



# Focusing Development

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The first 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.

## Table of Contents

1. Reasons for Failure	4
2. Whither the State	7
3. Pie in the Sky	10
4. Against the Tide	13
5. Addressing Inequality	16
6. Poverty Eradication	18
7. Reforming Social Security	20
8. Anyone for Equity	22
9. Changing the System	25
10. A Powerful Parliament	27
11. Re Industrialization and Neo-liberal Doctrine	30
12. Revising Growth Strategy	32
13. Is a Developmental State Possible?	35
14. Warfare or Welfare State	38
15. The post-Martial Law Regimes	41
16. The Right Question	44
17. Rebellion or Revolution	47
18. Electricity: Issues of Institutional Response	50
19. Trade for Peace and Development in South Asia	53
20. Governance: Glass (es) Half-full or Half-empty	57

## Reasons for Failure

Bureaucracy is extortionist, politicians are untrustworthy, the military rule — in connivance with a post-colonial civil administration — has always been an authoritarian and elitist arrangement, and civil society is not empowered to play any meaningful role in the development, execution and evaluation of public policy. These are some of the broad contours of the dominant viewpoint on Pakistan's institutional performance.



In this context, this article stresses two points. First, 'functionality', not 'form', plays the central role in determining the effectiveness of institutional arrangements for economic development. Second, arguments for institutional catch-up in line with the Anglo-American or neo-liberal outlook need revision of emphasis, which needs to go beyond the approach of market fundamentalism to include institutional development, as well as embrace the wider public policy agenda.

As argued by many social scientists, the state in Pakistan has repeatedly failed to perform the functions of an effective 'conflict manager' and a visionary 'public entrepreneur', because state structures are relatively overdeveloped vis-a-vis the society and institutional imbalances squander developmental outcomes. Therefore, despite having certain modern forms, state institutions in Pakistan continue to remain inherently deficient and low-performing enterprises.

In Pakistan's case, repeated military interventions to 'resolve' socio-political conflicts and bring sustained 'economic benefits' have also shown suboptimal performance. Therefore, the country has progressively skidded into institutional atrophy (for example, losing centrality of the Planning Commission in the management of economic change) and institutional traps (for example, hackneyed system of civil administration perching on weak coordinating mechanisms), rather than venturing into long-term sustainable institutional innovations.

The majority of underlying reasons, perhaps, can be traced to the 'governmentality' of bureaucratic (hierarchical) and feudal (master-slave) cultural ethos of the state and society. This is in sharp contrast to South Korea and Taiwan that too experienced military interventions, but brought about viable institutional changes to introduce industrial discipline in their once-agrarian economic lives.

Despite assuming modern forms, the functionality of institutional arrangements generates highly unequal, polarised, conflict-prone and non-entrepreneurial socio-economic outcomes in Pakistan. In these circumstances, the enfeebled state loses administrative autonomy in a complex way; it is captured by special interests who take a lion's share in income, power and opportunity distribution systems. The functionality of institutional arrangements alienates the majority of population from mainstream distribution mechanisms, and these

people ultimately stop believing in the effectiveness of institutional arrangements to create secure and accessible public goods.

Contrary to Pakistan's experience, Japan offers a classic example of institutional reform. It made the socio-institutional innovation of lifetime employment, while deciding to steer the economy towards rapid industrialisation. The country, along with Switzerland, still executes an active labour policy for human resource allocations. In fact, the functionality of institutional innovations creates the most successful economies of the world.

Prof Ha-Joon Chang argues that key functions of institutions include coordination and administration; learning and innovation; and income re-distribution and social cohesion. In Pakistan, institutional arrangements exhibit extremely weak performance against these yardsticks. There has hardly been any major achievement since the country's inception more than 60 years ago. An example of almost similar performance may be that of Brazil, which experienced the so-called economic miracle during the mid-1960s and the 1970s.

Brazil's industrial strategies, very much like that of Pakistan, have been more 'industrial capacity-intensive' than 'innovation-intensive', which did not allow the developmental state to take off in the long-run. Moreover, despite an open policy towards foreign investment, the economy did not grow equitably; it mostly served rentier interests, while income distribution and economic role of the state faded away from the public policy agenda.

In Pakistan's case, since the late 1980s, a semblance of change in institutional forms has come only when the state has acted to implement liberalisation, deregulation and privatisation, in line with 'getting prices right' prescriptions of the neo-liberal orthodoxy. Such institutional grafting shows that the state responds to market-related governance conditionalities more quickly than the needs of institutions for social security.

Interestingly, while the need is to capacitate the state in becoming an entrepreneur that can provide vision for future and establish coordination mechanisms, the neo-liberal orthodoxy asks to roll back the state. While the role of the state is to provide sufficiently autonomous governance structures to determine and execute the public policy agenda, the orthodoxy wants the state to emphasise those institutions that can primarily ensure protection of market interests.

In fact, succumbing to the primacy of 'free market' institutions ultimately incapacitates the state to guide and govern markets in line with its own development objectives. In addition, it robs the state of opportunities to intervene for social equity beyond market-based resource allocations. A glaring example is the social safety net approach, which does not argue for making social security a crosscutting and overarching concern of public policy in Pakistan.

Looking at the picture from another angle, the institutional arrangements prescribed by the neo-liberal orthodoxy dismantle policy instruments that can help execute investment coordination and guide foreign direct investment (FDI) towards specific sectors. Under Trade Related Investment Measures (TRIMS) and Structural Adjustment Programmes (SAPs),

the policy orientation is to remain divorced from specific industrial policy, investment coordination and prioritising mechanisms.

However, empirical evidence shows that historically almost all the now-developed countries — including the United States, United Kingdom, Japan and South Korea — have used diverse mechanisms to manage FDI, with state interventions ranging from out-right restrictions in selected sectors to administrative guidance. The basic idea was to promote industrial development in strategic sectors using the legitimate interventions by the state. For Pakistan, the need to guide FDI beyond oil, gas and telecom sectors is the case in point.

To conclude, for viable institutional development in both form and functionality, Pakistan needs to think beyond the neo-liberal orthodoxy. It should seriously strengthen and use the capacity of state structures to influence social outcomes of the economic transformation. The democratic government has the required political and legal legitimacy to make such interventions. A well-coordinated change in the public policy orientation and institutional functionality will inevitably reduce possibilities of social waste and long-term economic meltdown.

*Source: The News on Sunday, Political Economy section, October 16, 2008.*

## Whither the State?

The state has historically played a central role in economic transformation, including in developed countries of the West and newly industrialised entrepreneurial states of East Asia. There are many reasons for the state's central role, but those associated with investment coordination, technological capability enhancement and upgrading, and provision of viable governance and social security structures form the core.



The fact, as mentioned by Abramowitz, that "the capital stock is interdependent in use but independent in ownership" also provides a convincing argument for the state to provide coordination mechanisms.

In Pakistan too, the state has played a major role in determining resource allocations and putting in place policy instruments to support economic transformation. However, in doing so, its performance as both an entrepreneur and a conflict manager has been sub-optimal. As a result, industrial growth and development in the country has been painfully slow. For example, Pakistan's growth rate lags far behind that of South Korea, though both the countries started with low-performing agriculture and almost non-existent industrial base.

Interestingly, Pakistan and South Korea had military coups in the late 1950s and the early 1960s, respectively; while the state remained authoritarian, directive and, at times, market stifling. However, the results of the state's role in industrial development have been very different in the two countries. The state has arguably stood stranded in polarised socioeconomic realities in Pakistan, while it has been effective and has provided ladders for industrial growth and development both for the private and public sectors in South Korea.

With the passage of time, Pakistan seems to have reached a stage where the state must try to understand the economic and industrial decline, without losing the sense of history and social and political processes. At this point, a question emerges: how can a state successfully redeploy resources for economic development without increasing inequalities? A look at Pakistan's economic history provides an answer to this question.

Pakistan decided to industrialise and transform the economy soon after coming into existence. The main strategy employed for economic change in the country has been over-stretched import-substitution industrialisation, without successfully upgrading export-oriented industrialisation from primary to tertiary sectors. Most of the time, the state has relied on tariffs, exchange rate and subsidy-related manipulations, without putting in place an elaborate system of visionary industrial policy frameworks to design coordination mechanisms backed by viable institutional arrangements for implementing public policy agenda. Glaring gaps in the industrial policy and the state's skewed role have also affected negatively outcomes of various economic transformation interventions over the years.

During the first decade after its inception, in the absence of a sizable private sector, the state relied on the public sector for structural transformation from the agriculture to the manufacturing sector. The second decade entrenched a never-ending system of political

alignments where players were handpicked for capital accumulation and investment. This resulted ultimately in the concentration of wealth in a few hands and regional disparities. Therefore, mainly because of the flawed entrepreneurial acumen in allocating resources to leverage economic transformation, the role of the state became a source of conflict in itself.

Responding to the political pressure on the issue of regional economic disparities, the Zulfikar Ali Bhutto government brought the public sector to the fore once again in the 1970s, mainly by nationalising the major private sector entities. However, the use of the public sector for political patronage continued. On the other hand, in South Korea, around this time, the entrepreneurial state was directing the public and private resources to heavy industries, such as shipbuilding enterprises.

In the 1980s, the authoritarian state remained largely inefficient and resources were wasted at a mass scale. This resulted in a near-failure of a possible second round of industrialisation after the early 1960s. The 1980s ended with the start of neo-liberal ascendancy under various forms of structural adjustment programmes (SAPs) in Pakistan. However, contrary to claims of the orthodoxy settled in the commanding heights of economic policymaking, no major breakthrough has been made in the manufacturing sector under the export-led growth strategy.

In fact, the controversial growth spurt in the manufacturing sector between 2004 and 2006 is fast receding despite removal of tariffs, subsidies and support systems. In other words, shrinking the role of the state in industrial development, without reforming the state itself, has been counterproductive. Empirical evidence provided in the latest Economic Survey of Pakistan and recent researches conducted by Dr Khalid Nadvi and Dr Asad Sayeed show that neo-liberal reforms have coincided with decline manufacturing sector output.

It appears that an authoritarian state dominated by the military and civil bureaucracy has failed to act as an entrepreneur, who could visualise and implement higher levels of equilibrium in resource allocations. Moreover, the state has failed to act as a trustworthy conflict manager who could address social, political and economic grievances of the people. The cost of such failures has been more debilitating in the multi-ethnic state of Pakistan than the less-diverse South Korea. Because of poor institutional performance, the meta-institution of participatory democracy still needs support to be effective in Pakistan. In addition, despite highly controversial political economy of fiscal deficit, targeted private and public sector investments in the manufacturing sector are still awaited.

In the context of the question raised earlier in this article, Pakistan urgently needs to look for innovative solutions and interventions beyond the neo-liberal prescriptions. The state must focus on the human development aspect of industrialisation and engage itself actively in strengthening institutional arrangements, especially vis-a-vis social and labour policies. It cannot afford to overlook distributional impacts of economic growth, because the ultimate test of the success of a development policy lies in improvement in the living standards of the people. These improvements cannot be brought about by relying excessively on monetarism; for rapid economic transformation, an important step is developing a coherent industrial policy that outlines coordination mechanisms. To conclude, it can be said that the state



should not only facilitate economic transformation; it must also become an entrepreneurial entity that can provide viable governance structures and implement public policy agenda without being captured by vested interests.

*Source: The News on Sunday, political economy section, October 5, 2008*

## Pie in the Sky

A senior bureaucrat travelling in a chauffeur-driven latest-model Toyota in Islamabad and narrating virtues of autonomous trade liberalisation and receding involvement of state in marketable technology development raises many fears. It appears that a strong grip of neoliberal orthodoxy in Islamabad has somewhere concealed the real success story of Toyota -- a sewing machines-producing company that graduated to make globally competitive automobiles. Similarly, it seems that the economic bureaucracy has decided to forget the history of the Japanese government that kept this inefficient company alive by allowing it to experiment with lean production techniques for many years.



In fact, they have tended to lose the historical perspective of the economic growth strategy of industrialised nations whose comparative advantage was once in primary products, such as silk and rice, than in any industrial product. Knowing the fact that history cannot be repeated -- let alone be replicated -- at any other place, this article assumes that important lessons can still be learnt from institutional arrangements and strategies of the past, especially if a country wishes to reorient trade and industrial growth policy.

Historical and empirical evidence suggests that all major countries of East Asia, some of them now part of the Association of South East Asian Nations (ASEAN), have actually used policy instruments -- such as tariffs, subsidies and investment management -- to become competitive in exportable industrial products. These instruments have been backed by the central role of the state to accumulate and utilise the capital for expansion of export-oriented industrialisation. Therefore, the state-led interventions made the domestic private sector competitive in the global export markets with enormous welfare gains from trade. The strategy, in simple terms, was aimed at economic and sectoral industrial success, followed by strategic integration into the global markets to gain from trade and then reinvest the profit to explore new production possibility frontiers.

Looking from this perspective, the neo-liberal sermons of international development policy establishment -- the International Monetary Fund (IMF), the World Bank and the World Trade Organization (WTO) -- seems contrary to the historical evidence. While providing assistance to developing countries for economic change, they impose conditionalities to open-up systems of production for international competition, and rescind from any investment coordination and management. One example can be seen in the shape of Trade-Related Investment Measures (TRIMS), which predominantly needs removing state controls over investment management and coordination. This effort basically creates the rights and obligations that favour rich country investors (corporate magnates) in the name of liberalisation of economy.

Prof Ha-Joon Chang of the University of Cambridge argues in his book *Bad Samaritans: The Guilty Secrets of Rich Nations and The Threat to Global Prosperity* that knowing the fact that a six-year old boy -- without protection, support and a long period of investment by parents -- cannot be competitive in his professional dual with a surgeon makes things clear. At the age of six, if his parents stop making investments in his accumulation of skills, the child will

be able to earn some money and use his half-baked human capital. But he will end up as a crude butcher or a good shoe shiner at best.

Though exposed to competition, successfully employed, relatively independent and possibly street-smart, he will never be able to compete in the high end market of surgeons. This apparently simple story tells the logic behind infant industry argument implemented by the US, the UK and almost all developed countries. However, the argument does not ask for feeding the 40-year old as an infant, but definitely requires appropriate trade and industrial strategies for investment and labour management in transitions from sunset to sunrise industries. The role of state as a public entrepreneur is the case in point.

If we look at East Asia and the West in historical perspective, we will understand what went wrong with Pakistan in managing economic change for industrial competitiveness in global markets; the competitiveness about which the father of the nation eloquently spoke in his speeches. Developed countries helped the growth of their industries by using at least three strategies: protection, domestic support and a proactive approach. They could then accumulate critical mass for industrial growth and manage the capitalist class for productive investments, rather than a sheer waste on personal comforts. East Asia could, in addition, redistribute the welfare gain more efficiently as well. The state in Pakistan has miserably failed to play the role of an entrepreneur providing vision and viable institutional arrangements for industrial growth and development to gain from international and domestic trade.

The strategic orientation of trade policy since the late 1980s and more vigorously during the periods of interim governments in the 1990s and then since 2000 has been emphasising liberalisation. Despite knowing the post-liberalisation problems with manufacturing and employment in the neo-liberal poster boy Mexico as well as a host of other countries, such as Ivory Coast and Zimbabwe, our trade and commerce strategy points in diametrically opposite direction. The strategy tries to make Pakistanis believe that tariffs once dismantled, subsidies withdrawn and investment management left to spontaneity of markets, Pakistan will become a liveable and attractive place. In unison with the neo-liberal sermon, they claim that free trade and free market are actually in Pakistan's national interest. They need to think again, for sure.

For Pakistan's economic development, the role of the state is much more critical than the current trade policy envisions. A serious revision of the strategic orientation of the trade policy of Pakistan, especially of those parts that affect the prospects of export-oriented industrialisation, is warranted. It requires rethinking the scale, scope and capacity of the state in developing and executing trade and industrial policy interventions. Though the WTO commitments and structural adjustment programmes have reduced, and are further reducing, the national policy space necessary for developing countries, it can be argued that the state still has a vital role to play.

More than just dismantling vital trade policy instruments in the name of autonomous liberalisation, it is important to create innovative strategies that bring the state back to perform the role of a public entrepreneur. It needs institutional innovations both for support and co-ordination in managing export-oriented industries to execute industrial policy aided by trade and flanking social policies. Merely have industrial clusters established

and run by regressive bureaucracy is not going to make any substantial difference to the country's industrial and trade performance.

Therefore, in order to have diversity and quality in industrial production and destination (markets) of the products, the state has to assume the role of developing mechanisms for increasing returns to scale and establishing entrepreneurial rents. However, it needs commitment and political backing that ensures the state is not captured by vested interests (including the neo-liberal orthodoxy) and shows signs of autonomy while being enterprise-friendly rather than extortionist. An extremely difficult but worth pursuing task! If not, what else a state must do?

*Source: The News on Sunday, Political Economy section, 27 July, 2008*

## Against the Tide

Renowned economist Joseph E Stiglitz argues that financial crisis and economic downturns have become so frequent that now they are taken as normal occurrence in human existence. Relying on the remedial efficacy of market fundamentalism, no serious attempt is made to re-evaluate the systemic failures in national and global financial and economic systems. Without recourse to getting institutions and interventions right and innovative, international policy establishment informs that this time around, financial and economic wizards are intellectually more equipped and strategies more sophisticated to handle any crisis.



Old products and remedies are re-introduced without acknowledging that such crises are systemic failures, rather than a product failure. The current economic slowdown in the United States and its possible contagious effects in other parts of the world provide ample proof of such a dependency in financial and economic policy-making. In the last six months, no significant employment has been created in the US. As a result, more people are facing economic problems than in 1999. The system of finance and economics works in such a way that it empowers and enriches the top, such as chief executive officers, without distributing economic gains towards the lower strata of social organisation.

Taking example of the housing sector, the financial system inflates the prices to increase asset value so that huge quantities of credit start pouring in as investments. While the credit and borrowers multiply, the ability to repay either stagnates or grows slowly, which results in increase in the number of people who lose their homes. The financial instruments become a reflection of predatory lending and, as in the United Kingdom, credit crunch follows and bail out efforts for financial sector, using tax-payers' money, set in. Bailouts result in more powers for the financial managers to make more mistakes.

In developing countries such as Pakistan, the mainstream economic and financial situation is not much different from the West, at least in terms of distributional effects. When economic growth occurs, it enriches a certain type or class of people and brings welfare gains in certain regions. The rest of the population can only enjoy development of others, with empty hands and glazed eyes! The elites who accumulate riches in such circumstances tend to strengthen and secure the centre, and weaken the periphery of economic and infrastructure development initiatives. As a result, economy grows but cannot sustain the growth momentum because, as Dani Rodrik claims in one of his researches, "inequality in land and income ownership is negatively correlated with subsequent economic growth."

In developing countries such as Pakistan, in the absence of a responsible, transparent and accountable government to mediate prudently the distribution of economic resources and opportunities, the shock-absorbing capacity of middle and lower economic strata of society diminishes. For instance, though the slogan of roti, kapra aur makan (food, clothing and

shelter) stands revived, the mainstream belief in market fundamentalism has prompted the government to withdraw subsidies on fuel and electricity.

The reason is simple: while subsidies are a developmental instrument to adjust prices and allocate resources for long-term economic growth, financial and economic managers in Pakistan claim these as distortions in price mechanisms. They fail to acknowledge the empirical evidence that subsidies have been main instruments of economic growth and development in the economies of the West as well as the East.

It appears that the issue is to realise the importance of the role of government in making subsidies and other support measures work for sustained pro-poor economic development. In South Korea, Alice Amsden claims, subsidies were made reciprocal to economic performance of the recipients, especially for 'real' research in and development of export-oriented industries. The Pakistani government also needs to evaluate seriously the reciprocity of industries, such as the garment sector, to avoid taxpayers' money being transferred to foreign consumers with lowering export prices due to subsidies.

Another set of policy instruments of the government of Pakistan springs from a near-religious belief in the effectiveness of monetarism. While the current economic crisis is due to increase in international prices of fuel and food, and shortages of electricity, the so-called inflation-pursuing tight monetary policy may not deliver the desired results. It may be a recipe for disaster, especially in those cases where availability of cheap credit restrains growth. More than a belief in monetary instruments, Pakistan needs to re-regulate mainstream commodity markets to remove both artificial and real shortages, and bring about stability in supply. It needs to focus on remedial measures regarding information asymmetries and poor investment coordination, which create and entrench bubble-like economies perching on inequality and concentration of wealth.

One of the basic lessons of economics is that there is no free lunch. Focusing on this lesson, the need of transparency and accountability becomes apparent. While the finance minister spoke, in his budget speech, about the need of withdrawing selected subsidies, he did not share any long- or medium term-strategy for equitable economic growth or any credible analysis about how much will be consumed in the name of 'stabilisation'. When the real scale and scope of social and economic costs are not measured, no good strategy can be designed to mitigate the adverse affects of economic change. It seems that Pakistan's economy is designed to take away money from the middle and lower income groups and give it to the rich.

In Pakistan, in line with Stiglitz's viewpoint, the economic managers should re-locate the role of a transparent and accountable government in controlling the current crisis, and simultaneously go beyond short-term inflation targeting and excessively relying on monetary control measures. They are suggested to target the distribution side of the economy for stemming the economic meltdown while getting tax, subsidy and social security related interventions right in the direction of efficiency with equity.

While moving in this direction, the first non-Bhutto PPP regime must know that 'too late, too little and badly designed' policy decisions and interventions cannot equitably spread the fruits of national welfare gains. Equally important is to understand that even a well-targeted Benazir Income Support Programme would at best be a good politics, but the economy

requires something more. It requires consistency in efforts and a strong doctrine of state for equity-based full employment, which cannot be substituted by dependency-creating charities in any economy.

*Source: The News on Sunday, Political Economy section, July 13, 2008.*

## Addressing Inequality

It is an interesting finding that the economic bureaucracies which initiated rapid economic growth and industrialisation in Japan, South Korea, Taiwan and in Singapore were not crowded by economists or technocrats. In Japan, South Korea and Taiwan, and to a certain extent in Singapore, these were predominantly lawyers who executed economic development policies as the doctrine and vision of the state.

In Pakistan, neither the so-called highly skilled bankers and economists nor well-disciplined institutional arrangements such as the military and civil bureaucracy could implement such a vision of economic growth. In many ways, some analysts argue that the institutional arrangements which were designed to promote equitable growth have found zones of comfort in the private prisons of hard-nosed special interests. One manifestation of the capture is that almost every third or fourth person in Pakistan is illiterate and trapped in the cluster around poverty line. The situation appears to reflect chronic and persistent inequality and poverty being entrenched as a structural condition of Pakistan's economy.

Political rhetoric of various governments aside, the country has manifestly been caged in the hands of those powerful few who could divert economic resources and opportunities towards themselves. While the predominant flow of power and economic resources is bottom-up, the country fails to rapidly expand the number of people who could meaningfully mainstream themselves in systems of economic growth and social well-being. The reason is simple. The affluent minority does not reallocate an optimal level of capital accumulation towards productive investment which can create public and ethical goods for the poor. Most of the time, they waste the capital on unnecessary luxury and comfort in carefully guarded enclaves both in Pakistan and abroad. The income and consumption remains concentrated in few hands and the economy keeps feeding the elites.

Under the circumstances, the state appears to be a toothless entity unable to divert economic resources from being wasted to be utilised for social efficiency gains. It fails to generate a well-coordinated dynamism in investment, education, health, trade, and industrial policies to lift the economic planning from serving the already rich. It fails to become an entrepreneurial entity to innovate institutional designs which could successfully articulate public and private interests. In other words, the state of Pakistan needs to generate a systemic response to bring in equity in economic resource allocations using both autonomous administrative guidance and systems of incentives and disincentives. The key is to redesign the rights and obligations of the economic players which can generate a viable social compact affecting long term growth prospects. However, without critically assessing the current economic vision of economic policy and planning in Pakistan, the vision of equity which the founding fathers also enunciated will remain a hope against hope.

The economic managers in Islamabad should move on from the belief in neo-liberal orthodoxy that the so-called (read imaginary) free-market and free-trade with scaling down the role of state, is the only viable form of capitalist system. The unfettered and near-religious belief in the primacy of markets as efficient resource allocator must be questioned. It must be noted that there is a wide range of working capitalist systems, apart from the Anglo-Saxon ones in which the state plays an activist and equality generating role and their human development indicators are better than other the so-called neo-liberal economies.



In fact, in the not so distant past, a unique feature of Newly Industrialized Countries (NICs) of East Asia was that speedy growth reached the bottom of the economic resource pyramid and substantially increased the income share of the poor. This way they expanded their domestic markets and involved almost every citizen in economically productive processes. Japan even today implements an active labour policy for development and reallocation of human resources to manage and execute social adjustments in the processes of economic change.

In short, the strategy of acquisition, assimilation and deployment of resources for economic development, such as finance, opportunities of accumulation and investment, human resource development, and technological capability, all had a system-wide vision of equity. With improvements in both equity and efficiency, through policy and institutional innovations, East Asia could jump from periphery of economic and industrial development towards the semi-periphery if not the centre.

Pakistan also needs to understand the inadequacies of its growth strategy for reasons of both efficiency and equity. It needs to draw from institutional and policy understandings available both in the West in the shape of welfare state as well as of developmental state in East Asia. These economies are neither anti-private-sector nor anti-market. They, however, take markets as institutions working as a system of rights and obligations.

They embed the social development and equity perspectives in the systems of economic production and exchange. The process of embedding is moderated by the state which shows substantial commitment to tackle the social equilibrium questions upfront.

To conclude, it can be mentioned that Pakistan needs to go beyond both the social safety nets minimalist state to tackle issues of poverty and inequality. The safety net approach, in essence, is a combination of residual instruments to address adverse effects of change in resource endowments and allocations in an economy. The state of Pakistan urgently needs to develop cross-cutting social policy designs which melt down the artificial boundaries between economic growth and social development priorities. All it needs is an identifiable political commitment with the people of Pakistan and rather than the powerful few. It requires to make Pakistan a socially responsible state and a trust worthy central actor for the long term sustainable human development and economic growth.

*Source: The News, Op-Ed, July 7, 2008.*

## Poverty Eradication

THE founding fathers of Pakistan and the Constitution of 1973 envisioned the country as a democratic, developmental and welfare-oriented state. The state was expected to encourage economic growth and spread welfare gains equitably across regions and people.

Such visions have hardly been used as the basis for public and social policy formulation in the country or to create a feeling of fraternity amongst the federating units in the course of economic development. In fact, such visions have been thwarted and the availability of economic, social, political and administrative factors for equality appears to have been crushed by the authoritarian, extortionist, and predatory clutches of the state.

The fact that every fourth Pakistani, despite some claims of poverty reduction since 2001-02, lives below the poverty line, seriously questions the 60 years of development performance of the state in Pakistan. Statistically speaking, more than 40 per cent of Pakistan's population which is clustered around the poverty line has become a primary target of negative shocks to their real incomes. And the story does not end here.

Under the current downturn of the national economy, this population segment has suffered a devastating blow to its long term capability to sustain the shock and fight back for survival as well. There are two reasons for this 'development of underdevelopment'. One reason is that with such dips in purchasing power, the vulnerable fall into the poverty trap and a vicious circle of socio-economic and political deprivations and exclusions sets in. The poor quickly lose access to mainstream economic activities and resources. They definitely have no access to a single rupee of the sixty billion that were given away as bank loans and were written off during 1999 to 2007.

The second reason is rooted in the absence of a developmental and welfare oriented activist state. This ensures that any residual social entitlements to decent public health and education opportunities as well as income and respect vanish like water in a drought. A state consistently failing to plan and execute public-sector development despite its vision of creating equality needs thorough soul-searching.

To be able to cure socio-economic ailments, the state needs to go beyond the social safety net approach and try to formulate trade, industry, investment, education, and health policies which are in sync with egalitarian outcomes of economic growth and development. The state should also know that economic and social inequality becomes an ignition switch that triggers flames of social upheaval, political unrest, and ultimately result in insolvable problems of national unity.

However, on the contrary, at the highest decision and policymaking levels, the ideas of getting institutions and interventions right for egalitarian development have been consistently neglected. The real casualty has been of those possible institutional innovations and cross-cutting interventions which could build economic assets of the poor and attempt to diversify economic growth dynamics. Pundits of political economy claim that the state's institutional arrangements now behave more like weapons of the powerful elites to extort riches from the economy than as systems of social protection for the disempowered and

poor citizens of Pakistan. It is also claimed that politics of economic liberalisation has helped the wrong people while fundamentally twisting the state's central role of moderating economic and political rights and obligations for socio economic justice in society.

The Pakistani state has actually deviated from its primary role of being an entrepreneur who coordinates savings and investments and executes structural transformation in economy. The structural transformation that can allocate resources from low to high equilibrium should be fully cognisant of distributional effects of such interventions. The state has also deviated from a primary role of being an institution builder. By becoming a high quality institution builder, it could have been an effective conflict manager and property rights protector. At this moment, the state cannot look the founding fathers of Pakistan in the eye.

Can such socio-economic injustices be remedied without giving respect to legitimate institutions provided by the Constitution of 1973 namely the judiciary and parliament? The answer is a plain 'no' if two manifestations of any civilised society — the rule of law and democracy — still matter in Pakistan. To further deepen our understanding of the link between the rule of law and egalitarian socioeconomic development, the United Nations' report making the Law Work for everyone can be helpful. The document establishes that the rule of law has a very close connection with poverty eradication, providing secure entitlements, and improving democratic governance.

The legal empowerment of people, let alone the judiciary under current circumstances, seems to be a pre-condition to get out of the current crisis of food and fuel insecurity. In fact, the failure in establishing a democratic, developmental welfare-oriented state of Pakistan is fundamentally a failure of establishing the rule of law and democracy.

*Source: The Dawn, Op-Ed, June 13, 2008.*

## Reforming Social Security

An active and vibrant public sector, good governance and social policy frameworks have important linkages and play a significant role in establishing pro-poor national welfare regimes called social security systems. Many social scientists argue that such systems create both equity and efficiency for long-term sustained economic growth. Pakistan, which always witnesses economic growth with increasing inequalities, needs to seriously look at this.

Historically speaking, the structure and performance of public sector came under immense criticism and scrutiny during the late 1970s and early 1980s. The site of investigation was the UK and the US where management reforms based on Reaganomics and Thatcherism took place. Such investigations and implementation of policy prescriptions were called "new public management" in the UK and "reinventing government" in the US. The basic idea behind reforms was to move on from the Weberian model of bureaucratic public administration and embed the elements of a corporate orientation in the public sector functioning. The belief was that markets determine the best solutions to manage public services through competition as well as performance reviews and achievements.

Along with such reforms in the First World, the donor community tied most of the structural adjustment aid to the implementation of similar kind of reforms in other countries. Despite much of the criticism on the push for reforms from historicity of institutional development perspective, many short-lived projects wanted such reforms to happen. The central idea was to minimise the size of administration and structurally adjust the economies rotten with macro-economic imbalances.

On the economic reforms front, the role of the state has been scaled down with the acceptance of the primacy of the market as an efficient resource allocation mechanism. Privatisation, liberalisation and stabilisation have been on top of the reform agenda in developing countries since the late 1980s. In the meantime, the public choice school had already discredited the central claim of bureaucracy (i.e., implementing public law in the public interest) with explanation of bureaucratic behaviour being infected with personal interest aggrandisement and rent-seeking. The governance approach to the public policy making and implementation tried to make it as a multi-stakeholder process which needed the private, government, and civil society (as third sector) to be part of national governance.

In the case of Pakistan, the country seems to have been successful in rolling back the government even from the capacity of guiding the markets. It seems to have systematically getting away from the responsibility of modernising and expanding the system of national social security. Though the PSDP has increased manifold the challenges of managing the public sector for a pro-poor and equitable growth have also increased remarkably.

Therefore, a fatal combination of minimalist and inadequately interventionist state along with sheer market failures in Pakistan has created a situation in which a serious revision of economic growth and economic welfare strategy is warranted. Many researchers claim that globalisation has actually increased the responsibilities of states in dealing with vulnerabilities of people.

The fact that liberalisation, though increases trade, also creates winners and losers and resultant diverse kinds of social disequilibrium in societies. In Europe and East Asia such disequilibrium are treated with a coordination of social policy designs integrated into the policies for an active and responsive public sector, provision of health, education, and employment opportunities, and deployment of care services. Ireland and Singapore are good examples of social compacts for economic growth in this regard.

In most good governance countries, social security systems or "welfare regimes" are a good combination of social insurance and redistribution mechanisms. While a social insurance mechanism smoothes the income cycles of the employed population, the re-distribution system goes further. It attacks poverty covering the whole of the vulnerable population with social services programmes and mostly administered by the public administrators.

Pakistan needs to look at governance not only because this helps improve economic growth but also because it improves social security outcomes. The main idea is to bring a balance between equity and efficiency because such balance becomes an irrigation system for further economic growth. To conclude, without good and pro-poor governance neither a public sector nor an employer-union based social security system can deliver. There has to be a policy vision to deepen and spread the role of state in attacking poverty going well beyond a social safety net approach to build a modern and entrepreneurial social security system.

*Source: The News, Op-Ed, June 8, 2008*

## Anyone for Equity?

Despite the claim of the previous government of reduction in rural poverty at the time of presentation of the Federal Budget 2007-08, the current economic situation calls for revising optimistic valuations of the effectiveness of basic policy assumptions. If both equity and efficiency matter in economic development, as argued by many economists, it is high time to reorient budgetary allocations.



According to the Budget 2007-08, ending June 30, about 12,700,000 people have come out of the poverty trap in the last five years, while 23.9 percent of the population still lives below the poverty line (BPL). To reduce poverty further, the government allocated Rs520 billion under the Public Sector Development Programme (PSDP), of which 52 percent were to be spent on infrastructure development, and the remaining on the welfare of people and the social sector. The PSDP allocation was termed historic because of its huge size. [snip]

In the Federal Budget 2007-08, along with budgetary allocations, a number of support initiatives -- such as farmers' markets to establish fair prices through direct consumer-producer linkages, 25 percent subsidy on electricity charges for tube-wells and ban on the export of wheat -- were identified to help the agriculture sector. Subsequently, however, there have been food shortages resulting in inflationary pressure on the economy. According to the government's own figures, food inflation -- which was about 11 percent in March 2007 -- is currently around 21 percent, while the gap between the supply and demand of electricity has reached 4,500 megawatts.

Despite the average annual gross domestic product (GDP) growth rate of more than six percent and increase in per capita income in the last few years, Pakistan's economy needs a new vision. The forthcoming federal budget, slated to be announced on June 7, has to be based on this new vision if it is to ensure both high economic growth and equitable development. This new vision is needed not only because Pakistan currently is in an economic mess, but also because we need to understand why the country's economy does not sustain itself at a high level of growth and grow equitably over a longer period of time.

Growing domestic demand -- because of increase in per capita income -- and shortage of local supply are being cited as the major factors behind the current food inflation in Pakistan. It is being increasingly argued, however, that there is a need to re-envision policy designs, interventions and, most importantly, the role of the state in forecasting and managing food shortages.

Pakistan has been the third largest recipient of official development assistance from the developed world between 1960 and 1998, after India and Egypt. In addition, the country maintained an average annual per capita growth rate of 2.2 percent between 1950 and 1999. Despite this, social backwardness is evident in all parts of the country. For instance, the country's social indicators, such as infant mortality and female enrolment rates, are still much below globally accepted levels.

The current state of Pakistan's economy was predicted much earlier by farsighted economists and policy analysts, who argued that economic growth alone was not enough for equitable socio-economic development and well-being of the people had to be an active concern of the state. It also confirms assumptions of those economists and policy analysts who argued against liberalisation and free market policies, initiated under structural adjustment programmes (SAPs). In short, the argument of 'getting prices right' seems to have been questioned seriously with the current high food inflation and rampant food shortages. The argument that getting prices right sometimes enriches wrong people, and diverts scarce resources to socially inefficient and wrong channels appears to hold ground.

In fact, the stance of those who advocated targeted support in agro-industrial production mechanisms, investment in human resource development and competitiveness, and designing of growth strategies with both equity and efficiency in mind seem to have gained prominence. There is also an urgent need for revising the policy of giving subsidies in the budget. If any subsidy has to be given, it has to be targeted, such as food and energy for the poor. At the same time, subsidies should be based on performance and be reciprocal when given to the business sector for research and development for export competitiveness. The examples of South Korea, Japan and Taiwan are worth following in this regard.

The East Asian experience tells us that the government has the central role in economic development. Similarly, in Pakistan, it is important to maintain a balance between the market forces (for example, factors that led to high concentration of investment in the sectors of telecommunications, oil and gas, etc) and pro-poor government interventions (for example, much needed strategic shifts in agricultural and industrial production systems). Unfortunately,

Pakistan's economic managers have historically followed policy choices prescribed by the international financial institutions (IFIs) and tried to create hindrances in the way of the state playing its primary role of guiding the market forces. The state in Pakistan, primarily, has been made subservient to the IFIs and becomes active only at the time of 'market failure'.

The current food shortages, fast dwindling real incomes of the poor, and the increasing gap between the rich and the poor offer a clear case of market failure in Pakistan. The government, therefore, urgently needs to play its central role in adjusting the market forces and commodity prices, according to the needs of the people. The role of the state has to be re-envisioned to implement social policy frameworks following which the federal budget should be drafted. In fact, social policy frameworks are designed to improve material welfare of most citizens through economic development.

This calls for going beyond the 'safety net' approach; and adopting an economic model based on the principles of equity, productivity, sustainability and empowerment. In short, it is high time to move on and ensure social efficiency that sustains economic growth for a longer period of time. One good example can be the state's intervention in the housing sector in Singapore. This move generated dynamism in the construction industry and created new jobs.

At the same time, the low-cost of housing helped Singapore to maintain low wages to attract both cost-reducing and efficiency-seeking foreign direct investment (FDI). The latter was actually the real gain of intervention in the housing sector.

To conclude, it suffices to say that if Pakistan does not change its meta-framework for policy formulation, the budget will continue to have the rhetoric of being pro-poor and people-friendly, but without delivering much at the end of the financial year.

*Source: The News on Sunday, Political Economy section, June 1, 2008.*



## Changing the System

IN many developing countries, the regime change that comes after military rule has been lifted does not initiate a democratic regime. Such countries enter into a unique system called the post-martial law regime. There are many factors that account for this phenomenon. Many of the variables are linked to international and local situations. One is the transnationalisation of the military-industrial complex (and conflict) and the second is the neo-liberal economic strategy.

It is claimed in different researches that developing countries which have been deeply integrated into the transnationalisation processes of the geo strategic military-industrial complex are more prone to having military coups and military-based regimes. Their financial outlays, since the Cold War days, speak volumes about their choice of priorities. The military spending of developing countries increased from \$24bn in 1960 to \$145bn in 1987 an expansion that was three times faster than that of industrialised countries.

In such a situation, to use the words of Dr Ayesha Jalal, 'institutional imbalances' in the structure of governance in ex-colonies like Pakistan become further entrenched. This sets the stage for authoritarian and illegitimate regimes to continue even after falling from grace both locally and globally. This is a post-martial law situation which continues for a long time. Military regimes skew the national economy by their investment patterns. They distribute economic and political resources inefficiently and inequitably. Such a regime requires the 'right' set of people to support it — and not the wrong' set that believes in the people's right to govern.

The key for national integration is building a class of people around economic growth populism. This strategy effectively brings riches for the likeminded who generate stories of increase in aggregate economic growth.

In Pakistan's case, such diversions of capital show an economic growth miracle for a decade or less and then the bubble of national accounts starts to burst. The result is that despite having elections, developing countries get what observers describe as 'small-minded leaders' and an economic growth which Easterly calls growth without equitable human development. In addition, there can also be a fatal combination of two international variables. One brings deep integration between the military industrial complex (and conflicts) and the other is the enhancement of the neo-liberal economic growth strategy.

A country under structural adjustment programmes of international financial institutions has to pursue privatisation, deregulation and liberalisation. A media which reports this, leading to suo motu notices

issued by the judiciary, is not welcome. So, an active media and judiciary are presented as a parallel government by vested interests, though in reality this is not the case. As a result, any person working for the free media, an independent judiciary and a powerful parliament is 'persona non grata' in the eyes of such post-martial law regimes.

Notwithstanding, the claim made by many that they will change the system, it must be realised that any system is a complexity of different elements. One cannot change the whole without being able or willing to restore each element to its original position.

Metanarratives, like changing the system, are good politics but the shelf-life of such commodities has recently been reduced by a legal and political awakening in the country. Consumers have graduated and now demand 'fair and ethical trade' for things that they can see and relate to. In essence, the challenge of the system which requires a thoughtful response is to take this country out of the poverty trap and push it towards the path of high growth while respecting the legal and constitutional rights of the people.

This challenge entails bringing back economic and political nationalism and reversing the erosion of key civic values. One good civic value happens to be a sense of introspection to assess whether one is really needed to hold the highest office and need not show recklessness in clinging to it. Unfortunately, the top level of Pakistan's governance structure has seen this value demolished. We should not forget one important lesson of the Feb 18 election. It is that the majority of politicians who try to defend the bad politics of the regime lose votes, if not seats.

This regime is standing on shaky legs owing to the lawyers' movement and media activism. Though the regime is in trouble, the icons of the regime are still there. They want to stay and continue. However, it is better to be what Zulfikar Ali Bhutto was to Ayub (in the late 1960s) than what Shaukat Aziz and Shujaat Husain were to the establishment more recently. Going beyond Bhutto, we see that the real challenge for people claiming to change the system is to try to get out of the situation that is characterised by a post martial law regime. One good way is to reverse the bad and offensive decisions taken by the martial law regime. However, one needs the people of Pakistan to bring about this change and not the people associated with the regime.

*Source: The Dawn, Op-Ed, May 15, 2008*

## A Powerful Parliament

The political corridors of Pakistan seem to be resonant with the voices of a fresh and enthusiastic start towards a vibrant political milieu. The parliament is expected to be a leading institutional arrangement to counter multi-faceted challenges to the country of more than 160 million people. Of these, whose power this parliament will use under the Constitution's provisions, a vast majority still lives in zones of silence carefully guarded by a feudal and elitist cultural ethos. How to genuinely empower the parliament itself and the people it represents is a question that needs enormous political acumen, foresight, and a sense of basic commitment to the democratic governance and dispensation.



At the same time, the political economy corridor of the country also deserves a fresh and enthusiastic start. This corridor resonates with the protesting voices of regional and income inequality, both in terms of opportunities and access to productive resources. The voices in this corridor are not new. These are coming from the chambers of an ever-exploitative system of economic governance that systematically generates elitist capital accumulation, while excluding the not-so-rich and the poor alike. The system, by implication, ensures that the fruits of economic growth seldom 'trickle-down' to the people at the lowest level of economic hierarchy.

As a result, the political economy of Pakistan, at this very moment, shows the signs of social polarisation leading to a stalemate -- failing to generate momentum for a long-term equitable economic development. This is a point where Pakistan, despite trying most of the policy instruments earlier employed by East Asian economies, fails to become a tiger economy, being perpetually trapped in a low equilibrium.

In fact, East Asian economies could accumulate, use the accumulation for productive investments and execute structural transformation because of a couple of basic commitments. The commitments included that the state has to be responsible, effective, efficient and autonomous at the same time. Another basic commitment that newly industrialised countries of East Asia always kept was to acknowledge the ethnic diversity and inequality in society, and manage the 'trichotomy' of state-society-market relations in such a way that fruits of economic growth spread equitably. Their commitments delivered.

Look at the challenges of political economy for Pakistan! One can see that such challenges are no longer confined to managing the economic fundamentals and getting short-term results. Perhaps the post-9/11 situation -- which led to increase in inflow of remittances, and also brought some aid and debt-rescheduling, helping Pakistan's economy to re-emerge -- needs reassessment. This re-assessment needs to anatomise, besides using a monetary perspective, the structural causes of rising inflationary pressures, especially related to food items; worsening trade deficit; and the persistent unemployment.

In fact, the real challenges of political economy are structural in composition, and go well beyond reliance on monetary and fiscal policy solutions. They enter the domains of

economic governance, asking to review the role of the state in economic change. At the same time, these challenges are related with establishing autonomy of and accountability in the state institutions. Responses to these challenges entail bringing back the state into lived experience of the people -- the experience of welfare-oriented state that was promised by the founding fathers and later enshrined in the 1973 Constitution.

So, the challenges of the political economy are to make the people believe, not by rhetoric but by action, that they can trust the capacity of the state institutions. The primary function of the state institutions is to prevent crisis, as well as protect the citizens in the case of financial and economic downturn, while facilitating people-friendly equitable economic growth and development.

These challenges are not like the ones that can be met by bringing in bankers or military personnel on commanding heights of economic governance, or increasing or decreasing the money supply. These can also not be met with dolling out loans to the elites and writing them off later in the 'supreme national interest'. In fact, the enormity of challenges asks for developing a national development framework that is manifestly in sync with the spirit of the Constitution. At the same time, it is equally important that the state institutional arrangements show basic commitment to pursue the objectives of this framework. Perhaps the economic role of constitutional provisions needs to be brought to the fore while developing any public policy.

In addition, the framework should not be about how to pursue more privatisation, liberalisation and deregulation. The sought-after should target the state institutions, making them fully functional, effective and competent to guide the markets. Pakistan needs a strong but democratic 'doctrine of state' embedded in institutional working that consistently builds social consensus for the kind of developmental policies needed to be pursued.

Interestingly, many empirical studies show that not only the now-developed countries, but also newly-industrialised countries, have had both the state and corporate agencies for industrialisation and economic development. They did it while keeping bureaucracy aligned with basic commitment to equitable development, establishing a reasonable rule of law to prevent non-productive rent-seeking in its ranks. Such economies did not always believed in the so-called virtues of free-market-based resource allocations. They could guide such allocations to create and guide markets in preferred sectors and geographical regions. This type of policy and direct intervention by the state can create room for management of conflicts over economic resources.

At the same time, the new government should realise that Pakistan does not sufficiently and equitably invest in human and infrastructure development -- required to generate and retain highly-skilled workforce to fuel the engines of long-term economic growth. Consistent investment in knowledge and technological capability, in a layperson's language, generates self-perpetuating momentum for a long-term growth. Similarly, increase in skill and knowledge level enables and empowers people to search new avenues to participate in economic development processes. Such investments, with socio-political equity in mind, can also mainstream the neglected regions and people in a society.

To conclude, history shows that the true dynamism for economic growth does not come from prescriptions of economists or international development establishment; the real dynamism comes from leaders. If leadership is able to define the challenges correctly, coordinate the vision and processes for development, and make the state simultaneously autonomous and accountable, then the people of Pakistan can stretch all the production possibility frontiers. The political economy challenge to the new government is enormous, but this is also the right time to respond by mobilising all intellectual and political resources.

*Source: The News on Sunday, political economy section, April 20, 2008.*

## Re-industrialisation and Neo-liberal Doctrine

In Pakistan, supporters of neo-liberal doctrine argue that anyone who challenges the hegemony of International Monetary Fund (IMF), World Bank, and World Trade Organisation (WTO), does not fully understand the real worth of neo-liberal economic arrangement. Perhaps, they forget that now-developed countries still continue to carve out policies of protection and domestic support for their industry which includes corporate agriculture.



This article deals with key perspectives related to industrialisation under economic globalisation. While arguing for a central role of state in managing economic change, investment and industrial development co-ordination, and building national innovation system, it argues that a focus on re-industrialisation in Pakistan is possible even under WTO rules.

Some argue that Pakistan, under globalisation should forget about possibilities of a new wave for industrialisation altogether. It is also claimed that a lot of water has passed under the bridges, the East Asian tigers' days are over, and globalisation - meaning flow of foreign direct investment (FDI) and openness - will determine whether the country should industrialise or not. And Pakistan is advised to attract FDI through the policies of liberalisation, deregulation, and privatisation. Most importantly, the government has to be cut-to-size and be kept out of markets in the process.

However, on the opposite side, forceful voices originate from at least two quarters. Broadly speaking, one is institutional political economy and the second is new growth and trade theory approach. The first tries to focus on 'getting institutions and interventions right' and emphasises the importance of industrial policy and human development with a 'purposeful and accountable' presence of government in support of long-term industrial development objectives and structural transformation.

The second approach lays emphasis on the pivotal role of knowledge and information-related interventions which can induce long-term economic growth dynamism with increasing returns on investment. It also redefines the rationale behind foreign trade beyond traditional comparative advantage and supports the arguments for reasonable tariffs and protection. These arrangements seek to generate economies of scale while warding off mostly wasteful ideology-ridden neo-liberal prescription for competition under all circumstances.

These approaches advise the country's economic managers to strategically think of the central role of state in managing and co-ordinating investment and industrialisation processes with strategic and cautious integration into the global market. This approach also asks the state to be responsible for the welfare gains and losses of citizens under economic globalisation. The moral of the story is that industrialisation for long-term economic development is too important a business to be left to blind forces of globalisation. On the contrary, looking at the current thinking of policy makers, one feels that the country is trying

to maintain a cosy place in the lap of the IMF, World Bank, and WTO. Hence, this has created immense stresses on the possible export-oriented industrialisation.

What is being pursued is a belief in export-led growth which, for all practical purposes, means whatever any business can export should export. This export-led thinking does not argue for any economy-wide significant intervention to establish national system of innovation which can support export-oriented industrialisation for high quality value added manufacture. In reality whether a country exports low value added potato-chips or high value added computer-chips does matter. This should be a worrisome situation for the incumbent post-martial law regime in Islamabad.

In the absence of national industrial policy and increasingly shrinking capacity of the government's institutional arrangements for investment and information co-ordination, one thinks that all industrial development eggs are being put in FDI-attraction basket. This makes it important to understand the global FDI phenomena.

Many researches show that increase in global flow of FDI has been towards selected countries of Asia and Eastern Europe. One important advantage which Transnational Corporations (TNCs) seek is competitive advantage. This entails availability of skilled and highly productive labour force. TNCs are no longer fascinated with the idea of access to cheap human and natural resources but like to seek efficiency gains and strategic asset building.

Another stream of research shows that TNCs do not bring technology relevant to the national development needs of the host country. They bring technology, if needed, for their own purposes, not for an economy-wide pro-poor national structural transformation. So the advices about looking for FDI as a source of long-term economic growth are at best fragile and not in harmony with the strategic national industrial policy. An egalitarian society and educated citizenry creates its own scale economies and externalities which TNCs always assess before making strategic relocations for competitive advantages.

The conclusion reached by some opinion-holders that under globalisation, industrialisation in Pakistan is not possible, is a faulty one. Though the export subsidies under the WTO regime, are prohibited and provide leverage to now-developed countries but room for investing in research and development for competitiveness, building national innovation system for industrial upgrading, and many aspects of industrial policy are still open. This 'replicable path' was used by East Asian 'Gang of Four' economies as well.

It, however, requires a sound vision of democratic developmental state, simultaneously autonomous and accountable, in managing the industrial development. This can be best done by the government, business, and the civil society working together for national development objectives and strengthening of national institutions. Each sector can contribute a set of competitive advantages.

*Source: The Dawn, Economic and Business Review, March 24, 2008*

## Revising Growth Strategy

Sometimes reality is more fascinating than fiction. For instance, it is fascinating to know that till the end of the 1960s, there were administrative staff colleges in Pakistan where members of the South Korean bureaucracy were being trained. Later, the Korean bureaucracy, unlike that of Pakistan, established and successfully carried out one of the best industrial policies in the developing world since the 1960s. We became the laggards and they the tigers.

It is also fascinating to learn of a startling achievement gap between a now-developed and a less-developed country. Comparing the GDP per capita of the UK and Pakistan, one finds it intriguing that the figures were broadly similar: \$1,642 for Pakistan in 1992 as opposed to \$1,756 for the UK in 1820. These facts indicate that Pakistan stands years behind the others and remains a backward economy in a relative sense. Its institutions have also underperformed and applying the reverse gear have become backbenchers from front-runners.

There can be many reasons for Pakistan still remaining a less-developed economy. However, a particular body of knowledge called neo-liberalism is predominantly employed to elucidate the possible causes of the economy failing to take off during the sixties and the seventies. According to this brand of economic analysis, the causes include an overextended state, trade protection, and support subsidies which were 'bad policies' and needed revision.

Therefore, at least since the 1980s, Pakistan has pursued most policy prescriptions embedded in the Washington Consensus while progressively drifting away from the Keynesian Consensus approach. Such policies and prescriptions as the structural adjustment programmes advocated the 'primacy of markets' and a 'minimalist state' agenda. These policies brought a shift in the ownership of enterprises through privatisation while advocating global integration in terms of trade openness. In short, we were told that times have changed. Today, global institutional arrangements, both private and public, are more important than a national government in shaping the agenda for economic growth and industrial development. This trend continues.

According to many economists, these prescriptions perch on a very narrow range of possible capitalist institutions prescribing the free market and free trade as a panacea for our economic malaise. In essence, a lopsided history of economic development and industrialisation is narrated to make people believe that Anglo American and East

Asian economic growth is a story of free markets and free trade. Apart from this, neo-liberals also claim that the so-called free market and free trade model is the only natural and replicable model which can bring about economic growth. Nothing can be further from the truth than this 'official history of capitalism'.

A growing body of knowledge which is called the heterodox school of economic thinking, as opposed to neo-liberal orthodoxy, presents the history of industrial development in East Asia, Europe and the US in a different light. The proponents claim that the now-developed economies, at the time of catching up, used the ladder of an activist state, a diverse range of



state-led support institutions, subsidies and tariff protection for growth and industrial success. They, in fact, invented and implemented the famous infant industry theory.

However, under present conditions, in the words of Ha-Joon Chang, the now-developed countries are 'kicking away the ladder' which they themselves used while climbing up the heights of industrial development at comparable levels of development vis-à-vis the developing countries of today. This sense of historicity as compared to predominant neo-liberal orthodoxy generates arguments for an industrial policy. Such a policy can help countries develop economically and gain from domestic and international trade, it is being argued. Interestingly, in this context, if one looks at the recent trade policy review of Pakistan at the WTO, it seems that the country needs to seriously think about revising its economic growth and development strategy though not exactly in line with WTO recommendations.

In essence, the country needs to think beyond the proposed export-led growth strategy bringing in the perspective of selective and strategic industrial policy. Such a perspective of economic governance focuses on managing the cost of doing business and improving competitiveness with product and destination diversification in a different way. In short, instead of neo-liberal market-fundamentalism, industrial policy can prove to be a good guide for revisiting regulatory governance and price adjustment mechanisms so that industrialisation is made central to growth strategies. Experts say that while revising the growth strategy, Pakistan needs to take account of East Asian models of strategic industrial policies which designed a strong role for the state in industrial development and the working of factor markets. In fact, the argument is to reclaim the growth strategy from the Washington Consensus which has systematically robbed the Pakistani state of its functions of governing the markets in a way which creates equity and protects the local manufacturers by shouldering notorious adjustment costs.

While 'reclaiming development', it must be noted that as in other now-developed economies, East Asia pursued the industrialisation of agriculture and the manufacturing sector with a comprehensive industrial development strategy and support institutions. This strategy, amongst other things, included creating a sufficiently honest and efficient national bureaucracy. This type of bureaucracy ultimately created a competitive edge for local industry, with efficient information processing and investment coordination in close association with selected private industrial concerns.

In essence, an autonomous East Asian bureaucracy could 'govern the markets and help industrialise' while adjusting price-wages of goods and services according to the needs of the industrial development strategy.

With such strategies, the East Asian governments could guide and govern the cost of doing business, manage accumulation (of financial, technological, and human capital) and utilise industrial capacity with productive investments in selected sectors. Pakistan, on the other hand, thinks of economic and trade liberalisation as increasing productivity and competitiveness leading to export-led growth. The country needs export-oriented industrialisation to climb up the ladder of industrial development from the level of a primary

commodity producer to secondary and tertiary levels for meaningful gains from export markets.

To conclude, it suffices to say that the trade policy review of Pakistan in WTO should not be seen as a trade related document and comment. This is a comment, by implication, on the processes of industrialisation which Pakistan is following. This is a comment on the levels of technological capability, human capital formation, industrial capacity utilisation and upgrading. Above all, it is a comment on the state's institutional structures and their performance which can generate innovative solutions for managing the cost of doing business and increase in global competitiveness with product, process and skill up gradation. It must be remembered that it is not trade openness per se which has the seeds of export-led growth. Rather, it is industrial policy design and governance which can ensure success in both foreign and domestic trade.

*Source: The Dawn, Op-Ed, February 4, 2008 .*

## Is a Developmental State Possible?

Since its inception, Pakistan has frequently undergone immense socio-political and economic crises. The latter, according to the practice of interventionist military orthodoxy, have been managed with military takeovers and various post-martial law (erroneously called democratic) regimes that have been tactfully inducted into office and then overthrown by the powers that be in Islamabad. The current political phase that started in October 1999 and which has been on a bumpy ride since March 2007 is no exception to this pattern, although it provides ample opportunities for challenging the above-mentioned orthodoxy. In the search of such opportunities, a vast array of frameworks capable of analysing the recurrence of home-grown stresses can be employed.

However, at least one such framework should attempt to unearth the politico-economic malaise latent in the role of the state earmarked and in the economic growth models which the country is currently pursuing.

One such framework identified for this article is the theory of the developmental state. There are two basic reasons why I have chosen this specific developmental state framework. The first reason is that it is time to move away from the Washington Consensus (read confusion) approach which emerges from a more political than economic framework called neo-liberalism as a prescriptive diagnostic tool. This approach calls for “rolling back the government” and creating a “minimalist state”. The neoliberal agenda, which Pakistan has been following since the mid-1980s, needs revision involving an institutionalist political economy approach embodied in the developmental state model.

The second reason is that instead of looking at the situation from the perspective of Pakistan as a failed state, one can try to prescribe what political leaders and economic managers should do to take the high road towards a possible developmental state.

It is worthwhile to mention that the developmental state model emerged during the 1980s as a unified theoretical construct, explaining the economic and industrial transformation of the East Asian miracle economies. Being the principal architect of the concept, Chalmers Johnson wrote about the distinctive features of the economic development schema deployed in Japan. This theory was later enriched by the seminal works of eminent scholars such as Robert Wade, Alice Amsden, Ha-Joon Chang and Peter Evans who provided valuable insights into economic industrial development elsewhere in East Asia.

Generally speaking, the developmental state framework pointed out that the state in East Asia was neither a minimalist state nor a centrally planned politico-economic management one. Four typical characteristics, namely, political stability, the elaborate division of labour between the state and the private sector, investment in education while ensuring equitable distribution of wealth and opportunities, and establishing intervention in price mechanisms were identified. From these four characteristics, one can understand the length and breadth of the road ahead for revising economic growth and governance strategies in Pakistan.

The current situation in Pakistan, however, indicates that these four characteristics are hardly existent. Bureaucracy, which forms the lifeline and administrative face of a developmental state, is largely inefficient, ineffective, dishonest, and poorly fed. Inequality both in opportunity and income terms is rising with the state almost unable to guide the markets to adjust prices for social and developmental objectives. The current wheat crisis and a deplorable state of high value generating industrialisation speak volumes for the state of affairs. Over and above, political stability is invisible like a black cat in a dark room.

Interestingly, in Pakistan, since the 1980s, the interventionist econo-industrial developmental role of the state has been demonised by the predominantly neo-liberal economic managers. According to this school of thought, free market is the only answer to the economic and governance related ills of Pakistan because of sheer government failure. This propaganda is tangent to the equitable economic development vision rooted in the institutionalist political economy and state model.

The developmental state model is about strengthening and capacitating the institutions in line with developmental objectives rather than rolling them back. Can Pakistan follow the developmental state model? The answer lies in Peter Evan's words that replication can be the adaptive reverse engineering of transferable lessons found in East Asian economic policies and institutional prerequisites. In order to manage the crisis of the state, while moving away from neo-liberal free-market theory as a diagnostic prescriptive tool, Pakistan may try rediscovering the role of the state that can facilitate industrial and economic transformation. This vision is not about "macroeconomic fundamentals" only; it is also about much deeper intervention to reduce Pakistan's rising financial, structural, regional and social inequality with industrial and economic growth and productivity.

Pursuing a developmental state model, the economic managers in Pakistan and the international development establishment need to recognise a basic fact. In the words of Ha-Joon Chang, this is that the capitalist system offers greater institutional diversity than recognised by the neo-liberal orthodoxy believing in the "primacy of markets". This primacy of market is no more than a myth because the market, in essence, is the exposition of certain rights and obligations. It performs better if governance is better. The wheat, water and electricity production and distribution crisis indicate that these rights and obligations are being trampled upon ruthlessly in Pakistan.

However, along with seeking a developmental economic outlook, political stability — not in terms of perpetuating personal rule but in terms of the legitimacy to rule — has to be established. Such political stability, a hallmark of a developmental state, cannot be instituted without restoring the independence of those institutions which establish the rule of law and generate respect for the constitution. This is the respect for the constitution and system of judicial dispensation which promotes the people's trust in the autonomy of the state.

Respectful behaviour towards the constitution, which is a supreme document giving ideology and structure to a state, tells the citizens that their state is not captured and will never become predatory. Such autonomy anchored in political stability gives the strongest signals to systems of economic production (firms), exchange (markets) and governmental

regulation that vested interests will not rule the economy but that the principles of equity and the provision of secure livelihood will.

The autonomy of the state also communicates to the neo-liberal prescriptions of privatisation and liberalisation that these prescriptions will be scrutinised in the light of the developmental objectives of the state and not blindly followed. To cut a long story short, the developmental state framework embodies a host of viable prescriptions for the many crises which Pakistan is experiencing. The basic issue is, however, the need to take the framework seriously.

While concluding, let us consider for a while that if Botswana, Uganda, Ghana and Mauritius in Africa can show that commitment to institution-building to establish a democratic developmental state is possible then why not Pakistan? Perhaps we need to seriously challenge the interventionist military orthodoxy's position that the state can be managed well by frequently suspending the state's ideology-structure nexus. This vision needs to be replaced with a nationalistic one that democratic developmental states are established on the principles of political legitimacy, the rule of law, democracy and autonomy, with a commitment to ensuring equity in economic development. Pakistan has the potential so let us try it out. Lawyers, the media and civil society are out there to give it a try.

*Source: The Dawn, Op-Ed, January 23, 2008.*

## Warfare or a Welfare State

The history of Pakistan's political economy is a history of underlying hegemonic design in capital accumulation and allocation played in a country with weak state institutions. It does not seem to be absolutely untrue, though a bit unpalatable, that Pakistan has always been in a state of either declared or undeclared war.

To put it differently, the country has always been in a war zone. Whose interests, national or otherwise, these sequentially ever-unfolding war zones have served is an interesting story to narrate. But the state of war has created near-to-total-hegemony of the war machine class or conglomerate in the politics of Pakistan.

Staying either on the frontline or the backyard of armed power struggles, the country has witnessed very effective hegemonic efforts of politico-economic interest groups between the global and local war machine designers, mobilisers, and event-managers. A systematic and ambitious politico-economic ascendancy of the war machine class in Pakistan is a phenomenon which calls for serious deliberations from both anthropological and sociological perspectives since this phenomenon has and will have serious implications for Pakistan's existence as a state.

Regardless of differences in geographical locale or socio-economic composition, every citizen feels the pinch of the sheer politico-economic inequality between the effective power of the hegemon and the rest. The epi-phenomenon of a momentous change such as the events following Mar 9 evokes at least four ideal types of responses from the people.

Firstly, the images of change bring forth 'change cheerleaders' who think that from now onwards Pakistan is going to become a more livable place and the road ahead is a way to heaven, so move forward. These are people who sometimes seem to be more ambitious than what the reality of the change really justifies.

Secondly, the change perception invokes response from 'change-pessimists' who think that change in Pakistan is a 'false-consciousness', things have never changed during the last sixty years, so how can they now? Stay away and keep yourself to yourself.

Thirdly, changes cuddle the 'change-watchers' who think that change is possible but not inevitable. So, they mostly put forward a reform agenda and deliberate on the movement of waves of change while taking some part in the change to make it happen.

Fourthly, the phenomenon of perceptible change also gives prominence to the 'change-averse' group -- lifting it from lethargic dormancy. Those who belong to this group have entrenched interests in keeping control over politico-economic resources, faces, and forces. These are the people who put every kind of pressure on the agents of change be they any institution (such as the media), an individual, or a noble principle or idea (such as rule of law).

The current judicial crisis, a manifestation of sheer inequality between the departments and organs of the state, still lurking in the corridors of power and protests, has also given rise to similar response pattern.

The trajectory of the argument espoused in this article claims that the above mentioned four response-categories crosscut the traditionally defined classes and justifiably regroups the socio-political expression of society spearheaded by the lawyers and civil society. It goes beyond the urban-elite centric analysis.

Not surprisingly, a majority of the people of Pakistan extend a change-pessimist response to the forces of change. The reason, perhaps, lies with a more potent but latent reality, which has effectively delinked and, according to some experts, de-ideologised the majority in Pakistan. It has made the state of the nation melodrama irrelevant to their sense of social reality. Resultantly, change-pessimists may see a blurry picture of change but might not make an effort to fit it into a socio-political frame, as a display of a desirable image of society.

The point being emphasised is that the de-linking facet of the state — the state hegemonised by the war machine conglomerate -- has robbed most of the people of their creative abilities to articulate their interests in political and public actions for change. People seem to have been sent into exile within their own country and, even, in their own minds.

Some experts claim that the 'class' has not only diverted the flow of allocation of capital towards their friendly politico-economic conglomerates but has also systematically decapitalised a vast array of society in terms of its access to opportunities and resources for human capital formation. It is worth mentioning that the quality and quantity of human capital is an important factor which forms the foundations of a stable and consistent social structure guiding the political dimensions of a nation state.

The dialogue and debate on the process of delinking society from the state of the nation has actually created an invisible yet powerful vacuum which drains away the intellectual vigour from the academia, the media, and the political parties. The effect is so debilitating that they sometimes no longer aspire to meaningfully and effectively challenge orthodoxies. One such orthodoxy is 'country is important – constitution and democracy are not'.

A delinked society, striving for transformation in systems of governance of a state, needs to re-formulate the question about the role of the state in order to challenge the above mentioned orthodoxy. This is one of the essential elements which can potentially relink society with the country (geography) through the institution of the state (governance of the geographical expression). Challenging this orthodoxy is very important if Pakistan seeks to move on from the current pathologies of politico-economic adverse selection and moral hazard. The role of the investment of politico-economic capital in developing undesirable socio-political industries is reflected in the rise of the war machine class and conglomerates. Without the supremacy of the constitution and rule of law, there can perhaps be a country but not a state.

A state is a noble step forward which gives meaning to a country and sense of belongingness to its inhabitants. If at all a State, without a constitution, exists, it is a predatory or a captured state which loses the credibility and fairness required for administrative autonomy and juridical legitimacy to arbitrate and execute arbitration between different interest groups.

Without respect for the constitution, one may have a class which keeps control of a geographical expanse – call it a country — manages its economic resources and keeps in contact with other like-minded players at the national and international levels. But the class effectively alienates my dear countrymen' from the state forcing them into exile within the boundaries of a country. The last sixty years of Pakistan have been spent by the country in the state of warfare and sending people into exile to become change-pessimist and strengthening the hands of the change-averse.

The killing phrase is, 'it can't happen here' which we hear most. We need to put forth the question of the role of the state and seek answers while trying to drift away from the war machine dominated militarised 'warfare' state to 'welfare' (developmental) state. The surest and most effective path towards the 'developmental state' is respect for the Constitution, fundamental human rights as enshrined in the Constitution, and allowing the system to work as is envisaged in the Constitution and not destroying it by 'friendly-fire'.

*Source: The Dawn, Op-Ed, December 10, 2007*



## The post-Martial Law Regimes

A closer look at the prevalent national crisis in Pakistan reveals that behind socio-political and judicial upheavals and struggles for power, there is a cobweb of competing economics of accumulation, allocation, and, to be exact, 'structural transformation'

The current crisis also reveals that the economics of capital 'appropriation' and 'distribution' working behind public policy-making and performance-correction is so sticky a force that it does not undergo a process of change despite change in regime through whatever way — martial law or constitutional/extra-constitutional emergency.

It is important to mention that in mainstream political analysis it is often portrayed that martial law once lifted is replaced by 'democratic regimes'. This is a skewed analysis. The argument in this article is that military regimes, owing to perpetuating 'systemic and structural rigidities' do not give way to democratic regimes. They give rise to a unique and distinct phenomenon called 'post' martial law regime deeply entangled in the past without being able to make substantial changes in the character of the structure of the economy. This leads to ever-present social-political discontent paving the way for another dose of martial law. This cycle is repeated without letting the country into a phase of democratic economic governance.

The current rulers claim that owing to their economic wizards, the country has made progress in multiple directions especially in terms of a record high growth in GDP. They further claim that poverty has fallen and neo-liberal economics has translated into a boom in the real estate, telecom, stock market capitalisation, and trade-to-GDP ratio. However, some people call such claims a condition of 'macroeconomic obscurity' hidden behind aggregates and averages.

This condition is best summarised with an example of a man standing with one foot in a bucket of very hot water and the other in very cold water. While putting his foot in two absolutely different levels of temperatures, he claims that he is standing on an averagely normal temperature and it is a pleasure to keep standing like this. The reality, more than what economic managers of Islamabad speak, is that the economic growth has been sensed as following a 'divergent' not 'convergent' pattern.

This means Pakistan is going through persistent and increasing 'inequality' amongst sub-national economies in terms of their stages of development and industrialisation, factor endowments, and the resultant divergent competitive-capability.

Ironically, none of the coups or martial laws have been able to generate any 'socially embedded' yet 'autonomous' institutional response to manage economy for national cohesion and harmony. The military regimes have, in fact, distorted the systems of capital accumulation, allocation, and structural transformation in favour of groups who align themselves with military rule. Is there any economic explanation of repeated military coups in Pakistan? Yes, there can be many.

Recently, some economic experts started theorising about the possible linkage between 'stages of industrialisation' in a country and the 'probability of military coups'. It appears from their propositions that the countries which implemented 'sterile versions' of import substitution industrialisation and remained trapped in manufacturing of 'consumer goods' (stage-I) catering to the needs of a small affluent class show predilection for repeated military coups. Examples can be found in Latin America (Chile, Brazil), South Asia (Pakistan), and South East Asia (Thailand).

The proposition is vindicated in another way: those countries which have, at some point in history, escaped the trap (stage-I) and moved onto exploring the frontiers of intermediate (stage-II) and capital goods (stage-III), have actually shut the floodgates of repeated military coups and reduced possibilities of avoidable social upheavals in their countries.

Examples can be found in the 'developmental states' of East Asia including the Gang of Four.

The stage-I trap in the process of industrialisation has the potential to explain economic underpinnings of a path-dependent continuity in military coups and takeovers in Pakistan on two accounts. Firstly, the production-exchange of consumer goods needs a class of people who can consume local and imported items with financial ease. For this purpose, capital (financial, human, and infrastructural) has to be concentrated in the hands of few — especially those few who do not politically challenge the military regime. So growth has to be there but need not to be equitable.

Secondly, stage-I trap likewise does not necessitate intense diversity in products and processes of manufacturing. So push for industrial-upgrading and use of capital in high-end industrialisation for intermediate and capital goods manufacturing (stage-II and III) is not required. Ultimately, industrialisation remains trapped with abundance of low-skilled, less-educated, less-healthy, relatively poor workers who remain under the control of a small number of 'elite managers'.

The trap brings 'political relief' for military regimes from frequent gear-shifting for 'systemic structural transformations'. However, on the other hand, the stage-I trap, along with half-hearted attempts by regimes for high-end manufacturing allows an economy to boost about respectable 'average rate of economic growth' without creating a semblance of advances in nation-wide 'technological capability — both industrial and agricultural'. Therefore, inequality despite (divergent) growth perpetuates and becomes a latent source of social and political upheavals starting a process of 'post'-martial law regime and then again martial law.

A good example of persistence of economic and political reality can be found in an analysis which was undertaken by Wayne Wilcox (1969) in his article "Pakistan: A decade of Ayub" published in *Asian Survey*, an academic journal. Wilcox said, "..... Pakistan at the end of Ayub's first decade remains what it was at the beginning: a politically divided, economically poor, and militarily vulnerable state'.

While looking at the text for another quote, one reads, '..... first time in a decade Pakistanis began asking not only 'After Ayub, Who? But After Ayub, What?' Could the writer predict

dismemberment of Pakistan in the wake of 'divergent growth' between the then East and West Pakistan?

Under the current turmoil, London and Washington are concerned about 'war on terror' and to some extent about civil liberties and rightly so because they know that martial law and 'predatory-state' breeds extremism in many forms. However, Pakistanis are worried that none of the 'patriotic coups' despite sacrificing the 'Bhuttos' and the 'Sharifs' on the altar of 'democracy' have brought 'systemic structural transformations' in national economic life.

However, the struggle launched by lawyers, civil society, media, political workers suggests that the journey of transformation will eventually start with the primacy of 'democracy' and 'rule of law' spearheaded by democratic leadership not by dictatorships — militarised systems of economic-interest-articulation cannot prescribe their own annihilation.

*Source: The Dawn, Op-Ed, November 21, 2007*

## The Right Question

There is no dearth of academic and political analyses that identify 'harmonisation' as the core political and administrative problematic in Pakistan. Being part and parcel of the nation-state, the 'harmonisation' debate has been put forth under many garbs -- in particular, that of nation building -- by successive governments and regimes since the country's inception in 1947. One can find a discernible pattern in continuation of the core problematic of 'harmonisation'. In other words, as some people say, the history of Pakistan is a path-dependent history of one form of 'disharmonisation' being replaced with another form of 'disharmonisation'.



The underlying conceptual understanding of the cleverly-coined term 'disharmony within organs of the state' runs throughout the stream of analyses anatomising the political history of Pakistan, with terms like 'institutional imbalances', 'overdeveloped institutions', 'power-sharing' and 'militarised society' gaining currency. These terms are used mostly in mainstream political and social discourses, which theorise about the environment and forces that eventually precipitate the process of 'disharmonisation'.

There is an abundance of material on the subject in the post-colonial literature, but the problematic of 'disharmonisation' must be analysed using the 'economics behind politics' framework; as this can help identify those subject areas in which further research is required to generate empirical evidence, and in which analytical work can help develop certain propositions about the possible influential forces responsible for unstable and crises-prone governance in Pakistan.

In doing so, however, the most important thing is asking the right question. What has been the country's growth rate? How much money has the government spent on different social sectors? What has been the government's performance vis-a-vis developing financial intermediaries? These are not the right questions to ask, because the answer to all of these is generally a 'positive outcome' of the measures taken by a government or a regime. Therefore, the resultant theory based on this question-answer dialect reveals nothing but a view divorced from reality.

The current regime, using the same kind of question-answer dialect, has made a big mistake by imposing 'emergency' in the country. In all probability, this mistake will keep pinching the socio-political body of Pakistan for many years to come. However, if aforementioned questions are asked to evaluate the performance of this regime, the answers to all of these will be that it has made a number of good efforts with statistically visible (using a certain method of analysis) 'improvements' in the country's economy, and that there are some 'forces' within the state that are making further progress a difficult task besides creating trouble for the executive and the legislature.

This is a view entirely divorced from reality, particularly the reality of the majority of those people of Pakistan who can critically and analytically understand the patterns of change and transformation. The right questions and very simple ones, for initial analysis of 'disharmony' is all about the structure and pattern of economic growth at inter-regional and inter-sectoral levels; and the identification of 'winners' and 'losers'. These questions have the ability to open up the field from the centre, while taking care of the extreme cases as well. Without going into the methodological treatment of the inquiry into economic dimension of 'disharmony', suffice is to say that the economic growth in Pakistan has mostly been 'divergent' and not 'convergent'.

Divergent means that growth might have taken place but different geographic regions, citizen groups, provinces and areas might not have accrued its benefits in an equitable manner -- their 'competitive capability' as well as 'collective efficiency' might not have developed on a par with each other. Apparently not agreeing with the mainstream framework of analysis offered by Andre Gunder Frank (of dependency school), many experts claim that the growth model for selected groups of regions and/or people is, in fact, the imposition of 'development of underdevelopment' model -- mainly working for the concentration and appropriation of capital into metropolis, and serving the interests of the military-industrial complex only -- from the top.

This implies that instead of ensuring convergence, the structure of economic growth is sowing seeds of inequality in sub-national economies, while progressively empowering the ruling elite. The current regime is no exception to this path-dependence in creating economic 'disharmony', which has definite linkages with political, administrative and juridical implications and ramifications.

The current regime -- despite having a firm grip on the 'war-machine' that can be moved anywhere, anytime and at anyone's peril -- has made a fatal mistake in identifying the locus of 'disharmony' in the functioning of the state. They have chosen the wrong target -- liberal democratic groups -- which means destroying assets that are not easy to reclaim. For that matter, the current panic-prone and fragile regime has put the whole blame on the shoulders of the judiciary and the media on two counts: 1) they were acting as a hurdle in the 'war on terror'; and 2) they were creating a situation that could have impeded the country's 'economic development'.

The so-called 'progress' in the two areas -- 'war on terror' and 'economic development' -- is a skewed analysis by the present regime, which will only precipitate its eventual extinction. About the 'war against terror', suffice is to say that it is a much more complex and geo-strategically hegemonic project than the military-action-oriented thinking and practice of the current regime can execute, while progressively isolating itself from a vast majority of Pakistanis who believe in liberal democracy.

The solution to the core problem of 'disharmony within organs of the state' lies in devising a long-term strategy for a democratic welfare state with a clear national (not class-centred) vision for the future. A major prerequisite for achieving this end is to establish autonomy of

the state through the rule of law -- enhance the state's capability to assert itself through substantial improvements in its allocative and implementation capacity.

Also, the problem of 'disharmony' cannot be solved without having an autonomous, effective and efficient judiciary, which unfortunately has been affected the most by the recent imposition of 'emergency'. However, on a positive note, lawyers and judges are still trying their best to re-establish the 'autonomy-based harmony' required for a viable democratic welfare state. The demand they seem to have put forth is the assured establishment of the principle of rule of law, as a viable support system for autonomy of the state as well as all its organs.

Another prerequisite for a democratic welfare state is the establishment of a system of 'embeddedness' for the autonomous state in the social and anthropological settings. Here comes the argument for democracy and freedom of the media, which provide channels for social 'embeddedness' of the state. But in a militarised model for doing away with 'disharmony', like the recent imposition of 'emergency', the social 'embeddedness' of the state seems to be a distant reality.

*Source: The News on Sunday, political economy section, November 18, 2007.*

## Rebellion or Revolution

For most economic experts -- especially those who see economy in the context of social behaviour of humans -- the socio-political milieu of Pakistan is a witness to the consequences of ever-increasing social inequality. The resultant socio-economic polarisation and fragmentation is becoming not only more manifest, but also increasingly violent.

Perhaps, at this point in time, someone walking in the so-called corridors of 'national interest' has responded violently to a quiet but mighty call for protecting the interests of the class that holds control of the national 'war-machine'. As a matter of fact, the 'war-machine class', with the passage of time since 1947, has progressively, persistently and silently taken control of almost all the national economic forces. It has deepened its control, particularly in those areas of economic force deployment that can be strategically re-designed and twisted to serve the interests of the elite only.

This 'war-machine class', interestingly, is deeply involved in production and exchange of consumer goods, as it can walk on fast-moving escalators of consumption with relative financial ease. It has systematically ruined the capacity, especially to produce capital goods, of local industry in the wake of its consumption preferences; and is accordingly twisting economic policy measures related to the incentive and reward systems of a state. Also, it is difficult to leave aside the thirst of this class for land as a profit-making non-consumable item -- something that has stigmatically been associated with it during the current regime.

The 'war-machine class', on the one hand, needs non-essential but luxurious imported goods manifesting opulence without any interest in the local industrial development concerns. On the other hand, it needs export promotion for the products that can accrue gains for the powerful military-commercial complex. The whole idea revolves around accumulation of wealth and other assets by the 'war-machine class'. For this purpose, this class needs its own banks and financial intermediaries for capital accumulation; its own corporations for capital appropriation through both wages and profits; and systematic financial allocations for its own systems of production. The members of this class also need high-quality schools, colleges and universities in well-guarded enclaves for their children, and want others to pay for this 'almost-free-ride'!

In Pakistan, the whole exercise of a very selective and polarised capital accumulation (human, physical and financial) and investment can be undertaken in the name of 'national interest' and 'economic growth' with impunity. In this context, some experts say that the case of Pakistan is an interesting riddle -- the country has witnessed "growth without social development" or "a stunted social development despite growth". The arrangement manifested in the riddle is, in fact, systemically opposed to a vibrant judicial system and will always behave the way it did on November 3, unless stopped at some point in time.

In a nutshell, the 'war-machine class' is the guardian par excellence of a system of extreme inequality under periods of high growth. The economics of accumulation, investment, production and exchange is designed in a way that facilitates and serves the purpose of concentration of wealth in a few hands; and, as a result, brings forth chronic and persistent

pathologies of socio-economic polarisation, social exclusion and fragmentation, disempowerment, disenfranchisement, and what not.

An important question arises here: does the 'war-machine class' need Pakistan in any shape? Yes, it needs the country as long as its share -- a lion's share, indeed -- in power and pelf is secure. But can this class manage to enjoy the windfall gains for an indefinite period of time? The recent events and resilience by Pakistan's fledgling civil society say a loud NO. 'Treacherous inequality bites, and bites everywhere and everyone' is the moral of the story revolving around the 'war-machine class'-dominated economics and society.

Looking at the picture from another angle, the present government claims of reducing poverty, but does not speak of (read hides) the inequality that it has created and helped flourish persistently. Inequality, not poverty, is the cause of many painful yet avoidable social ailments. The thesis of poverty is only a purposeful digression from the central issue of inequality, which takes its toll on even the strongest regimes in the world. "Half of the population died of hunger and the rest of indigestion," someone wrote about the conditions prevailing before the 1789 French Revolution.

Persistent inequality is a good indicator of an established failure of the systems of governance; malfunctioning of the framework of social-economics; and, in its extreme sense, a drastic failure of the state's allocative capacity. If allowed unabated, the state becomes 'predatory' and 'non-autonomous' by serving the interests of a particular class only. Behind such failures of the state and economy in Pakistan are illegitimate rules, which always are in need of some support systems and allies without caring for any moral or legal imperatives. 'Once born illegitimate remains illegitimate, likes other illegitimates, and only causes illegitimacy to spread' is the moral of the socio-political story of economic relations.

Last but not the least, there can be many ways to understand the current phenomena in Pakistan. However, the 'economics-behind-politics' framework can help understand the situation from a long-term perspective. In this context, the current wave of social-political upheavals seems to be much bigger as well as carrying accumulated sedimentations of the past, which have the potential to trigger many more related events.

Some events may stay longer in political milieu and some may pass quickly, but the mediating factor will be just distribution of wealth and opportunities. Most politicians, analysts and strategists, however, are not anticipating a potentially prolonged struggle for socio-economic equality in Pakistan. Some prominent politicians are even trying to understand the current dynamism in terms of 'free and fair elections', whereas electoral politics is merely a small part of a long story according to the 'economics-behind-politics' perspective.

Taking this argument further, some experts believe that the current turbulence will not dissipate even with the change of regime; on the contrary, it will move ahead in search of new frontiers. What will be the essential formulation of such a transformation -- ideational (not ideological in the classical sense of argument), structural or confined only to the



electoral politics? In other words, will it be a 'revolution' or a 'rebellion'? What will be the extent of changes to be brought about?

This can be anybody's guess, but the kind of processes of reflexivity that socio-economic debate and movement in Pakistan is currently exhibiting has seeds of a tree that can grow taller and stand for years to come. This tree, however, may bear both sweet and sour fruits, depending on which side of the divide you are. Those who have learned only to taste the sweet fruits may need adjustments. However, in order to bear high-quality fruits, this tree needs a constant supply of nutrients -- in the form of debates and dialogues on the state of the nation and economy. The bright light of change for the better perhaps falls in this direction.

*Source: The News on Sunday, Political Economy section, November 11, 2007.*

## **Electricity: The Issues of Institutional Response**

Pakistan is, today, a rapidly growing economy, recovering from years of sluggishness; resultantly, its energy needs are growing faster. However, the history of Pakistan's energy supply especially the electricity component is a story of supply and demand gaps and adhocism coupled with 'scandalously' less-than-efficient services and inadequate institutional responses. Before going into the discussion about the supply and demand situation and consumption patterns over the previous years and projection for the future, it is important to know why electricity is a significant player in the development processes of a country.

The ultimate objective of any infrastructural development, any addition or revamping of facilitating factors for economic growth such as electricity services is a sustained and equitable growth. To effectively pursue this objective, growth has to be broad-based and equitable targeting different economic areas such as services and productive sectors such as industry, agriculture, supported by improved delivery of health and education services. However, another factor which is also important for being a human development objective is to fight the menace of 'jobless growth' and providing facilitating factors to those sectors which generate more employment opportunities both in the rural and urban settings. This is also important to be conscious of the fact that electricity generation and consumption should be an environment-friendly undertaking which should not increase the weight of GDP i.e., adding CO<sub>2</sub> emissions etc. and unsustainable use of natural resources.

Notwithstanding, one of the major impediments for such broad-based equitable development is the presence of significant infrastructural and institutional deficiencies especially in the electricity sub-sector of the energy sector in Pakistan. Some analysts are now taking these infrastructural and institutional constraints in provision of electricity services as one of the cross-cutting 'binding constraint' on unlocking the potentials of Pakistan's economic growth. Removing the 'binding constraint', especially to ensure sustainable, secure, and reliable supply of electricity at reasonable prices deserves the urgent attention of both the governments and businessmen, it is being suggested. These aspects emerge more important if Pakistan wishes to pursue more than 7% of growth rate during at least the next 10 years and significantly increase investment to GDP ratio to around 30% so that it meaningfully expects a significant poverty reduction taking place over a long period of time. Targeting rapid economic growth will, no doubt, increase electricity consumption and also add stress on institutional set-ups to respond with consensus-based policy action.

In fact, the world electricity scenario is also very interesting. According to the International Energy Outlook 2007 the world demand for electricity advances strongly from 2004 to 2030. Global electricity generation increases by 2.4 percent per year over the projection period, from 16,424 billion kilowatt-hours in 2004 to 30,364 billion kilowatt-hours in 2030. Much of the growth in electric power demand is projected for nations outside the OECD. Although the non-OECD nations consumed 26 percent less electricity than the OECD nations in 2004, total electricity generation in the non-OECD region in 2030 is projected to exceed generation in the OECD by 30 percent. Total electricity demand in the non-OECD nations is expected to grow from 2004 to 2030 at an annual rate that is nearly triple the rate of

growth for electricity demand in the OECD, the report adds. These projections, in the report, show the direction of increasing burden on electricity services and institutional apparatuses towards non-OECD countries especially in the Asian region.

With this background in our mind, let us now look at the sectoral consumption of electricity in Pakistan. In Pakistan, between 1996 to 2006, on average, the consumption of electricity is concentrated in the household sector accounting for 44.8 percent of total electricity consumption. This trend is followed by industrial (29.4 percent), agriculture (12.2 percent), other government sector (7.2 percent), commercial sector (5.9 percent) while street lights using 0.6 percent. A comparative analysis of data (1996-97 and 2006-07) taken from WAPDA shows that there has been a marginal change in the overall percentage share of electricity consumption by economic groups. With domestic use 40.5% in 1996-7 has increased to 42.4% in 2006-07, the industrial use has increased from 26.3% to 26.5% for the years and there has been marginal increase in commercial usage from 4.6% to 6%. However, the percentage share of agriculture has decreased from 18.2% to 12.1% during the same period. For faster and equitable economic growth perhaps the sectoral percentage share needs attention of the policy makers and a through scrutiny.

According to the Economic Survey of Pakistan 2006-07, historically, Pakistan faced electricity deficit from the year 1990 to 1997 with bridging the gap in 1997. From 1997, the generation capacity increased and it was expected that the demand and supply position of electricity will remain in equilibrium up to 2009. But owing to the existing peak demand concomitant with around 6.6 percent growth per annum between 2001-2007 and village electrification the supply shortage started surfacing much earlier than the expected year 2009. 'The total installed capacity of electricity generation in Pakistan remains at 19,440 MW in 2006-07 and was in 2005-06', adds the Economic Survey of Pakistan 2006-07.

However, according to a Country Analysis Brief of Energy Information Administration, Office of Integrated Analysis and Forecasting U.S. Department of Energy, Pakistan had 20.4 gigawatts (GW) of installed electric generating capacity in 2004. And the report adds, 'the Pakistani government estimates that by 2010, Pakistan will have to increase its generating capacity by more than 50 percent to meet increasing demand'. One wonders that to increase generating capacity to more than 50% by the year 2010 did need not only planning but also implementation well before 2006 which should have shown some results in 2007.

Writing about the shortcomings of the electricity sectors, the report says, 'However, much of Pakistan's rural areas do not have access to electric power and about half the population is not connected to the national grid. Rotating blackouts ("load shedding") are also necessary in some areas. In addition, transmission losses are about 30 percent, due to poor quality infrastructure and a significant amount of power theft'. Interestingly, the recent Economic Survey of Pakistan claims that transmission and distribution losses have come down from 24.4% in the year 1995-96 to 22.1% in the year 2006-07 which showed upward trends between 1997-98 (25.9%) and in 1998-99 (27.5%) as the highest level of losses. 'Pakistan could see increased power shortages by 2010 unless actions are taken to increase electricity generation and reduce transmission losses', the report of EID, however, warned and recommended.

Let us have a look at the recent reports published in the national press in the backdrop of crisis-like situation of electricity supply shortages in Karachi and elsewhere. At the moment, Pakistan is facing deficit of around 2,225 MW (some experts claim it as 3,000 MW) of electricity. However, the generation of 2,225 MW of electricity on a fast track basis would not be possible before 2010, which means the country would experience a severe power crisis in the years to come, though the Economic Coordination Council on January 4, 2006 had approved fast track induction of 2,225 MW of electricity into Wapda, 1,540 MW to be acquired through leading business houses (LBHs) and 775 MW from expansion of the existing IPPs (independent power producers). However, about the KESC power projects, reports say that the ECC had approved 40 mmcf/d gas for power project of 220 MWs to be installed at the existing Korangi Thermal power house. In addition, the ECC had also approved 100 mmcf/d gas for the 560 MW power house to be installed at Bin Qasim, which will be operational by 2008. Such reports, from another point of view, reveal how fast the system of implementation responds to the projected needs.

Having been acquainted with electricity demand-supply scenario, now we come to the possible solutions for Pakistan's electricity crisis. Though this is important yet sterile to a certain extent, at the moment, to debate across the public-private partnerships and generate a piece of advice to focus more on hydel power generation projects etc. because most of such initiatives are already in pipeline in Pakistan. In my view, the issues of Pakistan's electricity sector, at the national level, emerge from the problems associated with governance. The problems of governance to the core are the issue of institutional performance. Evidently, the institutions of accountability (public and administrative) have not performed to the extent they should have conducted themselves. It is worthwhile to mention that parallel to the performance of the institutions of accountability are the institutions of dispute settlement and consultative mechanisms for consensus building. In Pakistan, these three types of institutions i.e., accountability, dispute settlement, and consensus building, primarily, serve the elites and are not designed to reach out to the people who suffer and who need urgent redress of grievances especially in the context of electricity. According to a famous economist Dr. Dani Rodrik of Harvard University, these are non-market institutions in which the markets are embedded and economies function. They play critical role in determining the strength and sustainability of economic progress and Pakistan is no exception to it.

In Pakistan, be that the question of royalty, consensus building for the use of water resources for electricity generation, or National Finance Award, our system of governance and related institutions have miserably failed to deliver in a consistent fashion over a long period of time. While taking steps for village electrification, public-private partnership, Roshan Pakistan, Solar Homes or whatever, if our institutional set-ups are not designed to consult, build consensus, and implement the resultant policy action all our efforts may be at best adhoc coping mechanism and not a national response to power crisis for a broad-based economic and human development. Apart from the national needs, these will be the institutions that will enable us to meaningfully and gainfully integrate into South Asian initiatives for trade in energy services and participate in energy corridor approaches being negotiated on our eastern and western borders.

*Source: The Friday Times, July 6-12, 2007*

## Trade for Peace and Development in South Asia

Trade as exchange of goods and services is a necessary condition for increasing peoples' choices and wellbeing in a world which is essentially an interdependent workplace. Under certain conditions, notwithstanding, this is 'trade' which can potentially be a source of conflict as well as cooperation amongst the nation states. In attempts to find out reasons behind, many experts did put emphasis on trade-related disputes precipitating violent conflicts in the shape of two world wars during the last century. A legitimate response to such devastating conflicts and their hangovers were efforts geared to develop rule-based international systems which was supported by many nation states during the second half of 1940's to avoid violent conflicts in future. These efforts gave birth to GATT 1948, despite the fact that an attempt to set-up International Trade Organization (ITO) had to eventually wait for the fateful year of 1995 to be born in an improved shape called World Trade Organization while incorporating new agreements and improving the GATT.

One of the main functions of the Multilateral Trading System in the shape of WTO is to facilitate a forum for negotiations in a structured and transparent manner to make rules work for increased predictability and stability in economic and business planning and implementation. A result of such efforts is actual and potential increase in expansion (and integration) of markets both in goods and services at the multilateral levels along with improved trade practices primarily creating an environment for peace and avoiding violent conflicts amongst the nation states.

If we look at the actual and potential economic benefits of increase in trade at the global level and compare it with the South Asian region, the picture which appears necessitates serious deliberations and soul searching. The WTO estimates speak volumes about the impact of the 1994 Uruguay Round trade deal which was estimated an addition of between \$109 billion and \$510 billion to world income. In terms of potential, economists estimate that cutting trade barriers in agriculture, manufacturing and services by one third would boost the world economy by \$613 billion — equivalent to adding an economy the size of Canada to the world economy. Talking about one aspect of Trade in Services which is called Movement of Natural Persons or Mode 4, a discussion paper generated by the UNDP says, "a large number of developing countries would be greatly benefited by improved access to service markets by their workers. If entry quotas were increased by 3 per cent of OECD countries' labor force, the global welfare gains will be \$ US 158-200 billion per year (IOM-OECD [2003]. In assessing the potential contribution of Movement of Natural Persons (MNP) to human development, one can examine the improved employment opportunities, the value of remittances for communities and families as a means of poverty alleviation and as a source of investment funds for SMEs". Likewise, there are many instances in which the facts show that the opportunities generated by market integration has been grasped—where freer trade has been healthy for employment. The EU Commission calculates that the creation of its Single Market means that there are somewhere in the range of 300,000–900,000 more jobs than there would be without the Single Market.

Now coming to the South Asia, let us look at the latest report 'South Asia: Growth and Regional Integration' of the World Bank. Amongst many other issues, the report claims that '*South Asia is the least integrated region in the world*'. The report goes further and portrays

that many of South Asia's competitors have dramatically reduced customs and port clearance times. One manifestation of being least integrated is that the intra-regional trade in South Asia is less than 2% of GDP. Coming to trade in energy and volume of telephone calls one can see in the report that only India, Bhutan, and Nepal currently trade electricity while only 7% of international telephone calls are regional. It is worth mentioning that in East Asia, more than 20% (of GDP) trade in East Asian is regional, and more than 71% telephones calls originate for the same region. More startling fact is that the cost of trading across borders in South Asia is one of the highest in the world while South Asia ranks the last among all world regions in terms of road density, rail lines, and mobile tele-density per capita.

However, the report also claims, perhaps more in terms of potential, that the high growth, averaging close to 6 percent per year since the 1990s, is creating a new momentum for closer regional integration. The report recommends that closer regional cooperation can be an effective tool in addressing energy shortage, improve connectivity, increase investment, and promote peace and stability.

While analyzing the regional integration potential, many experts put the burden of South Asia being least integrated on Pakistan and India and they claim that these are the two countries who can either make trade work for peace and development in the region or sabotage the whole potentials of market integration (expansion) for regional welfare.

As a matter of fact, a crass reality is that India and Pakistan have an erratic history of bilateral relations and perceptions. The relations and perceptions with and about one another keep changing from being at war, near-war, and then a more-often-than-not turn around towards efforts for confidence and peace building. It is also argued, notwithstanding, that in many instances, the perceptions of 'state' and 'civil society' about the other side of the border are not in sync with one another. However, in managing the relations between the two countries, the perceptions of 'state' emerge as a defining feature for the working of the foreign and interior offices of the respective governments.

One of the direct consequences of the above mentioned divergence in 'state' and 'civil society' perceptions about the other, the sub-continent has yet to explore the dynamism of 'hidden markets' awaiting innovative ways to be looked at. Apart from many commendable works on trade complementarity indexing and econometric forecasting about the 'trade dividends', the real stakeholders of trade i.e., consumers of goods and services e.g., civil society have not been part of the mainstream trade related initiatives and evaluations.

As a result of the situation, the 'push for reforms' in bilateral trade as a likely precursor to regional integration is perceived to be from the outside and not from within or to be more exact from the bottom. When the 'talks' fail or the pace becomes painstakingly slow, the perception which normally emerges, mostly as a result of state-media coordination, sounds like 'nothing is possible' between the two important countries of South Asia. This perception also reflects badly on potentials of SAFTA in meeting trade and development promises while the World Bank report recommends, 'regional cooperation and integration

can increase welfare by improving the regional political environment, thereby reducing conflicts and associated social and economic costs.

The current state of affairs demands that the 'state' and 'civil society' of the sub-continent should look at the '*Beijing Consensus*' like approaches for guidelines in resolving the bottlenecks in trade relations which can bring welfare and peace dividends in the final craft. The aim of such efforts should be to explore practical avenues which help increase trade by and between India and Pakistan so that the consumers and businesspersons make use of the emerging opportunities of globalization along with bringing peace dividends for the people of the Indo-Pak sub-continent. There is no exaggeration in the claim that an increased bilateral trade between India and Pakistan will set stage for increased regional cooperation as well.

Moving in the direction of 'Trade for Peace and Development', the two countries need focusing on two important points:

1. *Innovation*: In approaching the problems for solutions to make trade related reforms as frictionless as possible and most importantly make the processes knowledge/research-based.
2. *Focus on Human Development and Institutions*: While looking beyond economic indicators like changes in per-capita GDP and trade to GDP ratio, focusing more on quality-of-life which in terms of human development means SEEP i.e., sustainability, equity, empowerment, and productivity really seeping down towards the bottom.

In doing so, both Pakistani and Indian governments need to involve the civil society (CSOs and Business Community) in conducting serious policy action research on *institutional arrangements for trade and economic cooperation*. During the research, institutional arrangements and mechanisms should be looked into in detail and policy action recommendations need to be prepared for quantitative and qualitative changes in their working, efficiency, and effectiveness. This aspect should cover the '*non-tariff barriers/measures*' as well targeting institutional changes for trade facilitation and related conflict resolution. The institutional effectiveness aspect needs to be emphasized because there is a sheer dearth of literature on 'institutions' which must be designed to actually facilitate trade between the two countries. Most of the research conducted so far is from either 'market' or 'trade per se' perspective.

In addition, in the policy action research '*economic and social cost of non-cooperation*', must be calculated. Efforts should be made to develop policy action recommendations while juxtaposing the two countries so that a sense of coordination emerges and *a total solution seems possible*. Special focus should be made to link the research output with 'peace dividends' which the proposed solutions might tend to generate.

The ultimate aim of the policy action research output for *policy formation and institutional adjustment* should be to come up with innovative and knowledge-based (as opposed to ideology based) ideas and solutions/policy actions for both the Governments (India and Pakistan) so that they may take civil society perspective/s into account while initiating and managing institutional and trade facilitation related changes more effectively.

The earlier both countries start creating institutional harmony, it would be good for the whole South Asian region in saving the area from a 'spaghetti bowl' like situation resulting from multiple FTA/PTAs and increased interest in BIMSTEC type alternatives to SAFTA. To conclude, BIMSTEC can be a good trade related alternative but it cannot replace SAFTA which has more potential for peace and development through trade in the South Asian region. *Whether the Governments of India and Pakistan want to use trade for peace and development or not is the question.*

*Source: The Daily Business Recorder, March 6, 2007*



## **Governance: Glass (es) Half-full or Half-empty**

We say, "Are we all corrupt?" "No, actually, there are some black sheep in the systems but generally we are not." "Are we fools?" "No, we are not. We are smart enough to have our axe to grind". "Yes, we do that but mostly are smart individually not collectively unless it is a network rent-seeking".

"These are the officials of the government who are corrupt". "But private sector and politicians make them corrupt". Then we say, "There are some other institutions which are more corrupt than the others". "No, we are talking too much about the institutions and individuals which may unnecessarily invite disastrous consequences for us. Let us stop discussing it". And we stop and move for a lighter talk on fashion and others.

The above mentioned is a usual drawing room and leisurely talk of the educated, the illiterate in our society, and even the honest and the corrupt alike. Such talks, one way or the other primarily have some connection with the problems of governance and democracy - freedom of expression and tolerance for the others viewpoints. What happens is that the trail of arguments starts with an impression which leads to a short discussion and followed by an advice of keeping our mouths shut. In organisational set-ups and in many of the public and private institutions, any bold or courageous remarks are even discouraged with the fear of being taken to task either by the social, political, or administrative arrangements of our society.

Despite the fact that we do not move much on 'social interest articulation', one thing is clear: the issues which Pakistan is facing are the issue of governance and democracy, and if we want to further reduce the number of categories, are of governance. The manifest reality is that the institutions of governance in Pakistan have consistently and repeatedly more-often-than-not failed to deliver both at the national and local levels. With such a failure the biggest causality has been the lowering down or if not lowering, a status quo in the democratic quotient of our society at large.

Experts of social development say that manifestations of democratic quotient are reflected in good governance (taken as rule of law and participatory institutional working) with the capacity to engage in dialogue, opening up for public discourse, and resultant transparency and trust. They add that the primary ingredient of any society which seeks to tread on the path of development is trust and social capital emerging out of institutionalised working towards disclosure of public domain information.

The spokespersons of the Government of Pakistan claim very high of their government's ability in giving a push to the wheel of economic development such as increase in GDP, increase in per capita income, increase in trade (import and export), increase in federal reserves and what not for several reasons.

For them the reality is, you name an indicator and you get the feeling of substantial improvement (perhaps euphoria) by looking at the statistics. On the contrary, some critiques say, you name a social indicator and ask the people lying at the receiving-end of

social and economic systems and you will be able to deflate the feeling of happiness instantly.

About these contradictory feelings and estimates people, in general, have different arguments. Some people would say that the situation is that of looking at a glass and say 'half-full' or 'half-empty'. While the people who indicate failures may be called cynics, negative-minded, members of the opposition party (if there is any left) and the people who would say 'half-full' are the people who have positive approach towards the country.

The reality is, perhaps, that there is no ONE glass in any society. There are many glasses which may also be called institutions for our discussion. Some institutions are half-full and growing and some are half-empty either going down or staying where they used to be.

However, in Pakistan, while talking about these glasses, one has to be very careful so that a slight mistake may break the glass or destabilise it. If it is broken then it does not matter much (e.g. dismemberment of Pakistan etc) but if it is destabilised then the distribution of power amongst the people who hold and control it may be affected and it is not acceptable in practice (e.g., jirgas deciding about womens' fate, the issue of uniform etc).

A close look at our society also reveals that the actual or concocted fear of 'destabilising effect' is also behind many of our problems associated with governance and democracy. Perhaps, we, in Pakistan, are afraid of destabilisation at our personal and institutional levels. We wait till the time when the glass (half-full or half-empty) actually breaks and falls down without being manifestly destabilised.

This fear deprives many intelligent people of Pakistan of the opportunity of trying to develop any new model (institutional mechanism) and trying to build prospects for change out of impending chaos. What is compromised in this fear and the resultant practices is 'democracy' and 'participation' for good governance. This is what we repeat again and again in our social and political milieu.

Another close look at a recent report by the World Bank on 'Doing Business 2007', gives an interesting impression about Pakistan which has been ranked 74 in 2006 from 66 in 2005 in ease of doing business amongst 175 countries ranked this year. Notwithstanding, Pakistan, is highlighted as following, on the Bank's website.

Pakistan was the runner-up reformer in South Asia this year. Reforms to modernise customs reduced time to import from 39 to 15 days and time to export from 33 to 24 days.

Corporate tax rates fell from 39 percent in 2004 to 37 percent in 2005 and 35 percent in 2006. The above mentioned figures are good indicators for an economists and a person interested in a glass half-full approach but if we look at more than one glasses, the picture emerging out of analysis, changes in particular about the indicators which possibly reflect the issues of governance. For example, look at the following analysis of the data provided in the report:

Though Pakistan's rank has improved in paying taxes from 143 in 2005 to 140 in 2006 but it has gone down from 120 to 126 for the corresponding years in modalities of employing

workers. Though the rank has improved in trading across border from 117 to 98, it has gone down from 18 to 19 for protecting investors and registering property from 57 to 68 for the years 2005 and 2006.

Though Pakistan's rank has improved in dealing with licenses from 93 (2005) to 89 (2006), it has gone down on starting a business from 44 (2005) to 54 (2006) and even in getting credit 65 (2006) from 59 (2005). One of the interesting indicators is 'enforcing contracts' in the report. The indicator covers the ease or difficulty of 'enforcing commercial contracts'. To calculate the rank, the methodology follows the evolution of a payment dispute and tracking the time, cost and number of procedures involved from the moment a plaintiff files the lawsuit until actual payment.

On this very important issue of governance i.e., dispensation and administration of justice in commerce, Pakistan ranks at a very low level of 163 and same was the rank in 2005. Further breakdown shows that the numbers of procedures involved are 55 in the case of Pakistan while 22 for OECD and 39 for South Asia region.

The number of days required for settlement of dispute is less than one year (351 days) in OECD countries while in Pakistan, 880 days (more than two years) are required. The above mentioned examples are only from the business side not the social side under which public services and infrastructure is provided and civil or criminal cases are decided or rights of the labour are enforced. However, even the business side is quite revealing about the state of affairs in Pakistan.

On another note related to governance, if we think across the idea of freedom of information, the interesting point is that most of the information that flows in our country is something like 'a bureaucrats telling bureaucrats what is good for business and society'.

People are systematically excluded from the information flows and debarred from rights to information in practice. However, some kind of sharing of information is of such vital importance for good governance (protecting rights of the people) that experts like Amartya Sen say that hiding information about the availability of food stocks led to famine in China and elsewhere during 1900s.

Coming back to our drawing room talk, let me say that Pakistan really needs to liberalise its system of governance from colonial hangovers. We must recognise that information and expressions, which must be in public domain for all intents and purposes, should be placed as such. People of the country have entitlements to their country's assets and they must be treated as partners in the systems of governance not only 'beneficiaries' or 'stakeholders' of a State.

If their entitlement is a point to make then they have the right to say and speak about their own motherland and also about the people who are appointed for public offices such as 'bureaucrats' and 'local influentials' working at the national and local levels.

With freedom of information, another point which arises is that in many instances people suffer because of the 'arrogance', and 'ignorance' of many public officers working in ministries and secretariats in Islamabad and departments at the local levels. As such, there

is no mechanism within many institutions to make anyone accountable for the social nuisance and damage they do on a number of occasions while discharging their official duties.

Most of the time, the only thing which our present system catches is the evidence of financial embezzlement. The soft portions of performance which are linked with efficiency in service delivery is not accounted for. At the same time, the system of writing Annual Confidential Reports (ACRs) has become a rotten system of evaluations and more-often-than-not is subject to manipulations and personal likes and dislikes.

The world has moved towards 360 degree evaluations which also include views of the consumers of the systems of governance and social development. The commission working on reforming the government must also look into those aspects of the governmental functionality where a small cog in the wheel dis-empowers the people of Pakistan to the extent that people leave Pakistan with the intention of never coming back.

Those who cannot do so are forced to live the life of a social outcast in the 'systems of governance' or 'systems of arrogance and ignorance' for that matter. There are hundreds of people who suffer both psychologically and financially on daily basis on account of the line departments and ministries' attitudes and their incompetence; there are many who get benefits for the same reasons while not being entitled to get any benefit.

Do we want to see the glass - half full or otherwise - or see more than one glass, which are both half full and half empty with the courage of re-adjusting the systems of governance with knowledge-information based innovations and creating order out of the increasingly apparent chaos, is the question.

*Source: The Daily Business Recorder, Op-Ed, February 17, 2007*



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