MISCONCEPTIONS THAT IMPEDE NATIONAL DEVELOPMENT

Zafar U. Ahmed

A series of myths and misconceptions have perforated across public policy circles in Pakistan that are incorrect, misleading, and ultimately counterproductive for all intents and purposes.

I.A widespread impression received by the general public in Pakistan is that the country needs foreign aid to survive. More aware segments know that is not correct. What makes the situation so tenuous is a lack of international currency. Since the country's exports are less than half its imports, and the rupee is not accepted as an international currency, to buy goods from abroad and to repay foreign currency loans necessitates additional international currency. When there is talk of default risk, it is about not having sufficient international currency, as the country traditionally depends upon the dollar for foreign transactions. Pakistan finds itself in this debt cycle because it has taken foreign currency loans to import and even fund domestic projects. What is perhaps worse is that also continues to import unnecessary and extravagant items! Once its exports, remittances and foreign investment are able to exceed its foreign currency requirements (to import, repay loans and repatriate profits on foreign investments), it will no longer be beholden to financing agencies. At present, since the country is indebted to international agencies, it is under the pressure of their 'guidance', such as a) not restricting unnecessary imports, and b) not guiding its currency exchange value - which results in more loans and digs the country deeper into the predicament.

For decades, in Pakistan, economists and finance specialists have focused on interest rates, currency exchange rates, GDP growth rates, deficit rates, and such—short-term tinkering perhaps within their comfort zone, at the expense of focusing on the real economy. But this tinkering essentially just relates to financial levers that the government has. Pakistan's real economy is its agriculture, industry, and services. There is no mystery here: The country's agriculture is highly inefficient with low yields and quality not tailored to the export market, and what is being called industry or manufacturing is more often the assembly of imported parts and mostly internationally uncompetitive businesses. Services, such as wholesale, retail, hotels, transport, real estate business, telecommunications, IT, banks, insurance—excluding public sector services—are mostly for domestic purposes. They do not attract much foreign investment (besides telecommunications) and have very low exports. To top it off, it can be argued that the country's governance is largely through cronyism instead of merit. The result is the dire condition of the economy and poverty amongst the majority of the people. **When the real economy is in such a state of disarray, no economist has any hidden formula for progress. There is only one way—fix the real economy, and progress will come.**

[1]An edited version of this article was published in The Friday Times on the 24th of October, 2023.

Under the current circumstances, technical specialists can tinker with financial levers as much as they want, to little effect. Media analysts, not knowing better, follow their lead and endlessly focus on these rates and percentages, detracting focus from the real economy and real long-term solutions.

2. A peculiar perception has been created in Pakistan that business enterprises have to be given subsidies and concessions to motivate and incentivize them to undertake their business, especially for exporters. And it seems that some businesses attempt to give the impression that national patriotism and uplift are their only goals. Not true. **Profit earned in open and fair competition must remain the incentive and motivation for private business.** If a business is running at a loss, let more competitive entrepreneurs take its place. It is wrong to give hard-earned taxpayer money to subsidize uncompetitive private businesses, which then keep the resulting profit and assets as their private wealth, while the citizens whose contributions were given as subsidies get nothing. Profit earned in competitive business (on a level playing field, at least domestically) must remain the reason and motivation for private business, not state concessions and subsidies.

The assembly of imported parts does not qualify as a mature manufacturing sector. Amongst other disadvantages, it raises imports (requiring spending scarce international currency). As assembly rises, instead of imports going down, they also go up—such 'manufacturing' does not substitute imports (or create exports), it is a part of imports, and during times of shortage of international currency, its efficacy ought to be assessed. **It needs to be kept in mind that for import-dependent countries, such GDP growth has a major negative side.**

Similarly, as people in the industry understand, when, for instance, textiles or other manufacturing uses imported materials (machinery and inputs), it means that if the rupee value is depreciated, exports do not rise as predicted since the cost of manufacturing also goes up, as a higher price has to be paid for the imported materials and machinery that go into manufacturing. So, the assumption of elementary economics that a devaluation of the rupee will result in higher exports does not come true, as the country is highly import-dependent for its manufacturing, apart from other issues such as producing low-end products. The answer is to make better quality, higher value-added products whose sale does not depend on them being cheap or low-end (and very price-sensitive); devaluation is not the answer. And the expertise required here is in business management, not in economics or finance.

3. Any economic 'experts' are sceptical **of encouraging trade in national currencies or arranging mutual direct exchange of goods.** Such trade by mutual direct exchange is a means to encourage (or leave no other option) for international sellers to, in-exchange, buy some things from this country, which otherwise they are unlikely to do. It also means that the country ought to buy not from traditional sellers but from those who agree to in-exchange purchase. That is what can make direct exchange (also called barter) trade, to the extent that it is possible, a better option for the country. Direct exchange trade does not necessarily mean an actual exchange of items, but it might be in the form of accepting payment in national currencies which can later be used to buy from each other. More and more countries are beginning to realise that they can trade with each other directly without first having to somehow get hold of traditional international currency through loans and favours with conditions attached. However, many Western-trained economists find that difficult to assimilate with the established tenets of their field.

4. There is a misconception about the role of economists in Pakistan. **"Economists have no special competence in determining what the objectives should be, but they can help in translating the objectives into a more operational form,"** to quote M.S. Ahluwalia (former Director Evaluation IMF and Deputy Chairman Planning Commission of India). Education in economics is valuable for economic policymakers but by itself it is simply not sufficient. By training, economists support policymakers by presenting them with results of economic analysis, but that by itself is not sufficient to make policy. To give a crude illustration—China has achieved the fastest economic growth in world history, but most people have not heard of any Chinese economist, there is not a single Nobel laureate in economics from China.

Then the question is what qualities are required in policymakers to address national development issues? They include: being intimately aware of the living conditions of the country's people and their needs; understanding society's core values and priorities; considerations such as fairness and equality; an analysis of interest groups and an understanding of the influence of socio-political institutions; clear long-term national goals and strategy; loyalty only to this country; deep knowledge and experience in one or more sectors, or in administration; being chosen by the people as their representative and not having any conflict of interest. Such policymakers ought to make decisions after considering the inputs from economists and other technical specialists.

Former staffers of IMF/multilaterals rarely have these qualities. Further, with a few worthy exceptions who might have a much broader perspective and experience, the former staffers of multilaterals are oriented to follow their given institutional policies and procedures. But equally worrisome is the potential conflict of interest. Those receiving a pension from international agencies or hoping for lucrative future assignments (revolving door system) from them have a clear potential conflict of interest. A few might conceivably be more loyal to their international employer (with the added prospect of settling in a developed country) rather than to a low-paying unstable GoP. And whilst certainly invaluable in their fields, commercial bankers and accountants have little direct relevance to policy issues in national development.

5. Because India is doing so well in IT, with current annual exports of $190 billion, that we are also capable of doing so is a common refrain. Unfortunately, our country's educational foundation is far too weak for such a feat. We have drifted from (sometimes donor-led strategies) a focus on access to primary education to a focus on filling gaps in school infrastructure, to a focus primarily on the girl-child, to pushing PhD studies (e.g. on climate change) and so on. In some educational institutions, there are many times more students enrolled in Urdu, Pakistan Studies, and Islamiat than in Science subjects and Mathematics. Educational content is crucial; it must not be overlooked; otherwise, graduating students have no work prospects, and national development cannot go forward. Donor agencies have the liberty to focus on their global priorities in supporting education—on the flavour of the year or five years—but we do not have that liberty. **We need to have very clear objectives, strategies, and a timeline to achieve the educational requirements for national development and brook no ideological hindrance.**

6. Reiterating from my earlier article [in Dawn], in Pakistan, whilst a few donor agencies usually work through the government, most agencies also sponsor projects themselves. International NGOs bring in their funds or implement donor agency projects. To illustrate, let's say there are some 17-20 major donor agencies present in the country and perhaps 20 significant INGOs. Each of these might have many projects ongoing, and some projects may involve numerous national and local NGOs. Therefore, at a time, hundreds of projects/local partners can be working in diverse sectors under the guidance of these foreign agencies and INGOs. This has meant that there has not been a single fully integrated development strategy or programme for the country over the last few decades. Donor agencies and INGOs, whilst formally sharing progress with the GOP, are in reality answerable to their external management. **Such outsourcing of country priorities and development strategy and implementation goes against any recognised concept of management and chips away at the country's sovereignty.**

When projects end, experienced and trained project staff are let go. There is a knock-on effect on government capacity, as its regular staff has missed out on that, not received any experience and training in programme design, implementation, and oversight. Institutional learning and memory are lost.

The right course would be for the country to make its own provincial and federal policies and strategies and then any willing friendly countries or funding institutions may pick up a portion of that, as it is, for their financial support only.

7. Until now, **Pakistan's defence expenditure has taken a substantial part of the budget, but it still cannot come close to the spending of a neighbouring country. Pakistan's defence budget can be affordable, even enhanced,** provided the country can produce and export modern armaments to friendly countries. It is said that usually, militaries prepare for the last war; we must prepare for the wars of the near future and export the surplus produced. In the foreseeable future, there will be heavy dependence on advanced air defences, electronic warfare, hi-tech ISR (intelligence, surveillance, reconnaissance) linked to precision targeting, combined arms warfare with all elements interlinked through satellites and other means, intelligent armed and networked drones, long-range precision missiles and artillery, motorised mine laying, very long-range over-the-horizon air attack capability, massive quantities of artillery ammunition, and such. Pakistan could take up the challenge to produce a few such armaments (or some key components) and export them at premium prices.

8.There is a widely held belief in the general public that the country is poor because a few people have stolen all the money and taken it abroad. This is easily debunked by the facts. A quick Google search of Pakistani dollar billionaires (who have lived and earned in Pakistan, excluding those who migrated in youth and have built businesses abroad) shows that even the richest are estimated to be worth less than $4 billion—the numbers are unlikely to be accurate, but give some idea. The two richest politicians are estimated to be worth less than $2 billion each. Pakistan has yearly (gross) domestic production of more than $300 billion. Therefore, **emphatically, a few people have not taken away all the country's money.** On the other hand, unjustified annual subsidies and concessions of an estimated Rs. 2,660,000,000,000 (2.6 trillion, according to a UN report), to the corporate sector and banks, to big agricultural landowners, high-net-worth individuals, large traders, and others get minimal airtime on the media.

9. **Finally, people in the country constantly complain about corruption and, in particular, vilify the politicians. But that is misleading; the responsibility is spread all around.** People related to sectors/entities with a problematic background ought not just to ignore that and constantly point to others. Let us list some such sectors, and people associated with them ought to ponder their own share of responsibility. The Police—nothing more needs to be said; Judiciary (including lawyers)—is totally dysfunctional and does not provide justice for the weak and hinders quick resolution of business disputes; Bureaucracy—still hasn't realised they no longer represent a colonial occupier but were now supposed to provide a service to the people, not to speak of incompetence or corruption; Electricity companies—they have a well-deserved awful reputation; Corporate sector and Banks—the biggest recipient of state concessions and subsidies, but it would be hard to argue that they deserve it the most; Military—often suspected of a role in grooming the vilified politicians and is now the largest conglomerate of business entities in Pakistan; Manufacturers, who demand concessions and then mostly assemble imported parts; some leaders of Industry, not because of their innovation or efficiency but due to being 'insiders' of the crony network; large agricultural landlords who make it impossible to levy direct income tax; high earning professionals who hide their true income; and the list goes on. Those who partake in such distribution of spoils really shouldn't protest too much. It is a sad fact that most of the people who would have some influence to make needed reforms are the greatest beneficiaries of the dysfunction.

And then prices are raised for electricity and petrol/diesel etc., and resultantly on food, on the premise that there is no other option, nothing else can be done. Gas prices are illustrative, in Pakistan traditionally natural gas has been priced much higher in cylinder form (widely used by the poor) compared to piped gas supplied to where the rich live.

Real and long-lasting progress will come from:

- Raising agricultural output to international standards, using existing methods
- Industry (not assembly of imported parts) and its exports or else at least to the extent of reducing unaffordable imports—for example, manufacturing of public transport, railway equipment, agricultural machinery and storage, utility infrastructure, machinery for factories, and essential consumer items, e.g., refrigerators, mobile phones. But not energy-hogging optional items like air conditioners and expensive personal cars. Professionally led mining and export of precious minerals at favorable prices. And domestically, open competition with equal opportunity for all—no cronyism network
- Support and push the Services sector (IT, etc.) to attract foreign investment or else export abroad as much as possible. Develop the related human resource
- Professional management of overseas labour export, a transition from unskilled labour to (higher-paid, low turnover) skilled and highly skilled
- Fair and full (direct) income tax collection, including from large landholders and the services sector
- Imports are restricted and kept within the limits of the country's international currency earnings. The country has a right to only import in international currency as much as it has such currency to buy. No multilateral agency has a right to force it to 'open' imports [no restrictions] when it does not have the international currency to pay for such imports, a process that inevitably leads to pleas for more [international currency] loans
- Budget expenditures by national development priorities. Cut unnecessary spending (unnecessary by the needs or measures of a country where the growth of one-third of the under-five population is now classified as stunted due to malnutrition and frequent infections), and in the short term cut low-priority items. Losses on state-owned enterprises have to be dealt with and eliminated (by professional reorganisation if/where still feasible, otherwise by outsourcing management to a minority shareholder or via transparent privatisation
- Raise exports by a) selling items besides the country's traditional exports (textiles, rice, etc.); b) focusing on better quality products, not only low-end highly price-sensitive items; c) finding new export destinations, especially among less developed countries; d) as far as possible, making mutual direct exchange trades, instead of buying with international currency; i) relevant and effective education/vocational training, reasonable healthcare for all and social protection for those in need, are essential for real sustained economic development; j) export of military equipment produced, to a level to at least offset the costs of military equipment that the country wants to import.

To be able to do all the above, it is crucial to get rid of governance by cronyism and instead strictly follow merit and fairness (financial corruption is just one result of cronyism).

Media people often put forth the question of who is ready to take the tough decisions. They refer to raising prices and indirect taxes (which impact the poor the most). This is, therefore, wrong! The real tough decisions are to impose justified income tax on large landholders, to make traders keep proper business records and fully pay taxes, to remove all unjustified advantages for 'insiders' in the corporate sector, to make government service contingent on performance, to ease out the military from its diverse for-profit businesses and so on. That is the way to deliverance for the country.

The author consults on national development and is the author of 'Pakistan: Principles of Public Policy Redefined'.