

Rentier Capitalism

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Disorganised Development and Social Injustice in Pakistan

Shahid Ahmed

Former Economic Affairs Officer, United Nations Economic and Social Commission for Asia and the Pacific, Bangkok, Thailand

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RENTIER CAPITALISM: DISORGANISED DEVELOPMENT AND SOCIAL INJUSTICE
IN PAKISTAN

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To my family

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Preface

Since the end of the Second World War, and more particularly since the 1980s, two regions of Asia – East Asia (China, Taiwan and South Korea) and South-East Asia (Indonesia, Malaysia, Thailand and Vietnam) – have experienced rapid economic growth with impressive advances in health and education. Today, South Korea and Taiwan have standards of living equal to those of the developed economies, while Malaysia and Thailand have reached middle-income status, and Indonesia and Vietnam are well on the way to achieving that status in a decade or so. In popular parlance, these economies are described as ‘tiger economies’ and development experts including international agencies, such as the World Bank, have produced extensive literature to understand the reasons for their success. The economies of South Asia (India, Pakistan, Sri Lanka and Bangladesh), on the other hand, have lagged behind, and India – even after a period of rapid growth in the 1990s and since – remains behind Indonesia and even Vietnam in terms of per capita income. It is an intellectual puzzle why the three regions of Asia, starting with fairly similar initial conditions in the 1950s and 1960s, have diverged so widely in their development experience over the last three decades.

It can be argued that in both East and South-East Asia success has not been accidental. They began their development journey by tackling the problem of rural poverty. These regions carried out land reforms, invested in public goods and then pursued industrial development via a combination of State support and market incentives strongly linked to a growing export economy. In doing all this, the State was very much in the driving seat not only in articulating a long-term vision and a supporting policy framework but in generating and deploying public and private resources according to this vision. Problems did arise in the late 1990s (in Indonesia, South Korea, Malaysia and Thailand), but the institutional resilience of the two regions and a certain amount of good fortune that allowed exports to bounce back enabled them to overcome their difficulties quickly. In contrast, the economies of South Asia generally and

Pakistan specifically have never seriously confronted the problem of rural poverty and their subsequent efforts at development, notwithstanding periodic bursts, have tended to flounder especially in the areas of education, health and infrastructure.

It will also be argued that, in part reflecting the failure to undertake rural reforms, the political economy of Pakistan has meant domination by the feudal class and its urban allies. This has now transmogrified into patronage and rent-seeking on an industrial scale as Pakistan finds it increasingly difficult to compete in international markets. This process has been facilitated in Pakistan by the financial sector and manifests itself in the country's love affair with bankers who have exercised damaging influence on the country's development partly by facilitating rent-seeking and partly through their penchant for short-term gimmickry. Today, Pakistan's economy has become locked in a vicious cycle of slow growth, low generation of public resources, weak or misdirected private sector investment, poor provision of public goods and infrastructure and low productivity in agriculture and industry, with growing informalization in both sectors. Since the early 1990s, the country's ruling elite have eagerly embraced neoliberal ideas embodied in the Washington Consensus as these have provided intellectual justification for their behaviour. However, in Pakistan the neoliberal ideal of a 'small' State has turned out to be the reality of a weak or soft State, and much policy space in the economy has been ceded to the private sector, in stark contrast to East and South-East Asia.

The overall conclusion is that despite occasional straws in the wind, such as the elections of 2013, no lasting change in Pakistan's fortunes is likely without a fundamental change in the attitudes of the governing elite and the implementation of a radical reform programme, in both urban and rural areas, based on equity and social justice that concentrates substantial new resources on the poor. For the time being, the post-2013 scenario remains one of rhetoric. There is little new thinking about how to break out of the current skewed pattern of development, how to improve decision-making so that resources can be deployed to better effect and, above all, how to increase the quantum of resources. It can be justifiably argued that Pakistan's development problems are problems primarily of its political economy and not those of wayward policymaking per se or of institutional failure or of outside interference as is often alleged.

The book argues that after three decades of neoliberal ideology, development practice has come full circle back to being a State-private sector partnership with the State again in a leadership role and not one that has been captured by a rent-seeking private sector. Contrary to what neoliberal ideas have claimed, the experience of East and South-East Asia indicates that the private sector alone cannot deliver inclusive development. It might be able to deliver jobs but mainly in the informal economy and jobs alone cannot produce public goods. Without the latter, development will be neither inclusive nor sustainable. South Asia in general and Pakistan in particular remain seduced by the illusion of trickle down, but Pakistan's experience should be a salutary corrective to that belief. In several universities in Britain and the United States today, Economics courses are being modified to align theory and policymaking more closely with the real world; hopefully this book should be a contribution to the process in the area of development economics. There is hope, too, that the ideas expressed in this book will go beyond the teaching of Economics and evoke in Pakistan's elite genuine soul-searching and self-examination about the country's failure to match its neighbours in East and South-East Asia and to initiate a genuine programme of reform for the years ahead.

Acknowledgements

The idea of this book – trying to understand why Pakistan’s economy compares so unfavourably with those of East and South-East Asia in both economic and social development – grew from the many lively informal discussions that used to take place in the cafeteria at the United Nations in Bangkok during the time that I spent at the United Nations Economic and Social Commission for Asia and the Pacific (ESCAP). I owe a deep debt of gratitude to my many colleagues at ESCAP, who greatly enhanced my understanding of what was happening in that remarkable part of the world, home to almost half its population that includes people and cultures unmatched in their diversity, energy, sense of purpose and resilience in the face of daunting challenges. Some colleagues, however, should be mentioned by name, and foremost among them were my immediate compatriots in the then Development Research and Policy Analysis Division (now renamed as the Macroeconomic Policy and Development Division) – Drs Azizul Islam, Janet Farooq, Aynul Hasan, Hussain Malik, Hiren Sarkar, Syed Nuruzzaman and Amitava Mukerjee, all outstanding experts in their fields who showed me that analytical rigour must be combined with compassion and a heavy dose of empathy if the work of social scientists is to have relevance for the wider world. I am also thankful to Dr Richard Kozul-Wright of UNCTAD, who graciously found time to comment on the outline of the book and its proposed chapters and made a number of constructive suggestions, and to Bruce Lloyd, Professor Emeritus at the South Bank University, London, for his encouragement and support when I embarked on this venture and as I reached the finishing line.

Before I decided that I might be the person who would attempt to explain the nature of the disorganized development in Pakistan, I had extensive discussions with a number of people in Pakistan about the overall project. Two whose insights were particularly valuable are my long-standing friends Prof. Ijazul Hassan, a person with an unmatched understanding of the social and political cross-currents in Pakistan, and Prof. Khalid Mirza, formerly of the World Bank and

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