

INCREASING THE TEMPO OF  
INVESTMENT: RESOURCE MOBILIZATION

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PROF. KHURSHID AHMAD



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Prof. khurshid Ahmad

Mr Chairman, distinguished panelists, delegates and participants to this conference on self-reliance.

I am grateful to the organizers - the Management Association of Pakistan - on giving me this opportunity. I also had the pleasure of participating in one of your earlier conferences in Karachi some twelve years back and I deem it a privilege to be with you again this afternoon.

Unfortunately I could not attend the morning session, and have not been able to keep up with the ideas already presented. However, I'll take this opportunity to share with you some thoughts, which may reflect, a different perspective.

At the very outset we have to be clear as to what is meant by self-reliance, I'll broadly go along with the definition just quoted from the plan by Mr Siagol, that self-reliance primarily relates to the autonomy of choice, and means dealing with a defined national politico-economic unit.

Self-reliance I would submit must not be confused with self-sufficiency, whatever be the size of the geo-economic unit. I doubt if total self-sufficiency can be a viable objective, if so then even the countries like USA and the former USSR have not been able to achieve this goal. Thus self-reliance is not really self-sufficiency. Nor would self-reliance mean isolation, autarky or an effort to be totally self-contained in international financial and trade relations, or capital, labour or manpower movements. It does however include the possibility of economic groupings in preferential areas. As such, self-reliance primarily means a state of affairs in which the decision makers in a country take decisions with a fair degree of non-dependence on and non-interference from outside and suggests that the nation is in a position to set its own politico-economic priorities with a fair degree of autonomy and independence.

Self-reliance is not a static concept. It is not unrelated to growth and the evolving layers of development in a dynamic economy. Self-reliance would be expressed in the form of targets and goals that would change with the changing economic and political situation. The heart of the matter would, however, remain the degree of autonomy in decision-making and in setting as well as pursuing national priorities.

In the present context of Pakistan's economy the debate on self-reliance is bound to take note of the respective roles of the private and public sectors in the organization and pursuit of national economic objectives. The discussion about the future of private enterprise and the role of the state is very closely related to the ideas of self-reliance.

Today, we are examining this subject in a particular geo-political situation. The socialist model has collapsed and its charisma is no longer there. Infact, there is a kind of euphoria in certain academic

circles as if this has vindicated the supremacy of the other politico-economic system, i.e. capitalist liberalism. This has been particularly articulated in a series of articles on 'The End of History' by Francis Fukuyama, suggesting that economic and political liberalism is the only option left for mankind, nay, even that its ultimate victory has been demonstrated. I have strong reservations about this thesis. While communism has collapsed, the inherent contradictions and inequities of the capitalist system remain unresolved. The problems that gave rise to communism do persist and cry for solution. We must not commit the mistake of thoughtlessly swinging towards the other extreme. The best path remains somewhere in the middle. While the private sector deserves to be encouraged; the role of the state cannot be totally eliminated. In fact the latest World Bank Report has also emphasized that the developing countries must go for a middle path. Market mechanism deserves to be the real framework for economic activity, yet a guiding role for the state in policy-making including setting of developmental priorities is called for. I think, this point deserves to be noted when we are talking about self-reliance.

Unfortunately, different governments over the years have done as government and have not taken care to do what governments should not be operating as an entrepreneur; they should only see that the vital interests of the state and society, particularly of the poor, weak, and under-privileged are protected, which is not possible if everything is left totally to private enterprise. Certain priorities would have to be set and incentives provided and methodologies developed; but these should not be realized through takeovers and nationalizations. Instead they should be achieved through guidance, active policy framework discussions and selected points of intervention, where necessary.

So, I would not be obsessed with the idea of renouncing all types of mixed economy. I believe that while private enterprise should be the premium engine for economic activity there remains a positive and pivotal role for the state and government. Hence a framework is needed to see that a balanced equilibrium is achieved between the two, which is essential for self-reliance.

Otherwise, if everything is left to the forces of supply and demand, then a strategy of self-reliance becomes doubtful.

After these preliminary submissions, I feel there is need to emphasize that there are two more basic pre-conditions for creating a climate for promotion of investment and for creating conditions in which self-reliance could become a reality.

First is the prevailing, degree or absence of law and order in the society. Is the life, property and honor of people protected? Where there is no rule of law, expecting increase in investment or greater developmental efforts and movement towards self-reliance is like crying for the moon. The first non-economic, yet important condition is improvement in law and order situation.

Secondly, a degree of certainty and continuity in policy-making is very important. Unfortunately in our country adhocism has been the main mode of policy making. Things have been dependent on

the whims of the individual policy makers and not the consensus of the nation. This has to be rectified for which proper thinking is needed. There is an urgent need to develop a certain degree of national consensus on key economic parameters. Of course, there could be policy differences in the thinking of the government and the opposition. Yet a basic policy framework which should be parties need to be developed and in this respect the parliament should play an important role in policy-making. There should be more frequent and widespread public debates with a mechanism for public accountability. Economic policy and its institutional framework must have proper constitutional backing.

I also want to submit that in our country, policy making is mostly dependent upon bureaucrats and politicians, to the unfortunate exclusion of professionals. Sometimes the bureaucrat has the upper hand; sometimes the politician. Among the bureaucrats, I include both the civil and military bureaucracy. What can be said with certainty is that there is very little research and professional input in policy-making, which is indeed a tragedy.

Today's economic policy making calls for professionalism. But unfortunately we have not developed the institutions and mechanisms to ensure professional and research inputs. In this respect, we could develop institution like (a) the Prime Minister's Economic Council consisting of professionals, and (b) a National Planning council, in which we could have participation from the Parliament, the Government, business and industry, professional organizations, chartered accountants and the management associations. All of these deserve to have an important role in policy-making of the country.

There should be institutional support to see that policy making is undertaken with greater responsibility and that it has an element of continuity to avoid policy-fiddling by politicians and bureaucrats.

Here I would add another point and that is, in our country there is very little independent research on policy-making. Consequently policies are based on information which is very fragile, even doubtful as the reliability of the statistics provided by the government is not beyond doubt. As such, may I suggest that professional organizations like yours and Chambers of Commerce and Industry can play a more effective role by establishing independent research institutions, which operate with professional integrity and provide alternate sources of information to the nation and its policy makers? In the absence of such independent institutions we do not have any means to ensure that, what is being given to us in the name of information is really dependable.

So dependable information base backed by independent research is very important to bring greater reliability, credibility, depths and realism to policy-making in the country.

Along with their two preconditions, I also want to raise a few fundamental questions about the form and direction of investment.

One area which has to be discussed in relation to the question of investments relates to the very concept of development. I may submit that we have somehow equated development with industrialization and industrialization with large scale enterprise. But if the large scale enterprise is affecting only a small segment of the economy, contributing only 9% to GNP, and there exist problems of unemployment and population at large, then I think the role of the large scale enterprise remains limited, despite being important.

If we are really intending to eradicate poverty and are serious about establishing a just and equitable society, and also want to build an economy where the people participate, then I think we have to address ourselves to some basic and fundamental questions like the relative importance of agriculture and industry and relative importance of the informal sector of our economy, which have been the most proficient and dynamic, contributing the largest share in the elimination of poverty in the country.

Our socio-economic system is very different from the British, the American, the German and the French. Its distinct problems and prospects must be our main concern. As such it should be the role of education, research and innovation to develop a model of economy that is in keeping with the economic and demographic realities of Pakistan and not that of western economics.

Even in Britain, the growth pattern was fashioned by the factual position of coal and iron, two main bastions for industrialization and as such capital-intensity and labour-saving strategies were adopted as the main base for their industrialization.

Japan developed an industrialization strategy more attuned to the main power resource, i.e. Hydel-electricity. They opted for a more decentralized growth model, with labour-intensive and capital-saving strategies, keeping in view their resource base and population position. Hydel- electricity could provide power to every village and every house which was turned into a small industrial unit. The social system was not disrupted. The economic unit operated as a family. Even in the corporation the employer-employee relationship remained that of a family, and as such a new concept of management was developed more in keeping with their own social values and institutions.

So we will have to examine these issues if we really want to examine the relevance or otherwise of our own industrial and economic model, we cannot shirk these questions if we want to bring about economic development leading to elimination of poverty and unemployment and protection of our moral and social values.

In my view, the question of economic infrastructure is also crucial. We are living on infrastructure developed in the sixties. The last two decades have witnessed almost total neglect of infra-structure development. Moreover, we have not been able to take care of infra-structure development in keeping with the growth rate and the demands of tomorrow.

I know this involves a huge investment and is subject to the limitations of resources available; however we have to make our choice, taking into account the wastage and corruption involved in our system.

Now a word about the debt-and aid-dependent development strategy we have followed so far. In the aid-based approach self-reliant planning can never be done, based on identification of real needs of the economy. A project formulation in Pakistan has been done with an eye not on possibilities of getting foreign aid. The desirability of the projects from national viewpoint was of secondary relevance; the real criterion has been that what can bring more aid — i.e. following the priorities of the aid-giving countries. This has brought us to a situation which I regard as dangerous, both economically and politically.

Twenty billion dollars worth of foreign debt and an equal amount in domestic debt represent a huge liability and a major constraint for future development. This requires about one third of our budget for debt servicing only. The main reason for budgetary deficit and consequent deficit financing, is interest and service charges on the debt which is now the biggest item in our budget, exceeding both the development and defence allocations.

In this respect I would submit that a very careful appraisal of the whole aid-based strategy is called for. I think it is time to call it a day. Instead of debt-based development we should go in for an alternate basis. As to the past some kind of a cut-off point is needed. A fresh start for the future can be in the form of Equity-based mode of investment. This would be more related to our economic realities and would also ensure viability of projects.

I think self-reliance is achievable only by abandoning a strategy based on aid and debt. We must go for developing new modes of investment, which are equity based. This is a real way out.

Finally, i would like to touch upon the question of widening of the markets. Pakistan can seek a reasonably vast market in Sri Lanka and SAARC countries, other third world countries in Africa and Central Asia.

It is also important to think in terms of developing economic organizational relationship and groupings because, theoretically speaking, West pays lip service to free trade and to private enterprise; but when it comes to the question of their own national interests even if parochial, they do not care for what they are preaching.

So in that context Third World countries in general and Pakistan in particular will have to develop strategies in which different market arrangements are developed within the third world , for which new economic groupings may be promoted.

I would also like to suggest that, while we are in the midst of this privatization, deregulation and removal of control on foreign exchange with which I am in full agreement, I do however feel that

we must not go to the other extreme but should try for a smooth and harmonious transition based on a tripartite understanding between entrepreneurs, government and labour, so that, the new economy that we create does not lead to new inequities, new tensions or new crisis as was the case in the late 60s.

With these few thoughts I would once again submit that self-reliance is a much required goal. Yet self-reliance, if used as a slogan is not going to lead us anywhere. We will have to seriously address ourselves to all the above-mentioned basic questions, which I am confident, can be solved through national debates and dialogue. This would enhance the education of people and promote institution-building. This in turn will ensure for Pakistan a truly bright future, a future we all are dreaming of. But the time today is to make efforts to see that these dreams are translated into reality.

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PROF KHURSHID AHMAD