




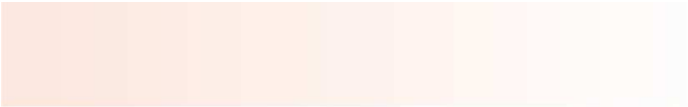
# Focusing Development

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**Zubair Faisal Abbasi**

Principal Consultant

Impact Consulting



Impact Consulting  
540, Street, 105, I-8/4, Islamabad, Pakistan  
Phone & Fax: +92-051-4437300  
info@impactconsulting.com.pk

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Author: Zubair Faisal Abbasi

The third 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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## Pakistan's Economy — In Need of an Ideology

It is argued that Pakistan's economy was on the right track till 2007 and is now paralysed, like a healthy person dying of a sudden heart attack. It is argued that public policy changes were pushing the economy towards a welfare enhancing equilibrium whereas the current government has converted Pakistan into a beggar state. Such claims need to be reassessed.

Alternative views argue that the economy was performing well in dimensions not relevant for a less-developed economy. In fact, it did not fulfil the requirements of a real turnaround in the economy. This view doubts the longer term growth impacts of increase in portfolio investment and highly concentrated foreign direct investments in a few sectors, such as oil and gas and telecom. Rather emphasises, it the importance of the role of the state in governing markets and regulating investments in the direction of the development needs of society.

Another view argues that, for an economy to take a steady growth path, it needs to look into 'imbalances' which go beyond traditional macro-economic imbalances, emphasising that equalities such as income and assets must be taken into account for the robust development of the buying capacity of as many people as possible. It must be noted that imbalances in income and wealth are serious issues for longer term economic growth and development — the global financial crisis has shown this to the world.

Looking at the economic performance of Pakistan over the years, it seems the distribution side of the economy became weaker with a worsening tax-to-GDP ratio which caused imbalances, including a fiscal deficit, over the years. However, while the economy started faltering during 2007, the tax base was not expanded. Instead, simmering problems, such as regulatory capture by special interests, were handed over to the new regime, though the managers remained the same — neoliberals. The argument was simple: to increase the pie, downward distribution of welfare gains of economy must be put on hold. But for how long? No one knew.

Alternative perspectives also argue that the economy has never been triggered to catch GDP growth from increasing innovation in products and processes. At best, it has tried to utilise more land, capital, and labour as sources of increase in production of goods and services. The result is that the economy never became an enviable enterprise in international trade and industrial competitiveness, while integration in the global economy did not expand its range of products.

To fix the economy, as the alternative perspective says, we need to reorganise our economy which goes beyond Washington Consensus type policy prescriptions. We need to build the capacity of the state to function — it needs reforms in entitlements as well as

possession of assets and skills of the bottom 40 per cent. In fact, Pakistan needs to create a new economic ideology and restructure its public finance.

*Source: The Express Herald Tribune, OpEd, November 29, 2010.*

## Free Trade, Anyone

In Pakistan, there is no dearth of people who believe that integration in global economy through removal of protective tariffs and dismantling of regulatory regimes, meaning free trade and free markets can create a turnaround in economy. They argue that having integrated with bigger economies such as US and EU through Free Trade Agreements (FTAs) will do us a number of favours. They say, firstly, it will increase foreign direct investment (FDI), secondly, it will ward off fears of isolation through trade diplomacy and, thirdly, it will give a push to exports from agriculture and industrial outputs.

Such perceptions have been promoted by international development policy experts through donors from outside as well as ambitious national policy makers who seek attractive jobs with international financial institutions. However, there is a need to look into the international experience before jumping onto conclusions and start making efforts to sign an FTA with any country.

There is a need to go for a comprehensive evaluation of FTAs which Pakistan has signed with China, Sri Lanka, Malaysia and the ones it is trying to negotiate with other countries and regions such as the US and EU. The figures shown on balance of payment accounts give us a number of reasons to dig deep into the realities of international trade and see how Pakistan can actually use trade and industrial policy instruments to move up the ladder of value chains and global production networks.

Research studies around bilateral and regional trade agreements, specially the ones undertaken by the Third World Network show that there is no conclusive evidence that FTAs cause an increase in foreign direct investment, especially investment for new projects called green field FDI. The dynamics of FDI are much complex, which range from geo-strategic reasons to the availability of locational and cost-reduction advantages. In the case of Pakistan, there seems to be an interesting relationship between change in geostrategic situations and increase in flow of funds alongside regime changes from civil to military.

Most of the FTAs show that agreements carry WTO-plus provisions such as Singapore Issues (i.e., government procurement, investment, and competition) which were dropped from the WTO agenda during the Doha Round. In fact, countries seeking FTA are subjected to full reciprocity and national treatment (no discrimination between local and foreign firm).

One can imagine how a developing country such as Pakistan can compete with firms from the US without getting out of business. In addition, the state is made unable to regulate the investment patterns of foreign firms making much of investment a footloose enterprise. The provisions in the US-FTAs also rob countries of their sovereign right to give preference to local firms which employ local people under government procurement. This has serious

implications of countries such as Pakistan which need to generate growth stimulus by government procurement in backward regions such as in Balochistan and Southern Punjab.

A drastic feature of FTAs relate to dispute settlement in which foreign firms can take the state to dispute resolution in international courts of justice sending 'chill effects' in the government of less-developed countries.

On exports, there is no conclusive evidence that exports actually increase from less-developed economies to the more-developed ones. There are many reasons for this tendency. Primarily, agricultural commodities are heavily subsidised in the rich regions of EU and the US. Negotiations under FTAs, on removal of such subsidies from agriculture are not possible owing to political factors in big economies. Ultimately, most of the products from less-developed countries cannot compete for increased market access owing to price differentials.

As a result of this, subsidised products from the US and EU enter the markets of less-developed countries which causes decline in prices (consumer welfare?) and people in less-developed countries go out of business. For example, after NAFTA, about 2 million rural jobs in Mexico have gone while serious import surge (in some cases 500 percent) has been witnessed.

After having seen the international experience, it is important that parliamentary oversight is increased in Pakistan. The Standing Committees on trade and commerce, both in the lower and upper houses of the parliament should pay serious heed to the vision and ideology which officials in ministries are following. Pakistan People's Party and coalition partners should not fall a prey to the jargon of those neo-liberals who are entrenched in their ranks. They should make concerted efforts to safeguard interests of the people working in farms, industries, and services sector of Pakistan.

*Source: The News on Sunday – Political Economy section, November 28, 2010.*

## Financing Education for Economic Uplift

Both the theory and practice of development policy establish the fact that education plays a significant role in the economic development. The New Growth Theory espouses that technological capability and innovation emanate as a result of planned and strategic investments in research and development activities.

Specialists in national innovation systems also claim that successful and competitive firms do not seek profit maximising strategies but try to build competitive edge in research for new products, techniques of production and business processes. One important point which runs through the whole argument is the importance of education in building human capital to catch fish in the higher ends of the market.

Pakistan over the years had paid lip service to the idea of national innovation system and is still following the same thinking while financing for higher education is collapsing under structural adjustments of the economy. As the Planning Commission announced cuts in expenditure, the teachers organised strikes which led to `amicable resolution of the issue`.

The resolution was more fascinating than the decision to impose reduction in financial outlays. Who lost in the resolution? These were the students who, though being important stakeholders, were neither in the process of dialogue nor in agenda setting. As expected, the axe fell on scholarships for next year and promising students suffered ultimately.

Two factors were important in getting this undemocratic outcome of the dialogue. One, the absence of organised student bodies and the second a sheer fall in academic standards which do not require students to be acquainted with national policy and planning, let alone critically think and examine issues which affect them.

The system, to a large extent, has degenerated into helping students mug up power point presentations and reproduce them in exams, produce plagiarised essays and get inflated scores with no or little contribution to body of academic literature. This is a very serious situation both in the private and public sector universities.

Therefore, higher education is largely in a state of serious turmoil despite monetary (though insufficient) injections in the past. This is primarily not because of availability of large open spaces in public universities which must be handed over to the private sector for some business activity. The issue is not that accumulation in private hands in itself generates growth momentums which the current leadership in the Planning Commission tends to believe. In fact this is a bad diagnosis and will lead to administration of bad medicine.

In essence, it is due to a general lack of regulatory capacity in the institutions of the state which could link up the banking, government, universities, and industry for development of research and development for rapid economic growth. Economic managers might be



dreaming about some invisible hand coming in to develop such linkages as a result of supply and demand operations in the market.

The empirical evidence from the UK, US, Germany, Japan and other East Asian economies shows that the state has to play a very important role in risk socialisation for investment in research and development which helps economies to take sustained growth path – a path which starts from horse shoemaking to textile to computer hardware to biotechnology and helps develop a robust system of national defence as well.

The Planning Commission needs to think in terms of planning and coordination mechanisms rather than just playing as monetarists manipulating supply of money and leaving everything to the imperfect markets. The current policy and direction of the Planning Commission is bound to play not only bad politics but also bad economics to the detriment of the current democratic regime.

*Source: The Dawn, Economic and Business Review magazine, October 4, 2010*

## **Floods – Inequality and Social Policy**

The devastation of floods in Pakistan is enormous. It is of catastrophic proportions. Truly representative data is being collected to develop estimates but apparently more than one-fifth of Pakistan is trying to cope itself with the erosion of basic public and private infrastructure. Hundreds of kilometres of roads, tube wells, crops, electricity transmitters, cars, cattle, and carts, houses and schools have been damaged apart from the over 1,500 people dead and 20 million displaced. Moreover, around 400 children are missing while nearly 800,000 people remain stranded in floodwaters.

The estimates of the economic costs of this disaster are also enormous. Apparently, the economy will either show a zero or a paltry two per cent growth which can increase unemployment and poverty. The cost of reconstruction and rehabilitation will cause the economy to run on a higher fiscal deficit of between 6-7 per cent with inflation touching 25 per cent or more during the next couple of years. Economists call such a phenomenon in which the economy melts down and then possibly recovers a 'V-shaped' process. However, the point is that the bottom of the possible V-shaped recovery is something which can make or break the state-society relationship and for which the democratic setup has to be very careful.

Practically speaking, disasters do at least three things. First, they challenge the resilience of the social and physical infrastructure of countries. Second, they cause the destruction of both physical and social capital. And third, they provide opportunities to reconstruct the last capital stock. The current floods carry all these three elements. Leaving the engineering and forecasting side of the physical infrastructure aside, it appears that the disaster has unequivocally unearthed vulnerabilities in our social infrastructure.

One set of vulnerabilities has been induced with the deliberate creation of economic, political, and social inequalities. In the name of industrial development, regional, functional, and sectoral inequalities were created which were never properly removed. Such policies fleeced the agriculture and rural development sector without any enviable improvement in the high-productivity industrial sector. The second set of inequalities was dragged in when economic policy was designed on a near-religious belief in the neck-breaking structural adjustment under the Washington Consensus approach. Under the influence of such policies, economic managers of Pakistan are still prepared to scarify socially desirable outcomes of economic growth to the faulty neoliberal logic of efficiency.

Looking at the Gini-coefficient, which is a measure of income inequality amongst individuals, one sees that inequality in rural areas has actually increased over time despite phases of economic growth during the previous regimes. Meanwhile, inequality has also increased among the different regions of the country as well as social groups. Why certain parts of the

country were inundated more than others must raise some eyebrows prompting us to think beyond the dictates of hydrology. There is a definite pattern in the political economy of flooding behind it. The current economic situation requires re-envisioning of the economic development doctrine in Pakistan.

In fact, the state needs to seriously rethink the distribution side growth and economic development strategy even more than singularly focusing on combating inflation. The public finance system requires a robust overhaul with emphasis on restructuring taxation and re-distribution. There is a need to develop a strong and systematic social protection framework instead of relying on the market. The disaster affected people and the country at large needs such corrections otherwise more than a French-revolution-styled revolution, chaos and anarchy might be awaiting us.

*Source: The Express Herald Tribune, Op-Ed. September 28, 2010.*

## **Humanitarian Assistance: Being Untrustworthy in Crisis**

International development organizations recently conveyed us a message that government in Pakistan is untrustworthy and therefore humanitarian aid in desirable quantity is hard to arrange. Many of us accepted the argument and starting divulging additional reasons on international donors being right in avoiding a direly needed bout of foreign assistance. We should try to be critical about such claims which primarily blame the victim.

Let us say, you call us untrustworthy and therefore you refuse to pour money into our kitty so that we fight against the unprecedented calamity on our own. You call our state institutions untrustworthy slipping into the coffin of a failed state. You call us untrustworthy because we got a 'bigger cheque' from the USA and refused the Communists. Had we accepted the smaller cheque and fought the imposed war against you then what we were supposed to be? Traitors? But we accepted the cheque and remained trustworthy till the time cheap gun fodder was needed. The transaction was simple and persuasive. We, the untrustworthy, joined the most 'truthful' arrangements like SEATO/CENTO and remained most aligned nation outside the NATO and fought as frontline state – we remained trustworthy. Now once the war-machine appears to be tired, exhausted, and needs oiling then we become untrustworthy, corrupt, and extortionists. In fact, we were trustworthy for the expansion of military-industrial complex and now when we need humanitarian assistance we are untrustworthy.

Our fragile democracy and a civil government is corrupt and badly elected by the illiterate and ignorant voters. However, we should have the courage to call a spade a spade. Let us be very clear that a significant part of foreign aid is a high political and strategic drama played on the world stage. It follows the logic of strategic alignments not poverty or inequality or under-development. Foreign aid in practice is not always a true reflection of global Keynesianism or humanitarian deployment but very meticulously designed matrix to keep strategic alliances.

A simple question: how much foreign aid is given to Palestinians who are suffering from poverty and exclusion and how much is given to the other side of the divide. Let us have a look at the World Development Indicators issued by the World Bank in 2001. It shows that South Asia received US \$ 3 per person where around 50% of the world poor live while Europe and Central Asia received US \$ 23 per person of foreign assistance. Sub-Saharan Africa got US \$ 20 while the Middle East which has more than five times higher income than South Asia received US \$ 18 per person. Development literature shows that foreign assistance does not respond to development needs but to arbitrary decisions and strategic

alliances. Therefore, we should be very clear about such patterns before naming Pakistanis an untrustworthy nation.

While aid has been political, much of it has actually been used to tease out the desired kind of 'leadership' from the less-developed yet strategically placed countries. Let us ask ourselves, what kind of regimes have been supported in Chile, Pakistan, Afghanistan and a host of other countries. It appears that the main idea was to support 'son-of-a-bitch' but he should be 'our son-of-a-bitch'. The 'trustworthy' governments were installed which suited the vested interests and such installed regimes could thrive only when they captured state resources and diverted them to be aligned with the war-machine of a particular brand. In fact, we are crafty. We know how to engage and disengage. We know how to save our skin and keep our hands clean. We know how to civilize the world with missionary zeal by keeping people in prisons without a fair trial. Here the reference is not to Guantanamo Bay but to the father of Barak Obama who was kept like this in Kenya by Churchill's empire. We know the art of blaming the victim. We intervene with financial and military might, we change the whole power structure, get our work done, and leave the corrupt, extortionist, and deceitful governments behind with the people struggling for 'democracy and justice'. Right? But trust me, I am not untrustworthy, the rest I leave for your imagination.

*Source: The News on Sunday, political Economy section, August 29, 2010.*

## Democracy, Growth and Governance

Populist rhetoric of politicians aside, one often hears a question whether democracy can be expected to generate equitable economic growth and impartial governance. The answers range from democracy being singled out as an external idea, and the state and society unprepared to practice a democratic polity. The current phase of economic crisis and stories of friction between the executive and the judiciary has brought this question on our national political scene once again.

Some argue that self-interest seeking politicians do not make a strong case for democratic governance in Pakistan. Therefore, in order to qualify for a democratic polity, a society needs to fulfil some prerequisites first. In our part of the world, a patronising support from the non-elected institutional arrangements is provided to shake off the non-qualification trap. It ventures to develop 'basic democracy' during the 1960s, fiddle with 'Islamic democracy' during the 1980s, and find pathways for 'sustainable democracy' in 2000s.

Though adjectives before the word democracy are changed in every decade, the debate somehow neglects the central question: what democracy itself envisions for the well-being of society? No doubt, the sphere of democracy encompasses much more than free and fair elections and equality in voting rights. According to Amartya Sen, establishing 'freedoms' which increase both human and systemic capabilities to function is central to the idea of democracy. It is about enabling people, without any discrimination on the basis of caste, creed, religion, gender, and colour to enjoy a full life in the legal, social, economic, and political dimensions.

We need to have a critical look at what democracy can actually help a society to achieve. Despite democracy being a system of immense social value, many researches do not support the argument that democracy necessarily leads to robust economic growth. Empirical evidence, on the contrary, shows that equitable economic growth leads to improvement in the provision of goods and services which create a public demand for improvement in the quality of government and hence an inclusionary democracy. Inequity in distribution despite growth, however, can create a low-trust society drowning in social conflicts. Pakistan has had enough cleavages in the past and still carries wounds from the past.

The point here is not to suggest that since democracy has not been a means of robust economic growth so Pakistan should seek an authoritarian and militarised version of

government. Military dictatorships in Pakistan have been highly partisan, failing to establish autonomy of the state structures.

Instead, there is a need to rationalise expectations from democracy and focus more on how to improve prospects of economic development and the quality of government. Such a focus will make democracy and political participation more meaningful for the people of Pakistan.

In reality, democracy has to travel in two divergent directions. In the first phase, it has to tread upon the path of 'partisanship' to ensure that the aspirants who are chosen by the majority of voters hold public offices. In this process, the political contests create divisive camps. The second phase demands 'impartiality' in the process of implementing rules and regulations by the office holders. Institutional arrangements of the state need to learn how to seamlessly make a transition from 'partisanship' to 'impartiality'. Democracy to be successful as a statecraft, which aims at securing people's trust and respect, must build state institutions as autonomous structures but socially and politically embedded in society.

The embedded autonomy, as Peter Evans calls it, has been a critical component in robust economic growth, especially in East Asian miracle economies. For Pakistan, the point is that despite having democracy, there is no guarantee that an equitable economic development will take root. For a successful turnaround in the financial conditions of state-owned enterprises like the Steel Mills and Railways, such a vision of the state is absolutely necessary. Researches also show that 'big governments' are not necessarily 'bad governments'. The only important point is that whether a government is effective or hostage to special interests.

Forms of institutions matter in democratic polity. However, what matters most is the functionality of institutional arrangements. It is possible to create a replica of the executive (and armed forces), the judiciary, the legislature which are present in the developed world, but becoming a state strong enough to regulate their functioning requires more 'credible commitments'. Such commitments are manifested in low incidence of corruption, the rule of law, accountability, and bureaucratic efficiency along with the ability to guard property and human rights for all citizens without discrimination.

Last but not least, Pakistan as a democratic federation must think how people feel and possibly react if they are not being treated equally and fairly by the state -- neither in economic development nor in systems of governance.

*Source: The News on Sunday, Political Economy section, July 4, 2010.*

## The State and Economic Development

US President Barack Obama in his 2009 inaugural address argued that the key question today was no longer whether a government was too big or too small, but whether it worked. Quality of government matters in economic growth and much can be learnt from this in Pakistan. Rapid economic development is a mixture of capital accumulation and productive investment. Decisions regarding who, where, and how require an entrepreneurial vision of the state. However, resource allocations and re-allocations are not free of disputes and conflicts. An entrepreneurial state requires the capacity to resolve and manage conflicts amongst diverse interest articulations. The adviser on finance in his budget speech has argued that the importance of the budget should not be over-emphasised since managing an economy is an ever-changing phenomenon.

However, it is also true that Pakistan has been consistently following the Washington Consensus approaches since the late 1980s without attaining a sustained economic growth path. Economic managers trying to impose neoliberal economic policies are never tired of 'privatising' to stop the 'bleeding' in the economy. Being trained in the art of handing over capital accumulation from the public to the private sector, they are rarely interested in executing progressive reforms in State Owned Enterprises. They argue that in a failed state like Pakistan this is not possible. But research shows that in less developed countries the private sector can perform better when the government contributes socially competent personnel.

When economic managers are not politically and socially embedded in society, budget-making becomes undemocratic. According to the Centre for Peace and Development Initiatives there have been few meaningful civil society engagements in decisions on social sector budget allocations. This must be a matter of concern for the democratic forces in the country. The taxation system even under the reformed GST is designed to fill the coffers of the rich. Health, education and food are exempt but while establishments such as universities are exempt, labour in these universities will have to be under diverse kind of tax deductions. How can a state which overlooks inequities in the distributive side of the economy generate equitable growth?

Last but not least, the current 'post-martial law regime' shows an interesting similarity with the previous one. Musharraf handcuffed Sharif in 1999 when external debt was at \$32 billion and handed over a \$42 billion debt to the new government in 2007-08; this regime has taken it to \$54 billion. The change of base years to show favourable economic growth scenario is an effective tool serving both the regimes. Perhaps the magic show of creative



accounting does not lie in figures but in the team of experts who must be inherited without any guilt. How figures can change the real face and character of the state also remains a moot point.

*Source: The Express Herald Tribune, Op-Ed. June 8, 2010*

## **Budget: A Tool for Helping the Poor**

Economics has a principle, 'there is no such thing as a free lunch', someone has to pay for it. A component of literature on political economy tries to analyse who foots the bill and who takes away the lunch. Ideally, there must be equity in distribution and no free riders. Economic planning and annual budgets are efforts by the state and its planners to create a society in which productive assets are effectively utilised and welfare gains are distributed in a fair and equitable manner.

The situation that Pakistan currently finds itself in is not enviable by any stretch of the imagination and it is passing through a phase where its resources are being stretched between various competing wants, and cuts and sacrifices have to be made. Unfortunately when this happens, we often find that ordinary people have to bear the brunt. This means that those not well off have to suffer further losses in their standard of living. Furthermore, any accompanying rise in poverty and unemployment affects this segment of the population disproportionately.

From the government and policy-making point of view, those earning wages have to be taxed as well as those who want to expand their commodity-producing capacity — the last must be ready to pay more interest on loans and inputs or go out of business. So the measures that one can expect to see in the budget for next year (which is to be presented in parliament on June 5) would be an increase in tax for small businesses from 20 to 25 per cent, bringing 122 categories under the value added tax (VAT) net and removal of an existing subsidy on electricity of some Rs60 billion.

Clearly, our participation in the war on terror is a drain on the resource pie and is hampering the ability of the government to generate an environment conducive for economic growth. Persistent inflation is a problem as well and this is a symptom of the fiscal deficit, which needs to be slashed to 4.1 per cent of GDP.

Presently, without seriously re-aligning the system of public finance for growth that is pro-poor, all that our economic managers are doing is akin to superficial surgery and the result seems to be a reduction of the public sector development programme by at least 30 per cent. The other measure is an increase in domestic resource mobilisation which seems an ambitious target given that growth during the last fiscal year was a mere 1.2 per cent. How such measures will stimulate growth so that it rises to over four per cent — the level that the government would like it to be for the economy to stabilise — is still under question.

For this purpose, Pakistan needs to give industrialisation of agriculture and manufacturing sector a serious try under a well-thought out economic ideology for development.

So far, without having a coherent vision for economic development since the early 1980s, the structure of economic growth has increased horizontal inequalities in Pakistan. During the first decade of this century many geographical regions were able to achieve faster

growth rate, in particular central Punjab, while others such as parts of Balochistan witnessed an increase in poverty levels and a marked slowdown in growth. The social and political implications of the structure of economic growth need to be addressed in a quicker way so that patterns of inclusive growth for diverse social groups are mainstreamed. The budget is a tool to plan for such transformations but the question is that when will this be done?

The neoliberal ideology of 'rolling back the state' has actually resulted in a deterioration of the institutional arrangements that carry out the economic vision of the state — and these have been rendered dysfunctional. As a result, the quality of the government has suffered. And research has shown that this in turn affects the ability of the government to enact policies that make people not only materially well-off but also happy, because they can promote entrepreneurial spirit, administer social protection, generate employment-led growth, and design resources for conflict management. Our budget may need to address this wider systemic question as well.

*Source: The Express Herald Tribune, Op-Ed. June 4, 2010*

## **Blocking Internet: Intolerant Myopia**

Internet is an open social and political space - a park, where anyone can start a blog, make a profile page on facebook, post status updates on twitter, add photos to flicker, or add information and knowledge content on Wikipedia. However, these websites have rules and regulations. Provisions pertaining to restriction of online content are implemented through complaints that are filed by affected parties. Furthermore, the major websites regulate plagiarism and copyright issues that arise from any post or upload on the internet. The removal of such content is an easy hassle free process, but if not complaint against, can let offensive material stay online for a long period of time.

The challenge of effectively governing cyberspace in real time, when the content is being uploaded is still a question in the realm of internet. Keeping track of hundreds and thousands of pages and a huge bulk of unmanageable data in multiple languages, mirrored at more than one place is an enormous task. At times, this task seems to be ungovernable, which requires huge investments into artificial intelligence and global systems of internet governance.

On the orders of the Lahore High Court, the Pakistan Telecommunication Authority banned all websites that are used either for pictures-sharing, social networking or for searching information and knowledge. Further they are tools for advertising in small business and encourage the exchange of ideas. These websites are neither villains nor heroes for any class, creed, religion or gender. Ironically, a segment of our society has made them out to be weapons of the West and against "our religion".

It appears that the way we have handled the situation is equivalent to killing a friend to show our outrage to an enemy. We have taken out the eyes and ears of our own people to 'register protest' with whom? The Court might have been very effective had they asked the Government to speak to the owner of the page on facebook or it could have used more effective ways instead of creating panic throughout the country and depriving the people their right to information as mentioned in Article 19 of the Constitution. It appears that the voice of a group with political ambitions to grab power are amplified, while the voices which speak of strengthening democratic governance are sent to the zones of silence.

The continuation of democratic safeguards and civic rights must be appropriately addressed. Pakistani state was created by the visionary students of Aligarh University under the tutelage and leadership of Quaid-e-Azam Mohammad Ali Jinnah. The state should not be bogged down by those who want to impose their myopic ideology of hate and 'war against

all'. These political forces are simply after political mileage and capturing power within the state. This intent is most visible in Islamabad where posters appealing to the 'Ummah' are seen encouraging people to react against the state. They are looking to topple the state structure in order to establish their own governance systems. Major analysts today see the facebook-YouTube issues as a stepping stone towards Talibanisation in the mainstream society.

Protecting the rights of citizens to access alternative sources of information to build enlightened understanding is essential for the democratic development of the country. In fact, the constitutional provisions are social contracts and Islam emphasises the importance of Iffa-e-Ahed (keeping the promise even in difficult situations). In this respect, a practice which plagues Pakistan today is that the right option is only chosen as the last option. Without wasting much time, the Supreme Court should take a suo motu action and protect the constitutional rights of the citizens of Pakistan. The Government could be asked to lodge protest with the concerned authorities who regulate the derogatory websites. We should not portray Pakistan as a nation that is intolerant; instead we should work towards making Pakistan a progressive society.

*Source: The Friday Times, May28-June 3, 2010.*

## Doing it Differently on Industry and Trade

The last two years have been witness to a decline in the industrial and trade development fortunes in Pakistan with wide-ranging implications for economic growth and poverty eradication. During the last fiscal year, large scale manufacturing witnessed negative growth of 7 percent while value of imports increased to almost double of the export. The phenomena, however, has a history of policy orientation behind it. In fact, as predicted by a number of experts on trade and industrial development, the rapid liberalisation of trade regimes along with dismantling of industrial policy during the 1990s and 2000s, there has been progressive increase in the trade gap and unsatisfactory performance in attainment of a sustainable industrial competitiveness and development.

Historically speaking, many researchers argue that Pakistan was unable to craft and implement a planned scheme of industrial development and up-gradation leaving continued absence of a national system of innovation. It failed to facilitate and execute inter-sectoral linkages amongst trade, industry, banking, and education sectors which could design the required social infrastructure for sustained economic development. On another account, unlike many late industrializers of East Asia, the role of the state in Pakistan remained questionable in allocation of resources for rapid industrialization and modernization of economy. As mentioned by Dr. Asad Sayeed, the regulatory and financial systems served on the basis of political alignments with the regime instead of creating a genuine entrepreneurial class.

However, after wasting the 1980s despite having massive 'big push' by the public sector from the 1970s, the 1990s were strangled under structural adjustment programmes. It must be noted that during 1990s, there have been frequent settling and unsettling of political regimes with interim governments playing a big role in the management of economy. During this time, a serious effort for implementation of the Washington Consensus approaches wedded to the policies of 'liberalisation, stabilisation, and privatisation'. It focused more on what is called 3D approach e.g., dismantle the state, dis-empower the worker, and Depend on market. The trend continued and the economic management of Pakistan took a slow but sure turn from being predominantly developmental to neoliberal idea system.

Notwithstanding, despite having a structurally adjusted economy, the fortunes of industrial sector have not flourished. The economic management acumen could not bring the required social infrastructure which is essential for pro-poor growth in industrial and commercial capital. There is no exaggeration that this is the industrial and manufacturing

sector which helps create valuable items for exports as well as generates employment and labour utilization potential in an economy. Empirical evidence from many countries including from East Asia and China shows that poverty can be rapidly and substantially be reduced only in those economies which can create a flourishing industrial sector and modernize the agriculture segment.

If we look at Pakistan, during the period between 1999-00 to 2007-08, the growth rate of the banking and finance sector was higher than the industrial and agriculture sector. The commodity and electricity shortages that were witnessed later in 2007-09, are not a product of one or two years rather some critical issues in availability were resolved during the democratic government.

According to Rashid Amjad, Chief Economist of Pakistan, the economic growth in Pakistan has largely been contributed by increased use of factors of production rather than improvement in quality in techniques of using the inputs i.e., increase in total factor productivity (TFP). Improvement in TFP which is possible only when economic planning for labour, technology, and business generation follows a coherent vision for modernization of both industry and agriculture. Empirical evidence tells a boom-burst scenario that despite having a peak growth (19 percent) in 2004-05, the subsequent years 2007-08 could see industrial sector growth nose-diving to 4.8 percent.

It appears that the current economic management needs a politically embedded role of the state to create vision for economic management and follow up the vision with developing appropriate institutional arrangements. Pakistan, despite having vast resources for material progress was not able to create a turn around and catch-up with the industrial world let alone that it could have made a strategy for forging ahead. Historically speaking, there were acts of omission and commission which failed the state to enable itself in playing a more constructive role in trade and industrial development of Pakistan.

In the international development context one can argue that Pakistan needs to go beyond the Millennium Development Goals (MDGs) approach. While these goals emphasize poverty eradication by 2015 does not mention the processes of industrialization and growth of manufacturing sector which can help generate potential for labour utilization. One can suspect that despite being structurally adjusted, many developing countries will not be able to create jobs and upgrade their industrial structures for improvement in trade gaps through value additions. The economic managers (read masters) of Pakistan, need to pay heed to this fact while developing the next five year plan. This is heartening to see that the impending new five year plan has the vision of 'investing in people' which was also the

theme of international conference organized by the Pakistan Institute of Development Economists in Islamabad recently. How much of such a plan can be successful, if we keep 'rolling back the state', is a million dollar question?

Under the circumstances, the democratic Pakistan needs to seriously revisit the trade and industrial development vision if it wishes to develop a high-quality pro-poor economic development which reduces incidence of poverty. Pakistan should learn to manage competition and build inter-sectoral cooperation. Rather than believing in the neoliberal religion of level playing field in which the stronger player perforce wins, Pakistan, borrowing wisdom from Prof. Ha-Joon Chang, needs to understand the analogy of a boxing match. There are different weight categories for different players so that the weak has also the chance of winning a game while playing against an opponent of the same category.

The industrial sector of Pakistan can become competitive in international trade if the banking, government, education, and business sector follow a sensible industrial policy backed by suitable institutional arrangements. Democratic Pakistan would need to deliver on this account for successful poverty eradication -- a poverty eradication which rests on increases in capabilities of social infrastructure to provide employment and social assets beyond basic needs.

*Source: The News on Sunday, Political Economy section, March 28, 2010.*



# Industrial and Trade Development in Pakistan

By Zubair Faisal Abbasi

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The last two years have been witness to a decline in the industrial and trade development fortunes in Pakistan with wide-ranging implication for economic growth. During 2008-2009, large-scale manufacturing witnessed negative growth of 7% while value of imports increased to almost double of the export. The phenomena, however, has a history of policy orientation behind it. In fact, as predicted by a number of international researchers, the rapid liberalization of trade regimes along with dismantling of industrial policy during the late 1990s and 2000s, there has been progressive increase in trade gap and unsatisfactory performance in industrial competitiveness and development.

Historically speaking, many researchers argue that Pakistan was unable to craft and implement a planned scheme of industrial development and up-gradation leaving continued absence of a national system of innovation. It failed to facilitate and execute inter-sectoral linkages amongst trade, industry, banking, and education sectors, which could design the required social infrastructure for sustained economic development. On another account, unlike many late industrializers of East Asia, the role of the State in Pakistan remained questionable in allocation of resources for rapid industrialization and modernization of economy. As mentioned by Dr. Asad Sayeed, the regulatory and financial systems served on the basis of political alignments with the regime instead of creating a genuine entrepreneurial class.

However, after wasting the 1980s despite having massive 'big push' by the public sector from the 1970s, the 1990s were strangulated under structural adjustment programs. It must be noted that during 1990s, there have been frequent settling and unsettling of political regimes with interim governments playing a big role in the management of economy. During this time, a serious effort for implementation of the Washington Consensus approaches wedded to the policies of

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'liberalization, stabilization, and privatization'. It focused more on what is called 3D approach, i.e., Dismantle the State, Dis-empower the worker, and Depend on the market. The trend continued and the economic management of Pakistan took a slow but sure turn from being predominantly developmental to neo-liberal idea system.

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But despite having a structurally adjusted economy, the fortunes of industrial sector have not flourished. The economic management acumen could not bring the required social infrastructure, which is essential for pro-poor growth in industrial and commercial capital. There is no exaggeration that it is the industrial and manufacturing sector, which helps create valuable items for exports as well as generates employment and labor utilization potential in an economy. Empirical evidence from many countries, including from East Asia and China, shows that poverty can rapidly and substantially be reduced only in those economies, which can create a flourishing industrial sector and modernize the agriculture segment.

If we look at Pakistan, during the period between 1999-2000 to 2007-2008, the growth rate of the banking and finance sectors was much higher than the industrial and agriculture sectors. The commodity and electricity shortages that were witnessed later in 2007-2009, are not a product of one or two years. There were acts of omission and commission, which failed the State to enable itself in playing a more constructive role in trade and industrial development of Pakistan.

The current economic management needs a politically embedded role of the State to create vision for economic management and follow up the vision with developing appropriate institutional arrangements. Despite having vast resources for material progress, Pakistan was not able to create a turnaround and catch up with the industrial world, let alone make a strategy to forge ahead. In one sentence, democratic Pakistan needs to seriously revisit the trade and industrial development vision, if it wishes to develop a high-quality pro-poor economic development that reduces the incidence of poverty.

*Zubair Faisal Abbasi is a development economics specialist based in Islamabad, Pakistan.*

A page from - 'Promise, Policy, Performance: Two Years of People's Government 2008-2010' - p. 275 (part II) . The report is a permanent record of the Parliament of Pakistan and was presented by the Prime Minister Gillani.



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540, Street, 105, I-8/4, Islamabad, Pakistan

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[info@impactconsulting.com.pk](mailto:info@impactconsulting.com.pk)