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## **Strategic Issues for The Seventh Five Year Plan\***

As the 7th five-year plan is placed on the anvil, seven strategic issues emerge which, in my view, constitute the framework within which the plan could be formulated.

### **I. THE STRATEGIC IMPLICATEONS OF AID DEPENDENCE**

There are two major implications of reliance on foreign loans which affect not only the viability of our economy but our existence as a sovereign state:

#### **A. Loan conditionality and the threat to national sovereignty.**

One of the most important purposes of planning is to preserve and strengthen national sovereignty. Yet the conditionality clauses in so far as they deprive Pakistan of an independent development strategy essentially deny us our sovereignty. The basic policy measures imposed by the World Bank and IMF are:

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1. Liberalization of imports
2. Withdrawal of subsidies
3. Devaluation of the exchange rates.

These policies imply resource allocation on the basis of comparative advantage which in Pakistan's case means de-emphasizing industry and placing agriculture as the spear-head of growth of GNP. The Western capitalist countries have historically prescribed comparative advantage in a cynical and selective fashion to suit their own needs. Right up to 1833 when India had a 60% cost advantage in the export of manufactured textiles the British Government placed an import tariff of 80 percent on Indian textiles. It was only when colonial policy had disintegrated Indian manufacturing capability and converted the economy into an exporter of raw materials that the British Government began to prescribe free trade and import liberalization. Even today, while we are being asked to liberalize imports and open up our economy to foreign goods, the United States, British and the Japanese governments are placing tariff barriers on imported manufactured goods.

Industrialization has been the emblem of freedom in the post-colonial world and it cannot be sacrificed for the questionable logic of comparative advantage. In fact the premise of planning in a developing country is that since the present comparative advantage lies in specializing in agricultural exports it does not suit the requirements of industrialization and economic strength of these countries. Hence the anarchy of the free market is replaced by the logic of planning. If we are to develop as a strong and independent nation

we must embark on a planned drive to industrialize.

## **B. Foreign Loans and the Debt Trap.**

The World Bank and IMF prescription of concentrating on agricultural production and agricultural exports results in a situation where while our capacity to serve our debts is maintained, our requirement for fresh loans continues to increase rapidly. This happens because while agricultural goods can easily be translated into foreign exchange yet since agricultural exports suffer from declining terms of trade the growth of foreign exchange earnings is slowed down and hence the requirement of fresh loans continues to rise. Thus for example Pakistan's terms of trade have declined from an index of 108 in 1977 to 89 in 1986. Our loan requirement has increased from 0,2 million dollars annually during the first plan period to over 2,000 million dollars annually in the 6th plan period. This is a situation which is tailor-made for a bank but for an independent country constitutes a debt trap.

If we are to get out of this debt trap in the foreseeable future, it is vital that we increase our domestic savings rate from a dismal 5.2 percent today to at least 25 percent. This can be done by placing an agriculture income tax, a turnover tax on trade incomes, a capacity tax on industry, a more effective collection of existing income tax and a drastic reduction in unproductive public expenditure.

## **II. DEFENCE SPENDING AND INDUSTRIAL GROWTH**

The people of Pakistan have sacrificed for a strong national defence capability. This sacrifice also gives to

the people the Privilege to SO defence expenditure to ensure that every rupee spent actually goes into improving our defence capability. Security of the cost effectiveness of defence expenditure could be done by setting Appropriations Committee of the National Assembly. There is a strong economic argument for carefully evaluating the defence systems afford by the U.S. Government from a strictly Pakistani viewpoint:

Firstly, the U.S. is obliged to aggressively market its arms production abroad, to release the acute pressure on their balance of payments. Since 1951, the U.S. government has been allocating about 75 percent of its total research and development expenditure on military related research. Consequently the U.S. is losing its competitive edge in many civilian products while having a strong arms production capability. Moreover, out of the top 25 U.S. Corporations, as many as 20 are engaged in military production alongside their civilian product line.<sup>4</sup> The U.S. is, therefore, obliged to export defence systems as a way of sustaining their major corporations, and also improving the balance of payments position. Under these circumstances, when the U.S. may be doing the “hard sell” we must maintain a hawk like vigilance as buyers to ensure that we are (a) getting what we want and (b) getting it at the lowest price. Secondly, another reason why defence packages offered from abroad must be carefully scrutinized is to ensure that we do not buy part or whole of equipment that could be produced or developed within Pakistan. Would require “unpacking” each offer and considering sub contracting of sonic parts to local Pakistani manufacturers. This way, some of our defence expenditure could help in strengthening domestic industry and accelerating economic growth.

### **III. THE NEED FOR A HEAVY INDUSTRIAL BASE.**

If we are to embark upon and industrialization drive and to achieve an indigenous technology capability we must establish a heavy industrial base in our country. This means developing a machine manufacturing capability; and the establishment of heavy chemicals, electronics and metallurgical industry. The development of technologies suited to our factor endowments requires an institutional linkage between domestic machine production and science research.<sup>5</sup> Finally, the development of energy production whether through a rapid development of dams on the upper Indus River and / or nuclear technology is essential.

### **IV. THE CRISIS OF UNEMPLOYMENT**

Since 1979 three trends in our economy have generated a crisis of unemployment:

1. Rapid increase in automation in the manufacturing sector resulting from imported technologies has drastically reduced the employment generation capability of the economy. For example, since 1977 the employment generated per unit of investment has declined at the rate of 11 percent per annum.<sup>6</sup>
2. Its existence of large ownership holdings in agriculture has resulted in tenant eviction and rapid labour displacing mechanization in agriculture. This has reduced labour absorption capability in the agriculture sector also. On the basis of present trends it is estimated that by the year 2002 labour absorption capacity in agriculture will decline by 6.9 million households.<sup>7</sup>

3. The return flow of immigrants from the Middle East. I had predicted in 1981 that at that time the large outflow of immigrants should not create a false sense of security because very soon the return flows would begin and once they began the return of immigrants would accelerate This prediction has unfortunately proven true today.

In order to overcome the crisis of employment facing our country the following steps must be urgently taken:

1. The development of indigenous technologies to increase labour intensity in industry and the rapid development of small-scale engineering goods industry in the rural sector. This would increase employment generation for given growth rates and also create a demand for the output of the under utilized steel mill.
2. The establishment of village-based organizations of small farmers throughout the country along with an effective land reform to empower the small farmers? These village organizations backed by district-level support organizations could act as a delivery mechanism for the rapid provision of seed, water, fertilizers and pesticides. These institutions could be the framework for the development of infrastructure products by village labour and thereby considerably enlarge income of the poor, enabling a more equitable agriculture growth.

## **V. THE CRISIS OF URBANIZATION**

According to estimates made by the National Human Settlements Policy Study at present rates of urbanization the urban population will increase almost three-

fold by the year 2002. The urban population as a percentage of total population will rise from 28 percent today to 44 percent over the next 15 years. Even on the basis of the most optimistic estimates of available developmental resources by the year 2002 it would be impossible to provide minimum facilities of health, housing and transport to such a large urban population. The present crisis in Karachi provides a window into the nightmarish future of the urban scene.<sup>11</sup> The seventh plan must address itself to the hard policy choices required the slow down urbanization and increase labour absorption in agriculture.

## **VI. THE ISSUE OF REGIONAL ECONOMIC DISPARITY**

The major feature of economic growth since 1947 has been the growth of economic disparity between developed and backward regions of Pakistan. This has created great misunderstanding in the minds of the people and the resulting political response based on a regional identity has threatened to undermine the political and social fabric of our country. The major reason why the regional concentration of economic growth occurred in Pakistan is that we had relied essentially on the free market mechanism which cumulatively directs new investment to areas which have inherited better infrastructure facilities. Government attempts at providing tax incentives for investment in backward areas have not so far succeeded in inducing entrepreneurs to give up the benefits of better infrastructure in developed areas. During the 6th five year plan the issue of regional growth was marginal to the plan exercise. The reason being that planning was conceived in terms of allocating government resources between different sectors of the economy. Growth targets were similarly disaggregated to the sectoral level only. In order to achieve regionally-equitable economic growth the

spatial dimension should be projected into the heart of the planning exercise. This can be done in the following way:

Constructing a map of social and economic infrastructure, markets and raw material resources. On the basis of such a map potential growth nodes could be specified in the backward areas based on proximity to raw material resources, regional markets and some infrastructure. The government could then provide infrastructure in these growth nodes, establish industrial estates and provide credit and technical training to the labour force in order to induce self-sustaining industrial growth in these growth nodes

## **VII. THE RECONSTRUCTION OF THE DEPLETING 2 HUMAN CAPITALS**

Ultimately the capacity of a nation to transform its material conditions and face the challenge of innovation depends on the skills and creative ability of its people. In Pakistan we have been observing a terrible deterioration in the quality of education and training of its manpower both at the school level and even more at the level of higher education. Universities instead of being centres of new knowledge have become the preserve of obscurantism. At the same time the social infrastructure continues to remain woefully inadequate. For example, 62 percent of the population does not get piped drinking water, 84 percent of the population does not have sewage facilities. Finally, the housing conditions are so inadequate that 81 percent of the housing units have an average 1.5 rooms inhabited by an average 7 person.<sup>13</sup> In an attempt to achieve industrialization and increased employment the whole range of innovative policies for self-reliant and regionally equitable growth will be based on the reconstruction of our human capital.



Urgent steps must be taken to improve the quality of health, housing and education amongst the poorest sections of our society. The provision of minimum conditions of civilized life to our economic strength and not the amount of loans that we can get from our donors...

### NOTES AND REFERENCES

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2. See Palme Dutt: *India To-day*. Bombay 1949.
3. For details, See Chapter titled: *Behind the Veil of Growth: The State of Pakistan's economy*. Table 15 and 18.
4. See Michael Reich and David Finkelhor: *Capitalism and the Military Industrial Complex "The obstacle to conversion"* in Mermelstein (ed) *Economics Mainstream Readings and Radical Critiques*. Second Edition, Random House New York 1973.
5. For a Discussion on the linkage between science research and technological change see the chapter titled: *Science, Technical Change and Development*.
6. M. Irfan and M. Ahmed: *Changes in Output, Employment, Costs and Productivity*. (mimeo) 1985.
7. For details see: Akmal Hussain; *Report on Rural Population Estimates*. Study for the National Human Settlements Policy, Govt. of Pakistan, Environment and Urban Affairs Division, March 1983.
8. See the Chapter titled: *Impact of Return Migration on Domestic Employment in Pakistan: A Preliminary Analysis*.
9. For details of this proposal see: *The Report of the Small Farmers Committee*, National Commission on Agriculture, August 1987.

10. For details see: *The Report of the National Human Settlements Policy Study*. Environment and Urban Affairs Division, 1983.
11. For an analysis of the crisis in Karachi See: Akmal Hussain: *The Karachi Riots of December 1986: Crisis of State and Civil Society*. Paper presented at the Conference of the International Centre for Ethnic Studies Kathmandu, March 1986.
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13. *Pakistan Economic Survey 1983-84*. Ministry of Finance, Economic Advisor's Wing, Islamabad.