COMPARISON OF PAKISTANI ECONOMY WITH ASEAN ECONOMIES

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It is now widely accepted that the Asian economies have done extremely well in terms of economic growth and poverty reduction during the last three to four decades or so despite the crisis of 1997. Three decades ago, China was among the World's poorest countries with 80 percent of the population having incomes less than US$1 per day and only a third of all adults able to read or write. By 2000 the proportion of the poor (income less than US$1 per day) had declined to around 16 percent. Korea and Pakistan had identical per capita incomes of $100 in 1960. Korea has now graduated as an OECD country and reached per capita income of approximately $10,000 while we haven't even crossed the threshold of $1,000. Asia's share in World GDP (at PPP) has risen from 24 percent in 1973 to almost 40 percent in 2003. Foreign currency reserves of Asian Central banks now account for 70 percent of the World currency reserves and financed more than half of the current account deficit of the United States in 2003.

There was a time in the late 1960s when Pakistan's exports exceeded total exports of Indonesia, Malaysia, Thailand and the Philippines. But, unfortunately, all these countries have moved ahead whereas Pakistan is still struggling to reach $14 billion target. Had Pakistan maintained its economic progress of the 1960s, its economy would have been akin to the East Asian ones and moved into the middle income group by now. Our per capita income is still around $650 and we are stuck in the low income category.

Whereas it took the United Kingdom almost a century, United States of America 50 years to double their per capita incomes, most of the Asean +3 countries[2] (Asean + Japan, China and Korea) achieved this goal in less than half a century. Japan did this in 40 years, Korea in 25 years and China in 10 years. Pakistan should learn from the experience of these countries and

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[2] Most of the discussion in this paper is focused on Japan, Korea, China, Malaysia, Thailand, Singapore, Indonesia and Philippines. Other Asean Countries such as Brunei, Cambodia, Laos, Myanmar and Vietnam are not covered.

there are many lessons which should be followed by us if economic progress has to be sustained. The evidence on economic development Asean +3 countries suggests some common factors which have been critical to their success

(a) **Work Ethic; Discipline; Trust:** The foremost principle for economic progress was strong work ethic and discipline in the work force and creation of trust among each other. The labour force, in each of these countries, is highly disciplined, works extremely hard and carries out the orders of their supervisors ungrudgingly. The workers mind their own business without disrupting others' work, focus on the task given and take pride in producing results.

Trust and social capital have a positive impact on the quality of development by enhancing collective action, mitigating risks, promoting accountability and reducing transaction costs. Korea and Japan produce more scientists and engineers than lawyers as these countries work on the basis of trust and avoid protracted litigation which wastes a lot of productive time and dissipated energy.

Another characteristic of East Asian economies is the reliability of contract fulfillment. When a contract is given in China either for production of goods, delivery of services or construction of a project, you can be rest assured that it will be completed mostly ahead of time, within the stipulated specifications and without incurring any cost overruns. The attributes of reliability and low cost have made China the World's largest manufacturing factory that has been able to attract almost all Fortune 500 Companies to locate their facilities in China. Unless every single worker and manager in this country begins to abide by his word in honouring contracts – whether oral or written – we would remain on the fringes of the global expansion.

(b) **Savings:** Pakistan would have to improve its domestic saving which was amongst the lowest in the Asia region at round 16 to 18 percent as against 30 to 40 percent in other countries. China's domestic savings rate has consistently exceeded 40 percent providing ample resources for investment. So is Malaysia's rate of savings 43 percent and Thailand's 33 percent. It is only when a country does not have adequate domestic savings it has to indulge in foreign borrowing in order to attain a modest investment. Correspondingly, East Asian Countries retired, in net terms - $28 billion of debt during the last four years. External debt-GDP ratio in China is only 13 percent, one of the lowest among the developing countries because it relies mainly on its own savings to finance investment. In contrast, Pakistan's low savings rate compelled it to borrow abroad. This excessive foreign borrowing resulted in a financial crisis for Pakistan in the late 1990s as the country was not able to service its loans. The reduced debt burden that has been recently achieved can be sustained if the national savings rate rises consistently over time.

(c) **Investment in Human Development:** Investment in human resource development has made a significant contribution to growth, reduction in the incidence of poverty and improvement in social indicators in the East Asian Countries. The average years of schooling in Korea are 9.6 years; 6.3 years in Malaysia and 6.0 years in Singapore compared to 3.2 years in Pakistan. The emphasis on female education led to reduced fertility, thus mitigating the adverse effects of population pressure and increased supply of educated labour. In Pakistan, female education rates remained dismally low with the attendant problems of high fertility rates, high population growth rates and a low labour participation rate. There is an urgent need to bring women in the mainstream and give priority to their education, health care, nutrition. This will not only control the rate of population growth but expand the base of educated and skilled labour force in the country. Almost half of the population in Pakistan is illiterate and it is imposing a heavy drag on achievement of Pakistan's economic potential. On the other hand, most Asean+3 countries have almost 100 percent literacy rates with high life expectancy, low infant and maternal maternity and universal primary education. The productivity effects of such elevated social indicators on the economies of these countries are quite obvious and productivity is the key variable determining how fast the economy can grow.

(d) **Labour Force Quality:** Related to this phenomenon is the training and skill upgradation of the labour force. Asian Countries do not only hire educated and literate workers but provide continuous training to these workers in acquiring new knowledge, techniques of production or improvement in processing. In 1991, a U.S. manufacturing worker was 40 times more productive than his Chinese counterpart. By 2000 that gap had narrowed to only 10 times. Chinese labour productivity has increased four fold in the past decade thus lowering the unit labour cost in manufacturing. China's wage rate is 61 cents per hour compared to the US rate of $16. Taking into account the labour productivity differences between the two countries, the unit labour cost in China is still only $6.10 per hour. The firms in Pakistan consider training expenses as additional costs and not investment. This short sighted view has kept the unit cost of labour i.e. taking into account labour productivity differentials quite high relative to China and Asean Countries.

(e) **Openness of the Economy:** Another fundamental which has served the Asean+3 countries well is openness of their economies to trade and foreign investment. Tariffs rate are uniformly low – in single digits – and non tariff barriers are hardly existent. Market access to these countries has stimulated both import and exports of goods and services to the extent that in Malaysia the trade-GDP ratio exceeds 100 percent. China and India both had almost identical level of exports of $10 billion in the late 1970s. A relatively more open trade policy pursued by China has enabled it to increase its exports to more than $400 billion last year while India was able to each about $60 billion. Similarly, FDI flows are welcomed by all the Asian countries as they benefit the domestic economies in form of new technology, better managerial skills, networking with the global supply chain and infusion of foreign capital. FDI flows to East Asia during the last four years amounted to $208 billion. China alone receives $50 billion annually and most foreign enterprises produce goods not only for the Chinese markets but also for exports. 65 percent of China's increase in exports in the last ten years was generated by foreign firms and their joint ventures.

This policy of openness makes a lot of sense. Our entire economy is $100 billion and even if we are able to double it within ten years, it will only grow to $200 billion whereas, as world exports today are $7 trillion and if we aim at capturing 2 percent of world trade, our exports alone will increase to $140 billion – ten times the 2004 level. So you can see what a tremendous difference it will make in boosting Pakistan's economy if we aggressively integrate ourselves into the world economy. This is the way the Asean+3 countries have done it. Those who favour inward like strategies relying simply on domestic economy and argue against exploiting the opportunities offered by globalization are, in fact, condemning us to a perpetual state of backwardness, poverty and misery.

(f) **Tax Culture:** One interesting feature of the development story of Asean+3 countries is the high tax compliance by the population and low incidence of tax evasion. In the 1970s when Japan had not yet joined the ranks of developed countries, tax recovery was almost 96 percent of the total tax assessments. The high degree of revenue collection helps a nation to build infrastructure like roads and highways, bridges, ports, etc. and to spend on education and health. In the absence of adequate tax revenue mobilization, the Government is unable to carry out these basic responsibilities of development well. In Pakistan there is a widespread tendency to evade taxes by concealing incomes. Presently, there were only 1.1 million tax payers in a population of 150 million people. This number should be increased to at least three million. Once the tax base is broadened the tax rate can come down from 35 to 25 or even 20 percent and the heavy burden borne by a small segment of the population can be eased by sharing with a larger segment. As Tax Consultants, you bear an enormous responsibility for the sake of the nation's cause to help plug the holes of tax evasion and maximize the number of tax payers in the country.

(g) **Role of the Government**: The role of the Government in Asean+3 countries has been to facilitate, guide and help the private sector in fostering economic growth and development. By maintaining macro economic stability, by charting out a long term vision and strategic direction and by pursuing consistent and predictable policies, the

Governments in these countries gave confidence to local as well as foreign investors. The long term path chosen by China in the late 1970s under the leadership of Deng Xao Ping is still being followed with suitable adaptation and modification despite changes in the leadership of the Communist Party during the last two decades. The same was done by Japan where a separate Ministry called Ministry of International Trade and Industry (MITI) was created to develop Industrial Strategy and vision and to assist the private sector in these industrial pursuits and export expansion. Unfortunately, we have been changing our policies, programmes and priorities every two to three years in the 1990s with every single change in the government giving confusing signals to the investors, nurturing uncertainty and leading to disruption in the momentum of economic activities. The continuity and consistency of policies since 1999 and the level playing field created for the investors has started paying dividends as investment rate has begun to show an upward trend

(h) **Science and Technology**: As a nation, we have to give greater importance to science and technology as a tool to capture the commanding heights of the global economy and to achieve the required level of growth of 7 to 8 percent. Korea and Taiwan (a non Asean Country) sent teams to recruit their nationals working in the United States and offered them lucrative and attractive packages to hire them back to their countries of origin. These Scientists and Engineers taught at the Universities and Colleges, set up research institutes, worked in the laboratories and on product development of industrial conglomerates and trained hundreds of thousands of young men and women in the modern tools of science and technology. The enormous progress that these countries have achieved during the last thirty years would not have been possible without this huge investment in Research and Development.

In Pakistan, we started extremely well and our educational institutions were turning out scientists and engineers of high caliber in the 1960s but then we neglected these fields to the serious detriment to our economic progress. It is only during the last five years that higher education, science and technology have come back on the radar screen of the Government but it will take us some time before we can make up for the lost time.

(i) **Private Sector:** In Asean+3 economies the private sector was allowed a free hand in the production, distribution and trade of goods and services. Japan did it through big industrial conglomerates Keiretsus/Zaibatsus and so did Korea through Chaebols. Taiwan adopted a different strategy and that was to promote industrialization through small and medium enterprises. China, Thailand, Indonesia, Philippines and Malaysia encouraged foreign direct investment and joint ventures. The success of these strategies can be gauged from migration of product cycle. In the 1970s U.S. firms such as RCA and Westinghouse dominated domestic appliances markets in the world, in the 1980s Sony, Sanyo and National of Japan took over this market, in the 1990s the production shifted to Korea with Samsung, LG, etc. and in this decade it is the Chinese companies such as Haier who are beginning to assert themselves. Private sector firms were responsive to changing market conditions and took full advantage of lower costs of production in adapting to these changed conditions. Pakistani scene after the 1970s has been riddled with inefficient and highly bureaucratic public enterprises who were subtracting rather than adding value and causing enormous losses. It is only more recently that the speed of privatization has picked up and private sector has been assigned its due role.

(j) **Leadership & Institutions:** In almost all these countries, a common feature has been strong leadership and strong institutions that could provide the helping hand and clear direction to the entrepreneurs, firms, farming community, exporters, businesses and delivering essential public services to the population at large. In Korea, General Park, in Singapore Lee Kuan Yew, in Indonesia General Suharto, in Malaysia, Dr. Mahatir Mohammad, in the Philippines General Ramos after Marcos were the shining lights in their respective countries. Whatever their faults they took upon themselves the responsibility to steer the course of economic development and produced tangible results for their nations. In the absence of strong leadership or strong institutions, the difficulties are compounded and the time taken to reach the goal post is elongated.

(k) **Regional Integration:** Finally, the Asian economies have been recording very high growth rates in times of turbulence in the world economy, slow down in the US and European economies and overall stagnation. They have been able to do so because regional trade integration has insulated them from these external shocks to a very large extent. The rising share of intra-regional trade has in fact created a barrier against the tidal waves of adversity in world economy. This can be seen from the differential growth in intra-regional trade in East Asia and the growth in world trade. The intra-regional trade has grown at an annual rate of 16.4 percent between 1975-2001 while world exports have grown at 8.2 percent per annum.

China has become a pivot around which the countries in the region revolve around. This linkage may prove to be a liability at some future point of time if something goes wrong to the Chinese economy but even then the trade among these countries other than China has also picked up. 30 products account for half of the intra-regional trade. Of these, 20 are inputs for further production. The basis for intra-regional trade is that they buy raw materials and commodities from each other to make labour intensive products for the US and European Markets. South Asia, on the other hand, is the only region in the world where the tentacles of regional integration are least spread out and intra-regional trade linkages hardly exist. The potential for rapid economic growth through improved trading relations in the region is quite high but political differences have not yet allowed this potential to be harnessed. Given the fact that this is a region which has the highest number of the poor in the world, the sense of urgency is quite obvious but lack of political will has so far retarded the progress.

The above comparison clearly brings out that some of the important factors responsible for the economic turnaround of Asean+3 countries were not practised consistently in Pakistan and that is why we are left behind.

But, let me conclude on an optimistic note. Whatever progress has been achieved during the last five years by following a set of continuous and consistent policies and reforms if it is allowed to move on the chosen course, I am confident that Pakistan will also be able to emulate the example of the Asian Countries. We will be able to leave a prosperous and progressive Pakistan for our children to live and enjoy.