FATIMA JINNAH LECTURE[1]

TOWARDS A NEW PARADIGM FOR FUTURE DEVELOPMENT PATHWAY

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Since the late 1940s when the developing countries started gaining independence, development literature was dominated by pessimists who believed that these countries were condemned to live in poverty, hunger and illiteracy. Prebisch-Singer hypothesis advanced the proposition that the developing countries produce agricultural commodities whose demand by advanced countries would be limited while they have to rely upon the advanced countries for imports of industrial products. Therefore, the primary commodity exporters would continue to face a secular decline in terms of trade due to a combination of low income and price elasticities of demand. This decline would transfer income from poor to rich countries and thus contact with the international economy was detrimental to the welfare of the developing countries and would retard growth keeping these countries entrapped in poverty. They proposed that the only way to avert this tendency was to protect domestic manufacturing industries by pursuing import substitution strategy. India under Nehru, a Fabian Socialist took the lead and adopted a centrally planned, Command and control economy dominated by the public sector and an inward-looking industrialization behind high tariff walls. Other countries followed the Indian example. The Cold War between the Soviet Union and the US also brought to fore the two alternative economic models i.e. Centrally planned allocations and market based allocations of resources. As the Soviet economy was growing relatively rapidly, newly independent countries wanted to shun the capitalist model which they associated with colonialism and neocolonialism, the theoretical insights provided by Nurske, Singer and Prebisch guided the leaders of the newly independent countries. Unfortunately, the evidence over the next quarter of century proved that the protectionist strategy failed in achieving the objectives of accelerated growth and poverty reduction. Academic research based on country case studies and the successful experience of Korea, Taiwan, Hong Kong, Singapore followed by Malaysia, Thailand, Indonesia, Brazil and then China demonstrated that access to the markets of advanced countries resulted in higher export earnings that augmented their foreign exchange and increased both the quantum as well as utilization of domestic human and capital resources. The spectacular growth rates recorded by these countries would not have been possible if they had relied upon the domestic market alone. The most populous country in the world with a domestic market twice the size of the US and Europe also relied upon the world markets to grow at an accelerated pace and lift 700 million out of poverty by pursuing outward oriented strategies. 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. Once again it was India, the second most populated country faced with a severe balance of payments crisis in 1991

[1] To be delivered at the Fatima Jinnah Women University International Conference at Rawalpindi on October 4, 2022

dismantled its Licence Raj and integrated its economy into the global economy and invited foreign capital to invest. China by now had accumulated a solid record of doubling its per capita income in seven years' time. With East Asian countries already making sustained progress , the proponents of Globalization got an upper hand.

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 recent 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 between 1995-2013. 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. 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 been marked by the weakening of the drivers of globalisation that had helped EDCs in increasing their participation in the world economy since 1990 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 should lead to pick up in migration from the latter to the former. This trend is no longer as strong as it was because political resistance in the western countries to migration is becoming quite formidable.

(b) Shift in economic power from the US to China which is projected to become world's largest single economy by 2025 or near abouts. 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 and absorption - the internet, software application, rising connectivity and networks, the high-speed mobile phones, E-Commerce, 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. Mobile government transfers 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. The movement in the EDCs (except few large countries) towards generation and dissemination of knowledge, Lifelong learning and upgradation of knowledge continuously needs to be accelerated.

(e) Climate change risk- global warming and associated greenhouse emission are affecting the food, energy and water resources of developing countries. How do we tackle these risks would be 'make or break' for humanity at large.

(f) Financial integration- 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. The detractors of globalisation flag this issue to dissuade the developing countries from relying on international capital flows. Geopolitical competition may possibly end up in the fragmentation of the international payment system.

Within the whole group of emerging and developing countries the impact of globalisation have been uneven. Well-endowed nations with Strong economies, large population and better governance have pre-empted most of the benefits of globalisation of themselves while these have by passed weak and fragile states. 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.

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, the recent stance of the Chinese government against their own hi- tech companies, discouraging the Chinese scientists from working in the US Academia and research labs, weakening of global supply chains have serious

repercussions for the transfer of technology to EDEs 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.

Global warming is no longer something that we anticipate at some distant date in future. It has already made a strong foothold and is damaging lives and property of millions of people through extreme weather events.

One of the main assumptions of globalization was that dismantling of barriers and disappearance of borders would spread its benefits to the majority of the people in all parts of the world but this has not happened. On the contrary, nationalism and protectionist tendencies have gained ascendancy in the Western countries. The tables have turned as President Xi Jinpeng of China came to the defence of globalization at his speech in the World Economic Forum where the traditional champion of trade and financial liberalization i.e. the US was absent from the scene. President Trump was going around the country pleading for buying American goods and placing high tariffs on the Chinese imported goods. Although this protectionist policy hurt the consumers and farmers in the US but continues to be followed by his successor.

In designing the future course of development the EDCs have to recognize that the Mega Trends that characterized the global economy between 1982-2010 are no longer valid. The relatively open trade regime is gradually giving rise to protectionism. 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. Sharply declining transport costs have reversed as supply chain bottlenecks arising from exogenous shocks have upped the ante. Consequently, the intra-industry or 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

In light of the recent experience of weakening of drivers of globalization and considering these future risks there are among others at least three major issues that should make us rethink the efficacy and usefulness of the present development paradigm. These three challenges are growing income inequalities, technological disruption and climate risks.

A biting indictment against globalization is rising income inequality within countries. 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. The recent drive by President XI towards 'common prosperity' is underpinned by his concern 'to prevent polarization, advanced common prosperity and realize social harmony and stability'.

In Pakistan, the goal of reducing income inequality can be addressed by (a) Progressive Taxation and pro poor public expenditures (b) Greater participation of females in the Labour force (c) Special attention to less advanced regions (d) Expansion of Vocational and Technical training and (e) Robust Social Safety nets

The only factor from the past that is likely to be more intensive as well as extensive is the spread of emerging technology and their applications to industry, agriculture, education, health, finance and other sectors in EDCs. US, China and India are in the lead in this effort. Other 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, this field is still in its infancy as it is faced by problems of internet stability, optic fibre network, fiberization of towers, excessive taxation on telecom sector and Spectrum pricing, free inter flow of foreign exchange earnings between the holding companies and their Pakistani subsidiaries. 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. 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 company 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 affects unless the emphasis is shifted in our school system towards Science, Technology, Engineer, 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.

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.

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 hundred 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.

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.

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 millions of population, submerged their houses,

destroyed their livestock and cultivated crops, killing more than 1100 people, 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 evidence from other parts of the world - unprecedented rain and heat in Australia, record rainfall in Brazil, severe droughts in Brazil, Argentina, Africa, record temperature in Europe and heat wave in China is overwhelming. Most of these episodes can be attributed to the climate change and climate variability. 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. South Asian countries are among the most vulnerable. Rising sea levels would displace millions of people in Maldives and Bangladesh. 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 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.

For Pakistan the agenda to tackle climate change should involve (a) Research and Development of Drought and pest resistant varieties (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

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, standalone sectoral issue. 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. 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. Having a separate Ministry of Climate Change and Environmental Protection agencies at the provincial levels are outdated concepts. 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. 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.