

RESEARCH NOTES

IMPACTS OF ECONOMIC GLOBALIZATION ON SUSTAINABLE DEVELOPMENT

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I. Introduction

The last decade of the last century coined two strategic terms, Globalization and Liberalization which stand more than any other term for the global economic development. The economic policies, adopted and enforced globally by the industrial powers are described by globalization and liberalization after collapse of the socialist block and became dominant in the entire Western world. These policies basically constitute the market oriented free trade economies.

Previously there were two political systems competing and influencing in the world. Developing countries receiving international development assistance therefore had a certain leeway. Most of these countries have little or no infrastructure or skills and also a very weak private sector. Such countries were, and many of them are still not prepared for the free trade system of economic development. They found it necessary to pursue a planned economic growth under the guidance of the state.

These planned economies have not, in all respects, been a success. Far from it, the fact is that many developing countries have not had the necessary governing experience to run a planned economic system, and in some cases, corruption and internal conflicts have led them to tyranny and anarchy, unfortunately. But the question is whether the free trade system of economic growth under the auspices of globalization and liberalization has been a success.

II. Economic Globalization

Economic globalization refers to the process enabling financial and investment markets to operate internationally. In other words, globalization means to put the whole globe within the reach of capital, and thus it remains within the reach of those who own the capital. Liberalization used in combination with globalization

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is a beautiful expression. But, in this context it actually means the liberty for investment and financial markets. In other words, it means freedom for the owners of capital to act.

- The global community has made great strides in addressing poverty, but a mere continuation of current development strategies will not suffice to achieve sustainable development,
- There are a number of economic, social, technological, demographic and environmental megatrends underlying global challenges - a deeper globalization, persistent inequalities, demographic diversity and environmental degradation - to which a sustainable development agenda will have to respond.

Globalization is not a new phenomenon. In the nineteenth century, the world economy underwent its first process of globalization, driven by technological progress in the form of lower transportation and communication costs. World trade expanded at close to 4 per cent annually on an average, throughout the last century, much faster than in the previous centuries [O'Rourke and Williamson (2004)]. In addition, capital flows boomed and migration between the continents occurred on a large scale. Today's globalization is therefore not entirely unprecedented in terms of trade levels, but it is qualitatively different. Beyond the mere expansion of trade and investment flows, underlying global production patterns have changed in the recent decades, in particular; since the turn of the millennium driven by rise of transnational corporations and the global value chains. Instead of shallow integration, characterized by trade in goods and services between independent corporations and the portfolio investments, this new phase of globalization has brought deep integration, organized by transnational corporations which links the production of goods and services in the cross-border value adding networks. Capital is not necessarily an evil. There will be no economic growth without capital. The question is, as to how it is applied and who benefits from it?

There are four main vehicles for transfer of capital to the developing countries: 'development aid, international loans, trade, and direct investment'. As far as 'development aid' is concerned its execution differs very much depending on the country who gives the aid. For example, Icelandic aid is generally given as technical assistance and is earmarked for specified projects, such as fishing, health, education, et cetera. An expert is sent along with the aid and this is thought to be by far the most effective. Actually, the target is to teach people to help themselves - to fish for themselves, to take care of health for themselves and so forth.

International loans are primarily done through multilateral financial institutions, such as the Monetary Fund and the International Bank. These institutions are controlled by wealthy nations who contribute the funds. These institutions enforce a free market system among the recipient countries. Very often it is called the structural adjustment.

During the Cold War, the General Agreement on Tariff and Trade, (GATT), guided the international trade. GATT had certain flexibility - it recognized the need for special and differential treatment - it gives the developing countries, the freedom in responding to unexpected difficulties. GATT has now been replaced by the World Trade Organization (WTO), which is also controlled by the developed countries. The rules under which WTO operates are strict and less flexible. The domestic policies of the developing countries are virtually standardized, again by a program of structural adjustment. In this connection it is also important to know that WTO regime is being extended to cover much more than just the international trade. It now includes services, capital flow, investment, the environment, etc. Such rules apply to all members of WTO but they are much more restrictive and difficult to meet for a developing country than the developed ones.

Although, information and communication technologies have also made the diffusion of information easier, it has facilitated better access by developing countries to the global knowledge pool. Because of the critical role of science and technology in addressing the social, economic and environmental challenges this wider diffusion contribute to the progress of development in a wide range of areas. At the same time, innovative activity and technology development continue to be concentrated in a small number of advanced economies. Very few countries such as Brazil, China and India, have entered this segment in the recent decades, because core research and development activities are rarely outsourced and remain overwhelmingly centered at corporate headquarters in the developed countries [Castaldi, et al. (2009)].

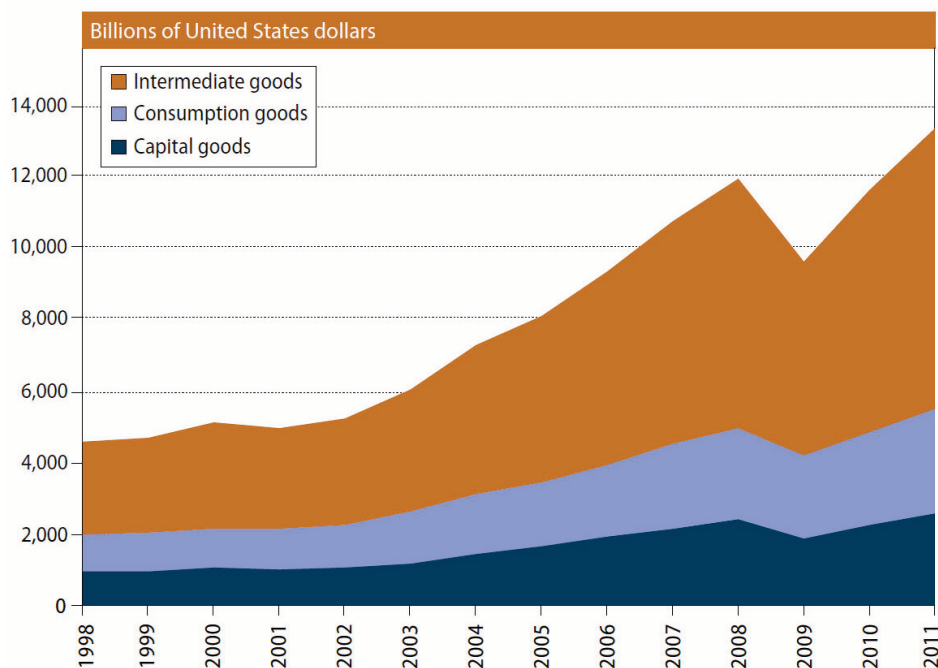
Changes in global production are reflected in changing global trade patterns. Overall trade has grown at much faster rate than those of the world domestic products, and not only did the developing countries expended their share in the world trade but they were able to diversify and increasingly export the manufactured products [United Nations (2010a)]. However, these patterns are far from the uniform diversification which is largely limited to developing and emerging economies in Asia. The traditional trade patterns based on the commodity exports and imports of manufactures, and the capital goods prevail in Africa and, to a lesser extent in Latin America too. The rise of China in particular has contributed to this trend, both directly owing to China's large demand for commodities and the traditional sector patterns exhibited by rising South-South trade; indirectly by contributing to high commodity prices, particularly for oil and minerals.

Deepening globalization is characterized by tight trade and investment links and geographically fragmented production processes organized by transnational corporations and financial flows of deep globalization. FDI flows grew as a number of countries offered conducive environments for investment and served the need of competing, corporations based on the trans-nationalization of production. Growth in FDI has outpaced even the rapid growth in the world trade. Global FDI inflows reached US\$ 1.5 trillion in 2011, although they have yet to reach the pre-crisis peak

of 2007. Fifty-one per cent of total FDI was destined for developing countries and transition economies, which have steadily and rapidly increased their share of overall FDI, owing to their dynamic development. Yet, all developing countries do not benefit from this trend. The least developed countries in particular remain marginalized, having attracted US\$ 15 billion only, or less than one per cent of the global FDI.

The disintegration of production and its acceleration since the turn of the millennium is visible, also in a rapid increase of trade in the intermediate goods (Figure 1). As a result, the income elasticity of trade has increased as lead firms react to changes in demand and pass shocks on to their downstream suppliers more quickly [Milberg and Winkler (2010)], thus further increasing interdependence in the global economy. However, since their collapse during 2008 and 2009 crisis, trade flows were recovered but at a slow pace; and trade expansion remained significantly slower than before the crisis, indicating a potential weakening of globalization of trade.

Overall, globalization provided opportunities for emerging economies and developing countries. In the recent years their growth rate was consistently higher than the growth rate of the developed world. However there are two critical caveats



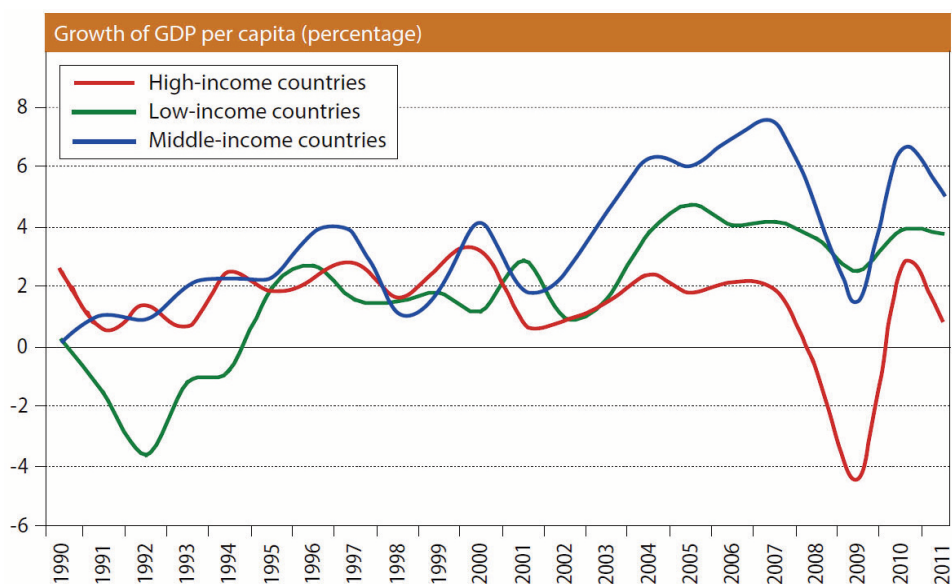
Source: United Nations Commodity Trade Statistics Database (UN Comtrade).

FIGURE 1

World Non-fuel Merchandise Exports by Type of Goods, 1998-2011

with respect to this broad trend of convergence. It has not made developing countries immune to cyclical shocks; indeed, globalization has increased countries' vulnerabilities, and it is far from uniform, with some developing countries not only excluded from this convergence process but falling further behind. Average per capita growth also hides increasing inequalities within countries which are also partly related to globalization. A significant part of the global population therefore does not benefit from convergence.

Since 1990s, per capita income in emerging economies has grown consistently faster than in the developed world. Since the turn of the millennium, growth in developing countries has accelerated as well, leading an overall trend of convergence in the global economy (see, Figure 2). Convergence is partly driven by globalization which has facilitated access to technology and know-how through tight trade and investment links and thus higher productivity growth in manufacturing. In fact, manufacturing sector has experienced an unconditional convergence in labour productivity, that is to say, a convergence independent of geography or policies [Rodrik (2012)]. Since this does not hold for other sectors of the economy, structural transformation — a decreasing reliance on the primary sector and a shift of resources to higher value adding manufacturing and modern services activities — will remain a necessary condition of sustained economic growth.



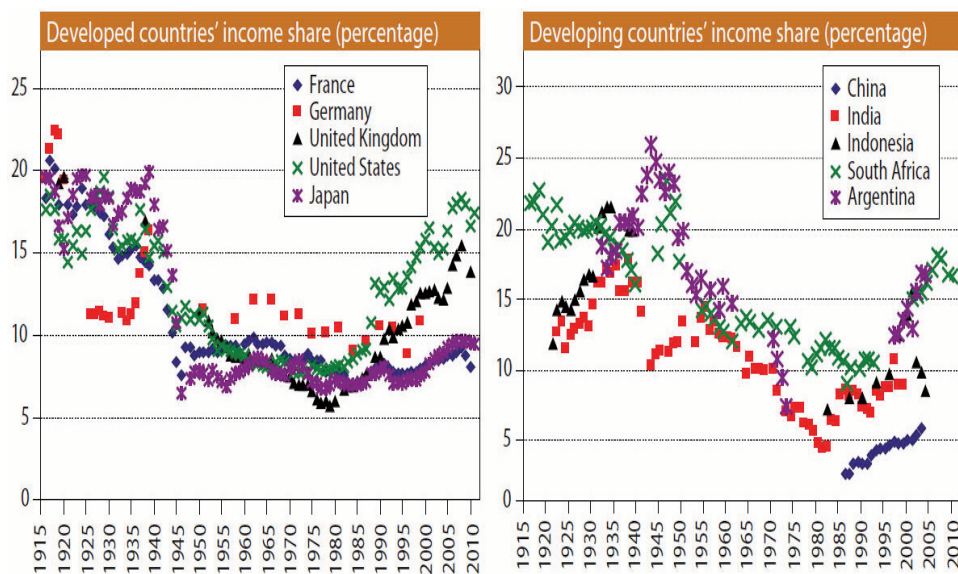
Source: World Bank, World Development Indicators.

FIGURE 2

Annual Growth of GDP per capita,
High, Low and Middle-Income Countries, 1990-2011

The more recent stabilization and slight narrowing of global income inequality largely reflect economic growth in China since 1990s; and growth in India, other emerging economies and developing economies, since the turn of the millennium [Milanovic (2012)]. At the same time, income inequalities are increasing at the national level in most regions of the world [(see, Figure 3) and Vieira (2012)]. While national income inequalities decreased for the most part, after the Second World War, this trend was reversed in the 1980s when inequality started to rise sharply again, particularly in developed and emerging economies, with the largest gains going to the top one per cent of households. The extent of within-country inequalities, while growing in most countries, varies widely between them.

On the other hand, because of their continuously high fertility rates the least developed countries will continue to see the number of youth and adolescents rising. A growing share of young people presents opportunities for reaping a demographic dividend if a demographic transition occurs and, fertility rates and dependency ratio falls, which at this point is projected to happen in the least developed countries in Asia [United Nations Population Fund (2011)]. However, this dividend will pay out only if economies can create employment opportunities,



Source: World Top Income Database.

FIGURE 3

Income Share of the Top 1 per cent for a Sample of Developed and Developing Countries, 1915-2010

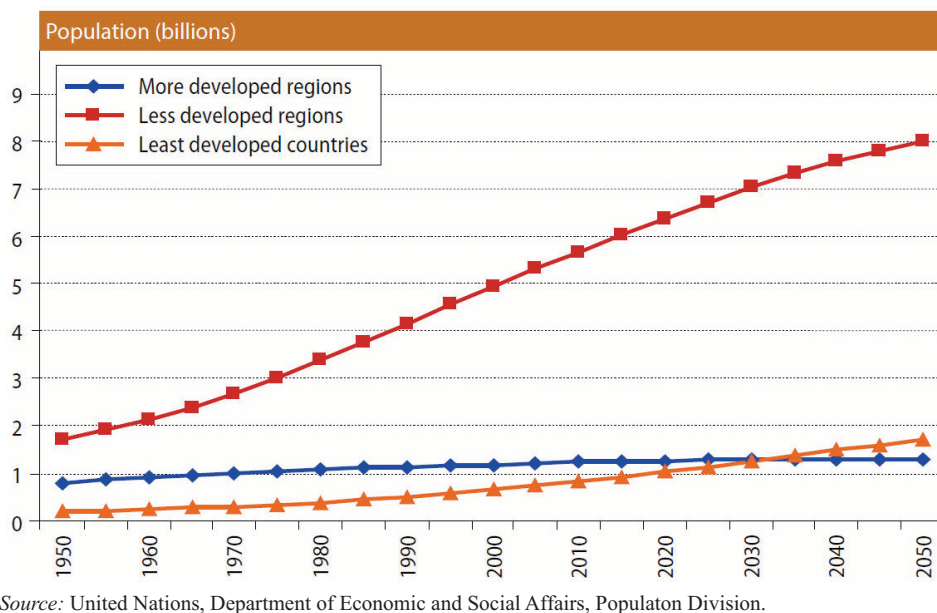
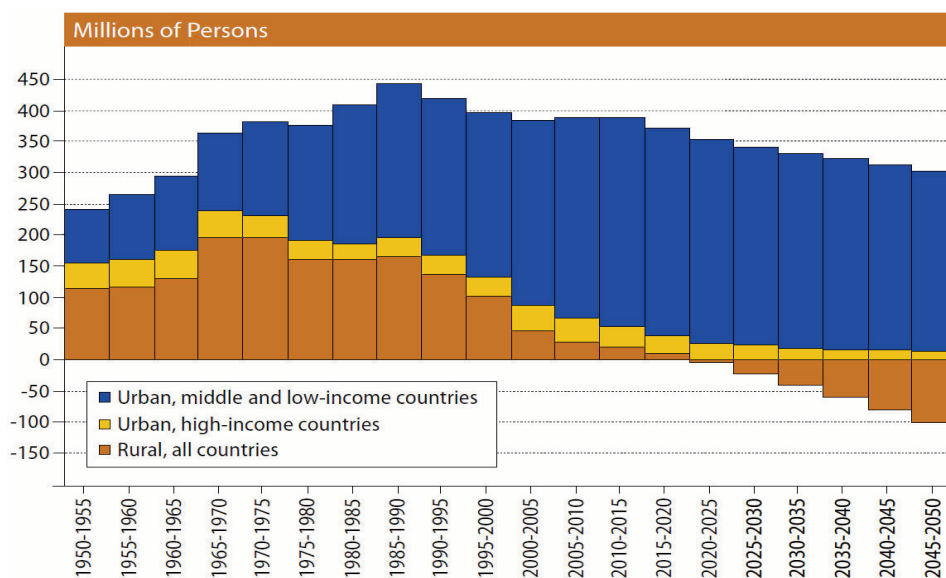


FIGURE 4

Projected Population by Development Region,
Medium Variant, 1950-2050

which will be a major challenge for the least developed countries in the decades ahead. Such disparities in the international population dynamics, in combination with the existing income disparities are also contributing to continued migratory pressure at the global level. If addressed in a coherent manner, migration can be beneficial for both countries of the origin and the countries of destination by alleviating — although by no means eliminating — problems arising from demographic trends and contributing to transfer of knowledge and resources. Yet at this point, there are no adequate mechanisms at the global level for addressing these concerns.

As noted above, the fourth major trend is increasing urbanization as more than half of the world's population live in towns and cities, and most future population growth will occur in the urban areas of developing countries (Figure 5). In the least developed countries the rate of growth in urban areas is 4 per cent per year, mostly driven by rural-urban migration in search of employment [United Nations Population Fund (2011)]. Many of these migrants live in informal settlements and the urban slums where they are exposed to environmental hazards and increased health risks.

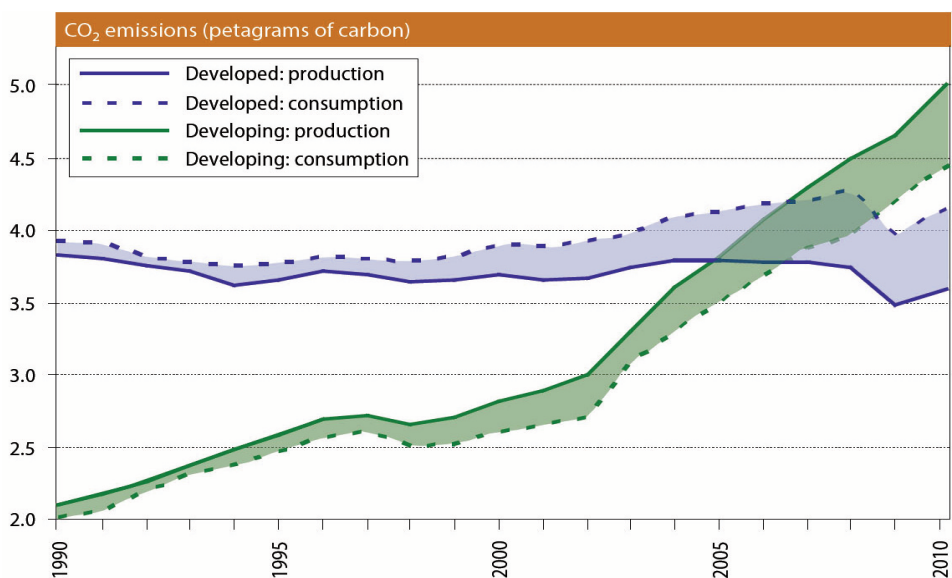


Source: United Nations, Department of Economic and Social Affairs, Population Division.

FIGURE 5

Urban and Rural Population Growth,
High, Low and Middle-Income Countries, 1950-55 to 2045-50

Contribution to global emissions varied widely, historically, and continued to do so; while developed countries are responsible for almost 60 per cent of cumulative emissions. Therefore to bear brunt of the blame, historically, they now contribute little to emissions growth which is driven by China, India and other developing countries [Raupach and others (2007)]. In fact, China is now the single largest contributor to global CO₂ emissions, having emitted 9.7 billion tons in 2011, representing 29 per cent of all emissions [Olivier, et al., (2012)]. At the same time, the stabilization of emissions in developed countries can be explained in part by growing imports of emissions-intensive products from developing countries. If these emissions transfers are taken into account, developed countries have not been able to stabilize their contribution to global emissions (Figure 6). The picture is further complicated by stark differences in per capita emissions. Per capita emissions in the United States are about five times the global average while per capita emissions in the least developed countries are one-tenth of the global average [Raupach and others (2007)].



Source: Peters and others, 2012.

FIGURE 6

Co₂ Emissions of Developed and Developing Countries,
as allocated to Production and Consumption
(Production plus Net Exports), 1990-2010

III. Unsustainable Development

Greenhouse gases emitted by polluting industries are possibly the most serious threat facing mankind today. It may tip the very fine balance in the atmosphere which is essential for life on earth. Scientists believe that ultimately it was atmospheric unbalance which seven or eight times brought animal life close to extinction during its 550 million years of existence. The industrialized countries are primarily to be blamed and not the developing countries. It is sad that the country emitting by far the most greenhouse gases is the United States, which has refused to participate in an international effort to reduce those gases.

Certainly foreign corporate investment is not new, and in many cases such investments are suitable for host countries. However, too often, foreign corporations have been motivated by profit making and greed only. The stockholders at home demand high profits. There are many unfortunate examples of inexcusable practice leading to destruction of the environment with far reaching consequences. A couple of examples are mention below.

A speaker from the Solomon Islands, in a conference in Malta, described the operation of a large international mining corporation. It had the right to the mine on one of the beautiful islands. The corporation promised employment, good salaries, benefits, and so forth to people living on the island. Few years later the mine was vacant, the forest had been cleared and what was left was just the bedrock on a strip along the coast where people lived. The strip was heavily infiltrated by poisonous chemicals. The corporation said goodbye and left the island, which was actually ruined.

Another large mining corporation in Philippines negotiated the rights of a mine on a mountain. The woods were of course cleared, but even worse, poisonous chemicals were also dumped into the mountain streams, the water of which destroyed the fertile farmland and the livelihood of thousands of people from where the stream passed. As a matter of fact, over the last 100 years, nearly all forests in Philippines have been cut, suffering a tremendous loss of topsoil.

Contributions to global emissions continued to vary widely, while developed countries are responsible for almost 60 per cent of the cumulative emissions, and therefore, bear the brunt of the blame. They now contribute little to emissions growth, which is driven by China, India and other developing countries [Raupach, et al. (2007)]. In fact, China is now the single largest contributor to global CO₂ emissions, having emitted 9.7 billion tons in 2011, representing 29 per cent of all emissions [Olivier, et al. (2012)]. At the same time, the stabilization of emissions in developed countries can be explained in part by growing imports of emissions-intensive products from developing countries. If these emissions transfers are taken into account, developed countries have not been able to stabilize their contribution to global emissions (Figure 6). The picture is further complicated by stark differences in the per capita emissions. While per capita emissions in the United States are about five times the global average, the per capita emissions in least developed countries are a mere tenth of the global average [Raupach, et al. (2007)].

IV. Sustainable Future

What has economic globalization done for the developing countries? Have the poor countries become rich? A common measure of wealth is GNP per capita. To the latter part of the last century GNP per capita grew by over 50 per cent in the United States and most of the western countries i.e., from about US\$ 10,000 to well over US\$ 20,000. In the underdeveloped south, on the other hand, it has remained virtually unchanged, and in some of the most populous countries it is around US\$ 300 per capita.

All this is certainly not due to the international corporations leaving little in those countries. It is also a fact that poverty tends to lead to more poverty. Poor people often have a big family which is the only way of their survival, or they be-

lieve so. This leads to a huge population growth with less income per capita, more poverty and so on. It is a vicious circle that must be broken.

It is also a fact that about 10 per cent of the world's population consumes about 80 per cent production of the world, while 20 per cent suffer from hunger and even starvation. This must also be changed for the good of corporations who need a healthy human globe. Further, the huge corporate production machinery extract much more from the earth than the earth can produce. This practice is unsustainable. If it continues, it will not only lead to downfall of poor developing countries, but also of the wealthy north.

V. What Needs to be Done?

The World Economic and Social Survey 2013 discuss the changes required in local, national and global policies, to achieve sustainable development post-2015. To create an enduring society, we need a system of commerce and production where each and every act is inherently sustainable and restorative. Business need to integrate economic, biological and human systems to create a sustainable method of commerce.

For this to be possible, it is necessary that multilateral institutions should change their attitudes. It must be their primary objective to assist the developing countries to become self-supporting, with good education, health and social services, and proper birth control. The United Nations should be given a much greater part in such assistance, than it has today.

The reduction of absolute consumption of energy and natural resources by 80 per cent is absolutely imperative. This may sound impossible, but is it so? The world has the technology to achieve this, even today. We have all kinds of energy possibilities like wind power which is not being financed as it should be, but is extremely promising, for example, in the United State they can easily reduce the use of energy from the sources of today. Actually, we would also have to reduce the line-wastage, theft, etc., by 50 per cent of the present losses. We have the technology to do so if we really want to position our minds to it. Also provision of secure, stable and meaningful employment to people should not be ignored at all phases. At the global level the human development agenda and the universal goals for all countries must be emphasized.

Last, but not the least, drastically reduced current emissions trends of greenhouse gases create further increase in global temperatures, with potentially catastrophic consequences. It is concluded by supporting these proposals for consideration of the policy makers.

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REVIEW OF ECONOMIC AND INDUSTRIAL POLICIES OF PAKISTAN: Seeking for Missing Links

Fauzia KAMAL*

I. Why Industrial Policies?

In the recent era of globalization and liberalization, competitiveness and productivity growth are considered as two fundamental elements for swift economic growth. Scale of productivity growth largely depends on the nature of economic activity. Modern and technologically dynamic firms and enterprises loaded with best managerial practice and skilled labor are considered more productive than simple labor intensive manufacturing and agricultural activities. Structural transformation is therefore considered fundamental for high productivity growth. According to Lewis (1954) 'dual sector model' transfer of resources from traditional agricultural sector to modern industrial sector promotes industrialization and development. As noticed by Lal (2003) in the last two to three decades of rapid technical change, structural transformation from simple low technology manufacturing activity to more complex technology based manufacturing activities becomes an indispensable phenomenon for sustained economic growth, hence, shifting from low productive activity to high productive activity is a key to attain high economic growth but this transition requires continuous efforts and diversion of resources towards Research and development (R&D), technical and managerial skill development programs, innovative activities and Self Discovery.¹

Now the question arises, whether the Market Forces would be able to make this transition alone, especially in the case of developing countries? Most fundamentally, market prices cannot reveal the profitability of resource allocation that do not yet exist [Rodrick (2004)]. Although, private enterprises and entrepreneurs find it optimistic to invest in technological and skilled based activities for enhancing their own production-line but devoting resources towards non-traditional activities or activities which require large investment. They favour ambiguous return and prevent them to invest in such activities. Government interventions thus become crucial when market forces alone are not able to force private investors to invest in productive non-traditional sectors. Proponents of interventionist policies emphasize the active and increasing role of government because of the presence of market failure on one hand and absence of some potential markets on the other hand.

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¹ Hausmann and Rodrick (2003) used the word 'self discovery' for the first time to discover the range of potential commodities from the established producers abroad that can be produced in home country at low cost.

In literature, there is a growing emphasis on importance of public policy to acquire technological capabilities by developing countries to catch-up advanced and industrialized countries. According to Lal (2003), technology has strong 'tacit' elements that need the users to invest in new skills, routine, technical and organizational information. Such investment faces market and institutional failures whose remedies require intervention. However, complexity of technology along with developmental stage of a nation is crucial in attaining these technological advancements. More recently, the technical enhancement and specialized skills are required from simple labor intensive or resource based manufacturing activities to more complex technologically advanced activities. Thus, the duration and efforts required for adoption and specialization in different technologies differ widely, and hence, there will be a call for careful selection of intervention by the public institutions of developing nations.

Moreover, if we look at the history of industrialized countries, the government intervention played a fundamental role in the process of their development. The tools of intervention in almost all developed countries are almost similar in nature, which provide a road map for catching-up these nations.

II. Historical Account of Catching-up Policies - the Global Context

A long distance has to be covered with developing nation's perspective in general and Pakistan in particular, for attaining the high productivity growth and competitiveness through technological advancement. In the past, similar long distance was covered by present developed countries like England, USA, Japan, and later, Korea, Taiwan and China. The history proved to be a powerful tool for studying; designing and implementing policies that could lead the less developed nations to the route of success.

It is established in the literature that most of the developed countries have extensively implemented the targeted industrial and trade policies during their catch-up phase,² Wade (2003) revealed that Britain was protectionist when it was trying to catch-up with Holland, Germany with Britain, the United States with Britain and Germany; right up to the end of the World War II. Japan was protectionist during most of the twentieth century (up to the 1970s), and Korea and Taiwan till 1990s. Economic and industrial policies adopted by most of the developed countries during their take-off period had common elements of protectionism and subsidies to the selected industries. Alexander Hamilton (the first U.S. Secretary of the treasury in 1791) and later the German economist, Friedrich List of nineteenth century, emphasized the need of protectionist policies for building up industries and refuted Smith's idea of non-interventionist role of the governments. They also emphasized on protection of infant industries for a short-term until these industries were able to compete.

² See, Di Maio (2008), Reinert (1994), (2009), and Wade (2003).

At the same time, Doitsugaku Kyokai (Society for German Studies) in Japan, was formed in inspiration of German Model (Staatswissenschaft-oriented) in 1883 and supported the importance of protectionist policies for development of Japanese economy. The Doitsugaku Kyokai certainly advocated that a protective trade policy be adopted in Japan as was the case in Germany and the United States in that period, and rejected the universal benefit of free trade of which Britain was virtually the sole beneficiaries [Augello and Guidi (2001)]. Similarly Yoshikazu Wakayama of Nihon Keizaikai (Society for Japanese economy) was influenced by Henry Charles Carey, an American protectionist economist, and introduced Carey's philosophy of protectionism in his work, Hogo Zeisetsu (on protective tariff). Similar catch-up policies were adopted by Flying Geese Economies of the South East Asia and most of European countries. Hence, what we can learn from the history is that selected industrial protection had long been the most favored policies during the take-off period of developed countries and once the competitive edge has been obtained, countries can maximize welfare only through liberalization. Reinert (1994) revealed two distinct stages through which most of the industrialized countries had passed through. First is the phase of strong intervention that is characterized for providing support to domestic industries during their developmental stage, described by him as 'List-cum Smith stage'. Second is the phase of Free Trade, in which nations can exploit benefits, only by entering fiercely in to the world competition and is called by him as 'Smithian Stage'. Hence, most of the industrialized countries that have passed through the 'List-cum Smith stage' can maximize welfare only by entering into 'Smithian Stage'; which proves that Free Trade is a route to success only for developed countries.

Now the question arises that how long will it take for developing countries to enter into the non-interventionist Smithian phase of Free Trade? Although there is no standard length of time prescribed by any institution or scholar but we would be able to get some useful insights by scrutinizing the history of industrialized countries' catch-up phase. Reinert [(1994), (2009)], states that though England was the first country to achieve the domestic industrial capacity beyond which secret of triumph is hidden only in the free larger market competition, but it took her about 350 years to pass through the stage of protection. However, the United States and Korea took about 100 years and 40 years, respectively.

In the twentieth century, the interventionist and import substitution policies were common in almost all developing countries but the effectiveness of these policies was fairly weak in some of them (e.g., Latin American and South Asian countries including Pakistan) as compared to the Newly Industrialized Nations. The tools were not different from those used by the less successful economies – the secret lay in the combination of policies and the efficacy of their implementation [Lall (2000)]. The same holds fit to the case of Pakistan's industrial sector and demands for detail critical analysis that would be useful for formation of future industrial

and economic policies. Hence, in the next section, some causes of failures, as well as, missing links in comparison to the East Asian tigers are figured out.

III. Why Pakistan Lagged Behind?

Missing Links in Comparison with East Asian Economic

Pakistan's industrial sector underwent through two distinct industrial regimes. First, the pre-1988³ period which was characterized by protectionist and nationalization policies or as described above, 'List cum Smith Stage' and second, post-1988 period, shaped by the 'New Rules of Game' through Washington Consensus, as described by Reinert (1994), 'the Smithian Stage'.

The import substitution industrial (ISI) policies were predominated up to the eighty's but with varying degree of magnitude. It was only the first decade when such a policy was implemented with full force. Nonetheless, trade policy remained the key element in determining the level or degree of Import Substitution Industrialization in any country. As discussed above this policy did not only remained the foremost feature of most of the industrialized countries, during the catch up phase but protectionism through ISI was adopted in almost all the developing countries, after the World War II. It cannot be denied that all countries were not able to reach the acme of growth and development as these policies were not the elixir in any ways. Cautious review of literature reveals that a number of complementary strategies and buoyancy (among all economic agents) along with the supported industrial policies are necessary conditions for growth.

Pakistan is also a case where ISI and protectionist policies failed to achieve a competitive edge in the production sector. Careful scrutiny of success stories of newly industrialized countries revealed that not only the policy tools adopted in Pakistan were of similar nature to those adopted by most of the East Asian countries but also the stage of development was initially at par with these countries. According to Felipe, et al. (2009), Pakistan was, for a couple of decades immediately after the Second World War, the first of the growth miracles countries. In 1965, the per capita GDP of Pakistan was US\$ 113 as compared US\$ 106 of the South Korea.⁴ However, more recently per capita GDP of South Korea has been roughly 20 times more than Pakistan.

Now, the question arises that, how Korea and the other East Asian countries managed to achieve and sustain the industrial growth, whereas, the growth in Pakistan remained stagnated? In response to this question a chain of detailed missing links are identified in this study, due to which the country has diverted from the success path.

³ In December 1988, Pakistan signed 'four years agreement' with IMF and committed to focus on a numbers of deregulation and privatization policies. For details, see Rehman (1990).

⁴ World Development Indicator (WDI).

1. Good Protection Versus Bad Protection

Reinert [(2007), (2009)], coined the term ‘good protection’ for East Asian countries and ‘bad protection’ for Latin American countries. East Asian countries provided ‘good protection’ to the manufacturing sector through continuous up-gradation and expansion of technological structure, skill enhancement, stable macroeconomic conditions, economic equality, highly developed infrastructure and most importantly, the domestic competition along with transformation of productive structure from diminishing returns to activities of increasing returns. In Japan, while there was a substantial protectionism for auto mobiles that allowed domestic production to reap the benefits of increasing returns; there was a fierce domestic competition that also drove efficiency [see, Felipe, et al. (2009)]. Good protection in East Asian countries was always coupled with ferocious domestic competition and the export promotion policies.

In contrast, Pakistan (like most of the Latin American countries) failed to achieve the competitive edge by providing bad protection. Although, protective measures were taken in terms of high tariff rates, non-tariff barriers, concessional credit rates, export subsidies, tax incentives, etc., but Pakistan’s economic agents focused less on innovation, enhancement of technical and managerial skills, technological advancement, development of infrastructure and social development. According to Reinert (2009), when bad protection dominates, a nation may get stuck with a sub-scale and technological mature manufacturing sector.

In Pakistan, ‘bad protection’ leads to less dynamic and low productive manufacturing sector as firms and entrepreneurs dedicate more resources towards obtaining undue benefits, and thus, the culture of corruption and nepotism prevail in the country. The major proportion of funds and credits were disbursed to monopoly houses without adopting strict performance based criteria. Firms and enterprises became dependent on subsidies, concessional credits and high tariffs without struggling to achieve the economies of scale, competitiveness and productivity growth. Experience suggests that if such a policy is to be pursued it should be time-bound and performance linked [Lall and Weiss (2003)].

2. Export Promotion: Neglected Aspect

Amsden (2001) and Maio (2008) emphasized that Import substitution policies failed when the control mechanism is weak because of the absence of two important aspects. First, the non-existence of export promoting policies, and second the lack of internal competition. Although, all Asian Tigers⁵ were provided a vacuum atmosphere for industrial development through Import substitution policies but from 1960s onwards these policies were generally accompanied by the Export promotion policies.

⁵ Especially; the South Korea, Taiwan, Singapore and Hong Kong.

According to Lall (2003) these Asian Tigers invested profoundly in the export industry for identifying market conditions, technological trends and competitors' strategy. In Korea, export targets were set at the industry, product and firm level [see, Rhee (1984)]. Similarly in Taiwan, the government hired Stanford Research Institute to identify promising industries for export promotion and development [Lall (2003)]. The strategy of export promotion when combined with protectionist policies expected to promote the manufacturing sector by relaxing the foreign exchange constraint on one hand and by disciplining the domestic firms and enterprises on the other hand. According to Westphal, Rhee, Kim & Amsden (1984), in Korea, export led the economy's development in a more fundamental sense: in the establishment of new industries and in the acquisition of added technological capability in existing industries.

In contrast to the successful Asian tigers' policies, the realization and implementation of export policies were found limited in Pakistan. During the first decade, the Export Incentive Scheme (in 1954) along with devaluation of the rupee (in 1955) there was an increase in exports of raw agricultural product; but it declined again in the subsequent years. Although, a number of measures were taken by the government during Gen. Ayub's era to accelerate the export growth, including Export Bonus Scheme (in 1959) and the Export Credit Guarantee Scheme (in 1962); but these schemes were also criticized.⁶ The term export led industrialization was introduced for the first time introduced during Gen. Zia's military regime. Export Rebates and Export Finance Scheme along with the creation of Export processing Zones in Karachi and Lahore, enhanced the export growth from 1.2 per cent in 1974-75 to 38 per cent in 1979-80.

Although, this reveals that steps were taken by the state to enhance export growth through carrot policies, but however the stick policies seemed missing in the case of Pakistan, due to which only primary and low technology products (textile and clothing) remained the main exporting commodities of the country. Export policies were not implemented with the desired aim and objectives and no efforts were made to improve the competitive structure through technological acquisition. For establishing new industries in the country the intention remained to increase profit margin from the windfall gains of bonus and other incentive schemes.

3. Credit Facility: Role of Development Banks

As already discussed, the targeted state intervention remained the key policy features for achieving sustained industrial growth during developmental stage of most countries of the world. Although, a range of targeted measures were adopted, disbursement of concessional credit for selected activities through creation of government owned financial institutions were found common in number of countries (Table 1).

⁶ For details see: Ahmed and Amjad (1984)

TABLE 1
Share of Development Banks in
Total Manufacturing Investments, 1970-1990

Country	1970	1980	1990
Brazil (BNDES)	11.0	18.7	18.1
India (AIFI)	7.6	16.8	26.0
South Korea (Korean Development Bank)	44.7	10.1	15.3
Mexico (NAFINSA)	35.5	11.4	10.3

Source: Maio (2008); p.16.

In the same vein, Pakistan Industrial Finance Corporation (PIFCO) was established as the first formal credit institution in 1949 and was renamed as Industrial Development Bank of Pakistan (IDBP) in 1961. The aim was to provide mortgage funds to the industrial enterprises. Pakistan Industrial Credit & Investment Corporation (PICIC) was established in 1957 for facilitating and providing loans to new enterprises. Apart from IDBP and PICIC, National Development Finance Corporation (NDFC) and Banker's Equity Limited (BEL) were also established in 1980's. In addition, Investment Corporation of Pakistan (ICP), National Investment Trust (NIT) and other government owned commercial banks were also engaged in financing long-term investment to the manufacturing sector of Pakistan.

Unlike most of the East Asian countries, development banks, IDBP and PICIC did not play any significant role in the early industrial development of Pakistan. Both these banks exhibited vigilant role in providing loans and supported mostly larger enterprises with greater security and high profit rates. In 1960's both these banks concentrated more on the West Pakistan as compared to the (then) East Pakistan (Bangladesh after 1971). Zaidi (2005) pointed out that between 1958 and 1970, 65 per cent of total loans disbursed by PICIC went to thirty seven monopoly houses, with the largest thirteen of these accounting for about 70 per cent of these loans. He further noticed that seven out of seventeen Pakistani banks were under the direct control of the monopoly houses accounting for 60 per cent of total deposits and 50 per cent of loans and advances.

According to Papanek (1967), at the end of 1958, almost two-third of the net government investment through the Pakistan Industrial Development Corporation (PIDC) was in West Pakistan and only a little over one-third in East Pakistan. It reveals the fact that development banks in Pakistan played a significant negative role, not only in sowing the seed of hatred and disparity between the two wings of the country but also accentuated the concentration of wealth in a country where income distribution was already asymmetrical.

In detecting the missing links, one would come across the fact that income distribution was highly uneven in Brazil but the Brazilian National Development Bank (BNDES) played an essential role in development of the manufacturing sector; not only by preventing the economic concentration from rising but facilitated the Brazilian enterprises entering into the technological intensive industries like automobile, aircraft etc., [Amsden (2001) and Maio (2008)]. Similarly, Taiwan government promoted the Small and Medium enterprises through direct credit for technological innovation and did not promote the giant conglomerate [Lall (2003) and Maio (2008)].

Most significantly, the non-existence or deficiency of performance based conditionality on concessional loans and domination of monopoly houses on financial institutions proved to be barricade. This restricted the contribution of Development Financial Institutions (DFIs) in achieving the sustained industrial growth in Pakistan. In comparing the East Asian countries, concessional loans were subjected to strict performance based criterion from improvement of technology in the domestic production to employment of the domestic factors of production.

The above mentioned explanation supports the fact that in Pakistan the policy tools of concessional loans and funds to the private entrepreneurs were similar to those adopted by other successful countries. A number of missing complementary conditions limit the role of DFIs not only to finance more risky projects but very little contribution of DFIs was observed to enhance the technological, innovational and educational capabilities.

4. Bureaucrats and Capitalists Partnership

One of the most important aspects of sustained growth, exemplified by most success stories of the world is the level of buoyancy and affiliation between bureaucracy and all other economic agents of the society. An appealing example of this affiliation is South Korea, where military regime under Park Chung Hee established relationship with business class, especially Chaebols.⁷ In the first two decades of Pakistan's history, policies supported the rapid development of capitalists in the country. Although the public-private partnership led the economy towards the success path but this resulted in a high degree of concentration, endowed with immense economic power to influence the political decisions. According to Papanek (1967) while there were over 3000 individual firms in Pakistan in 1959, only seven individuals, families, or foreign corporations controlled one quarter of all private industrial assets and one fifth of all industrial assets. These monopoly houses started exerting political influence to retain protection, and hence, monopoly positions remained without exercising any strict performance based criteria.

During the Syngman Rhee's regime (pre 1960's) in Korea, Chaebol group received favoritism in formulation of economic policy but the military regime under

⁷ Park Chung hee strengthened the Chaebol corporate group, as the Zaibatsu system was evolved during the meiji era in Japan, Khaled (2007).

Park Chung Hee took stern decisions against this Korean Conglomerate. Afterwards, most Korean Chaebols were placed on parole and their freedom depended strictly on their business performance and cooperation with the government. Rhee (1984) revealed that in Park's era monthly meetings were arranged between the bureaucrats and exporters for examining performance. Companies received incentives from the government and government began to discipline them. Hence, protection and subsidies by the government strengthened Chaebol in South Korea which created a monopolistic and oligopolistic economy; but however, they were found less influential in devising the national policies and were under strict state vigilance and guidance.

In contrast, despite regulating the capitalist sector through carrot and stick method (as was done in South Korea), nationalization policies were adopted to disintegrate the monopoly powers during Bhutto's regime in Pakistan. Without realizing the entrepreneurs' potential to undertake the government's ambitious plans for economic development, private sector's confidence was totally shattered by transferring the management to inefficient and corrupt hands that had worsen the situation even more.

5. *Technological Innovation*

Domestic accumulation and up gradation of technological knowledge remained the primary objective of all success stories. Countries that exterminated or neglected this important precondition from their policy framework were trapped with less efficiency, less innovative and less dynamic industries. Indeed, in the beginning, countries relied on foreign source technology but efforts towards enhancement, assimilation, amelioration and modernization of technology began with the onset of Import Substitution Industrialization. In most of the Asian and Latin American countries, the private sector engaged itself actively in stimulating technological component for domestic production. At the same time, the government also played a paramount role not only by investing in activities for technological development but also for devising such policies and regulations that facilitated the rapid accumulation of technology. In some cases, the State owned national development banks served as instrument for technological development; for example, the Brazilian National Development Bank (BNDES) had special funds to finance training of specialized technical personnel [Maio (2008)]. Similarly, the Korean bank, (Korea Technology Development Corporation) specialized in development and commercialization of technology. In the case of South Korea, the government took several steps for enhancing the technological base of the country. Private firms were given tax breaks for investing in Research and Development (R&D) activities. Tariffs were reduced for import of devices and commodities for use of the R&D activities. National R&D and about 259 other programs were initiated for enhancing the in-

dustrial R&D and the innovational capabilities by the Korean government in 1980s. In the same vein, formation of science parks, technology clusters, research institutes and friendly policies towards FDI were the main channels adopted by the Taiwanese government for winning the race of technological advancement.

The government of Pakistan also recognized the importance of modern technology for development process, which is evident by the fact that from 1950s onward, a number of research laboratories, institutes and committees were established in the country. The council of Scientific & Industrial Research, established in 1953, produced some useful work for optimal utilization of indigenous raw material resources and the Pakistan Industrial Technical Assistance Centre at Karachi and Lahore worked to improve productivity in the early years of development [GOP (1955), (1960)]. Similarly, PCSIR was established in 1963, with the aim to improve the technological and scientific component in the domestic production. There were twenty research divisions employing nearly 800 scientists and technicians in three different laboratories of PCSIR in Karachi, Lahore and Peshawar. In addition, Cotton Textile Industry Research and Development Centre (CTIRDC), The Ceramic Research Institute, National Design and Industrial Services Corporation (NDISC) were also established to improve the quality and competitiveness of the product in the export market. However, despite recognition and acquaintance of these efforts, very negligible impact of these research institutions was seen on the overall industrial competitiveness and productivity of Pakistan. For instance, paucity of financial resources, inadequate infrastructure, and macroeconomic instability along with lack of technical and managerial staff were some of the main hurdles towards improving the effectiveness of these research efforts. In most cases, the manufactured commodities or products of Pakistan are of sub-standard quality, not at par with the international standards because of using sub-standard raw material, outdated designs and inadequate technology. According to Lall and Weiss (2003), there is some investment in science and technology by the government, but it lacks coherence or relevance and many reforms languish in papers....Government technological efforts are not linked to needs of the productive sector..... Despite the stated intention to the contrary, policy continues to focus on the supply side of technology rather than ensuring that productive enterprises are induced to demand it and to invest more on it.

Scientific research, sophisticated technology and modern innovational capabilities are considered an engine of sustainable growth in this modern era; and without dedicating and investing in empowering and intensifying the technological structure of the manufacturing sector, it would not be possible for Pakistan to escape out of low productive and less competitive structure of export and manufacturing. Therefore, there is an urgent need that the government should not only act as a pioneer in enhancing these capabilities at the firm and enterprise level but also act as a catalyst between technological and educational institution and industrial firms.

6. *Education and Skills Development*

After the end of World War II, the economy of South Korean and several other East Asian economies was the poorest, ruined and impoverished in the World. Before 1960s, Korea was poor than Somalia, Zambia and as mentioned above its per capita GDP was even lower than Pakistan. But what distinguished the East Asian Economies from other developing countries was their educational attainment. The legacy of Confucianism did not only deem upon the education but embraced the nation together, without civil conflict and disputes. The Korean workforce had an average of 4.98 years of schooling in 1960, and the elementary school enrollment rate reached 100 percent as early as 1970 [Sungchul Chung (2010)].

In catching up the process, education and learning is considered as a preliminary condition as educated and trained workforce is necessary not only for innovation of new technology but also for absorption of imported technology by the local firms. Now, it is established that countries which focus more on attainment of elementary and higher education along with skill enhancement and research activities were able to catch up advanced countries in a better way and relatively in shorter length of time. However, in Pakistan only little efforts were exerted by the government to improve the social structure. According to Easterly (2001), in 1990's twenty four percentage point of Pakistan's population is illiterate than is normal for a country of its income level...Public spending on education is 1.4 percentage points lower than the benchmark for income level. Although a number of policies, commissions and programs were initiated by the government, right after the independence. In the Global Competitiveness Index, every plan evaporated with the attainment of 117 and 124 ranks for primary education and higher education, respectively, for the year 2012-13.

The copious literature on Pakistan's economic growth confirmed that during the first three to four decades Pakistan's economy grew much rapidly as compared to many other developing countries but the most important and complementary aspect of growth, the social development was neglected throughout the period. Easterly (2001), correctly characterized the growth structure of Pakistan as 'Growth without Development'. For instance, ruling elite and dominance of feudal system in Pakistan is the foremost determinant of lower literacy rates. The dominant elites and feudal lords do not believe to invest in human capital as they consider education as a threat to their supremacy. Hussain (1999) noticed that low literacy among the population have actually played into the hands of the elite and helped to reinforce the tendency of concentration of economic and political power.

Another most important dimension towards the lower literacy rate for an agrarian country like Pakistan is explained by Easterly (2001). At an early stage

of development when labor and land are abundant and capital is scarce, there will be lower return to investing in mass education. This explains that during the initial stage of development landowners lacked foresight and thus they found it less profitable to invest in human capital development. Lower expenditure on education by the Government of Pakistan is another most important determinant of dismal literacy rate. Public spending on education lingered between 1 to 2 per cent of GNP since independence compared to 3 to 4 per cent of GNP in most developing countries. On the supply side, dilemma of lower expenditure on education persists mainly because of massive military expenditure on one hand and lower revenue on the other. On the demand side, because of a number of cultural and religious factors, education is the least priority aspect of people, especially in the rural areas of Pakistan, where the situation is even more depressing.

The gender gap is more pronounced in rural areas in contrast to urban areas towards the attainment of education where feudal system reigned for centuries. There are several religious, cultural and social factors behind the lower literacy rate of female as compared to male. Apart from the religious factor, the most dominant cultural factor in Pakistan is the male dominance in the society, unwilling to endorse female education and economic participation as educated women will more likely demand equality coupled to share in the assets and power. Another reason is that most parents feel insecure to send their daughters far, if the school is not available in their own vicinity.

Several other factors are also operated behind the gloomy picture of Pakistan's human capital resources, including, health and nutrition facility and quality of educational institutions etc. It has been argued in the literature that better health and nutrition conditions impact positively on labor's productivity. However, political instability in the country along with growing cultural and religious polarization with time worsened the situation manifolds.

7. *Polarized Society*

In contrast to Pakistan, economic rents created by government interventions in the early phase of development in East Asian economies were reallocated on the basis of export performance, acquisition of modern technology in domestic production, employment of domestic factors of production and upon satisfying the other requirements set by the government. However, Pakistan is characterized by feudal mindset and elite class, comprising, influential and powerful proprietors, politicians, bureaucrats, businessmen and military officers who restrained the society from developing by detaining most of the economic rents generated in the first four decades. This led the society towards social backwardness, inequality and had created an economic and political oligarchy. The inequality enhanced by the diversion of rents towards small fraction of rich society, not only

because of biased policies towards agriculture and in favor of manufacturing but also because of negligence towards small and medium enterprises as compared to large scale manufacturing sector. Thus, it laid the basis of hatred and schism not only between the two regions (East and West Pakistan) of the country but also within the Western part (after the separation of Eastern wing) on the basis of language, ethnicity, religion, sects and region. Today, Pakistan which was founded on the presumption of One Nation became a model of Polarized State. Despite having one national language, Urdu, we are segregated into Muhajir, Punjabi, Sindhi, Balochi, and Pushtoon nations. Gen. Zia's ideology of Islam and Pakistan's role as a front line state in Afghan War not only led the country towards the religious extremism but divided the Muslim nation into Shia, Sunni, Diobandi, barelvi and others. The widening gap between One Nation and the Polarized State made it difficult for policy makers to congregate the entire ethnic and religious groups on one platform for development projects at national level. Easterly (2001) correctly explained that polarized societies find it difficult to agree on the kind of public good, and even if they compromise, each fraction will value it less than would a citizen of a society with more homogenous value. Further to this situation, political instability has worsened the already worse situation. The first decade after the independence was characterized by seven consecutive civil governments followed by first Marshal Law in 1958. In the first four decades of political history, Pakistan was ruled by a total of eight non-military and three military leaders, while every leader had experimented his own policy, for instance, the second decade of Gen. Ayub's Government was a sole decade in Pakistan's economic history when an economic policy was carried over for an adequate length of time.

8. *Smithian Phase*

Although, liberalization and deregulation were started before 1988, but however, with the advent of new democratic Government in 1988, the economy moved further towards globalization. Measures were undertaken to privatize the industrial, energy, banking and telecommunication sectors. The private sector was encouraged by relaxing the investment controls. Foreign exchange regime, monetary policy and capital accounts were liberalized. Multiple exchange rates and concessionary credits were eliminated and high tariff rates were reduced substantially. Table 2 shows that Pakistan's average un-weighted tariff rates were decreased drastically from 77 per cent in 1985 to 17 per cent in 2004. In addition, liberalization efforts were facilitated through favorable foreign investment policies. Measures were taken for promotion of export which is evident by the fact that import duty on raw material and intermediate goods used for manufacturing exports reduced to zero.

TABLE 2

Average Tariff (unweighted)

Years	Per cent
1985	77
1990	65
1995	51
2000	25
2004	17

Source: SPDC (2006); p 15.

In spite of all these efforts and contrasting to the expectations attached by the proponents of liberalization and globalization, the economy of Pakistan has passed through the sharp slowdown (especially in the case of a large-scale manufacturing sector) except for the period 2002-2007. The growth rate of the large-scale manufacturing sector decreased from 8 per cent in 1985-86 to 3.1 per cent in 1995-96. Hassan (1998) blamed that Economic liberalization under structural adjustment programmes, poor governance and coordination failure weeded out industry resulting in low output growth. On the social development front, not only the people who lived below the poverty line increased from 21.29 per cent in 1988 to 32.78 per cent in 2003 but income inequality also increased throughout the period [SPDC (2005-06)].

Although, the economic managers succeeded somehow to attain the rapid economic growth in Gen. Musharraf era, when GDP growth rate touched the record level of about 9 per cent in 2004-05 but by looking at the other side of the mirror, the applied policies were criticized by many authors.⁸ It was argued that in the Gen. Musharraf regime the growth of economy was consumption based rather than investment based. It is evident by the fact that during this period the national savings declined from 17.6 percent of GDP in 2004 to 11 per cent in 2008 despite the fact of foreign inflow in the form of remittance - the aid increased significantly during the same period.⁹ Private consumption surged to about 80 per cent of GDP in 2004-05. Although investment rate also increased from 16.6 per cent of GDP in 2004 to the peak of 22.6 per cent in 2007 but still remained below than most of the other developing nations.

⁸ See, for example, Pervez Tahir, The Economic Charge sheet, Daily Dawn, Newspaper, August 12th, 2008.

⁹ The period 1999-2013 saw an almost tenfold increase in remittances flows into the economy, from around USD 1.5 billion in 1998-99 to an expected USD 14 billion in 2012-13 (Amjad and Burki (2013)).

Now the question arises that why such wide range of economic and trade reforms under the advice of international donor failed to translate into high economic and social development of the society. Two possible explanations can help in solving this predicament.

The first explanation can be based on the theory that liberal policy may help to improve economic growth and development only in the presence of strong institutions along with sound macroeconomic conditions. Krueger (1978) and later Winter (2004) argued that trade liberalization and growth are linked via other policies and institutions. In case of Pakistan, all these reforms failed to deliver the high economic growth mainly because of macroeconomic imbalances, deteriorating law and order condition and the corrupt institutions. Zubair Abbasi (2009) explained that in the absence of strong institutions of social protection within the state structure, the privatization proceeds were mainly utilized to meet government expenditure rather than managing the adjustment period through social policy framework.

The second and complementary explanation of the first one is hidden in history. As described earlier the Smithian stage of free trade can be successful, only after achieving the competitive edge in the production sector. Countries that have successfully passed through the List-cum-Smith stage through government intervention in the preceding centuries are able to ripen the benefits of the market driven economy.¹⁰ However, like most other developing nations Pakistan entered in the Smithian stage without acquiring the necessary capacity of competitiveness in most of the economic sectors and thus through unnatural or forced transition from first to the second phase.

9. Pakistan: An Aid Driven Society

Since its birth, Pakistan remained one of the largest recipients of foreign aid and all interludes of high economic growth which are observed to be contingent upon foreign capital inflows. According to Easterly (2001), from 1960 to 1998, Pakistan benefited from US\$ 58 billion of foreign development assistance (in 1995 dollars) and 22 adjustment loans from IMF and the World Bank. Since then, IMF approved US\$ 596 million standby credit in 2000, US\$ 1.3 billion PRGF credit in 2001, US\$ 7.6 billion loan in 2008 (further extended to US\$ 11.3 billion in 2009) and the most recent the IMF have indicated a loan package worth US\$ 5.3 billion for Pakistan, subject to approval from the Washington-based fund's executive board.¹¹

Throughout the history of Pakistan foreign aids and grants played an important role in mitigating the diminishing foreign exchange and balance of payment crises.

¹⁰ Reinert (2009) described two reasons of this natural transition. (a) New technology tends to come with larger Capacity, (b) Because of domestic competitive pressure.

¹¹ Waqas Naeem, The Express Tribune, July 23rd, 2013.

It was observed, especially from 1988 onwards that every new government found the country with adverse economic conditions, especially because of huge debt burden. Therefore, it obtain loan for debt repayment and temporarily overcome the balance of payment crises. Since then the dilemma is that none of the government took sincere measures to employ the external assistance/finance for development of the society because of a number of reasons, for example, the social and institutional reforms are not in favor of a prevailing feudal system in the society. The political instability in the country during nineties prevented the newly elected government to invest in long-term projects rather than the elected members put all their efforts to preserve the power from external forces, the civil conflict and dispute to implement development projects, law and order situation, etc.

While analyzing the internal weaknesses of the country it was observed that Pakistan like most other aid-recipient countries became more dependent on aid inflow and thus paid least consideration towards adopting sustained macroeconomic strategies and proficient institutions. It is therefore observed that foreign aid did not seem to increase the sustainable economic growth through the channel of increased saving and investment rate, which is evident by the fact that throughout the history saving and investment rate never surpassed the height of 17.5 and 22.5 per cent of GDP, respectively. Amjad and Burki (2013) accentuated that Pakistan's peak investment rate of 22.5 per cent in 2007-08 was far lower than the average achieved by the fast growing developing countries, as well as India (over 30 per cent) during the last ten years, with China well over 40 per cent. Beside all these, the major critique associated with foreign aid is the interference of donor countries and the other International Financial Institutions in the economic, political and institutional framework of recipient countries. It was observed that the IMF loan is always conditioned by a series of economic reforms. Besides the economic liberalization and deregulation by lowering tariff rate and tightening fiscal and monetary policy, is always emphasized by the IMF and World Bank that had not only widened the gap between the rich and poor segments of the society but had pushed them below the poverty line. High tax rate and low government spending on development projects (always remained the least preference) which not only deteriorated the lives of poor citizens, further but its impact in the long-run would be more severe. Apprehension attached with conditionality of high interest rate and the reduced government subsidies were/are found in business community. In 2008 the President of Karachi Chambers of Commerce and Industries expressed his concern (in Asian Times online) that Pakistan's industrial landscape may soon be marked with dead and sick units and there will be massive unemployment because of the devastating impact on businesses of the higher cost of bank loans arising from the interest rate increase. Rising cost of bank loans will not only diminish the element of competitiveness further from the firms and production units but the massive downsizing for reducing the operating cost will increase the rate of unemployment in the country.

Similar kinds of economic reforms are emphasized by the donor agencies, whereas, the facts that economic, social and political structure of different economies could not necessarily be of similar kind – they would possess some devastating impacts on Pakistan's economy. On the other hand, the substantial aid inflows would characterize the country as one of the most indebted nation. External debt in 2012-13 (June–March) stood at Rs.4.8 trillion as compared to Rs 13.6 trillion of the total public debt, thus preventing the country to achieve their development objectives.

IV. Concluding Remarks

In this research note efforts are made to put forward a detailed and critical analysis of economic and industrial policies adopted in Pakistan. The first section of this chapter discussed the significance of industrial policies, in general, along with active and increasing role played by various governments to overcome the existing market failure or to compensate the non-existence of potential market in any economy. Next catch-up policies adopted by most of the industrialized countries during their developing stage and extracted two distinct phases of growth process were discussed. It was argued that after completion of the first phase (called the List-cum-Smith phase) and the countries can exploit benefits only by entering into the second phase (called the Smithian phase).

While interpreting the modes industrial policies (pre-1998) adopted in Pakistan, it is argued that countries which entered the second phase of free trade (Smithian phase) after 1988, without accruing the necessary capacity accumulation needed for accepting 'New rules of the game' of globalization. In this connection, the study attempts to identify the chain of missing links that led the country towards deceleration of industrial growth in Pakistan. It was established in the study that liberal policy could help to improve the economic growth, only in the presence of strong institutions and sound macroeconomic polices. However, political turmoil and the unnatural transition of economy into the phase of liberalization have devastated the worst economic conditions which prevail in Pakistan.

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