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Analysing Development: Economic Trajectories of Pakistan, India and Bangladesh[*]

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I am very grateful to SDPI for consistently inviting me to all their annual Sustainable Development Conferences. It has been a great pleasure for me to attend these conferences, and learn about new developments, new ideas which crop up every so often. So, it is a big learning experience for me to meet some of the great minds and public intellectuals at these gatherings, both from within and outside Pakistan.

I really appreciate Ambassador Shafqat Kakakhel, Dr Abid Qaiyum Suleri, and Dr Vaqar Ahmed for giving me this opportunity to attend this Conference. I have just published a book, which is *'Development Pathways: India - Pakistan - Bangladesh (1947 to 2022)'*, and it is based on hard data and evidence about the different trajectories of development which have been adopted by these three countries since 1947 when the subcontinent was partitioned.

There is a lot of dearth of data and information, especially about the earlier years of Pakistan and India's history. So, I had three PhD scholars involved in this project to collect comparable data, clean it up, analyse it, and present the trends. So, it is not an opinion piece which is the case in most of books on this subject, rather it is based on very solid evidence.

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<https://youtu.be/H8IenVvrWs4>.

What I would like to share with you this evening are the lessons from this period of 75 years. I will first divide my remarks and concentrate on the critical success factors, which have led these countries with poverty, illiteracy, ill health, to becoming quite active participants in the global economy over 75 years. Then, I will come to what I call as 'pain points and risks' which these countries have to address if they want to continue their journey of development and growth in the next 75 years.

My starting point is, that I do not believe in growth, for the sake of growth. I believe that we all should aspire to have sustained, sustainable and inclusive growth. Where we care for the planet, we care for the people, and we care for the prosperity of the majority of the population. And that is quite a difficult task.
Especially in the light of technological advances as well as risks of climate change. So, the next 75 years are going to be quite different from what it was in the past.

Let me also highlight that, for economists, this period can be viewed as an experiment that can be divided into two distinct phases: the first from 1947 to 1990, and the second from 1990 to 2022.

During its first 40 years, Pakistan was a star performer. Many young men and women, accustomed to hearing only doom and gloom on social and electronic media, might not realise the remarkable journey this country has undergone. At the time of Partition, Pakistan had no industrial base - just a single cement factory in Karachi - and received nothing from the reserves of the Bank of India that should have been allocated to it. The country lacked even the basic resources, such as pens and pencils, to start government operations, and it struggled to pay salaries.

Yet, despite these challenges, Pakistan became one of the top ten performers in the world over the next four decades. The economy grew by 6% to 6.5% annually, poverty fell from nearly 75% to 35%, and the standard of living significantly improved.

During the same period, Bangladesh separated from us in 1971, but from 1971 till 1990, their economy was flat. During those 40 years, the Indian economy was growing at just 3%, which was only half the rate of Pakistan's economic growth. So, Pakistan's per capita income was much higher than both India and Bangladesh.

What's particularly remarkable is that this period saw Pakistan endure five major shocks. One of the most significant challenges was the rehabilitation of nearly eight million refugees from India. In a country of 32 million people at the time, this meant absorbing a population equal to one-fourth of the country under extremely difficult circumstances. The second was, we had a war in 1965 with our neighbour, which is eight times bigger than Pakistan; and we were able to preserve our freedom, integrity, and security against a big neighbour. The third was a tragedy that we lost half of our country, which was the separation of East Pakistan, which became Bangladesh. The fourth shock was nationalisation of our industries, our banks, our insurance companies and educational institutions, which set us back.

In a report from the 1970s, the World Bank highlighted that Pakistan's manufactured exports in 1969 were higher than those of Thailand, Malaysia, the Philippines, and Indonesia. This is particularly impressive for a country that had no industrial base in 1947.

But what happened?

We completely dismantled our industrial infrastructure by nationalising it. Government officials, myself included - I began my career as a civil servant - were not trained to run businesses. That wasn't our expertise, and as a result, we made a complete mess of industrial development. The final shock came with the Afghan War, where we played a significant role in pushing the Soviet Union out of Afghanistan.

Despite these five shocks, Pakistan was way ahead. However, since 1990, we have been on the downward path. Both India and Bangladesh are growing by 6% to 7% per year. We are growing between 3-4% per year. Their population growth is much lower than our population growth in per capita terms. India is at USD 2100, Bangladesh at USD 2700, and we are still at USD 1600. So, we are way behind both these countries now.

So, you would ask me the question what happened between the two periods? Why were we doing so well? And why are we doing so poorly now?

The answer to this, which I also explored in my previous book, *'Governing the Ungovernable'*, lies in the institutions of governance during that first period. The civil servants who ran those institutions were competent, honest, and deeply dedicated to the country. Their only motivation was a genuine love for Pakistan. This commitment was the driving force behind those institutions. And I can give you four examples to illustrate this.

During that period, the Pakistan Industrial Development Corporation (PIDC) laid the foundation for many of the industries we see today. They established these industries and then sold them to the private sector with the assistance of PICIC and IDBP.[1] At the time, we struggled to feed our 30 million people and had to import wheat to meet our needs.

[1] PICIC stands for the Pakistan Industrial Credit and Investment Corporation, and IDBP stands for the Industrial Development Bank of Pakistan.

The Agriculture Development Corporation played a crucial role by introducing new seeds and chemical fertilizers, enabling us to boost agricultural productivity. Today, Pakistan's population is nearly 230 to 240 million, and we produce 30 million tonnes of wheat, making us the thirdlargest exporter of rice. Although our cotton production has declined, we once produced 16 to 17 million bales, a testament to the contribution of the Agriculture Development Corporation.

WAPDA, the Water and Power Development Authority, was another key institution. After losing the rivers Ravi, Beas, and Sutlej, WAPDA took charge of the Indus Basin projects, constructing barrages, linked canals, and the Tarbela and Mangla Dams, which significantly increased our water availability for agriculture.

Then there was Pakistan International Airlines (PIA), the only airline from the developing world at the time that connected three continents with landing rights and frequent flight schedules. PIA even played a pivotal role in establishing airlines like Singapore Airlines, Royal Jordanian, Air Malta, and Emirates, which is now one of the best airlines in the world.

However, when we look at the period from 1990 to 2022, the picture changes dramatically. PIA accumulated PKR 750 billion in liabilities and debt and can no longer afford to pay for fuel, leading to frequent flight cancellations. The onceprominent PIDC is now a shadow of its former self, occupying an old, deteriorating building in the heart of Karachi, with little to no activity. The Agriculture Development Corporation has disappeared entirely. WAPDA, after decades of

dormancy, only started major projects again in 2019-20, beginning work on ten dams after nearly 50 years of inactivity.

These institutions, once the backbone of Pakistan's development, have become dysfunctional. The roots of good governance lie in these institutions, but their effectiveness depends on the calibre, competence, and dedication of the civil servants who run them. Unfortunately, the quality of our civil servants has deteriorated compared to the earlier generations.

So, that is the story of Pakistan. Now, I come to the lessons and briefly I will share one by one, eight points as far as critical success factors are concerned and eight points which what I call as the 'pain points or risks.'

The first consideration is the form of government - whether it's a democracy, autocracy, authoritarian, or hybrid system - this is irrelevant. What truly matters is continuity, consistency, and predictability of economic policies. If those elements are in place, the nature of the regime becomes secondary. Therefore, our ongoing debate about whether democracy, dictatorship, or authoritarianism is best is ultimately irrelevant.

My second point is that there is now a consensus in all three countries that economic policymaking should be approached pragmatically, rather than being driven by rigid doctrines or ideologies. For instance, Jawaharlal Nehru introduced socialism in India under the influence of Fabian socialism. However, in 1991, when India faced a severe balance of payments crisis and had to pledge its gold reserves, they abandoned socialism and embraced integration into the global economy. They attracted Foreign Direct Investment (FDI), dismantled the License Raj, and liberated the private sector. The result is evident in India's remarkable progress since then. The key takeaway is that pragmatism, not capitalism, socialism, or communism, is the way forward.

The third point, which is particularly relevant for Pakistan, is that both India and Bangladesh have relied on their own domestic savings, raising their investment ratios from 15% to 30%. They do not depend on external assistance, nor do they go begging for dollars from around the world. In contrast, we are stuck at a 15% investment rate because our domestic savings rate is only 8%. Thankfully, our workers abroad contribute another 3% to 4% through remittances. Without the
USD 30 billion in remittances they send us, our current account deficit would be USD 50 billion. So, what are we doing? We continue to borrow and borrow to finance ourselves. India and Bangladesh have managed without going to the IMF, while we have turned to the IMF 22 times.

My fourth point is that the debate over state versus market is entirely outdated and irrelevant. What truly matters is having a strong, effective, and capable state alongside well-functioning competitive markets. Success lies in the synergy between the private sector and the public sector. In Bangladesh, an additional factor has been the significant role played by NGOs, such as Professor Yunus' Grameen Bank and Sir Fazle Hasan Abed's BRAC. These organisations have been instrumental in empowering women, providing microcredits, and establishing schools, hospitals, and clinics, all of which have played a crucial role in the country's development.

The lesson here is that we need all hands on deck - whether you're part of civil society, the private sector, or the government. Let's work together for the betterment of our country.

My fifth point, which I illustrated with the example of India, is this: India and China both have populations of 1.4 billion, but why is China the world's largest exporting nation? The key is that China didn't just produce for its domestic market; it produced for the global economy, which is ten times larger than the Chinese economy. India also learnt this lesson: despite having 1.4 billion people, it cannot truly prosper without opening up to the world. Participation in global trade, attracting FDI, worker migration, and technology transfer are all essential ingredients for successfully transforming economies.

Sixth is the need for investment in human capital, female empowerment, and financial inclusion. These are essential for achieving inclusive and sustained growth. These factors are what will lead us to better times.

Seventh, it's crucial to empower, devolve, and decentralise authority and resources from the federal and provincial governments to local governments. Local communities have a deeper understanding of their own problems and are best equipped to address them effectively.

And finally, as I've already discussed in the case of Pakistan, institutions need to be robust and strong. The way to achieve this now is through digitalisation, computerisation, and automation. These measures not only enhance transparency and efficiency but also ensure that all leakages in assistance to the poor are plugged, thanks to a digital transaction mechanism.

Now, let's address the 'pain points and risks.'

The most critical issue, and one that SDPI strongly advocates, is that climate change is not a distant concern - it is already here. We must urgently adapt to and mitigate the risks posed by climate change, environmental degradation, and air pollution. Cities like Lahore and Delhi experience such severe pollution that they often have to shut down, with children unable to attend school due to the poor air quality. We must also address the increasing frequency of floods and prepare for the threat of droughts as glaciers continue to melt.

Second, despite India's impressive economic performance, income inequalities have actually increased. More billionaires are being created, but the distribution of wealth is highly uneven. The bottom 50% of the population holds only 20% of the national income, while the top 20% controls 50%. This is far from desirable. Regional inequalities are on the rise: states in North India, such as Bihar, Uttar Pradesh, Madhya Pradesh, and Rajasthan, have per capita incomes that are only half or even a third of those in Southern states like Maharashtra or Gujarat. So, regional inequalities are rising.

Third, informal employment is absorbing most of the younger population in all three countries, highlighting a significant shortage of formal jobs. India, for instance, needs to find jobs for 12 million young men and women entering the labour force each year. While

India has excelled in the IT industry, employing around five million people, this is still far short of the 12 million new entrants to the labour market each year. This is a serious concern that needs to be addressed.

Fourth, job creation for the youth is crucial, especially as aging populations in countries like Japan, Korea, and Germany face a declining labour force. These nations are increasingly looking to countries with youthful populations, such as India, Pakistan, and Bangladesh, to supply them with skilled labour. However, to meet this demand, we must invest in training our youth. This effort needs to start at the school level, with a strong emphasis on science and mathematics, to prepare them for employment opportunities in these aging countries.

The fifth pain point and risk is low female labour force participation in India and Pakistan. I was surprised to find that India's rate is only 23%, which is lower than expected. In contrast, Bangladesh has a female labour force participation rate of 38%, which contributes to its much better social indicators.

The sixth point is that, before 1947, this region functioned as a single economic union. You could travel by train from Calcutta to Peshawar or take the Grand Trunk (GT) Road all the way across. Trucks could easily move from Calcutta to Peshawar or from Bombay to Madras, reflecting a contiguous, unified economic system. In contrast, East Asian countries are incredibly diverse - Indonesia is spread across numerous islands, the Philippines has its own archipelago, Thailand has a distinct culture, and Malaysia has a diverse ethnic population. Despite their diversity, they never had a unified economic union like the one we had. Their intra-regional trade today is 55%, and guess what our inter-regional trade is? It used to be 100% before 1947 is now 5%. We are not trading among ourselves. The goods from Lahore to Amritsar only take one hour and there's no movement of goods from Lahore to Amritsar. Why should Amritsar get goods from Bombay which you know, takes several hours and are more expensive. Why cannot border districts of Assam and Bangladesh trade? That is where the momentum for growth comes in.

Seventh is the issue of unplanned urbanisation. If you travel from Rawalpindi to Lahore via the GT Road, you'll see numerous housing societies along the way that are unplanned and unregulated, lacking proper facilities for water supply, sewerage, and solid waste disposal. This unplanned growth is going to create significant problems for our population in the future.

And finally, my pet subject: institutions and governance must be strengthened in all three countries if they are to reach the benchmarks set by East Asia. While they may have performed well from 1947 to 2022, the challenge now is to compete in a globalised world against East Asian nations that have excelled. Policymakers need to elevate their goals and strive to match the performance of these better-performing countries. Achieving this depends on preparing our youth, especially girls and women, to become a skilled, productive, and competent labour force. This must be the priority for all three countries over the next 20 to 25 years, but the planning must begin today.