to create institutional arrangements for growth. It is also important to recognise the drivers of economic growth in Balochistan and take all possible steps which can increase fiscal transfers (and aid), trade, security, and better *Source:*

*Source: The News on Sunday - Political Economy section, August 22, 2011.*

## A Plan for Sustained Growth in Punjab

The political leadership in Punjab takes pride in showing a pro-poor face to the electorate. In the short-term, it may be able to gain some political mileage but the situation may change in the longer-term. When former president Pervez Musharraf was in power, the country and the province also experienced rapid growth in the telecom sector but this did not help retain its political power. Similarly, while people praise schemes like Danish schools, Ashiana housing, *sasti roti* and yellow cabs, these alone will not be enough to bring the PML-N win the next election.

Similarly, the party ruling at the centre may need additional support as well. They need a nose for growth-enhancing strategic interventions, complementing and building on projects such as the Benazir Income Support Programme. To begin with, Punjab needs to quickly revamp and consolidate its infrastructure development vision. The layouts of cities and zoning policies have to be changed and more space needs to be allocated for commercial and industrial activities. For labour-absorbing industrialisation, fiscal space and an incentivised environment for 'sunrise' industries such as agro-food, clean energy and pharmaceuticals is needed. At least six cities — Lahore, Sialkot, Gujranwala, Gujrat, Kasur and Faisalabad — can form a new growth cluster. As for southern Punjab, it has considerable potential for agribusiness, with Multan becoming the hub.

Reforming input markets, which include land, labour and energy, is also vital. Output markets which determine what and how much needs to be produced have already been liberalised. Through strategic interventions in input markets, Punjab can influence the chain reactions for reindustrialisation and modernisation of its economy. What would also help is a strategy that uses public sector investment for financing activity in the private sector — this can become a driver of growth and industrialisation. In all of this, it goes without saying that public spending should not be squandered and should be put to maximum efficient use.

For Punjab to take the lead in engendering economic growth, it needs to adopt policies that link institutions of higher learning such as universities and technical and vocational colleges with industry and commerce. Technological innovation needs inspiration and this comes about via education. The latter in turn requires both money and supportive government policies and when both are adequate a pro-growth environment is created. In this sense, government development projects should be designed to create markets for new strategic industries and innovations.

This way, public sector spending can be channelled into private sector activity. As for the government's role, its bureaucracy stifles businesses, retards economic growth and thus reduces the changes of revenue generation. Hence, a transformation in the civil services is needed, and this may require some level of restructuring.

In fact, Punjab has the potential to become an engine of growth for Pakistan — the way Guangdong has done for China and Gujarat for India. These regions have become leaders in manufacturing activity, fuelling export growth and creating employments. To



make Punjab a site for economic growth and an example of industrial development, entrepreneurs who save and invest their hard-earned funds to set up factories and businesses should be facilitated. Discouraging them will result in growth retardation, fewer jobs being created, lowered standards of living and, ultimately, political upheaval. The goal for visionary leadership is to change peoples' lives, not its own titles.

*Source: The Express Herald Tribune, OpEd, July 27, 2011.*

## Corruption in Theory

There are strong voices in development policy establishment which argue that the source of corruption is government since the use of public offices for personal gains is corruption. The target, therefore, is good governance.

Defined this way, the set of anti-corruption remedies is embedded in principal-agent theory of neo-classical economics. To be honest, an agent should avoid wayward behaviour and do what principal wants her to do.

To correct the problem of corruption with principal-agent diagnostics, non-corrupt and honest behaviour can presumably be straitjacketed by improving the monitoring and vigilance system. While the costs of such an omnipresent administration are high, it is advisable to increase salaries and reduce the powers of bureaucrats since rent-seeking will no longer be either desired or possible. Consequently, good governance may take roots in the land of public administration and management.

In line with the above-mentioned theory, in the case of Pakistan, prescription by the Planning Commission under its New Growth Strategy is to monetize the perks of bureaucrats, reduce government role in economic management by way of liberalisation, and resultantly, witness not only good but better governance.

The problem with this approach is that theory behind such administrative reforms and structural adjustments is incomplete to capture the wide spectrum of culturally embedded behaviours. In fact, an apparently simple equation for better governance manifests many complex intervening variables. There is a growing body of knowledge which argues that corruption is a social phenomenon and there are societies which can be called rent-seeking societies. They argue that corruption is not a simple principal-agent problem either.

This is a social trap and a collective action problem. This approach questions the validity of 'size of the government' as source of corruption argument as well as stresses the limits to soft-entry point options for ending corruption. Looking at from this perspective, it appears that there are social and political reasons which render the anti-corruption establishments such as anti-corruption departments, NABs, and monetisation of perks proposals as inadequate.

Recent researches have shed light on the role of erosion of trust amongst principals and agents since a country awash with corruption loses social capital. The result is a general moral decay in which every member of society is unsure about the honesty of the other. The reasoning goes like this: 'I know corruption is bad but I do it because it is now part of social standard operating procedures'. We hear such reasoning not only from the government but from almost everywhere be that a private business. At airport, even taxi drivers of private companies have to pay their supervisors a commission to get passengers more frequently than other fellow drivers.

With almost certainty and ubiquity, the roles of principal and agent are confused — both the principal and the agent appear corrupt. Getting your things done becomes an art and the ability to get expensive items is seen as trophies of success. People start feeling as if living in a pool of filthy and stinking yet inescapable corruption. Despite having pricks of guilt in conscience, both the agents and principals continue to survive the ‘normal’ corruption.

It is true that corruption erodes the sense of life-satisfaction in our social and cultural aspects of existence. It debilitates formal institutions which are designed to ensure autonomy of the state to keep special interests at bay who try to capture its regulatory capacity. It also leaves the society at the mercy of mighty people to go opportunistic and with impunity.

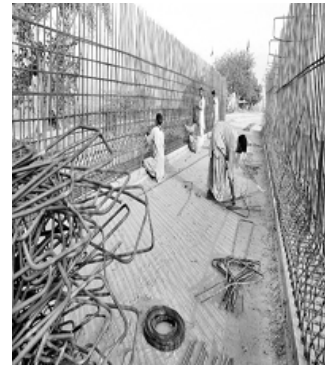
Many people then say, ‘if caught giving bribe, use bribe to get out of temporary setback. Heavens will not fall if one person is caught and released’. This is a manifestation of a ‘collective action problem’ and a social trap which requires concerted efforts for no less than social transformation. One such transformation is creating a popular belief that ‘all others will not do corruption’.

It appears worthwhile to conclude with a quotation from Larry Diamond: “Endemic corruption is not some flaw that can be corrected with a technical fix or a political push. It is the way that the system works, and it is deeply embedded in the norms and expectations of political and social life. Reducing it to less destructive levels — and keeping it there — requires revolutionary change in institutions”.

*Source: The News on Sunday – Political Economy Section, July 17, 2011.*

## Millennium Development Goals: Where is the Debate Going?

Around the middle of the previous century, newly-independent states started thinking of economic independence after having secured political independence from their colonial masters. The political awakening soon transformed into an economic struggle for reshaping the old supply chains and unequal economic treaties which kept the colonised regions underdeveloped and captive suppliers of raw materials. Many policy advices were generated and new branches of academic disciplines also emerged which could help develop strategies for faster economic growth to complete the dream of real independence.



Broadly speaking, the development approaches ranged from 'delinking' the domestic economic environment from the exploitative capitalist imperialist powers on the one hand and making use of the global Keynesianism through trade, aid, and industrial capabilities on the other. The main thrust of development was economic growth through industrial development and many countries in East Asia, Latin America, and Africa started showing early signs of modernisation of indigenous productive capacities.

During this period, Pakistan also forged ahead on industrial front, and with many qualifiers attached, managed to successfully substitute imported materials by domestic production as well as started export of manufactured value-added commodities rather than raw materials.

Despite the engine of industrialisation going out of steam owing to oil shocks in early 1970s, which increased the pressures on developing economies, one thing was clear that it was somehow possible to generate industrial capacity in many parts of the world. East Asian tiger economies such as Japan, Taiwan, South Korea, Singapore and later Malaysia and Thailand, to some extent, show that rapid economic growth to the level of a miracle is possible if the regimes have the power to govern markets and plan economic development with the vision of industrialising and modernising virtually every sector of economy.

In simple terms, human capital, financial deepening, engineering capability, and education went together to restructure economies which could generate inclusive growth which ensured an overwhelming majority of population benefiting from the growth miracle.

However, the same 'miracle' did not see light of the day in many other countries such as Pakistan. By the middle of 1980s, many countries had gone under the structural adjustment programmes, which prescribed privatisation, liberalisation, and stabilisation of economies as conditionality for bailouts. Nevertheless, the thrust of mainstream thinking has been economic growth after adjusting the economies structurally. In fact, the nationalistic dream which started with political independence and drifted towards economic independence remained a hope against hope while the mainstream development thinking diagnosed the problems of underdevelopment of Less Developed Countries (LDCs) as

problems of economic growth, aid coordination, and governance. Experts on these three distinct yet interlocked segments tried to build a case for economic development of LDCs by emphasising their segment of expertise and choice.

Ultimately, the Millennium Declaration and later Millennium Development Goals (MDGs) became a noticeable cornerstone in development policy thinking. The concept of these advancements in thinking was heavily influenced by human development and capability approach which laid emphasis on multidimensionality of poverty and well-being of people. As a result, the MDGs were set out to do at least two main functions. One was to rescue the development debate from a mere focus on economic growth which have had a belief in trickle down as well as welfare function of free markets. The second was to keep focus on the agenda for change in the Millennium Declaration without getting into a head on collision with ideological dimensions of economic policy.

However, by now the agenda for change and transformation in policy and social development acumen has gone wrong in many directions. Recently, the co-framer of MDGs, Jan Vantemoortle who has been Resident Coordinator of the United Nations in Pakistan, has written an excellent piece around the idea, "The MDGs Story: Intension Denied". He has argued that the donors have taken MDGs literally and started funding assessment studies around the idea of who wins and loses the race of achieving eight goals, 18 targets, and 48 indicators.

We need to understand that the measurements in such a race have serious problems. For example, despite churning out statistics to prove who is likely to achieve or under-achieve poverty, child nutrition, maternal mortality, and decent work related targets, the mainstream development policy has not changed. The real structures that influence the outcomes of economic, political, cultural, and social efforts of transformation have remained unintended. For example, in the case of Pakistan, the new growth strategy still talks about neo-liberal open economy idea system to be the best solution around available for Pakistan despite it being discredited elsewhere in the world.

In addition, the 'donorised and dollarised' assessments around itemised MDGs still have unsettled debates around who is poor -- the one who does not get a dollar a day or who gets but still does not afford children to go to schools and adequate healthcare. The assessments still confront debates such as how many deaths are real maternal mortalities which are not influenced by malaria, HIV/AIDS and other related diseases alongside gaps in true diagnosis and reporting in LDCs. The indicators still confound the assessment teams on how a child health be seen and what really is 'decent work'. Many indicators are vague and statistics around them can possibly mislead the development policy.

It is a time when the true nature of MDGs argument must be known to the development policy establishment. The MDGs were created to widen the debate around economic growth and taking it beyond the issues of governance and aid coordination. These were supposed to keep a focus as well as transform societies in multi-dimensional ways. In addition, the MDGs can help focus on inequality and inequity in distribution of benefits of economic growth. It is time assessments are taken more as social, economic and policy

analysis of what keeps inequality to persist rather than generating competition on statistics around eight goals, 18 targets, and 48 indicators.

To keep the long story short, Jan Vondemoortle argues that MDGs are ‘Minding Development Gaps’ which need our attention at the national and global levels of development policy and implementation.

*Source: The News on Sunday – Political Economy Section, June 26, 2011.*

## Going for the Goal

In Pakistan, the focus of debate around Millennium Development Goals (MDGs) has been whether the country can achieve them or not. It was argued that the country was able to reduce poverty to half from 36 percent to 17 percent a few years ago and, hence, achieve the target before 2015.



Though the argument could not withstand criticism on methodology of poverty assessment, the country could not sustain the 50 percent of poverty reduction either. The euphoria was over before it could make everyone happy. According to some estimates, the country lapsed back into the poverty trap with 30-40 percent natives of the country inside the murky circle.

Looking at people from the perspective of multi-dimensional poverty, the country has more poor and deprived (52 percent) in its coffers than non-poor, according to estimates of Social Policy and Development Centre. Such inequalities and deprivations paint the canvass of life for people and rob them of basic capabilities to live and function.

In a recent report on MDGs by the government of Pakistan, the evidence of health outcomes during the period between 2001-02 to 2006-07 shows that only two more lives can celebrate their first birthdays amongst 1000 live births. While infant mortality rate stands at 75, during the next four years it has to be brought down to 42.

Going from such ebb to a plateau is no doubt an uphill task which goes beyond the ambit of health-focused interventions. Most distressing point is that such deprivations abound in Pakistan, despite the sloganeering of having recently lived another era of high growth and investment in which the highest ever 9 percent growth rate was also achieved.

Responding to the situation of Pakistan, different civil society groups have stressed upon the social and legal side of the enabling and egalitarian environment which could help achieve the MDGs. These are good initiatives and must be carried on with fervour. However, a deep analysis is also needed that whether MDGs have really focused the development malaise in Pakistan. In addition, how New Growth Strategy (NGS), which has been tagged as neither new nor a strategy by analysts, would be able to take Pakistan on a sustained and equitable economic growth path.

It appears that, currently, the way issue of social and economic development has been articulated in Pakistan (and in MDGs to a certain extent) is something like: largely if health (i.e., more doctors, medicines, and hospitals, etc.) and education (i.e., more schools and teachers) get some attention while letting the market decide what kind of capacity is needed in the economy, everything will automatically adjust based on the logic of so-called free and open market.

At best, what is needed is to allow individual entrepreneurship to flourish through (micro) credit at the bottom and enforcement of property rights at the top levels of economic activity. The rest can be left to the national and international market and competition to decide in which direction welfare functions can perform since such a system will increase size of the economic pie and hence improvement in distribution will follow.

There is a need to question the above-mentioned doctrines of the 'new developmentalism' being pursued and brought in Pakistan. Prof. Ha-Joon Chang, through his research on the dynamics of economic improvements around the world, has argued that countries need to improve their 'productive capacity' in order to meet the challenges of poverty and social development. They need to bring in the idea of 'flying goose-like' situations in which the government, private sector, financial sector, and academia build industrial development vision which reinforces the collective entrepreneurial efforts for economic growth through up-gradation and modernisation of the productive capacity of an economy.

It is important to note that individual entrepreneurs do play a very significant role, such as having more business graduates, doctors and engineers means trained and skilled human resource to fuel the engine of economic growth. However, equally important is to have successful large-scale enterprises and firms which absorb and sharpen the utilisation capacity of the economy. Such firms are needed to organise complex division of labour which is needed to harness the potentials of individual entrepreneurs.

Ha-Joon Chang argues, what really distinguish the US or Germany, on the one hand, and the Philippines or Nigeria, on the other hand, are their Boeings and Volkswagens, and not their economists or medical doctors (which the latter countries have in quite large quantities).

In a nutshell, the argument is that trade and industrial development should not be left to the forces of competition and markets. While humanistic concerns for egalitarian social development are important and must be adequately addressed, the federal and provincial governments need to come forward and invest in technological development of the country to bring in improvement in productive capacity. Even restructuring and devolution of Higher Education Commission must be looked at from this angle rather than playing politics around the spending capacity of the institution. In this way, the development vision of Pakistan has to go ahead of achieving MDGs.

*Source: The News on Sunday – Political Economy Section, April 24, 2011.*



## How Bad is a Bad Loan?

After looking at the debt liabilities of different countries, specially the ones which grew faster than others, many analysts argue that it is not the debt per se which matters. No doubt there is a school of thought which argues for a 'sustainable debt' as well. However, there is a synthesis that what matters most is the judicious use of resources and effectiveness of economic policy which allocates resources in different sections of the economy to generate streams of economic growth.



The argument is that if economy is growing and new sources of economic growth are being successfully experimented with, then an apparently large debt is manageable. If growth is not picking up momentum then the size of debt and the ability to pay back matters most. In the case of Pakistan, it appears that since the rate of growth has come down (around 3 percent) after FY07 and the debt situation has worsened from 55 percent of GDP to 62 percent of GDP, there are some areas in which the country needs to be vigilant.

For example, the issue of debt servicing (retiring the debt) requires attention because the money routed for debt servicing is five times higher than the federal development budget. Another worrisome factor is that the country has received around half of the committed US\$ 1.4 billion from the Coalition Support Fund (CSF) while the expenditure on security has actually increased many folds during the last three years -- taking Pakistan in a very difficult financial situation. This needs to be addressed on a priority.

There has been a reported increase in debt-servicing by 43 percent during the last five years which is around US\$ 3.112 billion while the total external debt has reached US\$ 55 billion in June 2010. By September 2010, the total debt and liabilities were reported to stand at 73.3 percent of the GDP. A worrisome situation is that around 65 percent of the budget goes to debt retirement, defence related expenditures (total external debt is also contributed by defence related debt), and current expenditure of the government. At the same time, some analysts argue that around 60 percent of Pakistan's economy is out of the tax net which makes our debt burdens more burdensome.

It has been argued that the government is pursuing the policy of taking more loans to retire the old ones. Where this state -- the state meaning the people and the government -- is failing? In fact, it is not being able to restructure the system of public finance and mobilize resource from domestic economic activity. Some analysts have claimed that the government has violated almost all of the provisions of 'Fiscal Responsibility and Debt Limitation Act'.

It is important to mention that a certain section of economic policy experts have contradictory opinion on such Acts which have been enacted at the behest of International Financial Institutions (IFIs). They argue that such efforts for the so-called 'stabilisation' have resulted in erosion of financial capacity of the state to fuel the engine of economic growth

through public investments in creation of new markets, human development expenditures, initiation of new production lines, and research and development capacity. In this line of argument, they conclude that public sector investment which thus 'crowds in' the private investment has been reduced in a number of countries. Pakistan also needs to undertake a serious analysis of such impacts of the Act.

On another account, the prescription of IMF to impose RGST and bring agriculture and services sector under tax net is not bad in itself but it is tricky to collect taxes and ask businessmen to contribute when economy is not showing signs of growth. However, a counter argument is that Pakistan's economy has average natural rate of economic growth which is around 2-3 percent per annum and, currently, the economy is running along that curve. Therefore, the new taxes are needed to stabilise the economy in the first phase and generate growth momentum later.

At the same time, if the US\$11.3 billion debt trap has to be escaped then Pakistan needs to seriously pursue a growth strategy which is rooted more in empirical evidences of successful growth strategies across the world and its own circumstances than being carved out of the text books of neo-liberal Chicago economics. However, in the short run, the country needs to balance its books so that not only the next US\$ 1.7 billion tranche is released but also the stalled assistance from World Bank, Asian Development Bank and Islamic Development Bank, which is close to US\$ 500 million, also joins the financial stream of Pakistan.

While the rate of growth is faltering, the issue of debt burden and needed economic growth is becoming complex, especially when slogan of 'austerity' allows governments to cut development budget without removing fat on wasteful expenditures. What is a 'waste' is a tricky question as well. For example, the Planning Commission has removed scholarships for Pakistani students who wanted to go abroad with a promise to come back and serve Pakistan. Such expenditures were thought to be a fat and removed. While providing a new vision for growth strategy based on innovation and research and development as argued by famous economist Paul Romer, the economic policy prescription on scholarships seems to be a significant contradiction which is a hallmark of the State of Pakistan in a number of ways.

Economic managers of Pakistan should know where the fat actually lies, where the social efficiency lies, and where the real waste and leakages have to be plugged so that they can manage debt while keeping Pakistan growing at a respectable rate.

*Source: The News on Sunday – Political Economy Section, March 27, 2011.*

## The New Growth Strategy, is it?

The Planning Commission of Pakistan is developing what it calls a New Growth Strategy (NGS). The approach envisages increase in productivity, innovation, and entrepreneurship in Pakistan. It seeks to promote good governance as well as improve the structural capabilities of cities and change land entitlements in which economic efficiency is gained.

The ideals are worth-pursuing and have been adopted by many now developed countries in the past. However, these ideals were not always adopted in an 'open economy' fashion an idea on which the NGS has taken a hardliner position under the current economic management team at the Planning Commission.



The emphasis seems to be replica of 'market-fundamentalism' in which state is rolled back to the extent that it does not seem playing a role even in risk socialisation which is a necessary element in encouraging entrepreneurs to experiment for innovations in both product and processes.

What is being re-sold by economic managers is a case for near-religious belief in the social and economic effectiveness of market and competition which rests more on logic and theory than empirical evidence. An analysis of this approach in NGS is necessary, an analysis which explains rhetorical promises. It is worth mentioning here that economic policy without being informed by history and institutions does not produce results.

In fact, economic growth strategies in the UK, USA, as well as China have historically been discriminatory to promote infant industries as well as import substitution and export promotion. These economies at the comparable level of development vis-à-vis Pakistan of today did not cherish the 'open market' and free competition at all. They carefully nurtured local capabilities. So much so that some scholars call the US the mother of infant industry which later (in 1980s) started imposing for free trade and free market policies in less developed countries.

The now-rich countries always have had built protective barriers for local entrepreneurs to seek growth in technological capabilities, leading to innovation and productivity gains to become competitive in international markets. They carefully managed competition as in boxing matches where different weight categories divide the players according to their capabilities. The now-rich countries' experience also tells that they did not use open market and open access approach for Foreign Direct Investment either. They carefully planned the priority sectors and discriminated against various types of FDIs to avoid disorientation in resource allocations.

Coming to the issue of good governance which is a major promise in the NGS, the economic history tells that governance improves with increase in economic growth and not vice versa. Once citizens start enjoying services provided by the state and they grow rich, they start demanding good quality government and hence good governance. In Pakistan, one can see that the country slides down on transparency standards regarding corruption once its rate of growth starts faltering.

Another point must be noted that ultimately, these are the structures of economic rights and obligations which determines 'who gets what' when independent system of justice is implemented. Countries can perform badly on accounts of general social and economic well-beings despite having very strict implementation of laws.

The systems of governance, especially the ones which govern the markets must protect the interests of poor individuals, labour, and local industries, otherwise under good governance the right of the powerful will be protected without any gains for social and economic equality. This aspect has not been given due importance in the NGS.

Merely aspiring to re-structure the role of the state as a facilitator for markets which return favours only on the basis of 'ability to pay' cannot ensure real social and economic well-being of Pakistan. This is absolutely not an answer to boom and bust cycles of the economy.

Market-fundamentalism also assumes that markets create the best economic and possibly social outcome through the medium of efficient allocation of resources. This assumption called "efficient market hypothesis" -- now making the core of NGS in Pakistan - has seriously been challenged around the world, the current financial crisis being a glaring example of under-regulation leading to serious systemic risks.

The debate around sharing the benefits of economic productivity have re-surfaced in many countries such as US, UK and Tunisia and now Egypt while in Pakistan we are trying to avoid reconstructing the system of public finance and are more interested in inflation targeting. Trying to contain inflation without concomitant equality enhancing programmes would not serve long-term socio-economic development issues of Pakistan, the NGS team must know.

It seems that not having a party-trained economist to manage economy, anything is possible in Pakistan. Therefore, the so-called technocrats representing interests of the neo-liberal orthodoxy entrenched in the IMF, WTO, and World Bank can create NGS which is discredited elsewhere, surely at the cost of treatment which Pakistan direly needs.

*Source: The News on Sunday – Political Economy Section, February 20, 2011.*

## Growth of Poverty and Inequality

The latest variant of the manifesto of Pakistan People's Party was issued in 2008. The party, after winning the election, is leading the ruling coalition. So, the items on the menu should provide central framework for what is being cooked in policy and planning kitchen of Pakistan. The manifesto promises growth with equity, meeting basic needs, targeted poverty programmes, and good governance.



Interestingly, the theme of growth with equity is something which should be very important component of the new growth strategy being developed in the Planning Commission of Pakistan. While growth is a necessary condition for equitable development, economic growth in itself does not guarantee social and economic well-being or human development. Experiences of some countries show that a few countries showed good performance in growth but lagged behind on the scale of human development.

Such a skewed growth could not adequately fuel the next rounds of expansion in economic opportunities, let alone sharing in an equitable manner with society. Human development in terms of increase in sustainability, empowerment, equity, and productivity remained a distant dream despite economic growth spurts.

Some countries even lost economic growth momentum without entering into the stage of sustainable human development. Pakistan is an example of such countries which had respectable growth till the late 1960s but later experienced low levels of economic growth (with equity) because of faltering on human development. Much like some countries of Sub-Saharan Africa and Latin America, a sizable proportion of the citizens of Pakistan has not been able to live a full-life pursuing cultural, economic, political, and social well-being.

It can be said that despite having economic growth, the group of countries which share Pakistan-like fortunes, languished in low levels of human functioning and capabilities to enjoy freedoms which modern economy could generate.

An often forgotten lesson, which emerges from these experiences, is that increasing the size of economic pie and making rich people richer does not make everyone better off later. In fact, it requires a vigilant developmental state which can administer 'growth with equity' as this sort of mention is found in Taiwan's constitution -- the country showing a good example in this direction of growth outcome.

One possible outcome of growth with equity is reduction in poverty and inequality in society. Conversely, inequality and poverty as persistent phenomena in economy means that a 'differential diagnosis' as Jeffery Sachs calls it, has to be made lest the patient dies an avoidable death. The diagnosis should not only be to identify the fever but also deep-rooted

problems which irk infrastructure, institutional arrangements, culture and behaviours, power relations, and environment.

Pakistan needs a serious effort to undergo differential diagnosis exercise; otherwise it will keep languishing in low-human development perching on poverty and inequality. At best, it will be able to achieve boom and bust type of economic growth without really sharing the story of boom with the 40 percent of population while subjecting them to shoulder 99.9 percent burden of economic downturns.

Such a trend of poverty and inequality, if it persists, will perpetuate the loss of well-being for a sizable majority of people who will not be playing a role in expanding the market. In fact, poverty and inequality feeds onto itself with depriving a large segment of population from accessing opportunities of wealth creation and income generation.

The disparities so entrenched are further cemented with a gap between the rich and poor classes, thereby making the rich powerful political elites able to become rent-seekers. The policies developed by rent-seeking society do not create space for spending on public education and health.

As a result, the growth which is shown on macro-economic curves is the growth of a small but powerful class of people and not of the whole country. The figures become deceptive to the extent that 7-9 percent growth rate (2004-05) fades away in the next two years (2006-07) and tapers off to 3 percent later, such as the case in Pakistan. Without having coherence towards improving the distribution of wealth scenario, the quality of life will not improve for a large segment of society.

The case being made for New Development Approach (NDA) at the Planning Commission will become a bundle of profound promises showing rosy pictures of creative cities. To make things well-meaning for the poor segments of society there is a need to focus on the agenda of growth with equity and targeted poverty programmes so that inequality does not feed disgruntled portions of society.

*Source: The News on Sunday – Political Economy Section, February 06, 2011.*

## What Needs to be Done?

Despite having some robust economic growth spurts of 6 percent to 9 percent, Pakistan can hardly be portrayed as a good example either of consistent rapid growth or enviable advances in human development and social protection. In fact, the country needs to seriously consider overhauling and reengineering of social protection and human security machinery, which is both inadequately oiled and badly designed.



The economy, at present, cannot enable the state or vice versa to ensure people's right to life with dignity, let alone build capabilities of society to function in a desirable fashion. Some basic statistics make a case for policy interventions in the direction of increased social protection. Comparatively speaking, despite having better growth rates between 1990 to 2009 than Bangladesh, Nepal and Maldives, Pakistan could add 5 more years in life expectancy at birth while these countries added 13, 12, and 11 years respectively.

It must not be surprising that Pakistan is the lowest on social protection spending with 1.6 percent of GDP in South Asia while offering social protection to around 5 percent of its population who are mostly working in formal sector. In comparison, Sri Lanka is the highest 5.7 percent of GDP utilised for the purpose.

Pakistan, however, has shown some progress in decreasing gender disparity in net enrolment rate but disaggregated data shows much of the progress concentrated in Punjab with Sindh and Balochistan getting worse off while Khyber Pakhtunkhwa shows no major change. Such skewed developments for whatever reasons create disparities in the short run and conflicts in the longer run.

On another account, taking a global picture, the effects of Washington Consensus approaches religiously followed during last many years have not benefited a sizable majority of wage earners. The share of incomes from labour has actually declined. Pakistan's economy seems to be consistent with global trends of economic growth which have disproportionately benefited owners of land and capital more than owners of labour.

Even in the US, as in many parts of the world, the income share of labour has gone down relative to the productivity gains in the economy. Some analysts like Michael Lim Mah-Hui in his latest book, *Nowhere to Hide* have claimed that these trends have played a significant role in global economic and financial meltdown.

In Pakistan, while the industrial fortunes have not really created a robust turnaround for more jobs in the formal manufacturing sector, the plight of home-based workers has increased many folds.

Apart from inflation and increasing poverty, the 8.2 million poor women who are working as home-based workers have much to worry about in their lives. They are not recognised as workers so they do not qualify for formal social protection mechanisms.

Many of home-based workers roast pine nuts, stitch footballs, cut, trim, and stitch garments, make shoes and prepare fancy clothing. While they form 65 percent of total women workforce, they are the least paid and most exploited in the value chain of production processes being in an extremely disadvantageous social and cultural positions.

Likewise, a recent research by Pakistan Institute of Development Economics claims that trade liberalisation in Pakistan has adversely affected women in relatively poor households by increasing their workload, deteriorating capabilities, and increasing relative income poverty.

Talking of inequality generating effect, it claims that the effects remained gender neutral or favoured women in the richest group of households. Such researches ask policy makers to emerge out of the dream world of neo-liberal orthodoxy, which claims that free trade and free-markets can ensure the welfare function of economy by making everyone better off.

The above-mentioned examples argue that the government should try to build a national social protection arc by bringing together employers, workers, civil society organisations and government departments.

The monsters of disease, inadequate housing, poor water and sanitation, and expensive education and transportation all collectively put a premium on our national economic growth. We need to seriously address such issues. We should realise that national security lies in ensuring human security at the local and individual level and from such foundation emerges a successful and cohesive nation state.

*Source: The News on Sunday – Political Economy Section, January 09, 2011.*





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