PREPARING PAKISTAN FOR MEETING THE CHALLENGES OF THE 21st CENTURY

ISHRAT HUSAIN [1]

INTRODUCTION

The three decades 1990-2020 (despite the set backs of the Global financial crisis of 2009 and the pandemic of 2019) have resulted in remarkable gains for the Emerging and Developing Countries (EDCs). The hollowing out of the Soviet economy followed by the disintegration of the Soviet Union itself gave impetus to the trend of Deregulation, Privatization and Liberalization which was being followed by Japan, Korea, Singapore, Hong Kong and Taiwan .This trend was then emulated by the larger East Asian countries of Malaysia, Indonesia, Thailand the Philippines. The major and unprecedented break through came when China, the most populous country in the world , under the leadership of Deng Xiao Peng completely changed its development paradigm by integrating itself with the world economy, attracting foreign private investment, assimilating Western technology, and unshackling the private

[1] Keynote address delivered at 11th Asian Management Research and Case Conference held at LUMS, Lahore on January 12th, 2024

farmers and firms to participate in the production and distribution of goods and services. India, the next populous country, faced with serious balance of payments crisis took a bold step of dismantling its Licence Raj and opened up its economy abandoning the State Controlled centrally planned inward orientation model of development. With East Asian countries already making sustained progress, the proponents of Globalization got an upper hand with the two largest emerging economies also falling in line.. The impact of globalisation transmitted through trade in goods and services, capital flows, working ideas and people and Technology have been by and large beneficial for the developing countries on aggregate basis in fostering growth, alleviation poverty, reducing unemployment and improving social indicators. Most emerging and developing countries made great strides in the period between 1990-2010 until the Global financial crisis unraveled. As chronicled by Steve Radelet in his book “The Great Surge”, while Pakistan has fallen behind, India, Bangladesh, Sri Lanka, Vietnam etc. have made significant progress in the same period. Since 1995, real GDP of Emerging and Developing countries (EDCs) has grown by 4.7 percent on average annually and per capita incomes have increased by more than 70 percent between1995- 2013. On population weighted basis, excluding China, the increase is about 90 percent.

Consequently, the relative share of EDCs in the global GDP (measured at purchasing power parity) has increased to 57 percent in 2014. The number of poor living at $1.90 per day has halved from 2 billion in 1990 to 897 million by 2012, bringing down the share of poor people in the total population from 37 to 13 percent in 2012. The number of people living in low human development fell from 3 billion in 1990 to slightly more than 1 billion in 2014. The share of EDCs in the world exports rose from 24 to 41 percent in this period. International capital flows jumped from $91 billion to $1145 billion. All social indicators such as life expectancy, maternal mortality, infant mortality, adult literacy, net enrolment ratios, and average years of schooling have shown significant improvements. In Pakistan there is a group of economists and commentators who felt that Pakistan has suffered because of globalization whose proxy in this case was the IMF. Evidence points that this hypothesis has no empirical validity as other countries in the neighborhood who were lagging behind Pakistan have taken advantage of the dynamic global economy in the same period to bring improvements in the living standards of the majority of their masses.

The last decade, since Global economic crisis of 2009/10 has , however, been marked by the weakening of the drivers of globalisation that had helped EDCs in increasing their participation

in the world economy and benefitting from it. The main factors responsible for this weakening are: (a) Demographic transition: aging population in the advanced countries and younger population in the developing countries. (b) Shift in economic power from the US to China which is projected to become world's largest single economy (in nominal US dollar term; it already is ahead of the US in PPP$ terms) by 2035 or near about. The forces propelling protectionism are likely to retard the trade flows which had helped China, East Asian countries and other EDCs to improve the living standards of their population (c) Speed of Technology dissemination, diffusion and absorption - the internet, software application, rising connectivity and networks, the high speed mobile phones, ECommerce, cloud computing and data analysis have spread throughout the developing countries. However, the Digital Divide is widening as many countries lag in critical areas such as use of electronic payments, mobile money transfers, E Government and Fintech (d), Information explosion - human knowledge gets obsolescent every few years. New knowledge and ideas that are expanding exponentially have to be sorted, screened and selected for their relevance and efficacy in a growing environment of misinformation and fake news .. (e) Climate change risk- global warming and associated greenhouse emission are affecting the

food, energy and water resources of developing countries. (f) Financial integration- the interdependence and linkages have become stronger over time

Currents of Deglobalisation

This growing dissatisfaction with globalisation has been further accentuated by the US policy under President Trump that has been more or less continued by the Biden administration. Make American great again (MAGA) is in fact plea for retreat from international trade. Strict immigration controls against the entry of potential Mexican and Central American migrants have slowed down the movement of workers which are badly needed by the US farms, service industry, construction and other menial jobs shirked by the American citizens. The directives given to the Global banks not to carry out transactions with the sanctioned States, the denial of access to SWIFT and the freezing of Central Bank reserves have created question mark about the future of international capital flows to developing countries. Disallowing HUAWEI from doing business in the US and several other countries, weakening of global supply chains have serious repercussions for the transfer of technology to EDCs in the future. A new variant of cold war in which the developing countries may be forced to make choices to align themselves with

the US or China for accessing emerging technologies cannot be ruled out.. One of the main assumptions of globalization was that dismantling of barriers and opening up of borders would spread its benefits to the majority of the people in all parts of the world but this is unlikely to happen. On the contrary, nationalism and protectionist tendencies have gained ascendancy in the Western countries.. Both Trump and Biden Administrations have given incentives for buying American goods and placing high tariffs on the Chinese imported goods.

In designing the future course of development the EDCs have to recognize that the relatively open trade regime that characterized the global economy between 1982-2010 is gradually giving rise to protectionism. Goods flows grew more slowly at 0. 8 percent while the GDP growth was 2.6 percent annually between 2012-20 as compared to the earlier trend of International goods trade growing twice as fast as the Global GDP growth. . In last two years restrictions on products of the IT goods sector grew five times faster than trade restrictions overall. Trade in IT goods and intermediates as a share of GDP declined by 5 percent.

The consequences of 2009/10 global financial crisis, the tapering of quantitative easing by the Western Central banks, the synchronous

monetary tightening and hike in policy rates by the Fed and ECB, the strengthening of the US dollar and the domination of the Fed Reserve in international payment system have created difficulties for developing countries in managing their external accounts. Rising flows of FDI to developing countries would no longer be available at the same level or patterns as in the earlier three decades.

World's major markets are on the steady low growth path and therefore exports from developing countries may not show the same shin or buoyancy.. The global value chain (GVCs) are no longer in ascendancy as they were before. Migration would be selective--restricted mainly for skilled and semi- skilled workers who can fill in gaps in the labour force spectrum .

The cornering of raw material sources for renewable energy provision such as the batteries and concentration of semi conductors fabrication and chips in few countries along with restrictions on trade of IT goods would also have negative consequences for the majority of developing countries. While China, Congo, Indonesia, Chile, Peru may benefit from their reserves of Lithium, Cobalt, Nickel, Copper etc others would be at the receiving end . Pakistan can also benefit if it maximizes its copper ore extraction at a large scale

In light of this recent experience of weakening of drivers of globalization and considering these future risks there are among others at least three major issues that should inform our future course of action and the specific measures that need to be taken to prepare ourselves for meeting these challenges. Due to limitation of time I would focus on three challenges among many i.e. income inequalities, technological disruption and climate risks.

Income Inequalities

A biting indictment against globalization is rising income inequality within countries. Within the EDCs income inequalities have become stark as the top 1 percent of the population has accumulated wealth at the expense of the bottom 50 percent. Both China and India-the two fastest growing economy have shown this tendency quite visibly. In India, for example in 2000 the richest 10% derived 40% of the national income but by 2018 their share had jumped to 52% while that of the bottom 50 percent of the population had declined from 20 percent to 18 percent in the same period. The middle 40% of the population suffered even a bigger loss down to 30% from

40%. In China the richest 10% of population own nearly 70% of total household wealth. Top one percent of the population owns 31% of wealth up from 21% in 2000. Gini coefficient that was mild at 0.29 in 1978 rose to 0.37 in 2000 and 0.47 in 2020 very close to 0.48 in the US. The average Coefficient across OECD countries (advanced economies) is 0.31 and that of EU 27 countries is 0.30. The above data clearly shows that most of the benefits of globalisation have been distributed unequally with disproportionate share accruing to those with assets or possessing upper skills.

There is now inconvertible evidence that rapid economic growth does result in poverty reduction and Pakistan has empirically shown this to be true. However, the recent slow down of growth would have serious repercussions on poverty reduction. Therefore the present model of import intensive consumption led growth fueled by domestic and external borrowing has to give way to an Investment intensive Export led model . This would require increase in productivity, female empowerment, skilled, trained and healthy labour force. Fiscal, monetary and Trade policies have to be reoriented to make this shift possible.

Pakistan had prematurely voiced the slogan of 22 families when it was at infancy stage of its industrialization. The subsequent political

cash in of this slogan through nationalization of industry, banking, insurance and educational institutions in the 1970s put the country in the reverse gear. Therefore the concentration of income and the Gini coefficient have not been so high relative to other countries in the region. However, income inequality between the top 10 percent of the population and the bottom 50 percent has remained unscathed. More worrisome development is the growing regional disparities where the residents of Karachi, Islamabad, and Lahore enjoy high incomes and living standards compared to Balochistan, Rural Sindh, Merged districts and Southern KP and South Punjab. Equally distressing is exclusion and low female participation rate. Public policy interventions including public sector investment are more currently favorable to the interests of the elite classes rather than the common citizens. Devolution to the well resourced and empowered local governments who can provide basic services such as education, health, water supply, sewerage , sanitation, public transit to the citizens within their own areas has been fiercely resisted by powerful provincial and national legislators . The legal instruments framed and approved for regulating local governments are deficient, inadequate and confer enormous discretionary powers to the provincial governments.

The other deterrent towards minimizing income inequalities is that investment in human capital has remained a low priority area for successive governments in Pakistan. The average schooling of the labour force is only 5 years, literacy rate is 60 percent (female rate is 52 percent) , 22 million children are out of school, literacy poverty is high, stunting rates among the children is 40 percent, health indicators are poor. Pakistan ‘s rank on Human Development index is sliding over time. This low Human capital has not helped Pakistan in attaining productivity gains. Social mobility is constrained by the division of educational institutions between the private sector where the children of well to do families study and the government schools where the children of the poor families are enrolled. Assessment system and progression are based on rote learning rather than on critical thinking . These gaps and weaknesses have direct impact on intergenerational mobility and income inequality .

In Pakistan, the goal of reducing income inequality can be addressed by reviving accelerated economic growth through the following means:

(a) Investing in human capital (b) Devolving financial and administrative powers to the local governments for delivery of public services (c) Progressive Taxation and pro poor public expenditures

(d) Greater participation of females in the Labour force (e) Special attention to less advanced regions (f) Expansion of Vocational and Technical training and (g) Robust Social Safety nets

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Technological Disruption

Significant shifts towards digital services including Cloud computing and AI have taken place in the last decade. Global data flows have tripled and IT services doubled. According to a McKinsey study, over a decade, data flows collectively have raised world's GDP by approximately 10% and contributed 2.8 trillion dollars to annual trade- -a large share of the increase in global GDP compared to the worldwide trend of physical goods. Data is leverage these days for efficiency, productivity, supply chain and innovation. Digital technology would no longer be a driver of marginal efficiency but an enabler of fundamental innovation.. In 2015, fifteen billion internet connected devices were in operation in the world. By 2025 it is expected that this number is likely to grow to 75 billion enabling the widespread application of AI, 5G, Smart grids , Robotics and automation . AI has the potential to add upto $ 4.4 trillion in value to the global economy but there are significant risks and concerns that

need to be allayed. Other technologies that are still in infancy are likely to provide new solutions that can help resolve a significant constraint or challenge or offer better alternatives. However, the TFP --the only indicator of technological progress and overall innovation has remained virtually stagnant. The recent trend of the bans and barriers of exports and imports of technologies , limitations on semi conductors, and bans on social media platforms are going to hit the usage and spread of emerging technology and their applications to industry, agriculture, education, health, finance and other sectors in EDCs.. Many developing countries have either not realized the importance of this all-encompassing powerful trend or even if the realisation is there they have not actually begun to do something about it

Smartphones with 4G and expected 5G already penetrating almost all developing countries are being increasingly used for messaging, texting, streaming, v-logging, social media, gaming etc. but their applications to the productive sectors of the economy, social sector and financial sector have not spread widely. Young men and women are getting attracted by freelancing, new startups and e-commerce but to make an impact the talent has to be trained and nurtured in large numbers. Digital technologies can act as a catalyst for financial inclusion and cross border payments. In Pakistan,

technological progress is faced by problems of internet stability, optic fibre network, fiberization of towers, excessive taxation on telecom sector and Spectrum pricing. The other constraint is that of scarcity of talent in ICT field. Pakistan only produces 25000 IT graduates every year of which only 5000-10000 are employable for relevant jobs in the industry, others lack knowledge and skills of the requisite standards and the companies are reluctant to invest in their training and development as they may quit for better prospect elsewhere. In this bargain a public good is created by a private sector company but the dividends are reaped by their competitors or other companies located abroad.

Advanced Countries with aging population such as Japan, Korea are in need of skilled manpower particularly in IT and IT enabled services. Pakistan with young population can fill in this gap Therefore institutions such as FAST, NUST, COMSAT, UET, PIAS etc, should start short term courses for these unemployed and under-employed graduates to upskill them to bring at par with the standard professional requirements. These institutions should hold bootcamps and prepare them for certification awarded by the leading Global Tech Companies such as Microsoft, Google, Amazon etc. Career counsellors in Higher Secondary School should encourage their students to opt for college education in this field.

These short term measures would not have desired effects unless the emphasis is shifted in our school system towards Science, Technology, Engineering , Arts and Mathematics (STEAM) subjects. The teaching of these subjects along with the content, hardware, network, software application, choices of pedagogical tools have to be entrusted to private service providers (PSP) under performance-linked contractual agreements. The setting up of computer labs, Local area network, data centres etc. would require a massive jump in allocation of budgetary resources towards education. But this would be worthwhile use of our scares resources which are at present being squandered on paying higher than market salaries in Government schools to indifferent, non- committed, incompetent, work shirking teachers (they are many exceptions to this observation as many teachers show a great deal of passion in teaching their students). The future would be secured by increased use of the internet, Cloud Computing, big Data and Data analytics, artificial intelligence and machine learning in the government as well as the private sector to drive economic growth through deep integration of the next generation of ICT Technologies with the real economy. China has already demonstrated that the digital economy through a network of combined, advanced machine learning with internet connected sensors and big data analytics has bolstered

productivity, efficiency and reliability of industrial production. As much as $16 to 20 trillion payments are made in China through mobile phones.

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India's software-as- service (SAAS) Industry is projected to be worth 1 trillion dollar in value by 2030. There are already thousand such companies and more than hundreds of them are UNICORNS. We may never reach that goal but we must drive to attain IT, ITES exports target of at least 10 billion dollars by 2025 and improve our ranking in global innovation index.

Looking ahead the five goals of Digital Pakistan should be (I) increased access and connectivity (ii) Digital infrastructure (iii) Digital skills, talent and literacy (iv) E-Government (v) Innovation and entrepreneurship

Managing Climate Risks

The risks of Climate change are already raising their hydra head and their sweep is projected to be ferocious in altering the way we live. The recent floods in Pakistan that have devastated and displaced almost 33 million of population, causing a loss of 30 billion dollars or

10% of GDP is ample testimony that global warming has already begun to make its pernicious impact.

The accelerated melting of glaciers overloading rivers is likely to affect food, water and energy security and pose a grave threat to the living Standards to which we have become accustomed. Pakistan is among the ten top most vulnerable countries .. At least one third of Himalayan glaciers would melt by the end of the century. Pakistan would have a population of 350 million people by 2050 who have to be fed, clothed, sheltered and gainfully employed in an environment where production of the staple food crops, generation of electricity and availability of water are likely to be declining. Increased population's overall food demand would expand by 50% and this implies that 56% more crops calories have to be grown compared to what was being produced in 2010. The challenge is how to meet the future land requirements without deforestation and bringing more area under reforestation while stabilizing the climate, providing the livelihoods and reducing poverty. Water availability is likely to recede to extremely stressful level while the demand for meat, milk and poultry increase by 50% because of rising incomes and increase in population. Urbanisation is already pushing people out of agriculture and land is being used for housing, commercial and industrial purpose.

Thus the water-food-energy nexus is an area of major concern. Rapid population increase and growing urbanization have already put Pakistan in water-stressed category. As mentioned earlier, Global warming that result in melting of Glaciers in the Himalayas would make water availability for agricultural purposes and energy generation in the region more erratic. Food production requires water and energy; and energy production requires water. Food prices are also highly sensitive to the cost of energy inputs through fertilizers, irrigation, transport and processing. In South Asia, integrated trans-boundary water basin management does not exist. The conflict and tensions and the blame game have vitiated the atmosphere. India and Pakistan agreed to the Indus river Basin treaty in the 1960s that has held the grounds for the past fifty years but needs to be revisited in light of the impending glacial melting..

Slackening agriculture growth, accentuated by the climate risks is most likely to exacerbate inflation, poverty, unemployment, rural urban income inequality and food security. On the other hand, if there is a shift in the pattern of production , additional cash income from Milk, Meat, Poultry, Marine products, Dairy , Fruits and Vegetables and oilseeds would reduce the import bill and boost the

non farm employment in rural areas with agro business, processing , storage and warehousing and marketing taking firm roots.

Fossil fuel consumer subsidies benefit the rich and well-to-do segments of the population and not the poor. Political economy considerations perpetuate these subsidies in the name of the common man while the facts are quite contrary to this. It is estimated that out of 30 million consumers of electricity, only two to three million consumers or 5% belong to the low income category while the remaining 95% who enjoy these subsidies belong to middle income or high income groups. There is at the same time a well documented National socio economic registry that has been recently updated that identifies poor households generated under the Benazir Income Support Program. Targeting these subsidies on these households would reduce fiscal deficit, lower the consumption of fossil fuel and thus lower CO_2 emissions. This is an example of 'Win-Win' situation where economic growth and Carbon emission goals do not collide but converge. If this is the case, why doesn't this happen?

Removal of these distortions is resisted by vested interests who are the beneficiaries of these subsidies. They are vocal and make loud noise in the media and come out on the streets and the

governments do succumb to their pressures and continue with these costly subsidies that also add to carbon emissions.

Another case of complementarity between growth and environmental protection is the abatement of air pollution, water pollution and poor sanitation particularly from the large urban metropolitan areas. Most of the diseases in the urban areas are water-borne or respiratory that keep the poor out of work because of poor health conditions, sickness or absenteeism from regular work. Tackling the problems of air pollution, water pollution and sanitation would improve the productivity of the labor force, add to their incomes and contribute to higher growth. Public expenditures on curative health and expensive tertiary hospitals would also be reduced.

In the area of fiscal policy, Carbon tax is not only an effective source of government revenues but also a strong brake on carbon dioxide emissions through fossil fuels and other carbon intensive industries. The yields from this tax can be utilized for subsidizing the development of alternate renewable energy sources. On the expenditure side, effluent treatment plants in the industrial zones, sewerage systems with treatment plants, solid waste management disposal differentiating between recyclable materials and

pollutants, drinking water supply accessible to the majority of the population deserve priority. On the one hand, the direct and indirect benefits to society and business far exceed the costs incurred. On the other hand, rivers, coast lines, wildlife, fisheries, plantations are all protected from the poisonous material and effluents that end up in these reservoirs.

Finally, research and development in drought and pest resistant seeds, , water efficient irrigation systems , resilient buildings and infrastructure , energy efficiency , transport and vehicular emissions controls, industrial processing and investment in renewable energy sources are public goods that have been badly neglected by policy makers. Industry-academia linkages have to be strengthened in almost all sectors of the economy. Intellectual capital and facilities that are available in our universities and research institutes have to be utilized for addressing some of the problems that have been identified above. Funding arrangements should be revised where only competitive research grants in specified fields of national priorities should be made available for the researchers, technical support staff, equipment, and other materials. Promotions should no longer be made on the basis of seniority but on the basis of agreed key performance indicators Market incentives for climate-friendly innovations and clean

technologies are almost non-existent. Finance ministers, faced with day to day financial crisis situations under almost distressed conditions find it difficult to allocate resources for R&D and innovative practices. The bias in favor of existing dirty technologies would remain unabated unless new policy measures and investment in renewable energy to reach the target of 60 percent by 2030 are put in place and implemented.

For Pakistan the agenda to tackle climate change should involve (a) Research and Development in the national priority areas to be carried out by public, private , academia and research institutes (b) Conserving and maximizing efficiency in the use of surface

and ground water resources (c) Switch from fossil fuels to renewable energy (d) Sustained efforts on Forestation and Water shed management (e) Access Green Climate Fund for developing climate resilient ecologically sustainable infrastructure.

CONCLUDING REMARKS

From the above discussion it emerges that in designing our development policies, programs and projects these three cross cutting themes—inequality, technology and climate change-- have to be mainstreamed and not taken as separate, stand alone sectoral

issue. A multisectoral and integrated policy approach should cover all sectors—Agriculture, Water, Education, Health etc and all policies –Fiscal, Monetary, Trade would need to incorporate measures that would maximize the benefits and minimize the risks arising from these themes. In appraising programs, projects and allocating resources the likely impact on these three themes have to be a dominant determining factor. The Business as usual, turf protection and fighting and silo mindset have to be abandoned. This is by no means a straight forward or easy exercise as difficult tradeoffs are involved with huge political costs. Forcing slowdown in growth rate in immediate term for transition towards sustained growth in the future is by no means an attractive proposition for the incumbent governments. The capacity of the Government would be challenged as the institutional arrangements are rehashed requiring the Federal, Provincial, Local Governments, the donor agencies, the researchers and academics, NGOs and the private sector to work in concert and in a collaborative framework. These are highly knotty issues to be resolved and require innovative thinking, resolute determination, expeditious execution capability, and strong political foresight. The journey has to begin now and not later.

The above highly ambitious and complex agenda can only be implemented if there is public-private -civil society partnership,

coordination between the Federal and Provincial Governments, harmonization among the various regulatory agencies and investment in Research and Development. The country suffers from poor governance, pervasive rent seeking and low institutional capacity that together act as impediment in implementing policies, programs and projects for development.. A concerted effort in reforming the institutions and improving governance is sine qua non for structural changes that have been postponed due to political expediency. Short run political gains have been achieved at the cost of long term economic benefits.

Uncertain and unanticipated international economic conditions and geopolitical situation may add to the gravity of these challenges. As Global Risks Report 2024 points out “A deeper divide on the international stage between multiple poles of power and between the Global North and South would paralyze international governance mechanisms and divert the attention and resources of major powers away from urgent global risks.”