ISAS Brief

No. 470 – 28 April 2017
Institute of South Asian Studies
National University of Singapore
29 Heng Mui Keng Terrace
#08-06 (Block B)
Singapore 119620
Tel: (65) 6516 4239 Fax: (65) 6776 7505
www.isas.nus.edu.sg
http://southasiandiaspora.org

Economic Planning and Development in South Asia: 'Walking On Two Legs'

The economy of Pakistan has achieved a modicum of vibrancy that is commendable. The initial emphasis on rapid growth has over time given way to a combination of trust in market forces, combined with the widening of the social safety net to cover the underprivileged. The author has called this policy thrust 'walking on two legs'. However, the agriculture sector is deserving of greater focus, and its potentials are yet to be fully realized. The article briefly analyses the current global economic backdrop of the economic scene including the role of the massive Chinese investments. It argues in favour of a wider regional approach to development in South Asia, which would redound to the benefit of all concerned.

Iftekhar Ahmed Chowdhury[1]

Economic development in South Asia has a rich and colourful history. Two of these countries, Pakistan and Bangladesh have had a shared experience for nearly quarter of a century since Pakistan became a Dominion in August 1947, till December 1971 when its eastern wing, Bangladesh, emerged as an independent and sovereign nation. This essay will mainly focus on Pakistan, as the paper is being presented on the launch of the ninth Annual

[1] Dr Iftekhar Ahmed Chowdhury is Principal Research Fellow at the Institute of South Asian Studies (ISAS), an autonomous research institute at the National University of Singapore. He can be contacted at isasiac@nus.edu.sg. The author, not ISAS, is liable for the facts cited and opinions expressed in this paper.

Report on the Pakistan Economy, with the author presiding as Chair of the panel. The main emphases of this Report is Pakistan's current state of agriculture, underscoring the importance of issues dealing with water as well. Nonetheless, given the author's background experience some comparison with Bangladesh would be unavoidable. It would also be relevant. Particularly because of the penchant of the policy –makers at the outset for what was known as 'mixed economy', a capitalist intellectual tradition strongly influenced by a socially oriented sense of responsibility. It was what the author had once described as 'walking on two legs'; allowing the market to play its role, yet casting the social net wide enough to try salvage those who have failed the grade. This would be akin to European social democracy rendered extremely market-friendly to provide a kinetic fillip to rapid growth, deeply informed and influenced by prevalent South Asian norms and values.

Those days, still into the first two decades of Pakistan's economic growth was considered of utmost importance. The strategy followed was influenced by the Harrod Domar model. It was one of promoting rapid industrialization under the ownership and control of the rising capitalist class, with assistance from the government at home and friendly foreign states. It was presumed that the benefits of growth would 'trickle down' to the depressed sections of the Community. In the words of Dr Mahbubul Huq, Pakistani planners believed that "it is well to recognise that economic growth is a brutal, sordid process. There are no short cuts to it. The essence of it lies in the labourer producing more than he is allowed to consume for his immediate needs, and to invest and reinvest the surplus thus obtained". The formulation of detailed plans, with specific output targets and carefully designed investment profits, has often been a necessary condition for the receipt of external assistance, so key to the economy.

It was key because the received wisdom among policy makers was Paul Rosenstein –Rodan's 'Big Push' theory. It favoured planned large-scale investments in industrialization in countries with surplus workforce in agriculture in order to take advantage of network effects, viz. economies of scale and scope to escape the 'low-level equilibrium trap'. Hence the need for large doses of funds. Interestingly, much of it is not coming in the traditional form of foreign aid. One can refer for instance to the US $46 billion or so for the China Pakistan Economic Corridor, a part of its 'Road –Belt Initiative', which is very much part of the contemporary issues for South Asia.

It is natural that there should be a healthy public debate about economic development in a vibrant polity. Pakistan is no exception. There has been national and international appreciation about its reserves; the stability of the Pakistani rupee, the low inflation, the booming stock market, and the rapidly increasing revenue receipts. At the same time there is also concern reflected in discussions about rising debt burdens flowing, among others, from unproductive borrowings, declining national exports, excessive regulation and the need to strengthen competitiveness. Governance deficits evidenced in corruption, inadequate protection of property rights and frequency of terrorist incidents find frequent mention.

The Burki Institute of Public Policy (BIPP) Report on the 'State of Pakistan Economy', the ninth of its kind, is an excellent gist that encapsulates all this in a single lucid compendium. At the same time, it provides the necessary thrust where it is due. It recognizes that much of Pakistan still lives in the villages, and emphasizes the importance of agriculture. As before, there are two segments. In this case the first reviews the economy and the second, focussing on agriculture and water, examines at length how the sector can be used to revive the overall economy. The sad decline from the 'Green Revolution' of the Ayub era to the current anaemic pace of growth at less than 3 % annually for some years most certainly points to a structural issue and requires a well calibrated interventionist model to break its binding clap-trap. The case for it is strongly argued in the report. There is a new area which complements the old agricultural sector, that is the information and communication technologies, and the report argues for sharper policy attention to it. Along the line the report makes the interesting observation that Pakistan is richer than what the official statistics tend to tell.

However the examination of Pakistani economy must also be conducted against a shifting global backdrop. As a famous onetime citizen of Lahore, the author Rudyard Kipling had once said: What do they of England know, who only England know? So what is there to know about the world around us that will impact on Pakistan's development? We will come to that shortly.

But before that it would not be out of place to make a few brief remarks about the experience of my own country, Bangladesh. The Bangladesh story is worth sharing .Between 1947 and 1971 the same policies were applicable to us as well. After 1971 for a while the Harrod Domar Model continued to influence Bangladeshi planners and policy makers and no sharp structural changes were envisaged. But rigour was added to the model by complementing it with a multi-sector input-output table and linear programming techniques. Eventually the socialist values gave way to the opening up of the economy. What was once considered a 'basket –case' by Henry Kissinger is now poised to become a middle income country by

2021. From raw jute export, the shift to garments, pharmaceuticals, and ship building was swift. Buttressed by remittances from workers abroad, private sector and civil society contributions, development of micro-credit and micro-enterprises, and empowerment of women, it managed to reduce the share of aid as a percentage of GDP from 6% in 1980s to less than 2% now. Still there is no room for complacency and challenges remain, hence the World Bank coinage of the term the "Bangladesh paradox".

What then of the global matrix, so important for both Pakistan, Bangladesh and so many others of comparable milieu? It is rapidly changing, but how? First, the most major force in the global economy, the US is turning increasingly protectionist and isolationist; for America it seems that globalization is for now in retreat and the Adam Smith –David Ricardo classical canon that trade is the basis of wealth because it makes nations more efficient with each doing what it does best, the idea that for over two centuries had underpinned western economic philosophy, is facing a blow back. Second, newer players such as China are changing roles and becoming champions of globalization. There is of course the China Dream or *Zhung Guomeng* in Mandarin, and the Chinese initiatives are in consonance with it, but the Chinese are moving to fill in the vacuum somewhat reluctantly: Third, the norm setting global institutions such as the World Trading Organization and the Bretton Woods institutions are likely to be severely impeded in their traditional functions. Instead, we are witnessing the rise of new institutions such as the Beijing-led Asian Investment Infrastructural Bank.

At a recent joint ISAS-BIPP Workshop in Lahore[2], the author, for these very reasons, had made a strong pitch in favour of a wider regional approach to development in South Asia. Indeed on a wider scale, there is potential for development of a synergy between South Asia and South East Asia, with the various Chinese initiatives, which should be done in an interactive process, without excessive dependence upon China. This, learning from the past, when we relied too much on the West. At all times, we must bear in mind the wisdom in the adage, if you want to go fast go alone; but if you want to go far go together.

. . . . .

[2] The event was held in pursuance of a Memorandum of Understanding between the two Institutes. It was entitled "South Asia: Changes on the Global Matrix'.