SUCCESS FACTORS AND PAINPOINTS IN ECONOMIC AND SOCIAL DEVELOPMENT OF SOUTH ASIA[1]

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It's always a great pleasure to be addressing the SAARC audiences because I've been doing that for so many years in the past. Let me begin by congratulating the State Bank of Pakistan for organizing this particular discussion because we're moving in a completely different direction and we have to prepare ourselves and learn from the other countries and other best practices in order to adopt and use Big data, Data analytics, the AI, machine learning tools in order to improve our economies. So I'm quite happy that this topic has been taken up today but let me submit that this should just be the beginning of a long journey starting with this awareness seminar.

Big data is a tool and that tool is to be used for spurring improvement in the production, processes, methods which, in turn, would uplift the living standards of the people in our countries provided the countries follow the right set of policies. So my emphasis today is to sketch out the requisite economic policies which can potentially maximize the benefits by using these technologies.

I have a book which I just published along with three young Ph.D. scholars which is a work of two years: Development Pathways India, Pakistan and Bangladesh 1947-2022.This is the first empirically based, data driven exercise which tries to identify what are the common success factors behind the development journeys of these three countries and what are the pain points and the risks for the future development. And I thought you are all going to be involved in policy making so this distillation of lessons and enunciations of possible risks is something which you should keep at the back of your mind when you are involved in policy making.

The first and foremost learning is that – the form of the government – democratic, autocratic, authoritarian, military, hybrid – that doesn't matter. What matters is the continuity, consistency and predictability of economic policies. So we have situations where the countries have had only two or three democratically elected prime ministers and despite the fact that they belonged to different political parties, they carried out the same economic policies and the results were very positive. And then there were some authoritarian governments in the same country who failed to do anything useful. There are examples of other authoritarian or military regimes which were able to bring about reforms successfully. So the form of the government is not so important. What the investors are looking is stability, policies that are not altered with every change in the political regimes. They feel quite comfortable that the decisions they are taking today with their money will bear fruits five years later or six years later, without any surprises, because the underlying policy regime hasn't changed.

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The second lesson we learn from this analysis is that the content of economic policies and policy choices is driven by pragmatism and not by rigid ideological predilections - whether you label them as neo liberalism, socialism, communism, etc.– despite the use of these labels in academic discourse and popular discussions, there's hardly any country which, in actual practice fully epitomizes any one of these labels. Hiding behind these ideological labels and attributing success or failure to these labels is not meaningful. What is observed is that the countries who adapt their policies as circumstances change, and adopt a pragmatic approach are successful. And the best example in this regard is that of ‘India. India was for forty years a socialist country where the commanding heights of the economy were controlled by the state and there was central planning. You could not move one part of your factory to another location unless you got permission or license from some bureaucrat. What were the consequences of this model? India’s growth rate for over forty years was three percent per annum, poverty was palpable, and the living standards were stagnant. Once they faced the balance of payment crisis in 1991, the government of the day decided that the license raaj had to be completely dismantled, inward orientation replaced by integrating India into the global economy through trade liberalization, attracting foreign direct investment, unshackling the entrepreneurial energies of the private sector and absorbing latest technologies, and that is a major turning point in the history of Indian economy. Since then, India has been growing by six to seven percent per annum for the last thirty years which it had never achieved ever before. It was Pakistan that was growing at six percent per annum for forty years from 1950-90 by pursuing a mixed economy model on the strength of its institutions of governance. Pakistan, which was way ahead of both India and Bangladesh, is now lagging behind because we did not adapt ourselves as the circumstances changed. As our institutions became dysfunctional we didn’t do much to rectify and continued with the business as usual.

The third lesson is excessive reliance on external assistance is undesirable as it discourages domestic resource mobilization efforts. Aid to India Consortium led by the World Bank was established in 1958 and met every year to provide foreign assistance to India. It was, however, discontinued in 1993, once India opened up its economy and switched from import substitution to export oriented growth and did no longer need any foreign handouts. India has not approached IMF even once after 1993.On the other hand, Pakistan has had twenty plus agreements with the IMF since 1990 and even despite those agreements, reforms have been patchy and debt burden has reached alarming proportions. Our Public debt to Gdp ratio is almost 78 percent, and most of the net revenues of the federal Government are taken up by interest payments so nothing is left for running the government or for development expenditure. It is the domestic savings and use of those savings for investment which is really a desirable and essential ingredient for sustained economic development. We had the same fifteen percent investment GDP ratio same as India and Bangladesh and with savings rate in the same range. But today, Bangladesh and India are saving 28-29 percent of GDP and investment ratios are almost 30 percent plus while we are stuck at Investment rate of 15 percent average. It is simple arithmetic that both these countries with higher investment rate were able to record six to seven percent growth rate annually and their debt GDP ratios are quite low. On the other hand we could average only 4 percent over the same last thirty year period with excessive borrowing that resulted in high degree of indebtedness . .

And for the future, I would very much argue that Pakistan has to mobilize its domestic savings- corporate, household and public sector - all three have to contribute. We are fortunate that we have thirty billion dollars coming in the savings of our expatriate Pakistanis. If that money was not coming in, imagine what our national savings rate would be and how much could we then invest? We would have been compelled to borrow much larger amounts than we're doing right now to maintain the present living standards.

The fourth point and especially it's related to the second point is that the state versus market binary is a totally outdated concept. What we need on the basis of empirical research and cross country comparisons, is that the countries need both strong, effective and capable government and a well-functioning competitive market.

And that is a combination where the enabling environment is provided by the state but the actual production, distribution and exchange of goods and services takes place by the private sector in a competitive situation. .
If there are barriers to entry and exit then those who are already entrenched would earn rents and that is not good for equitable and sustained growth. So the State has to ensure that collusion, cartelization and cornering of the markets do not take place. Nordic countries, Japan, Korea, China and East Asian countries are great examples of State and market playing their respective roles for shared prosperity of the population.

Bangladesh is one step ahead. State there—though not a very capable state, has provided a very benign enabling environment for both the private sector as well as the NGOs, capitalizing on their respective strengths. So there the state, private sector and the NGOs, are working in tandem and harmony. Social development of Bangladesh did not take place because of the Government. It was because of Professor Yunus promoted microcredit for the poor rural women of Bangladesh, Fazle Hassan Abed of BRAC laid down a network of schools. Hospitals, clinics, maternity and child centers, Family planning services in the rural areas were managed and operated by Civil Society led Trusts. And that is what the optimal model ought to be: all hands on deck approach where all different segments are working together in harmony towards common goals. We had heard about Japan Incorporated, Korea Incorporated but even in South Asia, we have examples where people are working hand to hand.

Pakistan typifies an example where indulging in blame game rather than working in concert, is the main preoccupation. The government blames the private sector, the private sector blames the government, the government blames the NGOs, the civil society does not trust the Government and the private sector and so on. This adversarial and fragmented approach is very much inimical to economic development.

The fifth lesson is that participation in international trade, transfer of technology, capital flows and migration have positive impact on the domestic economy and are no longer considered an anathema or an attack on the sovereignty of the country or perceived as neo colonialism. .
The example of China, until recently the most populous country in the world, of 1.4 billion people (a huge domestic market) is highly illustrative. China did not grow so rapidly because of its own large domestic market (Domestic consumption was lowest in 30- 40 percent range) but because it chose to become the manufacturing factory

of the world, the largest exporting nation recording trade surplus with the US, attracting hundreds of billions of dollars of Foreign Direct Investment, embracing embodied technology through imports of goods and services from the advanced countries of the world and then reverse engineering, sending thousands of their students for doctorate and Master's degrees in STEM subjects in the top universities of the US, UK, Canada and Australia. By doing so they were able to lift a staggering 700 million people out of poverty and also attain a growth rate which catapulted the per capita income of 100 dollars to 12500 dollars within a short span of four decades. No country has in human history been able to achieve this feat. .
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And now India, a late comer, is following a similar strategy for last few decades with impressive results. Last year India had eighty billion dollars of foreign direct investment and Apple, Samsung, and world's top companies are in the process of locating their production and transferring technology to India.

The sixth point is very critical and has been neglected for long in all three countries relative to East Asia. It is now clearly established that investment in human capital, financial inclusion and female empowerment are the main contributing factors for equitable, inclusive and sustained growth. .
And again I will bring you the example of Bangladesh. Bangladesh today has the best social indicators in South Asia, although not perfect by any means. I used to go to India very frequently and was very impressed with the females working in hospitality industry, in the corporate sectors, in the academia. So my presumption was that the female labor force participation rate in India would be very high. Lo and behold it is not. It's only twenty-three percent which is the same as Pakistan while Bangladesh leads the group with 38 percent female labor force participation rate. The collateral benefits of such high participation are quite significant. Nutrition of the children, health status of the family, cleanliness in and around the house, the incidence of water borne diseases because of access to potable drinking water, higher rates of enrolment and literacy- all these indicators have improved and the fertility rate has declined. Population growth rate is below one percent. Therefore per capita income is rising much rapidly exceeding that of both India and Pakistan and that's largely because of female empowerment, financial inclusion and investment in human capital.

The seventh lesson is that devolution, decentralization and delegation of financial legal, administrative powers to the local governments and to the communities do make a huge difference in the delivery of basic public services. The local communities do know their problems and priorities and how to resolve them much better than the remote administrators sitting in the remote provincial headquarters. The centralized, homogenous and uniform decisions taken there ignoring the inter district variations in resource endowment, capabilities, priorities, have resulted in inefficiencies, waste and leakages.

Devolution and Decentralization also enhance the overall domestic resource mobilization. If the people know that the taxes or the fees or cesses they are paying will be utilized for the roads, water supply, sanitation in their areas, they are willing to pay the taxes. And this is an empirical research study not one, many, from Ghana to Guatemala which substantiate the finding that people's willingness to pay taxes increases the closer is the sphere of the benefits which are accruing to them.

In Pakistan during 2001-2008 we had a very robust local government system and all the surveys show that the level of satisfaction of the people at the grassroot level was extremely high.

And finally, what we've been talking at this seminar that ***Data is the new gold***. So the countries have to start digitizing every single operation whether it is the taxes, service delivery, e-governance, social protection, tax collection, whatever it is. That will not only bring transparency, but also improve efficiency. The way the generative AI is going, I think we have to prepare ourselves to utilize it for financial inclusion through Fintech and Digital Banking, for raising productivity of small and medium scale farmers through Agritech, for improving class room learning through Edtech and providing expert medical advice to patients in the remote areas through Telehealth. India is way ahead because they have been investing in their human resources and in the digital infrastructure and with India stack now being nurtured further by private sector participation.

Pakistan and Bangladesh haven't done so well and it is time that the regulators, the government and the private sector work together in order to promote these digitization efforts and the use of big data, Data analytics and the machine learning in the productive and social sectors. Salman Academy, for example, has developed AI tutoring whereby the students who are not doing so well are given tutoring according to their own level of comprehension and, absorptive capacity and they are gradually brought up to the average level. .

Having described the success factors I come to the second part. i.e. the pain points and the risks for the future. I would briefly flag these before you and then start the interactive session.

The first and foremost is that we have to worry about climate change, environmental degradation and pollution. We are already suffering. Look at Delhi and Lahore during the winters. The whole business comes to a standstill. Look at the floods which hit us, in Sindh and Baluchistan causing - thirty-two billion dollars of losses, deaths, destruction and displacement. If you read the newspaper these days, the glaciers in the Karakoram are receding, there is no snow formation. How would we get adequate water through the Indus River for our winter crops? How we can have our hydro power generating stations working? The glaciers in the Himalaya-Karakoram-Hindukush mountains range are a common property between China, India, Pakistan, Nepal and Bhutan. They all have to work together in order to find a manageable solution to the melting of snow, flooding, drought and erratic water supply for irrigation and the consequential repercussions for Food-Energy-Water nexus.

The second worrisome part is that despite high and rapid economic growth, regional, gender, and interpersonal income inequalities are rising. The latest Forbes list of billionaires shows the number of Indians who are now on the list of billionaires is going up and up. India ranks number three after the US and China in the number of Unicorns. The cover story in the latest edition of The Economist magazine has dwelt on the growing disparities between the Northern and Southern states of India. South is moving in the direction of East Asia while the North which has the bulk of population has below average per capita income, higher incidence of poverty relative to the Southern and Western states and the gap is widening with the passage of time. India has to face this problem squarely to maintain national cohesion.

The third difficulty is that despite growth rate of six percent for thirty years, India and Bangladesh have more employment being created in the informal sector, which is not very productive. My prior was, that as economic growth picks up, there would be transfer from the informal employment to the formal, wage based employment. That's not happening. Eighty percent of the employment is still in informal sector, which is marked by low productivity. Those of you who follow the Arthur Lewis model of economic growth, his main argument was that once you transfer and reallocate labor from the low productivity agriculture to the high productivity industries and services, growth picks up but here in all the three countries we do not find any evidence of such a transfer or reallocation taking place. This is alarming for future sustained and inclusive growth.

And that leads me to a huge future challenge for all the policy makers in the region. India is going to have twelve million new entrants in the labor force each year. Pakistan is going to have between 1.5 to 2 million and Bangladesh also of 1.5 to 2 million new entrants entering the labor force. New Job creation is lagging behind as growth is taking place mainly in skill intensive sectors and not labour intensive. India has 250 billion dollars IT industry with 150 billion dollars of exports in IT services. How many people the IT industry employs? Only five million people. If we generously guesstimate that IT industry creates 6 ancillary jobs elsewhere in the economy for each IT job this would lead us to arrive at only 35 million employment created in this dynamic sector of the economy. But the total labour force in India consists of 554 million people. So this industry is capable of deploying only 6 percent of the total. That is what the dilemma is, that the dynamic sectors are creating jobs which require skills and because new technologies are also likely to move in the same direction. South Asia can also export trained and skilled youth to countries with ageing population or countries with surplus capital to deploy. But are we preparing our youth in order to equip themselves with the skill sets which would be required by these countries and also meeting the requirements for future economic growth?

And the fifth area of concern that I have already pointed out to you is that we have to redouble our efforts particularly in India and Pakistan on female empowerment because the collateral benefits for social development and upward mobility are huge. Whether it is the domestic violence or it is the rights of individuals to assert themselves or even political leadership, that is very much dependent on female participation. At IBA Karachi, out of ten dean's list recipients of the top performers, eight to nine used to be girls. They are hardworking, committed to their jobs, and more productive. We are underutilizing this brilliant resource which can raise our GDP by at least 20 percent. The economic case for increasing their empowerment is quite strong.

In addition to shattering the entrenched social norms research has shown that Safety, transport facility, flexible working conditions would make it convenient for the females to join the labour force. Technology and remote work have proved to be big enablers in catering to their peculiar needs. If they want to take maternity leave for two months or three months, the rules have to be permissive to accommodate such requests. We just cannot continue business as usual.

The sixth painful episode is that this region was a unified economy until 1947 with an elaborate transport network from Calcutta to Peshawar in the form of GT Road. the railways connecting the whole country and a large irrigation system. And one would expect that given these initial positive endowments, there would be greater trade among the three countries after they became independent. You know what?Intra regional trade in South Asia is even lower than sub Saharan Africa. Only five percent of the trade is intra-regional. East Asia, where Indonesia, with so many islands, the Philippines,Malaysia,Thailand,which have no common historical, cultural, administrative or legal or linguistic affinity enjoy fifty four percent of intra-regional trade.

Look! Does it make sense? .

That a contiguous region which was a unified economy once is not benefiting and a group of disparate countries which have nothing in common are doing so well as far as intra-regional trade is concerned.

The seventh pain point is the unplanned and uncontrolled urbanization. All three countries did not plan urbanization which is now resulting in an urban sprawl. The point I made about informal unemployment is very much linked with growing urbanization. I just finished visiting Daska, Okara and Jhang, and I was taken aback as to how many new housing societies have come up in those areas without water supply, sewerage, solid waste disposal. Regrettably, there is no restriction on conversion of fertile agriculture lands into plots for housing societies. Speculators are investing and having a hay day while low income families are living in shanty towns or squatters which are not fit for human habitation without basic services and the utilities they need. The investment required would be substantial compared to the situation where there was proper and planned and managed urban development.

Finally, is my pet subject about which I have extensively written in my book “Governing the ungovernable”, all the three countries have poor governance and weak institutions. The colonial legacy and mindset are still very much prevalent and preserved without its efficiency and effectiveness. Accountability to the citizens is conspicuous by its absence. There is a capture of the state by a narrow elite class while the ordinary citizens do not have direct access to the government functionaries and have to use the same elites as intermediaries. There’s a growing disparity among the haves and have nots and this is going to affect the social compact which binds the citizens with the state.

The sad conclusion form this second part is that the goals of reduction in income, regional and gender disparities, finding decent jobs for the youth, managing urbanization, tackling climate change risks can only be achieved if the institutions of governance are strengthened and the state capture by the elites is weakened. This is indeed a tall agenda but we cannot escape from it. .

So I'll stop here. .

I would very much welcome any questions or even you are free to contest some of the findings which I presented to you because this is a very enlightened audience.