

Book Reviews

Omar Noman. *Economic and Social Progress in Asia: Why Pakistan Did Not Become a Tiger.* Karachi: Oxford University Press, 1997. 324 pages. Hardbound. Rs 575.00.

Most people in Pakistan look towards the West for models of economic development, and some even look to the Islamic past. But in recent decades, the more spectacular cases have been much closer to home, and towards the East. Japan, South Korea, and Taiwan are already in the ranks of the developed, while China, Malaysia, Indonesia, and Thailand are making good progress. Despite the recent setbacks, their progress over the last three decades has been enviable.

On the other hand, the countries in South Asia have lagged behind. Four decades ago there was little to choose between most of these countries, but by the seventies, the paths of some had clearly diverged, while others were beginning to diverge. Today, Pakistan, India, Bangladesh, and Sri Lanka are amongst the poorest in the world, and on certain measures, they are the poorest! What happened in the last four decades? This is the issue that Omar Noman tackles in this book.

The book is divided into three parts. The first takes a look at the policies followed by the East Asian and South East Asian countries, and provides brief country-specific notes on each. This allows Noman to focus on issues, policy initiatives, and institutions that he believes were crucial in the development of these countries.

In the first part, Noman also takes the time to dismiss religion/ethnicity and culture-based explanations of the East Asian miracle. The countries included have diverse ethnic, and religious populations, with very different belief systems. Furthermore, Noman argues that each culture has a set of 'virtues' that can be interpreted to 'explain' economic success. But that is certainly not the whole story. The more important part is the policy and institutional side.

The second part focuses on Pakistan. It provides a brief tour of the fifty-year history, focusing on important themes, pointing out important policy initiatives, and sometimes the missed opportunities. Noman discusses the role of aid in our economic history, the impressive (on the whole) growth record, and the pathetic human development record, and provides a good discussion of the Structural Adjustment Programme that has been, and is being, implemented in Pakistan. The prospects of industrial and agricultural development are discussed, and some of the shortcomings in the social sectors are explored in detail.

In the third part, Noman elaborates on policy initiatives that he thinks are necessary to introduce now, if the economy is to move towards sustainability. He

provides, in outline, three scenarios that are possible for Pakistan. In the first, the economy makes the necessary changes and has a chance of moving closer to the rapidly developing countries of the region. In the second, some of the changes are affected but other problems and tensions continue to dog the economy, and we have only a limited recovery. While in the third, the economy implodes! Noman is afraid that if appropriate action is not taken immediately, it is the third course that we will be following!

In the early 1960s Pakistan was doing better than many of the East Asian countries. Its income was greater than Korea's, Green Revolution was starting to pay dividends, and Pakistan was being touted as one of the 'success' stories of development. But over the next 35 years, things changed radically. Pakistan's income and growth rates have been much lower than those of the other countries in the region. Where East Asian countries have saved and invested one-third or more of their income, Pakistan has not even been able to move into the 20 percent range. Most of the East Asian countries are no longer dependent on aid, while Pakistan can not survive without it. Their economies are diverse, and technologically some of the most sophisticated in the world, whereas Pakistan still relies very heavily on agriculture, raw material, and simple manufacturing exports.

But it is in the social and human development areas that the gulf is very significant. East Asian countries have almost universal literacy, free primary education, and developed advanced-education institutes. Their populations have longer lives, better health and diet, and lower infant mortality. They have relatively more equitable distributions of income and opportunity. They have also brought down their population growth rates appreciably, which has allowed them to increase their per capita expenditure on human development to a significant degree. Pakistan, on the other hand, lags behind on all of these counts. This not only shows the difference in development levels, it also tells us why these countries are more successful in attracting foreign investment and trading opportunities.

There are certain common threads in all of the policy frameworks adhered to by the East Asian countries. Almost all of them were forced to bring about land reforms and/or significant redistribution of resources right after their 'freedom' or revolutions. Noman attributes this chiefly to the effects of Meiji Restoration and the threat of communist takeover in many of these countries. The redistribution not only set the tone for the early development, it destroyed the power base of the traditional elite, and allowed the government to introduce radical policies later on. None of the countries followed a policy of encouraging 'functional inequality', as did Pakistan, following the dictates of the notorious 'trickle-down' theory. All of the states, whether democratic or not, were strong, but did represent some sort of consensus amongst the people. They sustained a high level of expenditure in education, health, and training, invested heavily in infrastructure, encouraged savings and private sector initiatives, and channelled foreign assistance, foreign investment, as well as

local credit through state-controlled credit institutions and banks. Initially, almost all of these countries protected their industries and economies, went in for Import Substituting Industry (ISI), and tried to develop entrepreneurial and technological capacity under substantial state protection. Subsidies to specific areas, in the form of cheap credit, infrastructural facilities, training, protection from competition, and even encouragement to enter joint ventures with foreign companies were common. These countries also developed very capable, motivated, and well-paid bureaucracies.

By the middle-sixties, though, the countries had developed significant capacity, and were able to start opening their economies by shifting to export-oriented policies. This was achieved by the usual tools of incentives to invest in export products, help in developing markets, acquiring state-of-the-art technology, and investing heavily in R&D. Most of the states reduced subsidies quickly though, and the companies had to compete in the world markets from very early on. The investments in human capital not only provided the countries with trained labour force, they also brought down population growth rates and affected the well-being of the people directly. In some countries, where it was an issue, these expenditures also helped in easing tensions between various ethnic and religious groups.

The contrast with Pakistan should be pretty clear by now. The experience of Partition was very traumatic, but the opportunity could not be used to redistribute assets and break the traditional power structures. The military-bureaucracy-landlord network that took over power was not very representative, and made little or no effort to either forge a wider consensus or allow wider participation. While Pakistan did start off on the right path with import-substituting industries and incentives in the agriculture sector, as well as by putting the burden of initiative being on the private sector, it failed to change the policy framework in time to move towards export orientation. Exchange rates were kept over-valued, limiting incentives to export, especially in agriculture. The government of Ayub Khan, under the guidance of the Harvard Group, allowed and encouraged the development of inequality as that was seen as necessary to have capital accumulation. But no importance was given to rising social unrest and increasing regional tensions, social disparities, and perceptions of disparities.

The gravest error perhaps was that the state did not invest enough in infrastructure, technology, and human capital. Though national product showed good growth, education and health figures for Pakistan have consistently been among of the lowest in the region. As figures given in the book show, government expenditures in health/education were much lower than similar expenditures in other countries. We still have one of the fastest growing populations in the world, while most of the people are not educated, and/or skilled, and malnutrition, drug abuse, and other health issues are a serious concern.

Other countries also started out by relying heavily on foreign aid, but as their labour force became trained over time, and they acquired depth and capacity to

imitate, innovate, and adapt, the aid/debt turned into capital inflows. This allowed them to pay off their debts, keep the deficits (both of budget as well as trade) down, and inflation/unemployment under control. In contrast, Pakistani dependence on aid/loans has increased over the years. Lack of growth has forced us to not only accumulate a large debt, but become dependent on debt to service the accumulated debt. Government revenues are low, which brings about not only more debt, domestic as well as foreign, but also increases inflation when the government is forced into using debt financing.

Thus the importance of structural reform can not be over emphasised. The government has to lower its deficits, without cutting the development budget significantly. It has to increase tax revenues through income tax, agriculture tax, and sales tax, while decreasing its expenditure in non-productive areas and possibly in defence. At some point, it might also have to ask for debt rescheduling. Privatisation proceeds have to be used to pay off the domestic debt, while banks and credit markets have to be given more freedom to set their own objectives based on profitability, to revive the savings market. Targeted incentives might have to be used to encourage investments.

The government has to raise expenditure in the human resource area as well as in some of the infrastructure areas. This is going to be very difficult since the government is almost bankrupt, but as Noman points out, there is no country in the East that has developed without spending a large amount on its labour.

The discussion of the Structural Adjustment Programme is quite good. Noman admits that the programme has not really delivered much until now, and in fact, in the last six to eight years or so, while the programme has been going on, growth has slowed down, unemployment gone up, inflation risen sharply, and income distribution worsened. Noman contends, though, that most of these are not a result of the Structural Adjustment Programme; rather, they are a reflection of the underlying weaknesses that are prompting the government to continue with the programme. He admits that the adjustment will have effects on unemployment, inflation, and income distribution as people get fired, prices of utilities are raised repeatedly, and benefits from privatisation accrue to the rich. But this is seen as somewhat unavoidable in the present crisis situation. However, Noman does not think that the situation is hopeless: we can overcome these problems if the required changes are made and if we follow Scenario One given at the end of the book.

Although Noman's sweep is broad, and the arguments general, they do make sense, and create a picture of history, and a story around it that does hang together. It is hard to summarise the experiences of half a dozen odd countries in about a hundred pages, and then compare those with another country's experience, but Noman pulls it off. It would have been better to have more detailed information on the policies that were followed in the East Asian countries, and more marked and pointed contrasts with Pakistan, but despite such shortcomings, the exercise is

worthwhile. It certainly points out the directions in which future research in the area can go. That is achievement enough.

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