

Peace and its impact

By Kaiser Bengali

*Pak-F. Relati - India
Dough
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THE last few years have not provided the people of Pakistan much cause to cheer. Beginning with sanctions imposed in the wake of the nuclear test, the country has faced woes such as the suspension of constitutional and democratic rule, a macro-economic policy regime that was not sufficiently sensitive to the plight of the poor, pressures with respect to Afghanistan, and eyeball-to-eyeball military confrontation with India.

However, the turn of the year appears to open up several windows of opportunities to inspire hope. In neighbouring Afghanistan, the success of the Loya Jirga in adopting a constitution should bring stability to that country, which will benefit Pakistan. On the domestic front, while there are a number of setbacks and disappointments, there are several favourable straws in the wind as well. These range from democracy to economy to regional peace.

The resolution of the 'LFO crisis' deserves to be welcomed, as it offers hope for a political entente, even if partial. Of course, the terms of the resolution raises several serious concerns. However, there are two redeeming features. The most important aspect of the manner of the resolution of the crisis is that the princi-

The budget deficit and inflation is down, the current account balance is in surplus, and foreign exchange reserves are at a historic high. These are commendable achievements.

However, the economy of the people has yet to benefit from these developments. Investment levels remain stagnant and unemployment and poverty continues to be high and rising. Independent economists have for some years now been highlighting the fact that the thrust of macro-economic policy is contributing to growth in poverty. Fortunately, the stabilization of the economy has now enabled policymakers to begin to address the chronic economic problems of the people. There is some evidence to this effect as well.

The State Bank of Pakistan's Annual Report for 2003 is a refreshingly candid and objective document and reflects the realiza-

work for the implementation of a large number of these projects.

Admittedly, there are problems, but they need and can be sorted out. One problem is that of low-level corruption, where facilities built are substandard and crumble in a few years or even months. Perhaps, the Saudi model can be adopted, where the contractor that builds a facility is also responsible for its maintenance for three years. This ensures quality construction on the part of the contractors in order to avoid repair and reconstruction costs.

The sectors that can readily absorb public investment are urban and rural development, water conservation, rural roads, and housing. All these sectors are labour intensive and have the potential to generate substantial direct and secondary employment opportunities. The city of Karachi alone has

the capacity to absorb at least one billion US dollars in terms of the construction and rehabilitation of its crumbling urban infrastructure. This state of affairs is true of most urban centres in the country; except, perhaps, Islamabad and, to some extent, upper income areas of Lahore. Substantial investments are also called for in the water sector. Pakistan's irrigation system was designed in the 19th century when acreage and crop intensity was low and water availability relatively abundant. The system is based on the principle of flood irrigation, where farms receive water on a rotation basis to the waterlogged areas. Over the last

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The most important aspect of the manner of the resolution of the crisis is that the principle of the supremacy of parliament has been protected. The process has rejected the unilateral insertion of the LFO as part of the Constitution and reaffirmed the exclusive domain of parliament to amend the Constitution.

Further, General Musharraf is now president by virtue of the vote of confidence granted to him by the representatives of the people. The second positive aspect is that the state of uncertainty has ended and the parliament as well as government can now devote due attention to the urgent socio-economic issues facing the people.

While the amendments incorporated into the constitution do have a number of highly disconcerting clauses, there are two positive elements. One is the enhanced representation provided to women in the federal, provincial and local legislatures. There are two benefits to such representation. One is 'forward linkage' effect, i.e., the critical mass factor due to their large number and the consequential impact on the nature of the issues raised in legislative forums and legislation thereof. The other is the 'backward linkage effect', i.e., the influence that the women legislators can begin to wield in their own areas in terms of empowerment of women and in terms of battling the social ills that beset women. Khairpur district in Sindh is an outstanding example of such a process.

The second positive element is the protection it provides to local government for a number of years. For all its teething problems that call for improvements in the structure, functions, administration and fiscal realms, devolution is a success for the sheer reason that it has provided the people direct access to the levels of government that matter to them. However, it can be said that the amendment fails to provide sufficient protection.

Upon the expiry of the protection period, there is no guarantee that a provincial government will not interfere with a local government to suit its purposes. It can, for example, split, merge or redraw the boundaries of a district to bring an opposition Nazim to heel. This is what Margaret Thatcher did in a developed democracy like England and democracy in Pakistan has yet to take root. Consideration, therefore, needs to be given to defining the broad structure, functions and powers of local government in the Constitution.

The second positive straw in the wind relates to the economy. A number of macro-economic indicators show that the economy of the government is now sufficiently stable.

tion in official circles about the need to begin to tackle the problems of unemployment and poverty. The change suggests a fundamental shift in official perception and certain key passages deserve to be reproduced.

The Report states, "It is true that the incidence of poverty in the country has risen from 20 per cent to 33 per cent ... The reversal of this trend cannot take place until economic growth is put back on the trajectory ... and pro-poor policy interventions are faithfully implemented." "The increase in fiscal space ... should be utilized for increasing pro-poor budgetary expenditure to reverse the rising trends in poverty and inequality among the households." "The fall in FY03 development expenditure to GDP ratio was particularly disappointing but the government seems to have recognized this problem." "The governments ability to crowd-in private investment, which is essential to the economy's long-term growth, will depend greatly on its expenditures to improve infrastructure." And so on.

It appears that there is now a convergence between official views and that of the independent economists, i.e., the increased fiscal space should be utilized to finance public infrastructure development so as to crowd-in private investment. The twin effect is certain to raise employment and alleviate chronic poverty. Given that what needs to be done appears to be settled, it is now necessary to take up the issue of how is employment generation and poverty reduction to be achieved.

Clearly, there are and can be several routes to achieving the common goals. Some options can, however, be identified. The key requirement is to raise development expenditure to the level of at least 5 per cent of the GDP or, say, Rs. 250 billion. Needless to say, it is imperative that the fiscal space that is now available is not frittered away in consumption expenditure, as was the case in the 1980s. At the same time, it needs to be emphasized that the temptation to select a few large, capital-intensive 'white-elephant' projects — a la mega-dams — needs to be resisted.

The question that arises is that of choosing the areas of investment. The recently floated argument that the economy does not possess the capacity to absorb additional development expenditure is not tenable. Almost every sector of the economy is crying out for investment. The establishment of local government from the district to the union council levels provides the institutional frame-

gation, where farms receive water on a rotation basis to cover the entire cropped area. Over the last half a century, significant increases have occurred in area under cultivation and double cropping has become the norm; thus, enhancing the demand for water. Correspondingly, the supply of water has remained constant; thereby creating a relative shortage.

There is thus a need for a paradigm shift in the strategy for development of water resources. In addition to lining of water channels, flood-irrigation needs to be gradually replaced with appropriate forms of drip irrigation. Admittedly, drip irrigation is capital-intensive and expensive. However, the investment will accrue substantial long-term benefits. The water saving technology offers the benefit of efficient use of water in irrigating crops and, by reducing water seepage, can serve to control water-logging and salinity. Lining of water channels will itself generate employment, while reclamation of thousands of hectares of lands lost to water-logging and salinity, will enhance crop production, with its positive impact on rural employment and incomes.

The third straw in the wind that offers hope is the prospect of regional peace. There have been several statesman-like moves from both the Indian and Pakistani leadership. These measures have been substantive and, in many cases, are not easily reversible. The ceasefire in Kashmir, the resumption of air links, and Prime Minister Vajpayee's Islamabad visit constitute important milestones. Clearly, there is broad and widespread public support for normalization of relations. The warmongers in both the countries have effectively been sidelined and even hardliners have been forced to make pacific statements so as not to be left out in the cold. However, the peace momentum will need to be cemented, continuously supported and taken forward.

There are two positive impacts of peace. One is the 'forward linkage' effect, i.e., peace will enable the people of both the countries to benefit from the substantial dividends offered by travel and trade. Families that have been divided can hope to see each other more easily and Pakistan will not have to import iron ore from Australia. The other is the 'backward linkage' effect, i.e., the end of the 'hate and war' culture in both the countries will serve to neutralize the extremist mindsets stirring up divisive domestic issues and offer dividends in terms of domestic peace and harmony. Both these impacts are now realizable. 2004 promises to be the year of hope on more than one front.