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

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Facilitating Domestic Commerce

Foreign trade is important to provide a vent to production while domestic trade is essential to develop both the capacity to produce and to have production surplus for exchange. Here export-led growth is a case in point.

One may ask: what is strategically different in the current Strategic Trade Policy Framework from the previous strategy of Rapid Export Growth Strategy (REGS) which has little success to boast of?

In capitalist economies, a combination of the state and entrepreneurs undertake 'development' and create conditions for sustained economic growth. The engine of growth happens to be manufacturing sector, supported by technology, industrial, and labour policies along with other flanking social policies to allocate resources.

In this way, many researchers argue that developing countries adjust prices to meet the developmental objectives and use the multidimensional approaches to engineer competitive advantages. Such a developmental orientation of combining the state and the capital resources has been obvious only because of its absence.

Interestingly, the synergy between the civil-military bureaucracy and the merchant-feudal-capitalist class of using capital for economic growth and development has mostly been in political patronage.

Free trade and free market were assumed to be a panacea for economic development. It received support and advice along with favourable conditionalities from international finance institutions. In short, a subsistence level agrarian economy which was to be turned into a modern industrial economy could not have the support of a successful developmental state.

A question arise: has the free-trade really delivered when the state is rolled back and economy put at the mercy of free-market fundamentalism? Here we take the example from international trade. Pakistan is witnessing an increasing trade deficit despite following an export-led growth strategy and having divorced other flanking policies such as industrial policy called 'interventions' which distort markets through tariffs and subsidies.

During the last two decades, trade liberalisation has been the policy. The average tariff has fallen quite sharply and in a WTO-plus fashion. These were 120 per cent in 1985 and stood at around 12 per cent in 2007-08. However, the reduction in tariffs coincides with increase in trade deficit. As compared to the trade deficit being at $1.2 billion in 2001-02, it has reached around $14 billion in 2008-09.

In fact, the trade deficit, which Pakistan is witnessing, has similarities elsewhere as well. A recent study by famous economists Amelia Santos and A.P. Thirwall shows that liberalisation in 22 developing countries stimulated export growth and raised import growth also, leading to a worsening of the balance of trade and payments. They argue that despite taking all measures such as removing anti-export-bias, import control, non-tariff barriers, and exchange rate distortions, liberalisation raised export growth less than imports. Most astonishingly, they reveal that this has constrained the growth of output and living standards. May be Pakistan's economic managers need to interpret the trade experience and analyse a sharp decline in industrial output which has shown negative 7.7 per cent growth in a more comprehensive fashion.

It is worthwhile to mention that Pakistan has slipped nine points downwards on the Global Competitiveness Index which lists 134 countries and stands at 101. The deterioration has been in all of 12 indicators.

The Strategic Trade Policy Framework 2009-2012, claims that 'by 2012 the competitiveness ranking of Pakistan will improve from 101 to 75'. In the absence of a viable national system of innovation which can connect the triad of education, industry/business and policy governance, the target seems to be far removed from reality.

Last but not the least; Pakistan should learn from some policy experiences from China and the US. Looking at the global recession and fall in global consumption which have impacted the trade balance of China as well, the countries are stimulating local production and consumption. 'Buy America' is one measure for a growth stimulus. In fact, it is estimated that 7.9 per cent increase in China's GDP will actually come from domestic consumption due to increasing linkages between local production and consumption.

In the context of strategic trade policy, breaking away from the past, Pakistan needs to focus more on domestic commerce and give a (big) push to local brands, wages, production, consumption – in a nutshell develop a facilitating social and physical infrastructure for economic development.

Source: The Dawn, Economic and Business Review, Aug 17, 2009.

Identities and Conflicts

The issue of identity and conflict is complex and puzzling. What prompts human beings to re-prioritise identities and re-adjust group affiliations which seek to redress grievances against a distinct other? There may be a diverse range of answers to this question.

These could range from cultural and ideological to political and socio-psychological perspectives. Such questions and answers are important. They may not only help identify the reasons behind group conflict, they could also help design policy prescriptions.

In fact, Pakistan itself is a product of a profound reconstruction of identity which attempted to create internal socio-political cohesiveness in a group while engaging with the question of grievances and inequality. Such grievances emanated from deprivations and a lack of access to opportunities for social and economic wellbeing. Ironically though, after having an administrative solution carved out of United India, the palaces and places of power in Pakistan progressively became an unwise system of controls.

With partition (1947), dismemberment (1971) and other geostrategic situations in the background, dominant interests have tried to control identity construction with what Amartya Sen calls "singular-affiliation" i.e. a person belongs to only one group. Paradoxically, however, the search for national security in the context of a singular identity, and disregard and sometimes the suppression/exclusion of other identities, has caused more harm than given stability to national cohesiveness.

In a way, the sought-after singular identity became an act of whistling in the dark in what was East Pakistan. Many analysts argue, albeit with some exaggeration, that a similar situation is seen in other parts of Pakistan including Balochistan. In both cases, the grasshoppers repeating the mantra of national aggregate economic growth were not able to gauge the risks and vulnerabilities which created a shortage of social capital in multiethnic societies.

Misunderstandings have led to a democratic deficit in development. The deficit indicates gaps in non-discriminatory "development by the people (participation in economic growth), for the people (gains in social welfare through public services) and of the people (increase in capabilities and empowerment)". Literature on inter-group disparities categorises them as "horizontal inequalities".

Public policymakers are often simplistic when it comes to believing in the effectiveness of growth and investment as a panacea for social disequilibrium. They are caught in a situation called growth-investment optimism. Such optimism cannot generate a critical analysis and is a deficient guide when it comes to a politically viable public policy. It is misleading because the indicators of increase in growth and investment do not reveal inter-group grievances and multidimensional deprivations.

Interestingly, recent research on the geography of poverty especially in Punjab shows that there is a significant differential in sharing the welfare gains of economic growth. For example, it has been demonstrated that poverty is concentrated and severe in the southern and western parts of Punjab and more so in the rural areas of the concerned districts. One can understand why southern Punjab which has a distinct language and culture demands the devolution of not only administrative but also developmental authority in the shape of a sSeraiki province. This creates a sense of identity for the people of the area and makes economic sense.

Another example of horizontal inequality that fuels conflict despite an increase in growth and modernisation, investment, and job creation can be seen in China. The people identified as Uighur and Han Chinese in Urumqi were recently engaged in violence. Many investigative reports show that the Uighur population claims that the lion`s share of development dividends, a consequence of China`s miraculous growth and investment, have been pocketed by the Han Chinese. For the Uighurs, the disparity in developmental gains has created fears of being culturally eliminated and cornered as cultural minors.

A question that needs to be answered is why some areas of Pakistan with genuine grievances have only partially succeeded in creating a powerful social and political movement. Literature on horizontal inequalities informs us that social groups which have grievances against other groups but higher levels of inequalities within the group cannot easily develop a democratic leadership that could demand equality on behalf of the masses it is meant to represent. Therefore, intra-group inequality becomes a binding constraint on the creation of an internally cohesive social movement that aims to end horizontal inequalities. Is this not the situation in Balochistan and southern Punjab?

Last but not least, it is often emphasised that an increase in investment and witnessing growth in volatile parts of the country does not end political strife. This needs thorough re-examination. A solution depends on the social efficiency and effectiveness of growth and investment which is accommodative of ethnic dimensions. The prescription is to avoid imposing the `singular-affiliation` idea system and understand that identities are inherently plural, make economic sense, and are not always against the collective and long-term security of the state. In fact, there are examples found in many parts of the world including the EU where diversity is considered a social strength.

Source: The Dawn, Op-Ed, August 12, 2009.

Trade Secrets

The Strategic Trade Policy Framework 2009-11 has recently been announced by the Ministry of Commerce. Initial reactions about the trade policy are mixed. Some analysts and stakeholders have termed the framework a welcome step which shows a medium term perspective for a structural transformation of the economy. However, there are others who claim that the framework is anything but strategic since it does not show a radical break from the past. It still carries the baggage of export-led growth of previous Rapid Export Growth Strategy (REGS) followed by the Ministry and did not prove to be successful.

The biggest danger, some experts argue, lies in not accepting the scale of the problems that both the global and Pakistan's economy faces at the moment. While there is a global recession and consumption is not picking up to the scale which can recreate 'trade an engine of growth' for developing countries, too much emphasis on external trade than domestic commerce is being criticised. It has been mentioned that the economy needs to focus on increasing the size of domestic demand market through expansion of wages (i.e., creating more buyers for consumption of local brands) and sectoral articulation for backward and forward linkages of local small scale and large scale industrial set-ups.

Notwithstanding, in the trade policy, the Ministry has set the export growth target of 6 percent for 2009-10 and 10 and 13 percent for each of the successive years. A casual look at the results of REGS makes it clear that Pakistan has actually seen growth in imports much faster than exports which is manifested in the increasing trade deficit. At a certain level, the basic assumption of trade strategy, which the officials of the Ministry of Commerce have been following, stands challenged. They based their big-bang tariff liberalisation strategy along with kicking away the industrial policy design on the assumption that in order to increase export Pakistan needs to remove import barriers and become a neoliberal economy. This assumption needs a thorough revision with the help of growth and development theory rather than trade theory.

In fact, the trade deficit, which Pakistan is witnessing, has similarities elsewhere as well. A recent study by famous economists Amelia Santos and A.P. Thirwall shows that liberalisation in 22 developing countries stimulated export growth but raised import growth more, leading to a worsening of the balance of trade and payments. They argue that despite taking all measures such as removing anti-export-bias, import control, including non-tariff barriers, and exchange rate distortions, liberalisation raised export growth by some 2 percent and import growth by 6 percent with the result that trade balance worsened by 2 percent of GDP. Most astonishingly, their research finds that this has constrained the growth of output and living standards. This means that the findings have important implications for the sequencing and degree of liberalisation for Pakistan as well.

If we look at economic liberalisation processes in Pakistan, then the average tariffs seem to have fallen sharply during the last two decades. These were 120 percent in 1985 and now stand at around 12 percent in 2007-08. The reduction in tariffs also coincides with increase in trade deficit. For example, as compared to the trade deficit being at US $ 1.2 billion in 2001-02, it has reached around US$14 billion in 2008-09. Therefore, it seems that Pakistan has to rely more on private income flows to finance the deficits since reallocation of human, financial, land, and technological resources is not easy and cannot be abrupt. However, other than the remittances, there is a slowdown in foreign capital inflows and investment as well. The total investment fell from 22.5% of GDP in 2006/07 to 19.7% of GDP in 2008/09. In fact, private investment has fallen each year since 2004/05, from 15.7% of GDP in 2004/05 to 13.2% of GDP in 2008/09. These indictors put a question mark before many targets of the trade policy.

In addition, if we look at the growth prospects, the government forecasts that the economy will grow by 3.3% in 2009/10, with growth rising to 4% by 2010/11. While, the agricultural sector is expected to grow by 3.8% in 2009/10, the manufacturing sector by just 1.8% and the services sector by 3.9%, the prospects of a turn-around in production for exports seem not very promising.

According to the Economist Intelligence Unit report on Pakistan, though there has been some form of product diversification in Pakistan with 25% increase in food exports and good performance on cement sector; textile exports continued to decline, falling by 9% year on year. However, rice has shown around 8.2% increase in exports. An interesting development is that engineering sector exports have shown increase of around 26.1%. Therefore, emphasis of the trade policy on engineering sector revitalisation and support must be welcomed though performance monitoring has to go side by side. The use of Pakistan Institute of Trade and Development resources is a good sign of linking research with policy and planning.

However, areas of concern lie in shift of the textile sector to lower value-added production. Data shows that exports of raw cotton grew by 40%, but exports of readymade garments fell by 14%. This deterioration of competitiveness should raise some eyebrows somewhere and such downside risks have implications for longer-term stability of the balance-of-payments position, argues the report by the Economist. India, a major competitor of Pakistan in the textile market, is providing subsidies on textile exports with massive incentives and as a result the Indian textile sector growth rate is 11.6% while Pakistan circles around 3 to 3.5%. The argument is not that Pakistan should also provide subsidies but actually it needs to conduct serious research earmarking priority sectors for product differentiation and also on how the use of subsidies and other incentives should be monitored leading to both production and productivity growth. The need to improve practices and vigilance regarding Afghan Transit Trade is as important as ever for the lifeline of our textile sector.

It is worthwhile to mention that Pakistan has slipped 9 points downwards on the Global Competitiveness Index which listing 134 countries and Pakistan stands at 101 now. The deterioration has been in all of 12 indicators which the index uses to analyse performance showing financial market losing much more. It also shows that the country is poor in higher education and training where it stands at 123 in the comity of 134 nation-states and not so surprisingly the labour market efficiency is low also with standing at rank 121.

While establishing new indicators for performance for monitoring, the strategic framework claims that "by 2012 the competitiveness ranking of Pakistan will improve from 101 to 75".

This is easier said than done while looking at the absence of a 'national system of innovation' which connects the triad of education, industry, and policy.

Last but not least, apart from being a strategic ally and a good friend, Pakistan should learn from China and the USA. Looking at the global recession and fall in global consumption which has impacted the trade balance of China as well, the countries are stimulating local production and consumption. 'Buy America' is one instance. In fact, the 7.9% increase in GDP for China will come from increase in domestic consumption which means that it is seriously increasing linkages between local production and consumption. What Pakistan needs is, to make the framework as success, focus much more on domestic commerce and build local brands, wages, production, consumption – in a nutshell a facilitating social and physical infrastructure for economic development since trade is a collective action of an economy and not only about tariff and subsidy manipulations.

Source: The News on Sunday, political Economy section, August 9, 2009.

Trade Policy: The Human Development Perspective

Domestic and international trade volumes are the functions of an economy. The whole cobweb of human, financial, technological, industrial, agricultural, and political factors play their role in producing specialised surplus for trade. The structure of an economy and system of resource allocation determines whether a country will export low-end potato-chips or become internationally competitive in high-end computer-chips. Success in gaining competitiveness in international trade is not simply a function of comparative advantage but an expression of a multitude of complex factors which help build competitive advantages in diversified range of products through acquisition of technological capability and human capital.

Despite claims from the trade policy orthodoxy that trade liberalisation results in specialisation and ultimately increases the efficient allocation of scarce resources, the issue of purposefully building competitive advantages is crucial. In the words of Albert Hirschman, identification of those products and processes which can create a 'multidimensional conspiracy for development' is of fundamental importance for any national economy which strives to gain from international exposure. Unleashing such potentials is a function of public and private sector synergy working to progressively grow from being 'infants industries' to highly competitive adults.

How can one assess the success of trade policy in Pakistan which shows following liberalisation modalities?

Liberalization, despite the rhetoric of orthodoxy, does not necessarily create a level playing field. It creates a relatively open arena for those who have become stronger and can penetrate foreign markets or can defend domestic share of the market with relative ease. The rest are either cornered or eliminated from the market. Therefore, who gains and who loses is of prime importance under liberalisation. In other words, who, how, and how much will be accumulated, produced and consumed makes a perfect sense for heterodox economic thinking which advocates social efficiency along with economic efficiency of resource allocations.

According to a human development perspective, the analysis of a trade policy has to be undertaken to assess whether the policy has actually increased employment or not other than its impact on economic growth and trade to GDP ratio. Researchers argue that the impact of trade policy on 'sustainability' in terms of environment and other social factors such as health and education, 'empowerment' in terms of employment creation, 'equity' in terms of distribution of opportunities and wealth, and 'productivity' in terms of human capital must be assessed. Such an assessment is conspicuous by its absence in Pakistan.

Though Pakistan is set to announce another trade policy, evaluation of trade policy regimes from a human development perspective is still a hope against hope.

What Pakistan is bracing itself during these times, is a fall in trade to GDP ratio and progressive erosion of competitiveness in key sectors despite 20 odd years of liberalisation and other neoliberal reforms. During this fiscal year 2008-09, Pakistan witnessed exports of US $17.78 billion against the target of $22.1 billion while the imports stood at $34. 82 billion against last year's imports of $ 39.96 billion. Looking at these basic figures on international trade, experts emphasise that Pakistan needs to increase its exports, identify and target new markets, and develop diversified products.

This is however easier said than done in a state which has forgotten to govern both the markets and economic growth. In addition to the declining capacity of the state, an appetite suppressant tight monetary policy is there to reduce aggregate demand in the economy.

As mentioned above, the role of the state is vital in economic change. It is vital in creating an environment for trade benefiting the people and is actually embedded in, apart from providing a stable macro-economic framework, the ability to envision, develop, and execute industry, trade, and technology (ITT) policies which are in sync with the larger economic development objectives of the state. Many experts who approach trade policy from a human and industrial development perspective argue that for an economy to function at optimal level, the state needs to focus on the domestic market expansion as well. They argue that creating backward and forward linkages through inter-sectoral articulation (developing domestic commerce) and wage and skill increases through social articulation are keys for economic success with equity.

Famous trade economist, Dani Rodrik, argues that economic growth can come from three sources. One is from foreign borrowing (Pakistan is one of the examples), the other one is from commodity boom in international market, and the third one comes from economic restructuring and diversification into new products. For Pakistan, during the next couple of years, despite ongoing stabilisation programme, a conscious decision is required to divert administrative and financial resources for diversification of products and destinations.

To do this, what Pakistan needs is to focus on ITT policies and have an active labour policy. Pakistan needs to indentify a mix of products which are can generate higher proportion of increasing returns to scale. A good starting point for such thinking would be to focus on a combination of industrial, agricultural, and livestock sector. For example, Sahiwal and Sargodha are the areas in which 'dairy development cluster' can be most successful. However, for such programmes, governments need to change resource allocations in a big way. For example, in total Rs150 billion has been earmarked for Public Sector Development Programme in Punjab. Out of this, around Rs30 billion will be spent on the Ring Road in Lahore. Lahore indeed is important for many commercial and political reasons but Sargodha and Sahiwal can also create more conducive situation for local market and human development (Kemal, 2009).

Another good proposal could be to earmark research and development subsidies for agro-food industries. However, these subsidies only make rich people more rich if these are not reciprocal to the performance firms show in the domestic and international markets. With successful research and development efforts and as a result of both product and process innovations, Pakistani firms can join global value chains and global production networks in a better way.

While a new trade policy is in the offing, it would not be wrong to suggest that it should not be a mere ritual of tariff and subsidy manipulations but a coherent vision for a structural transformation of the economy. The importance of inter-linkages between industry, trade, technology, and social policies have to be carved out if Pakistan wants to be a successful globaliser dissociating itself to be a laggard.

Source: The News on Sunday, political economy section, July 19, 2009

The Security Continuum

Measures for security emanate from threat perceptions. In many instances, military-risk assessments provide the lens for analysing the capability and resilience of the security apparatus.

At times threat perceptions necessitate having a sufficient number of guards, guns and gun power wrapped in diverse packing, in addition to joining regional or international alliances.

A question arises here is this sufficient to impart a sense of \`security\` to the people in whose name the whole cobweb is woven?

The answer to this question may be \`no\` since a sense of security rests on a continuum. The security continuum spreads across total security on the one hand and total insecurity on the other. At the total insecurity end, the lowest possible level of physical and territorial security accompanies the lowest ebb of human security indicators, coupled with an extreme sense of hopelessness and gloom.

On the other side of the continuum lies an upbeat combination of physical, territorial and human security beaming with hope and happiness. Pakistan keeps sailing somewhere between the two extremes in the continuum with greater reliance on the territorial security apparatus.

As a result of this reliance, amongst other factors, social enemies such as illiteracy and unemployment, poverty and inequality, and disasters and displacements have entrenched themselves as pervasive risks. Pervasive risks are the factors which remain dormant but become destructive guerrillas at a time of crisis. Some analysts argue that the war against terrorism, which supplanted the war against communism, and the global financial meltdown have only unveiled the human insecurity ensemble in Pakistan.

It can be argued that pervasive-risk factors keep Pakistan\`s socio-political nerves tense in the absence of serious and consistent recourse to social protection mechanisms. The sketchy social protection mechanisms which do exist target transient poverty, leaving hardened terrorists such as chronic poverty and inequality unhurt. Research on intra-state violence and conflict alludes to horizontal inequalities within groups as critical factors in the nexus between socio-political vulnerabilities, adverse incorporation and violence.

The presence of pervasive-risk factors somehow explains why more than six per cent of average growth in GDP in a decade does not compensate for the absence of human security. Interestingly, during the GDP surges of the 1960s as well as the new millennium comprehensive security remained an illusion and territorial insecurity emerged as the enemy. This is no accident.

In fact, social and political factors such as presence or absence of democratic freedoms, freedom from fear and want, and life with or without dignity make or break a security apparatus from within. In addition, a democratic dispensation constantly struggling to create equity and empowerment amongst the masses serves as insurance against any downside risks and helps ensure continuity of comprehensive security. Ultimately, in the political milieu, the question must be asked whose security are we talking about? Pakistan needs to find answers to such questions.

Along the continuum of security, technological capability is another important factor. It is reflected not only in the armament industry but also in the international competitiveness of industrial products. Currently, the pervasive-risk factors linked to industrial decline, job losses and energy insecurity may torpedo human security in the medium to longer terms.

The reasons for our failure to acquire technological capability are many. It appears that during the last 20 years, the country has lost touch with the economics of a rational economy — an economy which can govern changes in strategy as well as aid the technological and industrial development objectives of the state. Such objectives need a strategic deployment of economic resources, creating a balance between defence and education. Looking at it from this angle, according to the Human Development in South Asia 2005 report of the Mahbub ul Haq Development Centre, India spends around $23 per capita on education which is almost double its defence spending outlay. Pakistan, meanwhile, spends roughly $21 per capita on defence which is almost twice the budget for education. Despite differences in population and size, it is clear which country has been more successful in at least aiming for that delicate balance between territorial and human security.

On the security continuum, two more factors are important. One is the ideological dimension and the second is governance. Researchers argue that owing to the pursuit of certain types of ideological commitments and governance mechanisms such as low emphasis on provision of justice, Pakistan has drifted towards the insecurity end of the continuum. In fact, a sizeable portion of the NWFP population is experiencing a decline in its natural, infrastructural, financial, physical and social capital stock. Such situations breed chronic poverty. Breaking the vicious inter-generational cycle of chronic poverty demand much-fortified variants of the territorial and human security apparatus.

Last but not least, to come out of the current life-threatening situation the state needs to readjust the strategic intent for comprehensive security. Along with the national judicial policy, the country needs changes in the legislative and the executive branches. This is also a time when civil society organisations must become the harbingers of human security in Pakistan.

Source: The Dawn, Op-Ed, July 14, 2009.

Social Capability for Economic Progress

THE policy makers need to revisit economic growth and development strategies to promote military-industrial and technological advancement.

The geo-strategic and economic situation requires some rethinking from a longer term perspective. Advances in technological capability are also urgently needed for a fast- track precision military operation to target militants.

Despite having made high-technology nuclear weapons and its carriers, the existence of national system of innovation which supports a sustained and cutting edge military-industrial development, is rudimentary or at least highly concentrated.

Since its inception, Pakistan has been trying to build industrial and technological capability for structural transformation of economy (at least till the early 80`s) but building of competitive advantage in high-technology capital goods sectors is still in a prolonged infancy.

In the absence of a well-coordinated industry, trade, and technology policy environment, our technological capability in manufacturing of consumer goods is concentrated in textile, garments, sports and surgical goods. Even development of this sort occurred before our development policy degenerated into export-led growth mantra.

This mantra has ultimately led to an increase in exports of raw and semi-processed items such as rice and cotton yarn. There would be no exaggeration if one argues that despite sizable increase in consumption of telecom products, no local or international manufacturer has been able to locate a viable efficiency advantage in the local mobile phone manufacturing.

The loss of interest in high-technology manufacturing or `falling behind` is not an accident. In fact, the state has failed to develop a coherent vision for industrial and technological advancement supported by viable institutional arrangements to coordinate resource re-allocations for `catching up` with the developed economies.

The state has not been able to generate social capabilities for technological innovation and assimilation, resulting in failure to develop a diversified and technologically competent industrial manufacturing sector.

Moses Abramovitz, in one of his essays has rightly emphasised the role of `social capability` – meaning development of political, financial, commercial, educational, and management-related institutional arrangements for industrial and technological advancement. This situation warrants a serious re-thinking by predominantly neo-liberal economic managers.

The policy makers need to formulate and implement a fundamental shift in the economic change strategy for inclusive growth and economic development. For the wheels of economy to move with equity, the shift has to ensure neo-liberal polices moving towards a developmental state-type strategy.

Essentially it would mean creatively emulating policy designs of the East Asian economies including China and India rather than blindly following the prescriptions of the international finance institutions. In fact, having been structurally adjusted during the last 30 years with much less success in local technological capability, a strategic rethinking is needed.

Over the last 30 years, Pakistan has religiously followed two types of strategic orientations. These orientations have put the country into a quagmire one that of `friendly` religious fundamentalism– both within and without Pakistan in some shape and form—-is a necessary condition for survival and seen as a strategic asset.

Second, neo-liberalism (free-trade free-market fundamentalism) is a necessary and perhaps sufficient condition for economic survival.

Both kinds of orientations — essentially geo-strategic constructs – are lethal and suicidal. They are so because they stand on fallacious assumptions about the consequences of free-circulation of strategic assets, be that a fundamentalist Maulvi or de-regulation of industry, trade, and technology regimes.

Both kinds of fundamentalism if not `governed` by a responsible state through viable institutional arrangements can create a situation of skewed growth, notorious inequality, and entrenched socio-economic exclusion.

Though under such situation, jubilation over possible reforms may occur but that is of socially undesirable elements and sectors which create systems of disempowerment, inequity, and obscurantism.

Most noteworthy aspect is that both the types of fundamentalism create a system of accumulation of power and pelf (economic inequality) without accompanying productive investment in a large body of society. Major causality is that of the state itself which is rolled-back under structural adjustments rather than reformed for a neo-developmental role.

A closer look should reveal that the state as an independent structural arrangement has to be much more of a balancing, poor-centred, and equity-generating factor. In fact, failure of a state to function as an `entrepreneur and conflict manager`, ultimately destabilises the entire polity in which Taliban can become socially competent in comparison with the apparatus of the state.?

Source: The Dawn, Economic and Business Review, June 1, 2009.

Dealing with IDPs

Displacement is too insufficient and perhaps even meaningless a word to convey the traumatic experience of physical dislocation. Sudden dislocation under warlike situations carries the feeling of uncertainty looming large for the terrorised souls. Today, the north-western part of Pakistan is witness to such an excruciating social-psychological trauma. It also sees an unprecedented resilience of local social capital.

In a real Kafkaesque situation, the internally displaced people do not know the crime whose punishment they have been condemned to bear. They do not know when their predicament will cease so that they can safely return, and with viable livelihood options. Perhaps the only worthwhile tool in the survival kit is hope. It is said: Prepare for the worst and hope for the best. Preparations for the worst are useless and inadequate when there are mostly inappropriate shelters and health facilities in many camps with limited or no food. The state of helplessness is painful. Many displaced persons have their wheat crop ready for harvesting but expensive and extremely dangerous return journeys put limit to their social wellbeing.

Knowing the situation, the United Nations has asked for $440 million as immediate assistance for the people who have been uprooted during the war on terror. Beyond the immediate relief, early recovery needs much more than money. It puts the local social capital under a stringent test, along with the administrative capability of the state. In the absence of an explicit social policy, the most tested and bankable asset in Pakistan is the local social capital expressed through a magnificent show of solidarity with the people of Swat, Dir and Malakand. In fact, social capital is the Achilles' heel of our social body which Talibanisation seeks to attack while creating political and social cleavages between and within the state and the society in the name of religion and sharia.

The ghost of physical displacements keeps visiting Pakistan periodically. We met it in 1947, 1965, 1971 and 2005. Therefore, the experience of witnessing displacements is rich. What is inadequate is that level of administrative response, coordination, and information handling capacity which should have by now significantly strengthened. However, as an economist one can argue that Pakistan still needs to achieve a level of sustained economic growth which gives birth to social and political resilience in society and creates multiple levels of preventive capacity in the institutional arrangements of the state.

However, as social policy experts argue, creating social protection and social development infrastructure has not been an activist-like concern of the state in Pakistan. It can be argued that lack of collectivist state-level concern disempowers societies and robs them of possible growth opportunities in managerial and technical capabilities to cope with both the natural and man-made disasters.

The linkage between the welfare or developmental orientation of statecraft and availability of scientific information about people for targeting is simple. Theoretically, a government is accountable to the taxpayer. Money has to be utilised in a monitorable way. The target and processes must be transparent and activity result oriented. Therefore, person and location must be known both for public education and health. We lack this orientation in Pakistan.

The ramifications of a lack of social security and protection polices and functional institutional arrangements are serious. For example, instead of mobilising educational and health departments for registration, the government of Sindh has been reported to start relying on the police. Without entering into a dispute over the need of registration, the politics of choice of office is the case in point. A commonsensical approach can inform that using police stations for registration of internally displaced persons will be harmful and create ethnic distensions in humanitarian work. Despite all good intentions, the regulation of displaced persons can degenerate into highhanded activity of law-enforcement agencies rather than a response of provincial social protection system.

In the current disaster situation, the social capital or social capability which compensates for ineffectiveness of the state through charity and philanthropy is a valuable asset. In fact, under the circumstances, every penny counts and must be shared. The social arsenal of the nation must be well-equipped and efficiently deployed.

Political society in Pakistan, while accommodating IDPs, should try to further build and enrich social capital rather than sabotaging it with political myopia. One good way of building social capital is to develop well-targeted disaster response capacity through the use of meticulously collected health and education data for development in normal times. This will add meaningful functional vitality to existing institutional arrangements such as NDMA and PDMAs. We should not forget that in disaster management it does matter whether you recognise 1.2 million or 2.2 million as displaced and scattered target population. In the longer term, social protection and security designed with precision is difficult but not impossible.

Source: The News, Op-Ed, June 1, 2009.

From Emergency to Opportunity

Pakistan is currently faced with a large-scale human displacement; the largest since 1947. Therefore, the country is witnessing an extraordinary political, social and economic situation that will have a serious impact on its social development. In the short term, the contingency will impact the budgetary allocations; while in the medium to long term, the issue of employment and poverty will resurface.

In this situation, the state has to stretch itself an extra mile for civil-military surge to fill the vacuum of governance in the Taliban-infected areas. Disinfection of fundamentalist toxicity needs both time and resources. It has been reported in the media that during the last six years, around $35 billion had been eaten by counter-insurgency measures, while $5 to $8 billion might be consumed annually on this account without an immediate end in sight. This is an enormous cost for a state that has shown suboptimal performance in governing both growth and poverty in a pro-poor fashion, let alone in a poor-centred way.

However, at the same time, the state has committed to a number of measures under the International Monetary Fund (IMF)-sponsored (read monitored) structural adjustment of the economy, which includes contractionary monetary policy, withdrawal of subsidies from electricity and cut in public sector development expenditure. Directly or indirectly, these measures will reduce growth, and increase unemployment and poverty. Allowing a slight increase in the budget deficit is the only measure of relaxation granted by the IMF for the fiscal year 2009-10 (FY10).

Standing between the devil and the deep sea, Pakistan's economy needs an extraordinary response by the leadership, which needs to make correct estimates of human misery, escalation in transaction costs due to increase in insurance premiums and other input factors. It also needs to pay heed to the requirements and management of diversion of public finance from development to maintenance of law and order.

While the current unrest in the Federally Administered Tribal Areas (Fata) and NWFP has already increased both the direct and indirect costs of running the economy, the massive outflow of internally displace persons (IDPs) is much bigger a challenge for the country than is being estimated at the moment. Most of the reports on the financial outlay for Fata show disparity in development budget allocation in comparison with the rest of the country. It has been reported that Pakistan spends about Rs900 per capita in Fata, while the average for the rest of the country is around Rs2, 000.

Beyond immediate relief and early recovery, rehabilitation of the IDPs in their areas or elsewhere in Pakistan is an issue that would become, if not tackled with a long term vision, monstrous sooner or later. It is feared that most of the IDPs would slide into chronic and persistent poverty, because they will lose vital forms of their capital stock. Some of them would lose human capital, especially breadwinners; while others would lose financial capital, because their savings will be spent on transportation to escape the death traps of the war zone. Still other IDPs would have less social capital left with them, mainly due to social dispersion. Many of them would also lose physical capital, such as households, and access to natural capital, which could have been available in their usual habitat.

Leaving aside disparities in development expenditures between the terrorism-infected areas and the rest of Pakistan, the loss of capital stock or assets is actually a destruction of whatever developmental gains were achieved in those areas. As argued by Prof David Hulme, an expert on chronic poverty, during and post-conflict situation, the disaster-affected persons perforce look at themselves more critically in diachronic way -- comparing their past and present -- and also synchronically while looking at others. Therefore, as a result, the issue of both absolute and relative poverty as well as inequality will resurface in Pakistan.

In the beginning of this article, it was argued that the state is trapped in the type of economic management that assumes monetarists' vision of containing inflation and fiscal deficit. This orientation does not adequately look at the developmental needs of an economy, as well as social efficiencies of public sector investments. Interestingly, for such a management, poverty reduction strategy is more about targeting the 'transient poor', rather than the 'chronic poor'. Hence, the approach emphasises the building of social safety nets.

It has been argued by experts that social safety net approach does not compensate for the absence of a well-structured social policy, and social protection mechanisms that can ensure that both the markets and public action care for the poor. In fact, such detailed mechanisms revolve around a different set of socioeconomic values. Such arrangements realise that there are different types of poverties to be attacked with different policies. The point is, with the business as usual approach, Pakistan's development orientation will fail to effectively respond to the socioeconomic and political challenges it currently faces.

It is believed that a sizable number of the IDPs may lapse into 'chronic poverty' due to destruction of their capital stock. What is needed, therefore, is a different type of social development policy framework, not only for the terror-infected areas but also for the other parts of Pakistan. Trying to control the situation with money-supply will be insufficient and risk-prone, because it will not respond to the central question of socioeconomic vulnerabilities in a long-term perspective.

In this direction of development for eradication of chronic poverty, renowned economists Prof David Hulme and Amartya Sen both emphasise the importance of poor-centred asset building, especially those assets that are resilient and show high economic returns. Admittedly, the unit cost of such a poverty eradication strategy along with targeting is high, but it is worth pursuing a goal. At this moment, Pakistan is facing a complex political and economic situation.

The unfolding spiral of poverty and inequality needs serious attention from the state. It is very important that while responding to emergencies, the central question of capability deprivation is answered. The forthcoming federal budget, to be presented on June 13, must have something to offer, so that at least the first step in this direction could be taken.

Source: The News on Sunday, Political Economy section, May 31, 2009.

The Missing Link

A lot of debate has been generated in Pakistan and elsewhere in the world around the social and environmental impacts of climate change. Scientific estimates and frightening stories of increased flooding, irregular rains, shortening winter and long periods of drought make a string case for climate change mitigation and adaptation strategies. The advocacy for the success of such measures ranges from outright denunciation of economic growth and modernity to escalating development of technological solutions for green-development.

The current thrust of 'growth stimulus' packages in the United Kingdom and United States appears to be tilted in favour of building technological solutions for low carbon intensity development path, without paying much head to the agenda of de-growth politics. However, the situation of the least-developed countries (LDCs) and developing countries in the context of these climate change debates is interesting.

In fact, the LDCs and developing countries are caught in layers of 'triple injustices'. Sajay Vishist, representing Centre for Trade and Development (Centad), argues that firstly, they are not responsible for a large part of carbon emissions; secondly, they are the worst affected (especially the people living in tropical and sub-tropical zones); and thirdly, they have the least capability to engineer and execute adaptation- and mitigation-based development models.

While there is an acceptance of global equity principle under the United Nations Framework Convention on Climate Change, which calls for common but differentiated responsibilities, the thrust of global commitments is far removed from any meaningful commitment by developed countries. In fact, emissions of green-house gases have been reduced in transition economies, but major developed countries have shown an increase in emissions. The US, Canada, New Zealand, Japan and the Netherlands stand in the line of environment culprits.

In the LDCs and developing countries, the debate around climate change is dominated by de-growth environmentalists. For them, the processes of industrialisation-based economic growth did a huge disservice to the world; development in the sense of economic prosperity is an illusion, and beyond the carrying capacity and fragile ecosystems of the Earth. These arguments, however, do not take the agenda of economic change vis-a-vis climate change too far in the context of the LDCs and developing countries.

In fact, the LDCs and developing countries need a sustained economic growth path and technological capability to ensure success of adaptation strategies, both at the local community and corporate industrial levels. In other words, the agenda of climate change adaptation and mitigation needs both improved governance of economic change strategies as well as strengthening of institutional arrangements for technological capability acquisition. Such an important area of strategic intervention should not be left only to de-growth anti-modernity environmentalists.

The case in point is to mainstream climate change adaptation and mitigation strategies while developing industry, trade and technology (ITT) polices. In Pakistan, this issue is not mainstreamed as economic change and development strategies, though it can ultimately build sustainable national capacities to adapt and mitigate adverse impacts of climate change. Predominantly, these are neoliberal policies with strong liking for structural adjustment based on liberalisation, privatisation and stabilisation.

The debate around the role of the state in technological capability acquisition, which formed the core of industrial development strategy, has been set aside. Interestingly, when the UK, France, Germany, Japan and the US were at comparable levels of economic development, they were using all the 'bad policies' of infant industry protection, subsidies and investment management for human and physical asset building of local technological capability development. Most of these ladders of development have now been denied to the developing countries with imposition of conditionalities that demand monetary solutions to much more complex problems of development.

As a result, a major casualty in the LDCs and developing countries are public sector development programmes, which are central to the development push in these countries. For example, rather than increasing and streamlining opportunities of relevant human capital formation through state action, funds for the Higher Education Commission (HEC) have recently been reduced in Pakistan. In short, a strong resolve by the state has been the missing link since the country started experimenting with structural adjustment programmes (SAPs) about three decades ago.

In direct contrast to the 'dictated' approach of the LDCs and developing countries, US President Barack Obama advised his economic managers to "think of what's happening in countries like Spain, Germany and Japan, where they're making real investments in renewable energy." He argued that "they're surging ahead of us, poised to take the lead in these new industries. This is not because they are smarter than us, or work harder than us, or are more innovative than we are. It is because their governments have harnessed their people's hard work and ingenuity with bold investments -- investments that are paying off in good, high-wage jobs."

Similarly, the Center for American Progress, a think-tank with close ties to the Obama administration, called last year for the government to spend $100 billion on various green initiatives. The reward, it calculated, would be two million jobs. In a sharp contrast, even conservative estimates claim that the current SAPs in Pakistan will render at least two million people jobless or below the poverty line in the next couple of years.

In a bid to reduce fiscal deficit, the International Monetary Fund (IMF) has asked the Pakistani government to restrain public expenditures, the burden of which will naturally fall on the poor. It has asked for reduction in the country's fiscal deficit from 7.4 percent of gross domestic product (GDP) to 4.2 percent, through lowering public expenditure, gradually eliminating energy subsidies, raising electricity tariffs by 18 percent and eliminating tax exemptions. Similarly, in Hungary, the IMF has targeted fiscal deficit reductions from 3.4 percent of GDP to 2.5 percent through a fiscal consolidation plan, which involves freezing public sector wages, placing a cap on pension payments and postponing social benefits.

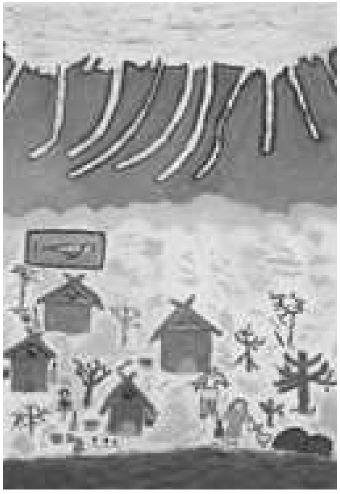
Dr Ha-Joon Chang, in his recent articles in the Guardian, has clearly identified this approach as "economics of hypocrisy"; in the US, the state has nationalised the 'sick' banking industry while providing 'growth stimulus' under protectionist 'Buy America' policy. Such measures will increase the fiscal deficit of the US to about 5 percent of GDP. These are primarily 'bad policies', forbidden for the LDCs and developing countries. The same were also denied to East Asian countries during the 1997-98 economic crisis, when they were asked to keep surplus budgets and let their banks go down the drain.

The IMF claims to have increased social safety nets under a new SAP in Pakistan. However, Bhumika Muchhala, who works with the Third World Network, argues that "in Pakistan the cumulative increase in social spending is 0.3 percent of GDP, whereas the reduction in public spending amounts to 3.2 percent of GDP. While the IMF can accurately say that social safety spending is being doubled in Pakistan, from 0.3 percent to 0.6 percent of GDP, it is overshadowed by the fiscal deficit reduction required by the IMF, from 7.4 percent to 4.2 percent of GDP."

Considering economic change strategies with weak (and skewed) public sector development programmes, increasing poverty and lack of an independent ITT policy, the chances that the state and society will be able to respond effectively to the challenges of climate change are rather bleak. However, the dark forces of 'triple injustices' mentioned above can be converted into opportunities if governments in the LDCs and developing countries invest in the development of technology acquisition platforms for green technological capabilities under climate change adaptation and mitigation strategies, because a way to go beyond de-growth environmentalism is also embedded in this approach.

Source: The News on Sunday, political economy section, May 3, 2009

Need for Inclusive Development



The concept of economic growth and development has been at the centre of planning in both developed and developing countries since World War II. The idea of increasing peoples' choices and social well-being through physical infrastructure and human development forms the core of development interventions. However, the economic growth and development thinking can be divided in two distinct periods, each resulting in different outcomes.

The period between the early1950s and early 1980s is called the 'golden age of capitalism'. During this period, there was significant economic growth and development in most of the developing world. Many countries in different regions of the world made significant progress in industrialising and modernising their economies. East Asian economies later became symbols of growth with equity and inclusive development.

Later, after the oil crisis of the mid-1970s, many countries ran into financial problems and a new economic system, called 'neo-liberalism', overtook the reigns of 'development policy'. Under the ideological supremacy of the neo-liberals, Prof Colin Kirkpatric argues that the economic growth has been divergent, not convergent. Divergent means that some countries were developing fast and had high rates of growth, while many developing countries were languishing behind in the scale of economic development despite implementing the neo-liberal policies.

In the 1990s, Latin America virtually stopped growing, while sub-Saharan Africa witnessed negative growth. According to Prof Jeffery Henderson, in sub-Saharan Africa per capital gross domestic product (GDP) fell by 15 percent during 1980-2000, after having grown by 34 percent during 1960-80. Similarly, in South Asia, high levels of poverty and hunger persist with three-fourths of the region's population living below $2 a day – perching on weak and debilitated physical infrastructures, lack of sustained accumulation of human and financial capital, and ultimately multiple levels of social and economic exclusions.

The purpose of this introduction is to set the stage for the main argument: the growth divergence and a general lack of inclusive development strategies during the last 30 years at the global and regional levels have created a situation in which developing countries will suffer more under the climate change conditions. They will suffer more due to lack of access to technological, financial and human resources for developing adaptation and mitigation strategies. They will suffer more due to huge gaps in development-oriented state-society synergies at the national and local levels, which signals the need for reforming the systems of governance and institutional effectiveness. Moreover, they will suffer more due to a global and national lack of unambiguous resolve to create situations of 'climate justice', which can result in 'poor-centred development' – one step ahead of the 'pro-poor development'.

Under these circumstances, Prof Antony Giddens insists in one of his recent books that the climate change is so serious a threat that it goes beyond the traditional arguments of 'green lobbyists' and anti-modernisation activists. It needs skilful planning and action, while balancing the need for development of resilient infrastructure and national levels of carbon emissions.

In fact, developing countries need to modernise their economies, which entails technological and infrastructural upgrading. In addition, they need environmental share in the global pie for equitable economic growth and development. Therefore, the main idea – without looking into climate change as an issue of economic justice and inclusive development – is that the scary tale of impending climate change-induced disasters does not make social sense, nor is it politically relevant.

As argued by many experts – including Qazi Kholiquzzaman Ahmad, Sperling and Klein – the idea of 'climate justice and inclusive development' has to be made part of Millennium Development Goals (MDGs) and Official Development Assistance (ODA). They have emphasised that support for sustainable livelihood, equitable growth and governance must make the centre of climate change adaptation strategies. To them, adaptation projects are basically 'development projects'.

It is being argued by the World Resource Institute, after surveying about 100 adaptation projects, that climate change adaptation is primarily a call for 'good development' that can respond to the needs of response capacity while addressing the drivers of climate change vulnerability in developing countries. In short, the core argument is that at the global, national and local levels, mainstreaming adaptation strategies must be part of development efforts.

The Government of Punjab recently took a serious note of climate change impacts in important geographical areas of industrial and agricultural significance. However, the state in Pakistan must create policy frameworks in which the powerful socioeconomic and political groups do not privately reap benefits of consuming environmental resources, while increasing vulnerabilities of the poor. In South Asia, the failure of governments to control the 'resource capture' has damaged the capacities of the poor to manage their lives.

While South Asia is highly vulnerable to climate change impacts – such as floods, cyclones, tornadoes, storm surges, saline intrusions, droughts and river bank erosions – there is a strong need for the countries in the region to make a comeback and use the 'collective social will' and 'autonomy' of the state institutions to ensure functioning of equitable and poor-centred inclusive development processes. In the modern economy, only a developmental state with entrepreneurial vision can bring such shifts in economic development situations.

Notwithstanding this, the 'functionality' of institutional arrangements is more critical a factor than the 'forms' they take. Developing countries suffer from the 'form-fetish'. They create bodies (forms) without souls (effective functionality). This practice needs to be changed to effectively and adequately respond to the challenges of climate change with the vision of inclusive development.

Source: The News on Sunday, political economy section, April 19, 2009

Need for a U-turn

The underlying economic structure of any economy is of immense significance. Whether the structure is based on industrial manufacturing capability backed by a well-functioning financial and education system or not determines a large portion of success and failure of an economy. What kind of manufacturers it produces for foreign and domestic trade is profoundly important too. This is the crux of political economy of industrial and trade policy which goes beyond the 'export-led growth' mantra of the Ministry of Commerce in Pakistan.

Dani Rodrik, a brilliant economist based in Harvard, while emphasising the importance of manufacturing capability strengthened with export growth and export diversification argues that "what you exports does matter." It does matter whether a country exports potato chips or computer chips. The point is that a successful trade policy has to work in line with the industrial development objective enshrined in a well thought-out industrial policy.

In Pakistan, the reality of economic strategies is perching on an inverse logic. In Pakistan, according to the Economic Survey of Pakistan 2007-08, the over-arching principles of economic change are embedded in Washington Consensus approach claiming privatisation, stabilisation, and liberalisation as ideal panacea. It further claims that Pakistan does not intend to re-discover industrial policy.

Perhaps, economic managers of Pakistan want to prove that the economic development route of the UK and the USA as well as of the late industrialises in East Asia who staged a development miracle was wrong. They must have first liberalised their economies with the state taking a back seat and then see the "invisible hand" churning out "development" through increased competition in markets. In fact, the now-dominant economic managers in Pakistan believe that "planning and coordination" is less superior a strategy as compared to "market and competition."

The results of this economic policy are interesting. While the average tariff has been reduced from 77 percent in 1985 to 17 percent in 2004 and around 10-12 percent now, the share of Pakistan's world exports actually fell from 0.16 percent in 1990 to 0.15 percent in 2004. In addition, the growth of the manufacturing component of GNP has also declined from 6.9 percent in 2002-03 to 5.4 percent in 2007-08, which is showing further decline. These results show that industrial decline in Pakistan actually started much before the current global financial decline. Historical data also suggests that the output growth in manufacturing, in terms of annual averages, was 15.7 percent in 1950-60 and 13.4 percent in 1960-70, which declined to 4.5 percent in the years 1990-01.

Taking note of such strategies, Prof. Deepak Nayyar, has recently argued that economies are like springs. Hard springs (developed economies) when compressed with openness and cut throat competition, bounce back while soft springs (less developed economies) lose their strength and do not bounce back. Is Pakistan proving to be a soft spring? Answering this question may not be too difficult. However, in any case, the elected democratic government should try to avoid being a soft spring pressed too hard with liberalisation, privatisation, and neo-liberal type stabilisation. The solution lies in industrial policy aided by a strategic trade policy, which develops a framework of selective regional and global integration and local industrial capability.

Looking at from this angle, the issue is that the state of Pakistan needs to come back with economic planning for structural transformation of the economy. The planning should be able to develop a coherent industrial policy, which identifies the priority sectors and facilitates the development of relevant industries. The need is to identify those industries, which can have wide effects on the economy and shift gears of the whole economy, rather than a single industry.

In the last trade policy 2007-08, it was promised that industrial cluster development will be encouraged along with reducing the cost of doing business and creating a better business climate so that poverty eradication takes place. These are noble promises; however these ideals are placed in trade policy while most of these must have been part of national industrial development strategy, which the economic managers of Pakistan have simply refused even to initiate. What matters is that industrial development does not emerge automatically from general manipulations of tariffs, tax cuts, and subsidies. In fact, the industrial development, which has successfully reduced poverty in East Asia, China, and India, has emerged from industrial development, planning and coordination aided by strategic trade policies.

This is a historical fact that all of the now-developed countries have used, both the infant industry protection and promotion policies, to economically develop and transform their economy from agrarian to an industrial economic structure in their catch-up periods. In fact, they industrialised their agriculture sector as well. With the resultant productivity growth, while managing efficiency-equity concerns, they could reduce poverty. Pakistan needs to learn some lessons about "how to govern growth and poverty" with industrial and trade policies from the now-developed countries.

In Pakistan, in the absence of an industrial policy, large-scale manufacturing has recorded an overall negative growth as shown by the data from Federal Bureau of Statistics. Press reports show that overall data for July-Dec 2008-09 depicts a decrease of 4.72 percent over July-Dec 2007-08. Some analysts claim that the decrease in large-scale manufacturing is due to increase in interest rate and power outages, which tend to increase the cost of production. This may be partially true.

Partially, in the sense that such analysis does not explain the institutional environment in which the industrial crisis has actually developed. In fact, the energy crisis in itself is a demise of industrial capability and infrastructure in Pakistan. Some enlightened analysts have argued that the decline in effectiveness of the state apparatus, especially the economic bureaucracy in terms of developing vision, establishing coordination mechanisms and accountable institutional arrangements have precipitated the industrial decline. This decline negatively affects the external trade sector, which cannot capture diversified markets with diversified products.

Interestingly, in one of the addresses at The Federation of Pakistan Chambers of Commerce and Industry, (FPCCI) the Secretary Commerce had announced that the Ministry of Commerce and FPCCI would be partners and not clients. This is a noble announcement and must be appreciated. At the same time, it must be realised that the state has to be sufficiently autonomous and sufficiently efficient so that it is not captured by special interests and can execute an equity-efficiency based public policy agenda.

One can learn from others in this direction. For example, the export promotion organisation in South Korea played a central role in making the Export Oriented Industrialisation (not export led growth which plagues Pakistan) a success story. Under the state and private sector arrangement, the protection and subsidisation was very closely monitored by the state. Monthly reporting from industry to the government was one of the key features. Peter Evans calls this feature as "embedded autonomy" of the state institutions meaning that they were autonomous but at the same time embedded in the private sector organisations so that the state could provide administrative guidance and remove information asymmetries needed for business success.

Another key aspect was that the state could control waste of capital accumulation by comprador class and make productive investments in the priority sectors a reality. In the words of Robert Wade, East Asians created "simulated markets" (as opposed to free-markets) and governed them. No doubt, it requires an efficient, effective, and reasonably honest economic bureaucracy. Pakistan sufficiently lacks a viable administrative infrastructure and is trying to plug the hole of economic waste through de-regulation and liberalisation. Recent researches, however, argue that wholesale liberalisation and de-regulation is neither a question nor answer to the trade and industry related problems of developing countries.

While Pakistan has announced that the next trade policy will be for three years, most of the critics are reluctant to accept the long-term positive effects of such steps. These are at best non-issues, which do not deserve to be headlines. What is required is to develop both the trade and industrial policy jointly with the help of

Planning Commission of Pakistan and bring the hometown of neo-liberalism -- the Ministry of Finance -- on board. The case in point is that the financial system should serve the purposes of industrial development. Interestingly, Pakistan could witness during the last one decade a skewed kind of growth. The financial sector could grow at the rate of around 12-14 percent while industry at around 3-5 percent and agriculture sector at 2-3 percent. These trends necessitate that the economic managers come out of the delirium that services sector such as financial service can take the economy on a long-term growth path. A recent report by the State Bank of Pakistan says services sectors sustainability expands as a result of growth in industrial and manufacturing sector development.

Therefore, the economic managers of Pakistan should try to learn a couple of lessons. First, that an effective and efficient economic bureaucracy and "Weberianness" is required to establish industrial and trade development in developing countries. Second, that trade policy should serve the industrial development objectives of the state and be in line with industrial strategy. Third, that accumulation of capital should not be handed out (privatised) to the comprador class for waste but should be re-invested in a productive way. Last but not least, the state should know that a Washington Consensus based economic growth strategy is not a high road to growth. The state has to come back. Public sector development programmes should be on the forefront to tackle the global recession related issues as well as ensure Pakistan's long-term industrial development capability.

Keynesian economics has many solutions, which are now again being adopted by the US and the UK. Prof Fredrick I Nixson had argued many years ago that neo-liberalism (Washington Consensus) is neither irreversible not irreplaceable. Developed and powerful economies will change the strategies whenever they need. The current "growth stimulus" packages doling out billions of dollars in Europe, China, and the UK, and the US show that the state can come to rescue whenever it is required. It can help induce growth through re-allocation of capital beyond the dictates of free-market and free trade philosophy.

Looking at the past and the present of economic change strategies in Pakistan as well as in other countries, Pakistan's (isolated) trade policy will be inadequate to tackle the issues of export diversification and a sizable increase in both the volume and value of exports. Pakistan needs to re-orient its economic change strategy and bring the state back into pro-active action.

Source: The News on Sunday, political economy section, March 29, 2009.

Beyond Rhetoric…

Popular and policy rhetoric around the challenges posed by climate change calls for concrete steps to implement adaptation strategies in the developing world. The realisation that 'we did not inherit this Earth from our forefathers, but have borrowed it from our next generations' has prompted both environmental activists and capitalist industrialists to go 'green', in order to save the planet and human beings from an untimely yet avoidable atrophy. However, the story does not end here; it is much more complex.

While images of droughts, hunger, cyclones, melting glaciers, forced migrations and human miseries are used to depict the challenges posed by climate change, the global distribution of resource endowments seldom comes to the fore with a solution. Therefore, if we look at climate change from the perspective of political economy and human development, an interesting scenario emerges. The divergence tendencies in global economic growth and development situations exemplify skewed distribution of already scarce resources for adaptation projects: rich countries have not met the promises they made under the Kyoto Protocol, thus poor countries have received only 10 percent of the committed money.

Another interesting aspect is also related to this inequitable distribution of resources. Under the Global Environment Facility of the United Nations, during the last three years, about $700 million have been doled out to China, India and Brazil, while only under $100 million have been given to 49 poorest countries of the world. In this vein, another comparison also carries weight. While rich countries are showing a declining trend of human casualties due to extreme weather conditions, poor countries are still vulnerable to climate change.

The political economy dimensions of climate change are alarming, mainly because of deteriorating environment, and warnings of rising economic costs by deep-ecology and capitalist discourses on climate change. Thus, it is becoming increasingly difficult to ignore the empirical evidence of one degree Celsius rise in temperature, and its impact on the systems of economic productivity and governance. In fact, there is a need to go beyond interpreting climate change as just a shift in weather conditions. For example, the reversal of industrial fortunes since the 1980s, or decline in economic growth due to malaria and HIV/AIDS, has complicated climate change adaptation in poor countries.

In fact, the political economy of success or failure of global climate change management – sprouting out of the history of global growth divergence – can be more intense for the developing world than for the developed one. In a way, 'climate change impacts' re-narrate the story associated with underdevelopment, inequitable growth distribution and ill-conceived economic change strategies; they may involve mindless and arrogant uprooting of people, loss of livelihoods, destruction of stable social structures and increase in crime. Yet another dimension is a protracting and lingering 'war on terror' perching on poverty and deprivation of masses already affected by climate change.

For now-developed countries, climate change may mean developing carbon markets or 'green industrialisation and smart infrastructure' for growth stimulus (as in the United States), but for developing countries it points to a historical lack of adaptation capability and an emergent collapse of human development. For developing countries like Pakistan, climate change means increased visibility of the failure in modernising public infrastructure (transport, health, education, water management, etc); more stress on the state to diversify industrial and agricultural systems of production; and, most importantly, increased need for equitable distribution of natural resources (for example, water) among diverse range of economic and political agents.

Due to persistent economic divergence tendencies – meaning that fruits of global economic growth are being inequitably distributed among countries – and capability divergences – meaning gaps in technological and institutional capabilities – the political economy of climate change shows an interesting pattern. As common sense may also accept, it has been argued in recent researches that the political economy impacts of climate change will be different for developed and developing countries.

After having evaluated half a century of data, it is estimated that one degree Celsius increase in temperature will stifle global economic growth. There will be reduction in both agricultural and industrial value-added products. It can also be safely assumed that there will be decline in both the subsistence level production of agriculture and tradable surplus. For developing countries, the impact of climate change will not only be confined to habitats and livelihoods; foreign direct investment (FDI) to them will also decline due to factors like erosion of domestic growth capability.

The decline in agriculture, industry and investment will be devastating for democracies as well. The National Bureau of Economic Research in the US estimates that the incidences of social unrest due to climate change may result in increased frequency of 'irregular regime changes', including military coups. In short, climate change is much bigger a threat to be left only to environmental cheerleaders and moral turpitude of rich countries.

Climate change demands looking back at the basics of the political economy of development and underdevelopment, as well as of global distribution of resources and capabilities, and going beyond the rhetoric of 'going green'. Climate change adaptation strategies and projects must create another wave of resilient and 'smart' public infrastructure development in developing countries.

This time, however, the state needs to be more active and be prepared to take the agenda of climate change adaptation at the micro-level. It needs to be more active than a macroeconomic incentive-based market-oriented economic change strategy allows; it needs to create state-society and state-individual synergies for climate change adaptation strategies. The governments and public interest organisations attending the Copenhagen Conference on Climate Change (COP 15) in December 2009 must take note that climate change challenges can best be met with advances in equitable economic, human and 'green' infrastructural development processes.

Source: The News on Sunday, political economy section, March 15, 2009.

At What Cost?

The privatisation of state-owned enterprises (SOEs) is on the rise in Pakistan as part of structural adjustment of the economy. Whatever title one likes to give, such as public-private partnership (PPP), the process is designed along the neo-liberal policy prescriptions that paint a rosy picture of the privatisation process as an ideological commitment rather than making a case for equitable economic development.

To make a convincing case, most of the pro-privatisation data is taken from developed countries and the same policy prescriptions are generalised for developing countries. What is eventually presented are exaggerated claims about the virtues of rolling back the role of the state and importance of market price signals. Both these claims are, however, highly contentious, especially if we look at the development experience of other countries, including the East Asia tiger economies.

Just like other countries, in Pakistan, most of the privatisation-related statements try to make 'transparency' of the process a point of prime importance. In fact, public policy blindly and near-religiously (perhaps under advice from the international economic policy establishment) believes in privatisation as a superior kind of economic management that can bring economic prosperity to the country.

It is true that privatisation proceeds have been able to fetch about Rs475 billion since 199, but the state of economy is far from on a steady growth path. The argument here is that even with ensured 'transparency' and use of money earned from selling of state assets for poverty alleviation, privatisation may not yield the desired economic gains, because it is essentially a politically, socially and institutionally wasteful exercise. This argument is especially valid where other options are available.

Therefore, in order to understand the political economy of privatisation, an interesting way could be to understand the process of economic development through an industrial policy design framework. Such insights show that economic change is a process of 'capital accumulation' and 'productive investment'. Prof Nixson, who teaches at the University of Manchester, argues that these two processes are logically separate. Agreeing with Prof Ha-Joon Chang of Cambridge University, one may also say successful economic transformation in modern economy needs a developmental state to coordinate these two processes.

Under the International Monetary Fund (IMF) in Pakistan, it is claimed that the so-called 'free market' automatically creates situations of capital accumulation and productive investment through 'right price' signals. The resultant economic outcome is efficiency gain. However, after looking at the economic growth experience of East Asia, it appears that the role of the state has been more dominant than that acknowledged by the neoliberals. Factually, these economies have not been free market economies, and an embodiment of liberalised and de-regulated system of economic dispensation of society. In fact, the market operations were made to be both socially and politically efficient, and markets were 'governed' in a 'plan rational' way.

The East Asian economies, an embodiment of developmental state, intervened into the market and altered the processes of capital accumulation and productive investment in line with the needs of priority sectors. During the 1990s, when Pakistan was passing through a rigorous phase of privatisation, China was increasing profit margins of SOEs to facilitate economic growth in a coordinated way. It has been recently reported that China is making adjustments in industrial development plans to fight recession elsewhere, providing policy credit to sunrise industries, and re-allocating human capital in both rural and urban production systems.

Although Pakistan cannot replicate what has happened and is happening in East Asia, as well as in India, a lesson can be drawn to seek other options. It has been argued by many contemporary researches that 'change of ownership' does not make much economy-wide positive difference. Comparative analysis between the East Asian and Latin American economies, on the other hand, informs that the state's ability to control capitalists (now called entrepreneurs) from becoming parasitic 'comprador' class is important along with autonomy of the state institutions from regulatory capture. In short, improved economic governance means increased ability of the state to monitor accumulation and investment in the economy.

Considering the politico-economic implications of economic development, what is required as policy is a change in the perception that 'private' and 'public' sectors are competing enterprises. They should not be made to compete, but cooperate through a coordinating agent called the state under a well-defined industrial policy providing administrative guidance for sectoral capital accumulation and productive investment.

Empirical evidence from many countries, including East Asian ones, tells that industrial policy can create social and economic efficiencies (at the systemic levels), while crowding in the private sector through market expansion with increasing returns to scale. This process is difficult than privatising assets even in the most transparent manner, but it offers a path to sustained economic growth.

It must be noted that in Pakistan, as well as in India, privatisation of the telecom sector has increased the role of the private sector, but an unambiguous empirical argument is still lacking that could establish that the increased scale of investment in this sector has actually created a situation for economy-wide long-term equitable economic growth. The central issue is that our public policy seldom twists the 'determinants of long-term equitable economic change'. In fact, the state should actively emphasise technological and managerial capability acquisition in the public and private sectors with which the industrial sector improves and innovates both the products and processes.

It is said that investment increases after privatisation. However, using long-term data, many researches now show that after privatisation in developing countries, investment first increases and then decreases. Prof Paul Cook has mentioned that after privatisation, the government reduces investment in that sector and this may result in infrastructural decay. Hence, privatisation is not the solution. It may be a social and political curse rather than a dividend, as argued by many analysts pointing at the unemployment and price-hikes due to privatisation.

It has been proved by research that 71 percent of non-utility sector privatisation results in negative change in employment. Likewise, in Pakistan, evidence suggests that 44 percent of privatised units showed decline in performance, while 34 percent were later closed. Therefore, Pakistan should try to evolve a good industrial policy that aids economic growth strategy, crowding in both the private and public sectors. The solution is to revisit the processes of 'capital accumulation' and 'productive investment', and explore other options of ensuring equitable economic development.

Source: The News on Sunday, political economy section, March 8, 2009.

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