

# What ails our economy

Pak. Eco Dawn 5-3-03

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AFTER three years of the Musharraf government's all-powerful rule in which it launched several reform programmes aimed at reviving the economy, the national economy continues to show signs of sluggishness and low growth. The average GDP growth rate for the three years of Musharraf government plummeted further to 3.2 per cent from 4.6 per cent average of the 90s, which is often referred to as the lost decade by General Musharraf.

It may be of interest that during the Nawaz government, GDP increased from 1.7 per cent (1997) to 4.2 per cent (1999), despite the sanctions clamped on Pakistan in its last year. While we may have succeeded in reducing the fiscal deficit and inflation, we must squarely face the problems of low growth, low levels of investments and savings, stagnant exports, and the growing poverty crisis.

★ Pakistan is the only economy in South Asia whose Gross National Income (GNI) and per capita income have shrunk in the last five years. Pakistan's per capita income has declined from \$480 in 1997 to \$420 in 2001 and GNI from \$62 billion to \$59.6 billion. India's per capita income during this period increased from

\$380 to \$440, Bangladesh's from \$340 to \$370, and Sri Lanka's from \$790 to \$830. This contraction has created serious structural imbalances, pushing poverty to record levels. Against this backdrop, there are both economic and security imperatives which require us to study the causes of Pakistan's poor economic performance and find urgent solutions.

and dismissal of governments also played havoc with the institutional framework and governance in the country often resulting in major policy reversals and shocks.

Usually, the debate on the missed economic opportunities, of Pakistan, which possesses all the necessary ingredients of a strong economy — like fertile land, water, human resource, energy, minerals, coastline, modern telecommunications and industrial infrastructure — focuses on pure economic issues such as debt, exports, savings, investments, and tax collection. But such a debate overlooks some very basic and important dimensions/linkages, without which a strong economic infrastructure cannot be created nor recovery achieved. Here I intend to explore some of these areas.

Before we identify some weaknesses of our economy, it is important to understand

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The first and the most basic problem of our economy has been lack of continuity of political policies. Political stability precedes economic development, without which even the best of policies will fail. The cost of policy reversals and changes for us has been even greater than the cost of corruption. Another factor has been lack of strategic vision in our economic planning.

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the new and emerging economic context, which demands a paradigm shift in our economic thinking and planning. It requires new mental models and approaches for economic development and growth. The dawn of the twenty-first century marks the end of the era of the industrial revolution which spurred economic growth for the last two-and-a-half centuries. A new "Knowledge and Information Revolution era" has emerged

which even the best of policies will fail. The cost of policy reversals and changes for us has been even greater than the cost of corruption. The second factor is lack of strategic vision in our economic planning. In 1965, Pakistan's manufactured exports of \$200 million were equal to the combined manufactured exports of South Korea, Malaysia, and Thailand.

We pursued import substitution policies while East Asia adopted export-oriented policies. The result was that we manufactured goods for our domestic market and to suit local standards, while those countries made goods for world markets meeting international standards. Consequently, by 1996, our manufactured exports had risen only to five billion dollars while South Korea's increased to over \$ 77 billion, Malaysia's to over \$ 32 billion, and Thailand's over \$ 29 billion.

If we look at our export portfolio, we find that we are marginally present in seven out of the world's 40 biggest import categories and marginally in three out of the 40 fastest growing categories. We are not where the action is. We are stuck with a commodity-type portfolio, whose prices have crashed because of globalization.

Therefore, we need to restructure our productive base in both agriculture and industry towards value addition in order to target export growth markets. In agriculture, there is a great potential

in fruits, vegetables, horticulture, and herbal and exotic products. In industry, we need to create new engines of growth besides textiles based on agro-industry, chemicals, engineering, electronics, and IT. Moreover, we need to be part of regional economic blocs.

The third challenge is building a social infrastructure that can support the building of a knowledge-based society and economy.

solutions.

People are often told that Pakistan's poor economic performance has been due to the poor policies of democratic governments. But, the truth is not so simple. The two long economic growth eras of Ayub Khan and Ziaul haq owe much to the stable political environment and massive injection of foreign aid by the US for the frontline state role which both rulers played to serve Washington's interests. If any democratic regime had been allowed such long tenures with generous inflows of foreign aid, the results could have been much better. On the other hand, during the '90s democratic regimes were put on a roller coaster path by not allowing a tenure of more than two-and-a-half years to any government. There were eleven prime ministers sworn in between 1985 and 1999.

As soon as democracy was restored, Pakistan was subjected to the Pressler amendment as its frontline state role had ceased with the withdrawal of the erstwhile Soviet Union from Afghanistan. This shut the doors of foreign aid and concessional military supplies. The democratic governments were now forced by multilateral financial institutions to comply with harsh conditionalities in order to qualify for financial assistance.

Throughout the '80s, the military government continued to borrow domestically at 0.5 per cent to meet budget deficits, but during the '90s democratic governments were forced to correct this anomaly in one go by borrowing at the market rate, which increased the debt servicing cost greatly. Moreover, the concessional military supplies were no longer available and had to be purchased from the open market at much higher prices, which put an additional burden on the budgets. Frequent attacks on institutions

and a-half centuries. A new "Knowledge and Information Revolution era" has emerged, making knowledge the new paradigm of wealth creation. Democratization of information and investment has changed the rules of business.

Traditional factors of production such as natural resources and capital have fallen out of the competitive equation. Today, knowledge and skills alone stand as the only source of real comparative advantage. Globalization is changing the nature of world markets, competition, and management. WTO has set in a new borderless world trade order, which most of the developing countries have signed without fully understanding its implications. New regional blocs are emerging to provide companies bigger home market advantages in order to be globally competitive.

By 2010, over ninety per cent trade will be either inter- or intra- regional. Quality and productivity are new keys to success for winning economies. In this fast-paced changing world, speed decides the fate of business companies. Previously, big used to eat small but now fast will edge out slow. Change is the new order; fates of societies depend on whether they undertake proactive change, reactive change, or keep wondering about what has changed. It was in this direction that Pakistan Vision 2010 was launched in 1998. Unfortunately, General Musharraf's government disbanded this initiative because it was launched by the Nawaz Sharif government, and we like to uproot even hand pumps installed by our opponents. Interestingly, India launched its Vision 2020 on Jan 23, 2003.

This brings us to the first and the most basic problem of our economy — lack of continuity of political policies. Political stability precedes economic development, without

infrastructure that can support the building of a knowledge-based society and economy. Despite being a nuclear power, we are ranked 135th in the HR Index and sixth in the seven countries of South Asia. In education, we are still confused about the system we should adopt. There is not a single country in the world that has developed by making a foreign language its basic medium of learning. A nation whose language of thinking and speaking is not the same is always at a disadvantage.

This is not to suggest that we abandon English language instruction, but that the prime medium of education must be our national language so that we can tap the full creative potential of our youth. The curriculum needs to be revised and standardized to stimulate inquiry, creativity, and enterprise. Public sector education must be reformed to once again start offering quality education to talented children from the lower and middle classes. Societies that prosper are ones which allow equal opportunities of growth for lower social strata and which provide the impetus for progress, innovation and change: the children of the elite only do a good job of maintaining the status-quo.

We also need to establish linkages of our productive sectors with education and research. The textile sector accounts for over 60 per cent of our exports, but there are only five PhDs in textile technology out of 2,000 PhDs in science and technology in the country. Vocational and skill-related education is almost non-existent; the education system is churning out scores of thousands of matriculates and graduates with general education for whom there is no demand.

### To be concluded

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