

# ECONOMIC AND SOCIAL HORIZONS IN PAKISTAN

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**VOLUME 1**

BY  
DR. DAWOON MAMOON

KSP BOOKS



# Economic and Social Horizons in Pakistan

Vol.1

**Dawood Mamoon**

World Economic Survey Expert Group, Pakistan.

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# Introduction

The system of microfinance has been designed to give low income communities quick and easy access to socio-economic services, providing opportunities for self-employment and thus a chance to uplift themselves out of poverty, through effective stakeholder management.

However, the foremost objective of microfinance remains the provision of microloans based on three philosophical arguments (Armendáriz & Morduch, 2000), identified as institutional approach, welfare approach and win win approach. Institutional approach focuses on financial self sufficiency, whereas, the welfare approach argues that sustainability can be achieved without making profits and self sufficiency. The win-win model focuses on balancing the goal of poverty alleviation and financial self sustainability (Kodongo & Kendi, 2013). Therefore, Microfinance can be viewed as a development tool which enable poor people to become entrepreneurs, provide education and training for protecting their capital, dealing with risk, and for expanding their business activities (Ibtissem, & Bouri 2013).

Like, in many other developing countries, the growth of microfinance institutions (MFIs) has been very fast in Pakistan. The objective of these institutions is welfare and poverty elevation of the poor's. These include institutions like microfinance banks, commercial banks having microfinance as a separate service offered and institutions based on rural support programs, such as National Rural Support program (NRSP) and Punjab Rural Support Program (PRSP), Banazeer Income Support Program (BISP), Pakistan Poverty Alleviation Fund (PPAF) and private NGOs.

The reason of such a rapid growth in Microfinance industry is because commercial banks exclude poor people from its financial banking system, as their circumstance makes lending to them both risky and costly, with

no assets collateral, no formal earning sources, limited credit history, and lack of trustworthiness (Yunus, 1999). According to economic theory asymmetric information thus become the main issue behind the exclusion of poor people from traditional banking system, such as adverse selection and moral hazards, making screening, monitoring and enforcement an issue for MFIs (Ibtissem & Bouri 2013). Thus, results in higher interest rates, in order to resolve the issues of defaults.

This creates much implication for both Microfinance institutions and borrowers, and results in huge losses to MFIs. Resulted in suicide of borrowers due to increased pressures by MFIs for repayment of loan thus damage the reputation of Microfinance industry around the globe and reduce the trust between MFI's and borrowers.

Numerous studies have been conducted on social and financial impact of microfinance program on poor people lives. The literature so far didn't explain the psychological impact of these programs. As focus of these programs are not limited to social and financial gains but also psychological. Because "poverty" is not only an economic or social condition, it affects individual psyche, self-esteem, self-confidence. Recently, it has been acknowledged by economists through empirical testing based on confidence –informed capability notion state that self confidence and self-esteem impact individual performances (Hoff & Pandey, 2012).

The challenges and problems faced by Microfinance industry in Pakistan are similar to global MFI challenges. However there is a unique case of "Akhawat Foundation", a Lahore based national organization working for poverty alleviation and giving access to interest free micro loans to the poor for raising their standards of living and getting them out of poverty. Today total pool of money firm has generated worth Rs.422 million. This fund is in constant circulation amongst the poor. The organization 99.89% recovery rate speaks itself about the trustworthiness of poor people. The borrower of Akhuwat foundation are motivated and willing to become donors of this program, and are devoted to make it better and sustainable. Where it is rare to see such an organization in which its beneficiaries becomes its donors (Ghaffari, *et al*, 2011).

As helping others through charity and donations are common practice in many countries and religions, and considered as a noble act (Mohanty, 2011), but it is assumed that only those who have money donate. This article thus addresses the unique phenomena of Akhuwat foundation where poor borrows of the organization becomes its donors.

1.

## When is trade good for the poor? Evidence from recent literature

### Introduction

To Economic growth cannot be seen in isolation with its impact on poverty and inequality. To understand the effects of growth on the poor, we need to analyze growth promoting policies. Since 1990s poverty has significantly decreased in the world as it is estimated that 400 million people now live above the poverty line. Though, majority of developing countries have embraced economic reforms in 1980s and 1990s, the trends in poverty alleviation are not homogenous across the developing world. The figure of 400 million only accounts for the decrease in poverty in China; where as poverty in South Asia minus India and Sub-Saharan Africa has increased whereas in Latin America poverty trends are stagnant. In addition to such heterogeneous experiences in poverty alleviation, inequalities all over the globe are at constant rise. So much so, many recent reports by international bodies have raised alarm on rising trends in disparities. It becomes of vital importance to understand why growth promoting policies have led to poverty alleviation in some countries and not the others. Secondly in line with the recent calls for understanding the determinants of inequality, it is important to look at not only income inequalities but also qualitative disparities and how they are related with various determinants of economic development.

### Are institutions more important than integration?

Mamoon & Murshed (2017) examine the contribution of trade liberalisation upon poverty via its impact on per-capita income

levels. They compare with the relative contribution of institutional capacity to prosperity, as well as the role of human capital accumulation in that respect. Several concepts of institutional quality, trade policy and openness variables were employed following various definitions prevalent in the literature. The ratio of nominal imports plus exports to GDP is the conventional openness indicator, with the likes of overall trade penetration and overall import penetration. Neither of these measures are direct indicators of trade policy of a country, pointing only towards the level of its participation in international trade. There are indicators of trade restrictiveness acting as measures of trade policy, including import tariffs as percentage of imports, tariffs on intermediate inputs and capital goods, trade taxes as a ratio of overall trade and total import charges can all be considered as good proxies of trade restrictiveness. Unlike in the comparable study by Rodrik et. al., (2004) Mamoon & Murshed (2017) have (a) included a role for human capital, (b) employed six institutional variables compared to one only in Rodrik et al (rule of law), (c) included trade policy variables and not just openness indicators and (d) expanded the set of openness measures employed. They find that opening up domestic markets to foreign competition by revoking trade restrictions and trade barriers can be good for economic performance. Secondly, developing human capital is as important as superior institutional functioning for economic wellbeing. Indeed, the accumulation of human capital stocks via increased education might lead to improved institutional functioning, and the utilisation of policies like trade liberalisation. With regard to the role of international integration versus institutions, openness counts for little *per se* in explaining income differences across countries. This is because it is an outcome and not a cause. Trade policies, and liberalisation, on the other hand, are not insignificant in explaining cross-country per-capita income variation. With regard to trade policies the overall policy stance, particularly those associated with black market premia in foreign exchange markets and export taxes, are most important in explaining differences in income across countries.

### Institutions, integration and inequality

Mamoon (2006) estimates the respective contributions of legal, economic, political and social institutions on inequalities across the globe. Institutions have significant effects on inequality. Among legal institutions, rule of law and control for corruption have a stronger impact on inequality than voice and accountability. Countries which practice democracy are less prone to unequal outcomes, we also find that autocratic setups may not necessarily

lead to greater inequalities. Both frameworks may carry redistributive effects, as both are positively associated with the incomes of the poorest and negatively associated with the incomes of the richest. Secondly, whether a country is politically stable is rather a more decisive institutional factor apropos inequality than whether a country has an autocratic or a democratic orientation. Economic institutions also seem to play an important role in alleviating global inequalities. Whether the government is functioning effectively and whether it has a robust fiscal and monetary policy seems to have stronger impact on inequality than regulatory quality Education for all, a proxy for social institutions, has a strong redistributive power as well as a more literate adult population. General trade levels are associated with increased wage inequalities across nations. However the relationship between trade and income inequalities has largely been insignificant.

### **How may international trade affect inequality in a developing country setup?**

High initial endowments of human capital imply a more egalitarian society. When more equal societies open up their economies further, increased trade is likely to induce less inequality on impact because the supply of skills better matches demand. But greater international exposure also brings about technological diffusion, further raising skilled labour demand. This may raise wage inequality, in contrast to the initial egalitarian *level* effect of human capital. Mamoon & Murshed (2013) attempts to measure these two opposing forces by further examining what type of education most reduces inequality. The findings suggest that countries with a higher level of initial human capital do well on the inequality front, but human capital which accrues through the trade liberalization channel has inequalitarian effects. One explanation could be that governments in developing countries invest more in higher education at the expense of primary education in order to gain immediate benefits from globalization; thus becoming prone to wage inequality after increased international trade. Their findings also have implications for the speed at which trade policies are liberalized, the implication being that better educated nations should liberalize faster.

### **Education policies in the South**

A successful higher education reform in the South is not limited to improvement in quality and access to higher education but it should directly and indirectly cater to the millennium development goals by ensuring pro poor pro growth outcomes. Once we link

higher education reforms with a development agenda or strictly speaking millennium development goals, the reform process in higher education becomes much more than a mere pro growth strategy. Mamoon (2007) identifies ways in which the reform process in higher education is aligned with the larger development agenda of the South. To this effect, the issue that lie in the peripheries of higher education reform debate, is to directly link up higher education policy to overall education policy formulation in the South. Generally governments in the South promote higher education at the cost of primary education, and thus indirectly undermine the effectiveness of their development strategies. As per decomposition, poverty can be either affected by economic growth or unequal distribution of income. In order to investigate whether higher education, as it prevails in the South, is good for the poor, they analyse relationship of average years of higher schooling at age of 25 with economic growth and inequality. The paper undertakes regression analysis by utilizing 5 different proxies of economic growth/ economic development and 4 proxies for income inequality as basis for 14 separate IV regression models. Average years of higher schooling have been used as the common regressor. They find that higher education is a significant determinant of economic development. However, our inequality regression models suggest that education policies in general and higher education policies in specific do not cater for the lowest income groups in the South and if anything higher education favors the more affluent. The study recommends that higher education policies should not be implemented in isolation with over all education policy frameworks. As a first step to this more coordination is recommended between higher education commissions and education ministries in the South.

## **Gender gap in education and international trade**

It may be extremely useful to have a look at the gender profiles of the countries. It is a common knowledge that in most developing countries there are severe gender inequalities in earnings as well as skills. Men have the major share in employment, education, incomes as well as public and private investment. In the context of prevalent gender inequalities how trade functions as engine of growth and how it acts for the wellbeing of the poor are important research questions. Recently there is advent of literature which tries to analyse the effects of trade on women development by primarily investigating the impact of trade liberalization on livelihoods of women. There is evidence that trade has improved the plight of women as they move from low paid informal sector to high paid formal one. However, the distribution of benefits seems

to favor men compared to women. For example in the export oriented garment industry in Bangladesh females are paid significantly less than their male counterparts in all job categories. Women are highly under-represented at managerial levels, and over represented at the lower tiers of employment. Although female workers earn less than their male counterparts even with the same level of education and experience, the male-female wage gap drastically falls with higher levels of education. It is true that the comparative advantage of developing countries lie in their cheap labor but there is a caveat. The trends of high employment of women at low levels in export industries in Asian countries like Bangladesh, China, India, Malaysia, Srilanka, Taiwan, Indonesia indicate that women form the most cost effective of unskilled labor force in terms of wages. However, this cheap labor is generally provided at the cost of gender discrimination because the export industries seem to conveniently utilize from the excess supply of unskilled and uneducated women, who due to their low levels of participation in formal labor setups in pre-liberalization period are more likely to be employed as temporary workers: an arrangement though not a preferred option to the work force of any country but quite beneficial to the producers in export industry as temporary employment arrangements prevents wages to rise. On account of social, cultural and historic handicaps which women face in developing countries (i.e., lack of education and their involuntary participation in informal sectors), further gender exploitation takes place in the economy once it opens up. Trade does not seem to give women the fair deal. Some level of gender discrimination may very well be put as yet another short term adjustment cost to be paid for liberalizing, but this phenomenon has yet to receive any significant attention in economic research despite its apparent application for the success or failure of poverty reduction and growth strategies and despite the recent emphasis of development initiatives (i.e, SDGs) on making trade not only free but also fair.

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2.

## Case study of cognitive expressionism in Pakistani politics: The secret of Mian Muhammad Nawaz Sharif's wealth

### Dividends of cognitive synchronization in Pakistani politics

**I**n late 1970s the Generals in General Zia ul Haq cabinet who had a strong religious leaning were tasked to re invigorate Muslim League by finding leadership amongst the Punjab youth. The task was simple. It was to find some one who can bring luck to General Zia, his government and Pakistan. Some one who could lead Pakistan as how Muhammad Ali Jinnah lead muslims of subcontinent India. Allah was the code word. Mothers in Punjab call the holy deity as Allah Mian. The Generals told the president that a well known business man in Lahore namely Muhammad Sharif has a very kind hearted son named Mian Muhammad Nawaz Sharif. The name and young Mian sb personality was a perfect match to very slogan of Pakistan and that was meant to glorify Allah and his last prophet Muhammad (PBUH) message. Not only that the name was perfect match for the Asharfia (Business community) and thus was considered favorable to capitalist economic policy success after miserable failure of Zulfikar Ali Bhutto's socialist agenda and nationalization. (please see Hussain, 1999 and Mamoon, 2017; for detail discussion on the economic application of these concepts)

The luck did came knocking the doors of General Zia government in shape of American dollars and Pakistan witnessed growth rate above 6 percent. However the hanging of elected and one of the most popular political leader Zulfikar Ali Bhutto made General Zia a controversial personality. Significant part of

Pakistan's history do not see General Zia and his policies being favorable to Pakistan despite the fact he did avoid an eminent Russian invasion in Pakistan.

As far as Mian Muhammad Nawaz Sharif is concerned he went on with his political career to become prime minister of Pakistan three times and is all set to elect himself to the slot of premiership for the fourth time if he exonerate himself from charges of corruption. Further more he did brought luck to Pakistan, its business community and morale of this nation. Let me mention some of the high lights.

The only time Pakistan won major cricketing events like World Cup in 1992 and Champions Trophy in 2017, It was when Mian Nawaz Sharif was the prime minister. Game of cricket rules the hearts and minds of the Pakistani nation. Pakistan has become a nuclear power during his second premier ship in 1998 and thus has created by far the most effective deterrence against outright war with its hostile neighbor India. He again brought luck to Pakistan in shape of low world oil prices that enabled energy prices to plummet for Pakistani consumers and businesses alike during his third stint as prime minister. The post 2013 period also witnessed a significant decrease in terrorism and violent actions of non state actors were curbed.

If this man can bring so much luck to Pakistan then cant he bring some of the same to his family businesses earning them fortune. The author believes that it is the responsibility of the courts to decide whether Mian Muhammad Nawaz Sharif is guilty of corruption or not. He as a law abiding citizen has full trust in courts and Pakistani judicial system. Here it is important to mention that one of the ex Presidents of Pakistan Asif Ali Zardari was exonerated by Pakistani courts after smear campaign of corruption charges against him spanning decades for which he also had to spend eleven years in jail.

**Author's note:** To put the point across, the author belongs to a family that have voted for all the three main political parties of Pakistan (PMI.N, PPP and PTI) while never imposing one individual's point of view on another but only respecting each other's decision to cast a vote for the party they think can serve the national interest better.

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### 3.

## Common dreams, different circumstances: Lessons from contemporary development economics

### Introduction

To start off, I would like to take you into the life of some one; a child - a school going girl may be, who currently dwells in Southern Afghanistan, Southern Sudan or Southern Indonesia; Rural India - somewhere in Tamil Nado or a Kashmiri Village near the line of control between India and Pakistan; Tribal belts of North West Frontier Province of Pakistan or the warring tribes of Balochistan. There are many lands like the above mentioned impoverished lands all over Asia, Africa and Latin America. This girl is from one such land where the lives of her people are consumed with war and poverty. She feels sad and she feels frustrated. She wants to live a life without fear and war. To define her circumstances, there can be many words and ‘Conflict’ is one good word to express her surroundings.

Now change the kaleidoscope a bit in time and space. Assume that the same girl lives as a grown up adult in today’s United States of America (USA) and she has helped making history in 2008 as she had participated in national elections to elect first Black President of the Country. She lives a life of an empowered citizen, while lives around her indicate economic prosperity. Her life can no more be defined by conflict. Still, the words to define her circumstances and her surroundings would be many, and one good word is ‘Democracy’, and yet another is ‘Capability’.

Her circumstances differed by an accident of birth, not her dreams and aspirations. We are increasingly aware of our basic rights. Then why this disparity of circumstances when human

dreams and human needs are common in all of us irrespective of where we dwell? Today, some lands are well developed to cater to our dreams and some are still underdeveloped and lagging behind. Why it is not easy to follow a success story if development is to follow success of other nations. What are the dynamics of underdevelopment?

There are many ways to answer these questions. One may define under-development through politics, sociology, history or economics. Here I investigate these questions while specifically utilizing arguments developed in the field of contemporary development economics. The research in development economics analyze the differences in circumstances between developed and developing countries which lead to impoverishment or which can sustain development in developing countries.

### **Premise of applied development economics**

Though it may sound trivial to some, economics primarily focuses on income generation to measure development or lack of it. The difference between developed and developing countries is partly measured as differences in their respective per capita GDPs where as developed countries have much higher levels of per capita incomes than developing countries. Higher incomes are also correlated with other capabilities, human rights and development indicators. In order to develop, the populous lands of the South need to grow on sustainable basis to eventually converge to higher levels of per capita GDPs which correspond to the income levels in developed countries. As rightly pointed out by many economists and non-economists, this focus on income has lead to many misconceptions in development discourse where many developing countries were led into socio-economic and political failure when in 1980s and 1990s, International Organizations like the World Bank and the IMF pushed hard for market reforms while ignoring the larger circumstances of underdevelopment. The fallacy of the argument was the assumption that economic growth eventually trickles down to bring prosperity and real change in social, economic and political lives of the people in developing countries. Eventually, growth did not trickle down as it was anticipated. Commodity and capital markets, which are so closely related with incomes, may fail in absence of the sound mechanisms of regulation and facilitation. These mechanisms are known as institutions. These institutions can be of economic, political, social or legal nature.

In the development discourse, economic change should be defined on the premise of the quality of their economic, political, social and legal institutions. Difference in economic prosperity

among nations is indeed due to lack of well developed institutions in developing countries (Rodrik). Good national institutions constitute outcomes like educated population, precedence of rule of law, accountable and stable polity and regulations for competitive market structures. Institutions are the binding constraint for income generation and its fair distribution among different strata of the population. Some institutions are more about process (for example: rule of law, democracy), and others about outcomes (for example: regulation).

However, institutions cannot develop in isolation. International trade does not only represent economic competition but it also represents economic cooperation among nations. The development recipe cannot completely ignore an outward orientation in addition to its focus on the fundamentals of development (Murshed & Mamoon, 2010).

### South Asian story of development

For example, India and Pakistan represent two similar economic constituencies that have suffered from institutional underdevelopment. However, when compared to each other, India performs better than Pakistan in many institutional outcomes and processes. India is well practicing democracy and history of Pakistan is mired with many autocratic rules spanning decades. Rule of law is better in India when compared to Pakistan. India is also witnessing growth rates above 6 percent, while decline in extreme poverty is observed. So much so that India is finally emerging as a success story among other developing countries. Rapid income generation (or you may call it higher economic growth rates) have occurred only when India opened up its economy to global trade in the early 1990s. Pakistan opened up also but the country has largely failed to benefit from trade. Incidence of autocracy, political instability, lack of accountability of the polity and the elite, poor rule of law, lack of education have contributed to Pakistan's economic failures as it would be true for any other developing country in the world.

India is a relatively stable economy in the region. India has had conflict with her neighbors, especially Pakistan. Despite high levels of hostilities, there have been periods of relative tranquility. Historically, it has been Indian and Pakistani relevance to the outside world which has played the most significant role in influencing bilateral belligerence in favor of peace. The role of outside world in conflict mitigation between India and Pakistan has become more evident in last two decades when India and Pakistan increased their efforts to integrate into global economy through means of trade. Trade deters conflict.

## Second best options in development discourse

Thus countries which cooperate more would benefit more economically and politically. Trade may be as important as good institutions. Trade may have global dynamics as well as regional ones. But the devil is in the detail. Trade may promote peace and prosperity, but it can also be very disruptive and even destroy livelihoods. Global trade is good for income generation but may carry unequal distributional effects because a skilled biased technical change, as an outcome of trade between developed and developing countries, would favor richer or more educated among the population in developing countries. Since more are poorer and uneducated in developing countries, benefits of trade entailing growth fail to benefit the poor as much as it benefits the rich. Such circumstances call for more trade among developing countries by promoting the idea of regional trade agreements.

It took centuries for developed nations to build their institutions (see [North, 1990](#)). There are no short cuts for development. Investing in education (and human capital), which may be adopted even as a short term development strategy, may solve this long term institutional dilemma to some extent. Formal education brings countries closer to each other because educated populations eventually ensure rule of law, voice and accountability, political stability. Education also ensures economic inclusion of all segments of the society in the population once countries trade among each other –something which institutional development also demands.

Trade and not only good institutions form a complete recipe for economic prosperity through poverty alleviation, more equitable distribution of economic gains and conflict mitigation ([Mamoon, 2008](#)).

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4.

Managed the economy:

Now time to manage the peace in Middle East

### Future is in the Past

**M**uslims believe that Muhammad (PBUH) is the last prophet of God. He is the nth observation of human perfection in a series of the prophets this world has seen. Before him was the man called Jesus known as the son of God in Christianity. He is the 1 man who could give life to the dead. And he would come again as also promised by Muslim holy book Al Quran.

Well what I mean by nth observation? Infinity has no value but only realize itself through nth approximation. Advance mathematics that is applied to create non linear coding for artificial intelligence has the most basic differentiation and that is the introduction to singularity which is the number pattern known as 101.

101 is the basics of computer science. 0 is actually the nth observation in coding of artificial intelligence where as 1 is A the first observation. So it is Jesus-Muhammad (PBUH)-Jesus or in other words ANA. Muhammad (PBUH) as being the last prophet of God is actually the news of emergence of Jesus in times to come. He came before Muhammad (PBUH) as one of the true prophets of God and he will precede Muhammad (PBUH). Furthermore, 101 is the defining parameter of Islam as it also stands for the primordial message of peace by Muslims to themselves and the humanity upon meeting to greet others with AOA irrespective of others' religious, political, social and economic orientation. AOA (Asalam-o-Alaikum in Arabic) literally stands for a prayer of peace and harmony for every man and woman onto their economic, social and political

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circumstances. Peace is ingrained in Islamic traditions and foundations. The coming of Jesus is associated with the utopia when global peace is achieved by humanity. It is an irony that popular belief among the West views Muslims as warring tribes and associate Islam with a violent religion.

On the contrary, Kingdom of Saud-i-Arab that is traditionally the bastion of Islam hosting Mecca and Medina is a thriving economy increasingly showing rule of enlightenment. It is true that the Kingdom owes its prosperity to Oil but the Arab Sheikh has transformed this resource to the benefit of their fellow citizens by providing them with state of the art infrastructure. Through outsourcing intellectual capital, the Kingdom managed a visionary economic plan for its dwellers. If anything Arabs have proven to be brilliant managers as can be seen from the well planned and thriving cosmopolitans in other countries of the Gulf like Dubai, Kuwait and Doha in addition to Jeda and Riyadh.

Management of ideas into successful business plans is not a small feat. For example, it was all about managing the idea of face book into creating a global social networking brand fetched Mark Zukerberg his billions of dollars at a very young age. It is true for any small or large corporate entity. Similarly national economies are managed or mismanaged. Most of the Gulf states have managed their economies well. Despite these countries are known to be point resourced (see [Barbier, 2007](#)), they are increasingly diversifying while maintaining minimal levels of Consumer Price Index and budget deficits.

It is time that Gulf States also manage peace in the region and beyond. Kingdom of Saud-i-Arab can play a leading role justifying its influence among other Muslim majority states. There is a need to end the cold war/ proxy war with Iran and making Organization for Islamic countries more effective for peace building purposes.

Anyways on the lighter note, in heavens the prophets are already acquainted with each other and we the mortal souls would never know the details other than what may have been conjectured by our collective imagination as heaven is the future of humanity or the last abode. So till we transfer ourselves to our last abode let us try to make this world as a heaven we dream about. No surprise that is exactly what the science of today is out to do. While science go about implementing our dreams, let us give respect to the divinity (religion) and those men who changed the world for us centuries ago for which we still need their presence amongst us if only through humility within humanity. Furthermore, the idea of resurrection after mortality to defy it only to commute to heaven is an idea first encountered by the Kings of ancient Egypt and is not the sole propriety of Abrahamic religions. The kings of ancient



Egypt build pyramids in serious belief that someday they will be resurrected along with their slaves. Abrahamic religions made the possibility that was exclusive to the dwellers of the pyramids universal to every man and woman. So if our dreams can be universal then so can be our reality of a future where prosperity and peace be shared by all as per the injunctions of modern day human rights realized over centuries of human suffering.

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### Gender economics and Islam: Case of Marital Law in Pakistan

#### Politics versus economics of identity

**O**n December 2017, the religious parties in Pakistan staged a protest in Faizabad area that is the main artery that connects the capital city Islamabad with rest of Pakistan. The blocking of Faizabad meant that the dwellers of Islamabad including local residents, government officials comprised of top bureaucracy, and judiciary and parliamentarians, and foreign dignitaries working for embassies and international NGOs have been house arrested. The protests of the religious parties continued unabated for nearly a month despite Islamabad court's early judgement to seek a swift resolution to protesters' demand who wanted to bring to justice the law makers that have earlier deleted the reference of Prophet Muhammad (PBUH) from oath taking document for parliamentarians. According to the government the omission was not an outcome of design but an error overlooked. Earlier, when the error was notified within the parliament by certain law makers within the opposition, the error was swiftly rectified. Religious parties have often mobilized the masses to establish street power and have often tried to exploit their street power for political gains. History of Pakistan is witness to many such events when protests were started on religious grounds and lead to topple of governments. (for details please see Haqqani, 2010)

Nevertheless, since the independence of Islamic republic of Pakistan 70 years ago religious parties have remained in the fringes of Pakistani politics though with a strong voice among the masses when ever religion is invigorated especially when it is about the D. Mamoon, (2018). *Economic and Social Horizons in Pakistan*. Vol.1 KSP Books

perceived sanctity of Prophet Muhammad (PBUH). This aspect of religious tolerance is where historically Pakistani masses with a strong voice given by clergy have shown inflexibility. On the contrary, interest bearing conventional banking that is considered illegal in Islamic jurisprudence also supported by highest court ruling is functioning unabated in Pakistan(see for detailed technical debate; Mamoon, 2017).

A clear understanding of why there is general level of sensitivity among masses within Pakistan regarding their relationship between them and their prophet (PBUH) is missing in international debate that derives its logic from contemporary liberalism popular among the secular West engulfed with news of conflict and under development coming out of countries that have majority muslim population. Instead of invoking indigenous religious anthropology of Indian subcontinent, behavior of Muslims is seen to be uniform in time and space.

It is a historic fact that Islam came to subcontinent India by armed Muslim conquests but it was not facilitated by Muslim rulers to make up a dominant religion. Instead an enlightened message of Sufism was the real cause of emergence of Islamic identity in the subcontinent that was tainted with class struggle and gender, economic, and racial discrimination. Sufi Islam had a very evolved understanding of the relationship between God and man/woman by taking into account the behavioral teachings of prophet Muhammad (PBUH) and his companions.

Prophet Muhammad (PBUH) and his companions by following through his message are the ones who for the first time in human history introduced a comprehensive governance structure that empowered humanity above creed, race, color or gender and promoted equity among economic and social classes. The same governance structure gave women marital identity by giving them rights over property. The practice of girl infanticide that is still an issue to be tackled in 21<sup>st</sup> century India was abolished some fifteen hundred years ago in Arab lands all due to the political appeal of the prophet's message.

Not to mention the scientific conquest of Islam that put the foundations of non linear mathematics that eventually lead to the discovery of a scientific mind within humanity. The ambassadors of Islam known as the Sufi saints came with Muslim conquests and created a generic appeal for Islam to empower class ridden Hindu identity. (please see Trimmingham, 1998) Unlike ethnic cleansing and forced conversion of Muslim identity into Christianity in Spanish conquest, Hindu religion is still the majority religion of India substantiating the advent of Islam not by force but by choice.

So it is justified indigenous behavior by Muslim populations to preserve the sanctity of prophet Muhammad (PBUH) and his companions who gave humanity a significant social, economic and scientific identity. It is also no surprise that rebirth of extremist brand of Islam out of the ashes of cold war has become the dominant identity of Muslims in the West these days despite the fact that predominant Muslims understand and preach including the mainstream clergy that Islam is the message of peace.

Regarding modern social practices, Muslims and mainstream clergy have no qualms implementing them as part of modern day Islamic jurisprudence to facilitate contemporary economic requirements. For example, according to marital law of Pakistan, girls are only allowed to be married after reaching 18 years of age instead of reaching puberty that happens at around 13 years. The mainstream clergy do not see such modern injunctions any threat to their religious identity but understand the requirement of modern world where women not only need to be sexually empowered but economically too. The age restriction in the Marital law allows women in Pakistan to seek education and then enter the job market with skills to contribute monetarily to their household thus giving them better negotiation power for their welfare in the society. The mainstream society considers an empowered woman in no conflict with Islam. For example, in 1988 Pakistani nation elected Benazir Bhutto as first woman prime minister of the country and it is an irony that loss of Hillary Clinton to Donald Trump in 2016 presidential elections of US is partly attributed to her gender by suggesting that US is still not ready to elect a first woman president 17 years down the 21<sup>st</sup> century. On the other hand and recently Kingdom of Saud-i-Arab has not only officially celebrated the birth of prophet Muhammad(PBUH) but also timed it with increased women participation of women in Saudi economic and social sphere confirming to the progressive role of women in Islam.

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## Politics case study: Bad news in good times of General Musharraf Presidency: Economics versus politics

### Politics of General Musharraf

**A**fter 2003 general elections, Pakistan had witnessed an economic comeback under the regime of President Pervez Musharraf. Though it was much early to tell whether this good economic outlook was there to stay, the over time movements in macroeconomic indicators did suggest that Pakistan was moving towards increased economic stability. However, the only contradiction in this picture was the Musharraf government itself. Though the government claimed that Pakistan is a functioning democracy, the truth was that the democratic system was a manipulated set up whereby all powers concentrated in the hands of one man. The ouster of prime minister Mir Zafarullah Khan Jamali and the election of Shaukat Aziz as the prime minister had evidently shown that Musharraf was still at the helm of affairs and he was the sole entity to decide and dictate the course of Pakistani politics.

So irrespective of the government claims, Pakistan was being ruled by a dictator. In the contemporary world dictatorship is a bad news because dictators are widely considered to be dire for institutional development. Whereas good institutions are prerequisite for the social, political and economic development of any country (Rodrik). Few measures of institutional quality which are directly affected under a dictatorship might be bureaucratic quality, control for corruption, risk of expropriation by the government, risk of government contract repudiation, voice and accountability, rule of law, judicial independence, civil liberties to all citizens in their daily lives and in acts of political participation, government

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effectiveness, regulatory quality, political stability etc (Kaufman *et al.*, 2003). On civil liberties, the regime showed little tolerance and practiced unfair discretion whereby political opponents had been either lured or forced to succumb to government pressure. The ones who had defied any pressure have faced either imprisonment or forced exile. Benazir Bhutto, Nawaz Sharif, Shehbaz Sharif, Javed Hashmi and Asif Ali Zardari were one of the prime political casualties of Musharraf's dictatorship.

In 2004, Baluch Liberation Army had been successful in exploiting the long standing feelings of dissatisfaction and frustration among the populace of Baluchistan for the years of neglect of Baluchi interests by the center. Many a Baluchi nationalist politicians and Sardars had openly praised BLA and defended the insurgents despite the fact that BLA is not working for mere political autonomy of the province or for that matter, the Baluchi interests in Pakistan. Instead BLA does not recognize Pakistan and the main agenda of this organization is to have an independent Baluchi state.

In Pakistan the line between terrorism and political discontent was disappearing fast as the voices of dissatisfaction over 'one man rule' had been hijacked by the terrorists. Musharraf government had also created a very precarious situation for Pakistan army. Army became the only outlet for the common man who wanted to find somebody to blame for his plight. Politicians readily blamed army for all and sundry and had transferred their own failures onto the shoulders of the army. It had become evident that Musharraf cannot by himself steer the Pakistani ship out of troubled waters.

Pakistan was in desperate need of strong and experienced political leadership. By closing the doors to Benazir Bhutto and Nawaz Sharif, Musharraf had created a political vacuum which was readily exploited by the extremist elements. He should have allowed both the leaders to play their due role in strengthening the cause of democracy in Pakistan in order to bring some political stability in the country.

Furthermore, on the violation of civil liberties of common Pakistanis, an ex editor of one of the main English dailies of Pakistan along with his family embraced self exile, after he had refused to follow the government line. Whereas the disappearance of a Karachi based lawyer after he questioned the eligibility of Shaukat Aziz, the so called prime minister, to run for parliament reinforced the fact that the government's respect for civil liberties were conditioned upon the subservience of the populace. For example, the swift ouster of Shehbaz Sharif, after a high court decision that no citizen of Pakistan can be barred from entering his own country, was a clear case of contempt of court. However,

Musharraf and his acolytes were least bothered for making such a blatant mockery out of the courts. It became clear that the regime was only concerned with its self interest, and there should be no doubt about it as it is a universal truth that national interest of any country can never be served by undermining law and constitution of the land.

In 2005, despite international pressures, Musharraf indicated that he would not part away with his uniform as he claimed that any such step might disturb the economic and political progress of Pakistan. Well he was partly right on the economic aspect of his justification but as far as political progress was concerned, there should be no doubt about it that true democracy can never be born under the shackles of a dictatorship. If Musharraf really wanted to initiate a real political progress in the country, he should have resigned as army chief.

### **The good times of the regime**

However, recognition of significant grey areas is as important as accepting the exigencies of a dictator. Though strange the analogy may sound there is a possibility to have a good dictator and a bad dictator. For example Taiwan, South Korea, Malaysia, and Singapore have grown at previously unheard of rates under unrestricted dictatorships, sometimes military ones. China today is prospering under the leadership of the Communist party, facing no institutional constraints. In Latin America Mexico witnessed steep development in the era of PRI dictators.

Notwithstanding the cloak of dictatorships, another striking familiarity in all these countries is that the prime agenda of their respective autocratic governments' had been to develop skilled human capital through major investments in education sector and to develop infrastructure by incurring extensive investments in the physical capital. And as the populace of these countries became more educated with time, they took charge of their fate through increased self reliance by utilizing the available physical capital to its best. No doubt these countries owe it all to their people, who never waited for any miracles from their leaders who in most cases were no less despots then Musharraf.

Wouldn't it be fair to give the dictators of these countries the credit where it is due as they did provide a conducive environment of change and progress to its populace by investing in human and physical capital of the country? Unlike them, recent times have also witnessed such tyrants who have created nothing but mayhem in their countries for petty personal gains and subjected their populace to civil wars and famine. The president Robert Mugabe of Zimbabwe unleashed his personal militia, who used violence

and murder as an electoral strategy, in Zimbabwean elections and harassed and killed his political opponents. The regime also orchestrated a slow death by starvation for millions of his opponents by refusing aid money and food to anyone suspected of supporting the MDC (Movement of Democratic Change). Similarly Sudanese government under the dictatorship of General Umar Hasan Ahamad Al-Bashir, has been responsible for the worst humanitarian crisis of recent times in the Darfur region as thousands have been killed, nearly one million people have been displaced, over 150,000 refugees have fled into neighboring Chad and entire villages have been wiped out by marauding militia groups sponsored by the government.

i. In short there is no dearth of bad dictators in this world. In this context, Pakistan was lucky to have a mild dictator, who at least did not put Pakistan into the course of extreme digression which we witness in some countries which are ruled by tyrants. One of the most significant positive of Musharraf era is that Pakistani economy was back on track after more than a decade of scanty performance. However, it can be debated in later sections that the robust economic performance has more to do with external factors i.e., War on terror, than to do with the policies of the government. Thus the relatively more pertinent point here would be to know how the regime is utilising this economic comeback.

ii. Well to this effect the most significant achievements of Musharraf government had been on higher education front. In September 2002, a Higher Education Commission (HEC) was established. The Commission has launched a research grant programme under which research grants worth millions of rupees for R&D will be awarded to researchers working in various fields of Science and Technology. Furthermore, foreign Ph.D scholarship programmes have been developed to enhance the research base in key social and economic areas in Pakistan. For example under ‘Overseas Scholarship Scheme for PhD in Selected Fields’ the HEC is planning to send nearly 400 professionals to the leading universities of the world by 2008 to pursue for their doctorate. The process has already begun whereby nearly 100 highly competitive professionals from various disciplines have been selected to study in Germany, France, and Austria. Similarly there are other schemes which specifically target the various key natural science disciplines i.e., Space Sciences, Biotechnology, Renewable Energy, Robotics and Mechatronics, Cyber Sciences, Environmental Sciences, and Laser & Fibre Optics etc. The HEC had also initiated five year ‘Indigenous Ph.D Fellowship Program’ whereby 5000 scholarships have been announced for domestic PhD students. 1000 scholarships have already been announced for this year. In order to



provide an incentive of quality research in our universities, which is currently absent in this country, HEC has also announced 'Best University/Degree Awarding Institutions Teachers Award' whereby the outstanding faculty members are given \$ 2000 for their teaching or research endeavours. Clearly such measures by HEC are unprecedented in the history of this country. The higher education budget has been increased to Rs 5 billion from a meager amount of Rs 800 million five years ago, an increase of nearly 400 percent. Well, Musharraf had rightly recognised the importance of higher education and its returns in terms of skilled human capital. It can be safely suggested that the government policy apropos higher education will go a long way in transforming Pakistan into a progressive society. However, according to a recent ADB report, within the education sector in FY 2003, expenditure on primary education increased only by 4.1percent whereas the expenditure on general college, and university education increased by 51.2percent and that on professional education 15.4percent. Notwithstanding the immense importance of higher education in economic development and growth, the apparent negligence of primary education has serious implications for the poor as they are the ones who benefit the most from primary and secondary education provided by the public sector.

Another important step of Musharraf regime was the foundation of NCHD (National Commission on Human Development) in June 2002, to promote development in the fields of health, education and microfinance. The initiative mobilized \$ 5.5 million from private donors and \$ 34 million from government resources. In education NCHD aims to help the government achieve its EFA (education for all) objective of 86% literacy by 2015.

On the macroeconomic front, the direct contribution of the government towards improved economic activity had been through public investments which are averaged at an impressive rate of 4.5 percent. Also retaining adequate foreign reserves enabled Pakistan to enter into a stable exchange rate regime on sustainable basis. This significantly strengthened Pakistan's fiscal position amid substantial decreases in foreign debt. Pakistan became a relatively more economical sovereign state since the government has announced that it came out of IMF program in 2006 after the completion of IMF's PRGF program. All in all, the Musharraf government had initiated such policies which provided Pakistan with much needed human and physical capital – the prerequisites to follow the examples of China and East Asian economies.

## **Bad news in good economics of General Musharraf**

During Musharraf regime, Pakistan was no doubt the fastest growing economy of the South Asian region, accelerating at 8.4 percent in real GDP terms. The only country in the region, which came close to Pakistan in its growth performance, was India growing at a rate of 7.3 percent. In larger Asia, Pakistan stood with the likes of Singapore, Honk Kong and China which are the contemporary economic giants and had followed a growth pattern much similar to that of Pakistan.

However the growth figure of 8.4 percent did not mean much in itself. It is important to know the actual economic story behind this figure. Whether this growth was endogenous or exogenous to the economy, or whether the benefits of growth were distributed fairly among different strata of the society are key questions to be answered in order to know how real this economic achievement was?

First let us look at the sectoral contributions to the GDP growth in year 2005 where 1.74, 4.65 and 4.16 percent growth had come from Agriculture, Manufacturing and Services sectors respectively as oppose to 2003 sectoral contributions of 0.53, 5.05 and 3.16 percent from the same sectors. The above figures show that Pakistan exceeded its growth target of 6.6% mainly because agriculture sector witnessed a significant recovery as it grew by 7.5 percent. This was good news for 68 percent of Pakistan's population who live in rural areas and who are directly or indirectly dependent on agriculture for their livelihoods. Though the government had promised to increase agricultural productivity in order to raise farmers' incomes, the recovery in agriculture owed it to good monsoons after several years and there was no evidence that agriculture productivity had improved. In other words the contribution of agriculture sector in growth had been exogenous to government policies

The other sector which enabled Pakistan to exceed its growth target was high performing services sector in the country. However if we look into the services sector, we come to know that the major contribution came from finance and insurance sector which grew by 21.8 % this fiscal year as oppose to 4.5% in 2003-04 and -3.2% in 2002-03. Though a growing financial sector does indicate that Pakistan was witnessing significant financial development which was definitely good for growth, one has to also consider the movements in general price level, some monetary aggregates and interest rates to know whether financial development was real and the subsequent growth had been good for the common man.

The most commonly used measure of financial development is a ratio of some broad measure of money stock, usually M2, to the level of nominal income. This indicator basically measures the

degree of monetisation in the economy, whereas monetisation captures the real size of financial sector of a growing economy in which money provides valuable payment and saving services. Well in Pakistan, M2/GDP had shown some improvement as the ratio picks up from 42.2 in 2003-04 to 42.9 in 2005-2004. It was expected that interest rates and general price levels in Pakistan would rise as a consequence of global economic comeback and rise in international prices. As per expectation and despite government claims to curb price hike, Pakistan witnessed steep inflationary trends. As far as interest rates were concerned, the lending rate has been on a constant rise as compared to the deposit rate which was relatively stagnant. The interest rate spread between lending rate and deposit rate had picked up since July 2004 when it was only 3.44, and had been raised to 5.14 by March 2005. This was not so good news for the common man in Pakistan especially when one looks at the food inflation which had climbed to 12.8 percent in 2005 from only 6 percent and 2.9 percent in 2003-04 and 2002-03 respectively. The sluggish performance of deposit rates amid steep rise in CPI meant that consumer savings were being eroded. The major brunt had again been born by small deposit holders who comprise mainly of senior citizens or lower and middle income groups. Taking into account inflation rates, it seemed Pakistani economy was entrapped in a financial bubble and excess money was circulating in the hands of the few urban elite. This had artificially boosted the overall demand in the economy enabling the country to follow a higher than expected growth pattern. In short 8.4 percent growth couldn't tell much about the plight of the common man in Pakistan.

However the Musharraf government had been very high on rhetoric vis-à-vis poverty alleviation and its commitment towards development goals. The Governor Sate Bank of Pakistan, Ishrat Hussain claimed that Pakistan would transform the macroeconomic stability into a viable development strategy. The 2004-05 fiscal budget allocations undermined government commitment towards poverty alleviation and social sector development. Here the irony was that IMF and World Bank urged the government to increase the budget deficit in order to allocate adequate funds to the development sector as higher budget deficit is not a bad thing in itself. The government refused to entertain IMF and World Bank's advice as it appeared that officials at finance ministry were fixated with the era of Structural Adjustment Plans of 1990s.

The obsession with growth had also resulted in an education policy which sets out to favour the rich as more and more resources had been allocated to higher education because it was considered to be closely linked with growth than primary education. In 2005,

higher education budget had been increased to Rs 5 billion from a meagre amount of Rs 800 million five years ago, an increase of nearly 400 percent. In comparison to Rs 9 billion allocated to Higher Education Commission (HEC), the government allocated Rs 3 billion only to Ministry of Education. Since higher education is mainly availed by the affluent segments of the society, more funds to higher education meant that government was providing indirect subsidy to the rich and excluding the poor because they are largely uneducated. Further more, higher education is an urbanised phenomenon in Pakistan. As a consequence, the skewed education policy was further elevating the disparities between the rural and urban which was in a direct contradiction to the success of PRSPs in Pakistan.

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### Pro-poor ecquity

With the advent of Poverty Reduction Strategy Papers (PRSPs), the focus of the contemporary world of developing countries has been on policies which are not only pro growth but which are also pro poor as it has been realized that growth can not by itself trickle down to alleviate poverty. So, today the determinants of growth are not only evaluated for their contribution to economic activity, but they are also checked for their contribution to the general welfare of the public in order to be sure that good for growth policies are also good for poor. This paper tries to find out whether in a developing country context international trade, which is considered to be vital for growth by economists belonging to both the right and left, is pro poor as claimed by many (e.g. Dollar) or it may contribute to increased poverty through worsening the gap between haves and have nots (e.g., Bardhan, 2003 and Rodriguez & Rodrik).

Though the bastions of neo classical economics (e.g. World Bank) realizes that pro poor growth is not possible without ensuring that the incomes generated by growth are equally distributed, they (e.g. Dollar) presume that processes of growth like international trade have no or insignificant effects on inequality despite the evidence of rise in inequality in many developing countries which have opened up (i.e., China, Vietnam, Mexico, Brazil, Chile, Columbia and Venezuela etc).

In this context it becomes all more important to understand where we stand apropos distributional effects of international trade. The paper undertakes a review of Mamoon (2015) whereby it tries

to answer questions such as: “why and how does international trade aggravate income disparity in a developing country?”

## Theory and empirical evidence

Mamoon (2015) identifies at least eight such effects through which trade favors one segment of a society over other and cause uneven development in a country. All the effects unanimously suggest that international trade causes inequality by increases in relative wages of skilled labor over unskilled ones in developing countries.

1. Protection Effect
2. Endowment Effect
3. Technology Transfer Effect
4. Technology Catch-up Effect
5. Outsourcing effect
6. Familiar factor Endowment Effect
- 7 Price Elasticity Effect
8. Wage Premium Effect

In order to validate the theoretical debate, Mamoon & Murshed (2013) undertakes an extensive empirical exercise based on cross country analysis for more than 100 developing countries. Since the paper suggests that inequality seeps into the developing economy through increased trade by effecting the relative wages, I have selected UTIP-UNIDO wage inequality ‘THEIL’ measure recently calculated by University of Texas Inequality Project (UTIP) instead of measures which represent income inequality i.e., GINI etc.

Simple graphical representations of THEIL index for some selected countries, which have embraced liberalization, evidently show that wage inequality has been sharply rising after the initiation of trade reforms. To confirm the graphical trends, the paper undertakes regression analysis whereby 30 trade policy measures were carefully selected from the literature. The OLS regression equation regressed Theil index on openness, Human capital and geography. The results were mixed and failed to develop any explicit relationship between openness and inequality.

Though geography is a pure exogenous concept here (Rodrik), literature suggests that openness and human capital are highly correlated. In order to solve for the problem of multicollinearity, openness is regressed on geography and predicted trade shares computed by Frankel & Romer (1999) from gravity equation. Recently FR has been used extensively in the literature as the instrument for openness (i.e., Dollar, Rodrik *et. al.*, 2002 etc). As a second stage, Mamoon & Murshed (2013) have regressed Theil

index on predicted values of openness and human capital. To my anticipation, this time the relationship between wage inequality and international trade came out to be highly significant and negative for nearly all the 30 trade policy variables. Additionally, the results complement previous studies which suggest that the countries with better human capital actually do well on inequality front.

### **Policy remedy of trade induced inequality**

Since the results of Mamoon & Murshed (2013) show that trade liberalization cause inequality, they proceeded to find out how we can make trade more equal. As oppose to new classical paradigm of free markets, the literature suggests that trade favors skilled labor over unskilled in developing countries. This means that international trade benefits the educated segments of the society where as the illiterate who are largely poor and unskilled are excluded. If this is true, then human capital which is accrued through the processes of trade is guilty of inequality. In order to get values of human capital which depend on trade, they regressed human capital on Frankel and Romer (FR) predicted trade shares. This gave them predicted values of human capital which are explained by processes of international trade. The regressions based on predicted human capital validate the argument. The paper has also interacted predicted human capital with trade policy and they found out that both compliment each other in explaining wage inequality in developing countries.

There are very important guide lines for policy makers. There is strong evidence that international trade leads to wage inequality as wages of skilled labor increase relative to unskilled ones. In order to neutralize the unequal effects of trade, the focus of policy makers should be on education. The countries which have greater frequency of educated people are in a better position to benefit from international trade. However our results suggest that there is a caveat. Generally the governments in developing countries tend to focus more on higher education in order to accrue quicker benefits from processes of growth and ignore the fact that such a policy would lead to unequal outcomes as education should be for all. For example, Pakistan has focused its education policy on higher education in the anticipation that investments in higher education would accrue faster dividends by exploiting the international business environment. Though the government is right, it is promoting higher education at the cost of primary education. This means that only a limited segment of the society will benefit from it, whereas the ones who are excluded will also be barred from the benefits of growth and its processes (i.e., trade) at least in the short term. Earlier the same mistake has been committed by China and

India who are the most prominent beneficiaries of international trade. Though, both the countries are able to achieve high growth rates as their relatively skilled and cheaper human capital ( a direct outcome of their higher education focus) has utilized the recent surge of international outsourcing by multinationals, they have suffered from increasing inequality because large portions of the population are left out because they were illiterate and unskilled.

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8.

## Society case study: Why formal education is the common goal of human progress

**F**ormal education is the key determinant of globalisation and uniting the Nations for the common good of humanity and its future leaps towards science and innovation (Barro, 1991). Formal education is the first step to embrace social harmony and the first real step towards a united world where one is exposed to our common global quest and struggle of centuries which has lead us to very 21<sup>st</sup> century which is known as the century of technology and innovation.

We, who are academicians in the South are trying to make an effort of our own to be part of the positive change and progress of humanity while analysing many a challenges our global village face from extremism to environmental degradation, are actually among the lucky ones to be able to also receive formal education. We are more aware not only of the human success story to date but we are also concerned with the issues, which needs to be addressed. Because we are formally educated, we speak the same language of awareness and optimism but we are also ready to lead to make a positive difference in our global society. In other words we share the same values. In the West, there are many more like us but we also know that the larger part of the world is quite different to the select group of lucky one's whom we represent. Many and millions more, in underdeveloped regions of Africa and Asia live without education and most of them are the ones who are also still struggling to only earn enough to be able to survive a day after another. Their world is quite different than ours. For them, globalisation is an unfair process, where only richer among them

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can benefit and would continue benefiting because only the more affluent are destined to educate their next generations. The poor may never be able to break the shackles of poverty, if they are not given the opportunity to empower themselves by being more skilled and aware. And education is a pre-requisite for social and economic empowerment of such individuals. Education for all is the key factor to benefit from a scientific society at a global level and it is indeed one of the most important step to achieve a United World from it being an unfair, less aligned and less united body.

Formal education is the first step towards our awareness regarding the history of globalisation and its marvels. When we undertake subjects like Physics, Chemistry and Biology, we understand how a global quest to embrace a scientific society has been mapped throughout human history where knowledge was equally shared and utilised by all nations, irrespective of their culture and religion. Similarly, through the methodologies of formal education, we also come to know that art and literature has always been appreciated, promoted and preserved irrespective of its diversified cultural underpinnings.

Thus, more equal societies are the one's which are also more educated. Awareness, logic and reasoning, the key ingredients of a vibrant society, derive the same parallels. In the following lines, I would discuss some of the key social and economic issues to substantiate my argument further.

## **Education and conflict mitigation**

It is agreed that only education does not feed the bellies of the hungry. Formal education is rather a long term strategy than a short term remedy to a problem. In the short term, the ones, who are sceptical about globalisation and its fairness, need to be reached out. This may mean that many in the West have to go an extra mile to appease the sceptics and activists working against globalisation, by understanding their psychological apprehensions. Recently we have seen many conflicts erupting inside many developing peripheries in the world which have also engulfed the larger globe. For example, some extremist elements are exploiting the sentiments of some ethnic and religious groups and many of the aware ones among us have drawn conclusions of haste upon our exposure to popular gossip thrown to us by media. This is how I see the problem of Islamic extremism, of which the West is quite worried about these days. I believe Islamic societies are far from being extremist, but they indeed are underdeveloped where formal education is not available to most of the people. Many fail to identify with the contemporary success stories of social freedom and economic empowerment, we cherish so much. They feel left

out, marginalised and even exploited. And such sentiments make the breeding grounds for conflict. Most live in historic bitterness and easily form opinions of disaccord and thus they are prone to the manipulations by certain interest groups which indeed may have an extremist agenda. Since in the West, more are educated and more are aware, it has the responsibility to positively understand such societies and refrain from stigmatising them.

## Education and some success stories of globalisation

Education has been key to the economic development of countries (Barro & Lee, 1993a; 1993b). Countries which have invested more in equal opportunities for education for all are more developed today. In other words, education gives the fair chance to every one to benefit from economic and scientific progress. For example, let us compare East Asian and South Asian economies. The differences in human capital and differences in the convergence level seem to move together in both regions. For instance, East Asian Developing countries witnessed unprecedented increases in GNP per capita over the last three decades, e.g. 10 times for Malaysia, 65 times for Republic of Korea and 13 times for Thailand. While during the same period for Asian least developed countries (Bhutan, Cambodia and Lao People's democratic Republic) and South Asian developing countries (Bangladesh, India and Pakistan) only a meagre increase of 2 to a little over 5 times took place.

It is intriguing to note that in 1960s when most of these countries were at similar stages of economic development, East Asian developing countries were far ahead of both Asian least developed countries and South Asian developing countries in human capital. In fact, the total literacy rates for East Asian developing countries in the 1960s were as high as 71 percent for the Republic of Korea, 68 percent for Thailand and even Malaysia had a rate of over 50 percent. On the other hand, in case of all Asian least developed countries and South Asian developing countries, the total literacy rates were as low as only 9 percent for Nepal and 15 percent for Pakistan with Cambodia having 38 percent literacy (Barro & Lee, 2001).

After three decades, while Asian least developed countries and South Asian developing countries have some what augmented their human capital stocks, the total literacy rates are still far below 50 percent in the cases of Bangladesh, Nepal and Pakistan. During the same period, however, East Asian developing countries have more or less achieved the formidable task of educating most of their people. As a result, in the late 1990s, the total literacy rate of the Republic of Korea has reached 98 percent, and Malaysia managed

to achieve a rate of about 90 percent. In short, economic progress in East Asia during the 1980s occurred because of their well developed human capital endowment which gathered momentum in the 1960s or earlier (Barro, 1999).

### **Education and gender empowerment**

Education for all is also a first step towards the social and economic empowerment of women. (Barro & Lee, 1996) Illiteracy among women is one of a key determinant of their exploitation in developing countries. For example, women are generally exploited because of their low skills in national job allocation profiles. They are exposed to the brutes of industrialisation in countries like China and India, as more labour demand leads to more female labour enrolment into the industrial activity at wages far less than men. For women, though it is a significant move from informal labour activity where they are paid nothing or less than the formal activity, they are still being exploited. And to make matters worse, reliance on cheap female labour in developing countries may further reinforce and ratify social norms of gender inequality. Only if women are more educated, they would also benefit from industrial spill over of white collar jobs where the pay difference among men and women are far less. Further more equal education opportunities for women may actually help a country move up the industrial ladder to higher value-added production and move the country out of labour-intensive export led growth trap which many developing countries of today find themselves into. If export success and growth come at the expense of gender equality and women's human rights, this may result in long term adverse effects on the terms of trade in developing countries found by some of the recent economics literature.

### **Education and higher education bias**

The commitment to more education for all primarily comes from increase in education budgets. However, it is generally witnessed that many developing countries find it difficult to allocate sufficient funds to primary education as they are faced with resource constraints at the fiscal level but also want to promote higher education for higher education focus brings high GDP growth dividends. Thus there is a competition of resources within education sector. Though the governments are justified to promote higher education, but if it would lead to lesser resource allocation in primary education, poverty reduction and fair development is jeopardised. In such a scenario, foreign assistance by donor agencies like World Bank is much needed to promote education for all in developing countries.

## Education and multiculturalism

I would also like to introduce briefly my international exposure at the institution of higher learning, International Institute of Social Studies of Erasmus University<sup>1</sup>, where students and researchers from around the globe come together to learn and discuss about the complex issues pertaining initiatives like Sustainable Development Goals, their limitations and their potential in global development. At the institute, we got the opportunity to learn the other perspective also where development initiatives are critically evaluated all in an effort to address the qualms of those in the developing countries who still live in impoverished circumstances. We tried to look into development as a progressive and inclusive phenomenon, where development strategies are not only an outcome of Western concern for underdevelopment in Southern lands but where development becomes a discourse where the poor and marginalised themselves have a say of their own. We learnt to make them the part of solution making rather than just dealing them as a part of the problem. In such an exercise, we learn how important it is to also make their voices and concerns heard instead of us trying to be their voice. And all this is just being educated.

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<sup>1</sup> The author was associated with the Institute from 2000 to 2008  
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## 9.

# Expectations versus reality of Pakistan China FTA

### Why the FTA

The difference between Chinese and Pakistani goods in bilateral trade is relatively big and the number of their competing goods is relatively small” (Che Chao, an Official with the International Trade Department of China’s Ministry of Commerce in an interview with China Business Weekly, [\[Retrieved from\]](#)).

The above is by far the most motivating statement to go ahead with the FTA between China and Pakistan, two countries who belong to the South but one being at a higher level of technological ladder than the other one.

Pakistan accounts for 20 per cent of China’s total trade with South Asia, which also includes India, Nepal, Bangladesh, Sri Lanka and Maldives. China’s main shipments to Pakistan include machinery equipment, chemicals, electronics and footwear. Chinese companies already account for an important part of foreign investment in Pakistan. About 500 foreign companies are now operating in Pakistan, 60 of which are Chinese. Many of these companies are operating in the public utilities and infrastructure sectors, such as mining, telecommunication and energy. On the other hand, 70 percent of Pakistani exports to China are cotton yarn and cotton fabric. The rest are leather products, minerals and seafood.

Pakistan, an agricultural economy with a stagnant agriculture sector, was expected to only gain if its agricultural products have an immediate free access to the supermarkets of China’s Western Regions. In due course of time and through an effective export

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promotion policy, Pakistan was expected to even target the farther regions of Beijing and Shanghai, which right now look distant lands for Pakistani agriculture produce. China on the other hand has the access to a market of 150 million people and a passage to Central Asia.

Today recent trade literature suggests that developing countries sometimes benefit more with South-South trade instead of North-South trade. But these benefits might very well vary from case to case. Here the geographical location and the status of the trading partner are two factors which are the key determinants to decide how much there is to be gained with more trade. If one trading partner is at a higher stage of technical ladder than the other one, the later can gain a lot in terms of growth and poverty alleviation.

In Sino Pakistani case, the two big positives are that both are not only neighbours but both have enjoyed great friendly bilateral relationships which are time tested. China is at a much higher level of technological progress than Pakistan. A free trade agreement with China not only gives Pakistani agriculture produce an access to a market with multi billion people, but it was expected to enable Pakistan to follow China in its technological progress, as more and more Chinese investments were taking place in Pakistan.

## **Pakistan's technical progress and Sino-Pakistani FTA**

As the developing country moves forward in technology, it naturally indulge in more advanced production patterns and more and more of its trade, especially exports are concentrated in products involving high skilled labor. As one developing country is climbing the technology ladder, the other developing country at a lower stage starts taking over the production activities, which are least skill-intensive in the former as part of its own technology catch-up phenomenon. For example, China has a higher pace of technology catch-up than many of less developed countries in East Asia, Latin America or Sub Saharan Africa. China has built a sound technology base primarily because of its low factor costs. Chinese exports are getting more and more skill intensive as a result. As China advances in technology and produces goods and services involving higher skill intensive labor, there is increasing chance for other developing countries, at lower stage of technology ladder, to exploit this situation by taking-up the production of goods and services which require relatively less skill intensities in factor inputs if produced in China.

Ianchovichina & Walmsley (2003) hinted on the effects of China's technology catch-up on the developing countries of Asia: As China becomes a more efficient supplier of services or a more

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efficient producer of high-end manufactures, its comparative advantage will shift into higher end products. This is a good news for Vietnam. Indonesia and other developing countries... Vietnam and Indonesia will benefit the most if China's economy becomes more efficient in the production of high-end manufactures."From 1991 to 2001, trade between China and Vietnam has grown nearly 100 times, and China is a major investor in Vietnam, which indicates that later country is an important place of outsourcing by Chinese companies.

A Sino Pakistani FTA could put Pakistan in a position to compete with the likes of Vietnam and Indonesia viz a viz trade with China and undergo technological catch up in a more effective and efficient manner.

Here an important point to note is that Sino Pakistani FTA is also expected to provide such a Southern trading arrangement which will minimize labor market distortions in Pakistan which are always a possibility under global free trading models. In other words Sino Pakistani FTA would not only be good for Pakistani macro economy but also be pro poor.

### **Roadmap of an effective Pak-Sino FTA**

The above discussion suggests that Pakistan primarily wanted to export more of its agriculture produce to China whereas China was interested to invest in public utilities, manufacturing and infrastructure sectors. Following is a roadmap of direct and indirect benefits Pakistan should have received from the FTA.

1. Customs Procedures and Facilitations Measures
2. Investment Climate and related policies
3. Industrial Policy and incentive to investors
4. Subsidies and incentives to exporters.
5. Trade in Services; policies and incentives
6. The system of dispute resolution relating to trade disputes.
7. Local taxes (excise, sales tax, value added tax etc.) and their linkage on import tariffs.
8. Regulations for domestic sale of imported commodities and those applied to locally manufactured goods.
9. Cost of utilities, labour and capital.
10. The financial system and support to local industry.
11. Competitiveness of Industrial goods manufactured locally and those produced in Pakistan.
12. Quarantine requirements and laws on agriculture imports.

## The outcomes of the FTA

Notwithstanding the initial enthusiasm on account of the FTA in both countries, the outcomes turned out to be skewed in favour of China. Pakistan was not able to export to China. Neither did Pakistani manufacturing sector benefitted from the agreement. If anything local markets in Pakistan were swarmed by cheap Chinese exports. Small Businesses in Pakistan could not compete with Chinese goods. The fault lied with the successive governments in Pakistan who could not exploit the FTA despite many technical and feasibility reports that provided a complete roadmap for effective FTA implementation. By just lowering the tariffs as a prerequisite for the FTA, local industry was exposed to competition and no steps were taken to make it competitive.

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10.

## Beyond greed and bribes: Economic rational of corruption in Pakistan

### Moving towards uncertainty equilibrium under crude capitalism

National Economy is always moving between equilibriums that are pareto optimal to its recurring economic, political, social, and technical circumstances. If these circumstances improve, economy sets itself for an equilibrium where output is higher, voice and accountability is maintained to the satisfaction of majority voters, justice is served for the empowerment of the public, people participate in resolution of national issues through rational and informed debate and scientific innovation is facilitated through knowledge based economy. To reach even higher equilibrium, equity among losers and gainers of prosperity is worked out through concepts like shared values (Porter, 2011 and Mamoon, 2017). However for a developing country like Pakistan, pareto optimal equilibria is derived with volatile and underdeveloped market structure where political, social and economic empowerment is lacking and only giving credence to tribal culture predominated by weak response to individual's rights protection by institutions of local and national governance. These governance institutions can be national courts, the criminal justice system itself with police serving political elites and laws that are unable to govern towards economic and social harmony within society. The binding constraint for such circumstances that define the equilibrium is uncertainty of economic, social, political and legal outcomes. The public forms perceptions that are based on survival instincts instead of relying on well planned national

constructs that promote harmonized and integrated controls of economic and social wellbeing like per capita income, literacy, human rights and environmental protection.

The easy solution to prevalent economic uncertainties has been to reinvigorate the local anthropology and that in Pakistan meant the revival of religious identity of masses in isolation to cultural sensitivities leading to ethnic and class conflict as it was not updated with modern injunctions of social networking theories that has given paramount importance to human rights and multiculturalism to manufacture a common global society. The traditional view of society fails to provide universal solutions above tribal interests and that in Pakistan also meant not so democratic behavior among social groups in giving value to the efforts of other social or economic classes.

The uncertainty equilibrium has landed Pakistani society into a cauldron within its social and economic identity that in one hand considers corruption a sin as per their religious commandments but also failing to do without it in every day life. This article wants to bring respite to this contradiction in words and actions. Though corruption has a negative impact on the potential of economic activity, it is perfectly rational under a second best solution to an uncertain economic circumstance a developing country like Pakistan finds itself into.

Corruption is a self deriving and crude economic and tribal safety net against economic, social and political discrimination. Yes, to carry out this practice, one needs to be economically well off thus it further deepens discrimination of certain economic and social classes but nevertheless it is an action of survival in a country where money has been devalued every year and government borrows billions of dollars of loans only for debt servicing or to pay off import bills with devastating effects on inflation rates and purchasing power. For example, corruption among working class population is an outcome to maintain a more than benign lifestyle comprising of a basket of such consumption goods that are necessities in a progressive society like quality education and health for dependents, health insurance, decent housing and occasional recreation for family etc. In pure economics, corruption is rationalized as rent seeking behavior and it is the job of the government to create incentives that can curb such behavioral practices in the society. Only some punitive measures to punish the corrupt when a country is witnessing economic uncertainty for longer periods are not going to work.

However, there are two problems with corruption. First is that the rate of corruption is a free float where major chunk of the pie is retained by the rich with utmost flexibility in their share. Secondly,

the rich over write the uncertainty principle by exchanging their loot into dollars and stashing it up in off shore investments further draining the country of its resources. However these characteristics are common in other developing countries as well as the developed ones.

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## 11.

### Progressing Pakistan should ensure quality education for all

#### Education for all ensures growth promotion with welfare generation

**I**n Pakistan, there is an need to align current economic gains, though modest they may be, to pro poor outcomes especially if we take into account that from the start of the millennium Poverty Reduction Strategy Papers (PRSPs) have taken over Structural Adjustment Plans (SAPs), whereby the focus of economic development has been switched to qualitative human development indicators from quantitative macro economic indicators. Contrary to a lot of rhetoric coming out from the echelons of government apropos PRSPs, government policies in Pakistan still set out to favor the rich against the poor. There are no short cuts if Pakistan needs to follow the development pattern of East Asian economies ([Mamoon, 2012](#)).

For example, Pakistan is following a much skewed education policy whereas more and more resources are being allocated to higher education and primary and basic education is somewhat ignored. Since higher education is mainly recieved by the affluent segments of the society, more funds to higher education means that government is providing indirect subsidy to the rich and excluding the poor as they are largely uneducated.

Interestingly enough, Pakistan is not alone in this as many countries have been following similar education policies whereby higher education is promoted at the cost of primary education. Here the question arises why so? The simple answer is that the rate of economic growth responds more to secondary or higher

education levels rather than elementary schooling. This is true because processes of growth are deeply linked with higher education instead of primary education. For example, in developing countries international trade, which is one of the key determinants of growth, favors either highly qualified university graduates or those who have at least finished their high school. The sole reason that India and China have been the haven for international outsourcing and trade in contemporary times is because they have managed to accumulate relatively educated and skilled human capital by investing in higher education. It is expected that over the next five years, 3.3 million services and industry jobs and \$ 136 billion in wages will be outsourced only from United States, while most of them finding their way to the Indian or Chinese Shore.

It is no surprise that Pakistan is also following suit in an attempt to ensure higher economic growth. However there are serious repercussions for higher education focused education policy for the economy in general and the common man in particular. India in South Asia and Mexico, Argentina, Bolivia and especially Venezuela in Latin America are very relevant examples to this effect.

### **Has growing India ignored the less-affluent?**

Today, India is considered to be a major economic player in Asia, especially urban India, which has seen economic prosperity to the likes of Europe and America. Well one of the most important reasons that our neighbor has made this so far is because the government of India undertook extensive investments in higher education in late 1970 s and 1980s. Consequently, much like China, Indians transformed a significant portion of their population into highly skilled labor who have been readily employed by the international corporate sector in 1990s and afterwards as they were much cheaper than the European and American skilled labor. To date billions of dollars of trade in services has taken place and with current outsourcing trends, India is to gain further billions from it. However, as good as it sounds the ground reality for a common Indian is different. Since India failed to invest in primary education as it had prioritized higher education, the country is facing severe inequalities. The rural and urban divide is widening day by day. The plight of common man is still not heard and the gains of growing India have failed to trickle down to the impoverished in an equal fashion. Out of a billion people there are only handful millions who can claim to be the beneficiaries of Indian economic boom. And these handfuls are predominantly the ones who dwell in urban and developed India whereas the rural peripheries have

been excluded from the whole development process as they have been left largely uneducated and unskilled. It came as no surprise in 2004, when the common man in India rejected the slogan of 'India Shining' put forward by the then ruling party BJP to get yet another term in office as the party tried to exploit the current economic success of Indian economy. 2004 Indian elections were a subtle reminder to the world that all is not well in prospering India as it is following a skill bias economic transformation rather than a complete and overall progression to development.

### **A story of 1980s: 'Ailing Latin America versus Progressing East Asia'**

Much like India and Pakistan, many countries in Latin American Region also followed a higher education focused education policies and consequently witnessed high level of inequalities as benefits of trade and growth were only concentrated to the urban, more educated and affluent segments of their societies.

The share of public spending on education in Latin America that is allocated to higher education has tended to be high - more than 20 % on average, compared to 15 % on average in East Asia. Venezuela and Korea are extreme examples. While in the early 1990s Venezuela allocated 35 % of its public education budget to higher education, Korea allocated just 8 % of its budget to post-secondary schooling. Public expenditure on education as a percentage of GNP was actually higher in Venezuela (5.1) than in Korea (4.5). However, after subtracting the share going to higher education, public expenditure available for basic education as a proportion of GNP was considerably higher in Korea (3.6) than in Venezuela (1.3). By giving priority to expanding the quantity of education and improving the quality at the base of the educational pyramid, East Asian governments stimulated the demand for higher education, while relying to a large extent on the private sector to satisfy that demand. In Latin America, government subsidies have disproportionately benefited high-income families whose children are much more likely to attend university. At the same time, low public funding of secondary education has resulted in poorly qualified children from low-income backgrounds being forced into private universities or opt out of the education system at higher levels. Underfunding of education has meant that the guarantees of universal primary education in Latin America have become false entitlements for the poor: the education available to them has been of such poor quality as to make it of little real benefit.



During the 1990s, wage differentials between skilled and unskilled workers in Latin America have increased substantially. Many empirical studies find that changes in schooling widened education inequalities and the returns to different levels of education also become more unequal (returns to higher education rose relative to basic education.). Both factors contributed to the increases in wage inequality in the region. In short, though the supply of better-educated workers increased, it failed to keep pace with the increase in demand as technological change took place in response to opening up of Latin American economies to global trade.

### **Education for all is the key to development**

It is intriguing to note that in 1960s East Asian and South Asian economies were at similar stages of economic development however the former were far ahead of both Asian least developed countries and South Asian developing countries in human capital. In fact, the total literacy rates for East Asian developing countries in the 1960s were as high as 71 percent for the Republic of Korea, 68 percent for Thailand and even Malaysia had a rate of over 50 percent. On the other hand, in case of all Asian least developed countries and South Asian developing countries, the total literacy rates were as low as only 9 percent for Nepal and 15 percent for Pakistan with Cambodia having 38 percent literacy.

After three decades, while Asian least developed countries and South Asian developing countries have somewhat augmented their human capital stocks, the total literacy rates are still far below 50 percent in cases of Bangladesh, Nepal and Pakistan. During the same period, however, East Asian developing countries have more or less achieved the formidable task of educating most of their people. As a result, in the late 1990s, the total literacy rate of the Republic of Korea has reached 98 percent, and Malaysia managed to achieve a rate of about 90 percent. Consequently East Asian Developing countries witnessed unprecedented increases in GNP per capita over the last three decades, e.g. 10 times for Malaysia, 65 times for Republic of Korea and 13 times for Thailand. While during the same period for Asian least developed countries (Bhutan, Cambodia and Lao People's democratic Republic) and South Asian developing countries (Bangladesh, India and Pakistan) only a meagre increase of 2 to a little over 5 times took place.

## Universal education is not possible without ensuring the quality

There are two issues here. First is to provide universal education and second is to improve the quality of education in existing as well as newly built state run education institutes. Here both access and quality is mutually exclusive to each other and should be followed in unison.

As discussed the key behind East Asian Miracle was the education policies of their respective governments. Firstly, they adopted a balanced education policy whereby state funds were channeled to educate the masses and private sector was encouraged to provide specialized graduate courses for skill development. Secondly, the high quality was preserved in state run primary and secondary education institutes, whereas the standards in higher education were maintained through increased private competition and incentive provision.

The World Bank in one of its reports on 1997 on elementary education in Pakistan quality ensure access:

“The best way to improve access is to improve quality which would make coming to school or staying in school a more attractive option from the perspective of parents as well as children. Moreover, effort to improve quality will tend to increase the efficiency of the public expenditure and will encourage parents to contribute to children education’.

In Pakistan though the need to educate the masses has been accordingly realized, the question of quality still remains at large. Pakistan government is still struggling with literacy rates. Though there is a lot of donor pressure on the government to simultaneously address the issue of quality, the government seems to be handicapped due to two obvious reasons. Firstly the priority of the government lies in higher education instead of primary education and secondly, Pakistan’s development budget is still inadequate to meet challenges of development sector.

Not only has Inadequate investments in primary education made the task of universal access very difficult but it has also proved to be instrumental in depreciating the quality. For the poor in this country, the opportunity cost of bad quality education from state educational institute is much greater than the incentive to educate their children. This is evident from the high rates of drop outs prevalent in Pakistan as well as the trends in child labor.

In Pakistan fifty percent of children drop out of school before completing primary school. More girls drop out than boys. The annual report released by the Society for the Protection of the Rights of the Child (Sparc) has revealed that some 53 per cent of the poor children in rural areas drop out

before completing class six. In a recent study by University of Arid Agriculture, Rawalpindi, 96% of the teachers and 86% of students of public schools only in Rawalpindi city believe that major reason for dropout is educational weakness at primary level. Further 78% of student respondents attribute high drop out rate to inadequate training and lack of refresher courses for the teachers. The overwhelming majority of 80% also attribute student drop out to standard of class fellows of rich families. This shows that increasing inequalities negatively affect education level in Pakistan. Assuming that public schools in Rawalpindi represent the general plight of public schooling in Pakistan, the main reasons of student drop out are poor primary education, shortage of teachers, non availability of teachers, in-spacious class rooms, untrained teachers, economic inequalities, poverty and less chances of employment after education. The last factor also leads to child labor in Pakistan. During last year the Federal Bureau of statistics released the results of its survey funded by ILO's IPEC (International Program on the Elimination of Child Labour). The findings were that 3.8 million children in the age group 5 to 14 years are working in Pakistan; fifty percent of these economically active children are in the age group 5 to 9 years. Even out of these 3.8 million economically active children, 2.7 million were claimed to be working in the agricultural sector.

Due to lack of emphasis on quality and also due to increasing divide between rural and urban on the one hand and increasing disparities between the poor and rich overall results in education remain disappointing despite government efforts to improve the literacy rate. Pakistan's net primary enrolment rate is well below its neighbors in South Asia. Net primary enrolment rate is 65% in Pakistan, 75% in Bangladesh, 77% in India and closed to 100% in Sri-Lanka. Pakistan's lower school enrolment rates and poor quality education means that it will lag behind its neighbors in improving literacy in future as well.

### **There are no two ways to quality education in Pakistan: Where does the problem lie?**

To a large extent quality of education in primary, secondary as well as tertiary education has been undermined due to the fact that the government has failed to allocate adequate resources in

education sector (Mamoon, 2007). To put it better government is handicapped against under-investment in education because most of the budget is spent on interest payments every year. Since debt has to be paid, it is anticipated that in near future education sector could only get priority in already under spent development budget but would not be a priority in the overall budget. Well development budget is all we have for the poor, and they need health and nutrition along with education, so there is not much space to increase overall investment in education.

Here, the question arises whether the government can really get the desired results from education sector with the amount of resources it has been allocating to it. The answer is no and it has a simple and self evident explanation.

There is under education prevailing in Pakistan at primary as well as higher level and resources are limited. In this scenario, how to get most out of the education policy whereby the maximum returns are accrued at minimum price? Since returns to higher education are greater than primary education, Pakistan has fallen for the trap much like other developing countries and has been promoting higher education at the cost of primary education.

Firstly, this higher education focused education policy has deprived basic education from much needed resources which in return has directly affected the quality of primary education.

Secondly and more importantly, the focus on higher education itself is discipline biased as certain subject areas are given priority over the others. Currently IT, Computer Sciences, Business administration and Engineering have been the preferred areas for the government as well as the private sector in higher education. From supply side, the focus in these particular disciplines has been an outcome of government anticipation that Pakistani IT, Computer Science and Business graduates will eventually be able exploit the international corporate markets to the likes of India and China and would be a source of foreign investment and outsourcing by multinationals into the country. From the demand side more and more students are opting for these disciplines in an anticipation to earn better than their counterparts in other disciplines. As a consequence, Pakistan has been witnessing a mushroom growth in private institutes who offer business and computer science degrees. There are two distinct problems associated with this trend. The public universities in order to compete with their private counterparts have ignored other disciplines and have focused on IT, Computer Sciences and Business Administration. Since the government has also identified these disciplines as priority areas as well as they are more profitable due to demand factors, subjects like sociology,

economics, history and literature etc have been suffering. As a consequence quality of education in public universities is declining.

Secondly the over-all quality of higher education has witnessed a severe blow because the mushroom growth of private institutions has ignored the quality factor. The private sector usually does not seek for the best students but the ones who can pay. Though the syllabus generally follow international syllabus, the teaching and examination system is un-satisfactory in most of the cases. The direct result is that the market is over-flooded with IT and business graduates and there are no jobs for them.

The government has been hugely investing in higher education in last few years as well as taken many steps towards capacity building and institution building of public universities. However the fundamental problems remain: It is still not enough!

The first right step towards a successful higher education policy is to adopt a balanced education policy whereby higher education is not promoted at the cost of primary education (Mamoon & Murshed, 2013). The second step is to avoid prioritizing disciplines and give due importance to subject areas which have social importance. Last but most importantly, the government needs to allocate sufficient funds to education sector. There are no two ways and no short cuts to development. Only with adequate amount of funds, Pakistan can pursue a balanced education policy whereby quality and access is insured. This is the only way the poor in Pakistan have a chance to change their destiny.

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## 12.

### Politics case study:

### Even popular politics doesn't come cheap

#### Common man and his political leaders

**I**n History of Pakistan is tainted with dictatorial rules while examples for the struggle for democratic precedence are also ample. Due to decades of dictatorial rules, it is a common culture among some in country's intelligentsia and public to undermine and sometimes out rightly abuse the political personalities and many such negative exhibits are common occurrence especially with the advent of social media where people can hide behind fake avatars and aliases. Generally people do not realize that popular politics is a serious profession that requires complex social networking at grass roots level. In a developing country like Pakistan where poverty is rampant and human development indicators score low, popular politics become a daunting task. (see [Lipset, 1960](#))

Frustration with own circumstances lead to the blame game by especially targeting the political class is standard exposition of lack of respect for others (e.g. other economic class or other social group). The actions of verbal abuse is usually hurled towards people with opposing political views by tarnishing public, private and personal image of their political representatives. This is done without realizing that political constituencies come along to elect their representatives with a lot of time and effort.

For example in his adult life an average Pakistani, if he is doing socially well, may at best can gather a thousand acquaintances on average who may have favorable opinion about him. Usually this figure stands in between hundred to couple of hundreds. Any such

citizen would have a very successful social profile in the society and would consider himself to be of benefit to his peers and rightly so. He would know better that respect and its positive dividends that works both ways do not come cheap in time, money and effort.

Another way to look at it is if a person receives accolades from hundred peers in a day while he is in business with them, it most probably would be the most successful and salient and memorable day of his life when everything he has done is right and very well approved by. Similarly an average alias on social media can at best muster up few hundred followers mostly related to his business or private life.

On the contrary, on average a popular politician contesting on a seat of a national assembly draws at least fifty thousand voters in his/her favor. In the context of the arguments mentioned above this asks for a lot of respect from even the most vehement critiques of his/her person or his/her political party. There is a popular saying in Muslim culture that it is the prerogative of Allah and his alone to give some one respect or otherwise in the society. So negativity even for ulterior motives would eventually come around to affect the breeder and may instead elevate the social status of the victim further.

So people in Pakistan who disrespect the constituent assemblies and its members are at best misguided and should be counseled to form a more informed, rational and stable view of popular politics and its practitioners. Many nongovernmental organizations are trying to educate the masses towards a decent and bouyant democratic culture in Pakistan and their good work should be appreciated and promoted.

It is also incumbent to the political leadership from National assembly to Union Council to transform their electorate gain into self sustainable and harmonized democratic cycle by working for the rights of citizens without discriminating between social, political, economic, racial, sexual or religious orientation. Popular politics should compete on policies and not on personalities at national as well at grass roots level. Popular politics does not come cheap for the electorate as well as the electoral.

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13.

## Economics of WTO plus: No to conflict and Yes to regionalism

### Economic development vs economic progress

For any country a growth strategy is clearly different from a development policy and if not there need not be an emphasis on pro poor economic growth. Though poverty reduction strategies seem to accept that economic development is only achieved when dividends of growth trickle down to alleviate poverty as pro growth strategies are supplemented by a development policy, they generally associate poverty with incidence of income impoverishment where a widely explained definition of poverty line is taken as a standard which defines a threshold level of income for individuals at 2 dollar a day to achieve a bare minimum of a life style where life is only expected to sustain itself. Near the end of last century, incidence of poverty saw unprecedented rise as millions could barely earn enough to feed them selves, while millions in continents like Africa suffered from famine and impoverishment. Even though many were resource rich countries, they suffered from Dutch disease as resources became a curse while foreign intervention through aid and financial assistance (conditional aid by International Financial Institutions) failed to improve the situation. Foreign intervention by means of intellectual and capital assistance was brought to developing countries with the tag of structural adjustment programs (SAP) and thus became the new world order for the developing countries till late twentieth century. In most SAP failed miserably, as we know now, the emphasis, and an undue one, was on market forces and fiscal discipline, without any consideration to prevalent institutions or social circumstances under which these

developing countries functioned. Under, SAP many developing countries opened up to international finance and trade but could neither witnessed economic growth nor social development. Rather things turn from bad to worse for many. It is not that policy advice under SAP was wrong, rather it was mistimed as well as half baked to only cater to fast macro economic dividends while ignoring institutional side of development discourse.

The experience of last century has all meant to even show how elusive the concept of pro poor growth can be. It evidently seems that emphasis on pro poor growth may not lead to a comprehensive development strategy as poverty itself gets to be a concept relative to many definitions as poverty may capture economic as well as social deprivations in the society. Basic societies, which are abundant to find in developing peripheries, where livelihoods depend on basic modes of production, may earn less than 2 dollar a day as a household income, but the social capital they experience may have a higher value. Nevertheless, considering scientific innovation and technology as a significant measure of development, social as well as economic, through means of learning by doing, the global culture is increasingly changing in favor of technology where even isolated societies may be direct beneficiaries of it and thus can associate with global integration.

For all such societies with a significant portion of underdeveloped or rural peripheries largely working with basic modes of production but also with easy access to technology even though in most cases they lack the capabilities to utilize it, more important than globally accepted measures of poverty itself are those determinants of welfare which may be entirely relative to the local or regional surroundings of developing nations and their underdeveloped peripheries.

The developing countries need to prepare for globalization while local efficiency is harnessed and brought to global standards through a slow and steady progression from local to regional economic and institutional exposure and finally to global one. For most this is the best way to development, while for many others, especially countries like India and China, their economies from within are transforming into two distinct categories where one is well aligned to global modes of production and the other is still lagging behind for being traditional as one may put former as thriving urbanlocalities and later as their rural peripheries. Such countries and in many similar cases, the problem of inequality is a serious developmental issue. Thus why inequality is rising and how to minimize dispersion in income become serious notes in development discourse.

Research on economic development concentrates on concepts of universal wellbeing like education or institutions, but it also analyzes these welfare enhancing measures against each other for relative importance while checking their influence on the two important channels through which impoverishment may be more visibly affected. As literature suggests poverty is influenced through a country's per capita growth or income dispersion, we analyze how different determinants of economic development fare with these endogenous concepts of welfare and may point out to specific welfare improvement strategy in a developing country which may supplement the more detailed ones published and promoted by IFIs.

Rodrik *et al.*, (2004) has already undertaken a study on these lines whereby they show that institutions have a yet most robust growth enhancing effect on income, while market forces in the long run may not matter. Countries which follow rule of law eventually achieve sustainable growth rates. Among developing countries, we have a good example of India, where rule of law is comparatively better than other developing countries, while India is also a well practicing democracy and these institutional factors may be more closely related with Indian growth phenomenon which was triggered in the last decade and still sustaining it self. On the front of social development, India has yet to witness improvements though significant portion of the population is educated, whereas the country only recently had been following a protectionary policy especially for its industrial sector. India opened up to global markets in early 1990s and within a decade or so has become one of the most important stakeholders in global prosperity. Here we may suggest that strong institutions helped India in the first place to provide the basis for an economic miracle while growing incomes have also benefited the people at the bottom of the pyramid and significant decrease in poverty levels have been witnessed. But there is another lesson and that is the trade dimension to Indian success story. Had it not been for increased efforts of integration to the global economy by India in the 1990s, the country may have presented a different picture today as India also had a long history of growth failures with the same institutions working well. Here one may suggest that India embraced globalization and timed it right when a significant portion of the population was educated whereas at least some of the institutions were well developed while others were showing visible improvements. Before 1990s, India was much of a socialist democracy which was initiated by Nehru's first government in 1947 to protect local industry while at that time the population was also largely uneducated.

So in addition to institutions, trade has been an important determinant of Indian growth and subsequent poverty alleviation. In the comity of nations, nevertheless, India is just an isolated example. For example, its neighbor Pakistan has been a more open country traditionally, and overall for last 60 years or so Pakistan's growth performance has been better than India's on average. However, growth happened in Pakistan in spurts, while it was highly correlated with national and international political economy circumstances where the country received a special attention by international stakeholders, while conditional Aid worth billions fed the macro economy well and growth figures showed a visible rise for all such peculiar periods. Incidence of poverty in Pakistan is less severe to Indian case. Overall, social sector is underdeveloped, where Pakistan scores low in human development indicators in South Asia as well as at global level. Not only there is lack of democratic precedence in the country, rule of law is poor and corruption is higher when compared to its neighbor India. All this is coincided with a history of unsustainable economic growth in the country while poverty measures also showing volatility and income inequalities are also on a constant rise. It seems markets may fail without the presence of robust institutions as well as developed social sector in developing countries.

### **Moving beyond economic growth to capture global wellbeing**

Generally strong institutions are a key factor behind rising incomes. Not only that rise in income would be more equitable in the presence of good quality institutions which then ensures pro poor effects of economic growth. Mamoon (2008) does a comparative analysis of different type of institutions which is a useful exercise as it provides a detailed policy guideline to the policy makers on relative importance of institutions. Incomes are highly correlated with country's regulatory quality. Growth in per capita income levels are more sensitive to market friendly regulation where privatization is promoted under prudential regulation measures. There are many developing countries which have grown well all due to the promotion of pro market pro growth policies, where property rights were secured and competition was encouraged. China until recently has also introduced measures to secure private property rights for investors to feel protected and invest further in the country. So it seems and unlike Rodrik *et al.*, (2004) and in line with Glaeser *et al.*, (2004) that regulatory quality is rather more important determinant of incomes than rule of law. Nevertheless, analysis on the distribution of income shows that rule of law and control for corruption are more important institutional

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factors while regulatory quality is less relevant. Further more, political stability which capture civil unrest in a country is weekly related with incomes of people in a country but it strongly influence distribution of income and has been found to be no less important determinant of inequality than rule of law or control for corruption.

Rising levels of inequality is not good for economic growth, as a country may find itself less politically stable as a consequence while lack of control on corrupt regimes or poor rule of law further feeds into the instability and inequality. While a country may very well show spurts of economic growth, it is visibly not sustainable under poorly performing institutions. An undue focus on economic growth becomes a trap for the country. This has recently happened in Pakistan, where the regime of General Pervez Musharraf became highly unpopular despite Pakistan witnessed a growth rates at par with China and India. Though the country was growing under good regulation policies, inequality witnessed a steep rise, while law and order situation worsened as well as country became more politically unstable. Much of the similar happened to India in 2004, when India Shining rhetoric was not bought by the public and they ousted government of Prime Minister Vajpayee in favor of Congress as growth was just not good enough for majority of the electorate especially when rural urban divide was on a steep rise.

Unlike Rodrik *et al.*, (2004), Mamoon (2008) do find that integration is good for economic development of a country only when certain negative externalities of integration are addressed in addition to ensuring a precedence of sound institutions. Though sound institutions are closely linked with economic development, for policy making which is done in short run, there is a clear handicap. Institutional concepts like rule of law, control for corruption, voice and accountability can only develop in longer periods of times; some times it may take few decades. How ever, seeds for good institutional set up may be sowed by focusing on social development, especially by empowering people through formal and informal means of education. Market information is better streamlined if population is well educated. Investment in human capital, may also improve the growth potential of the country when it moves to high technology oriented production and consumption patterns supplemented by an efficient utilization of economic opportunities of integration with global markets.

Countries, which are better educated to start with makes the best out of trade with equitable modes of income generation. However, countries including many of high growth ones like India and China, have heavily invested in higher education while still a significant portion of the populations in both countries have

remained illiterate, especially the ones who belong to rural areas. This has resulted in a rise in education inequalities much in line with many Latin American countries. While India and China have greatly benefited from international trade, especially recently, the growth dividends of trade are unequally distributed. Many studies also reviewed in the thesis suggest that trade oriented growth in many developing countries is seen to benefit the rich and the educated more while largely excluding the ones living in rural peripheries. Though in literature the effect of trade on income inequalities is found to be insignificant, there are significant rise in the inequality in returns to labor in the manufacturing sector which usually is high growth oriented sector of the economy. Empirical studies show that skilled biased international trade is significantly related with inequalities in manufacturing sector pay based on relative skills or lack of them.

### **Conflict vs regionalism**

Developing countries work under different technological regimes within a region. For example China is at a higher stage of technological ladder than say Taiwan. Same analogy is true for India and Pakistan. Similarly there are regional categories where countries in one particular region are underdeveloped compared to other regions while international trade happens in the form of clusters. For example, developed countries trade among themselves more than they trade with developing countries and the trend is becoming more salient. Then why not developing countries look for regional trading partners to yet enable themselves for a smooth landing on trading platforms provided by global markets?

Negative distributional effects of skill biased trade with developed countries can be offset by increasing regional trade where more exchange can happen in low skill goods and thus trade can directly target the incomes of the socially and economically excluded segments of the population. In the meantime, developing countries should focus on social development as well as larger institutional development in the country.

Regional trade has seen a special attention much recently but it has yet to become efficient for most developing countries because within regions there are conflicts of interests which prevent regional arrangements to become effective. Every region and every country in a particular region for the developing peripheries of the world have national as well international challenges to initiate or benefit from regionalism. In many African countries neighbors are accused of funding civil unrest. Many countries have historic grievances, especially land disputes. But most still trade.

Similarly in South Asia, an economic case for effective regionalism and trade can be made as means to greater economic efficiency through conflict mitigation between rival parties so that resources are channeled into social development while country improves its growth potential with greater welfare impact. Currently, Pakistan and India despite dividends of regionalism have largely failed to benefit from regional economic arrangements. Rather the rivalry between both nations have at least made one regional arrangement namely SAARC (South Asian Association of Regional Cooperation) ineffective and redundant.

India and Pakistan have history of conflict going back to their independence from the British whereas 60 years down the time line, the possible explanations for the conflict have increased in number. Mamoon (2008) finds some common grounds for both countries to positively move towards peace and supplement each other in meeting challenges in social sector. The study makes a strong case for integration with global markets as well as increased bilateral trade as a significant means of conflict mitigation which may help both countries to focus on shared economic wellbeing.

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14.

## Is OBOR by China fundamental to Human Progress? A non traditional viewpoint

### OBOR, human cognition and natural eco system

China is probably the only country among the developing countries that has continued on a sustainable economic growth path above 6% since early 1980s. The Chinese miracle has many watershed moments. From controlling its exchange rate in lower valuation of Yen against Dollar in order to sweep international markets for its exports; to developing industrial zones that attracted multi billion dollar investments; to introducing private property rights in contrast to its communist governance structure to boost private business activity; to introducing regulation to create competition among national and international firms; to controlling for corruption to get public confidence in fiscal policy; and thus the story continues with China taking One Belt One Road (OBOR) initiative to reclaiming the traditional lore of globalization and international commerce highways known as the ancient Silk road (Please see Frankopan; 2015).

China's economic policies have been investigated upon for long since the advent of its recent economic success while some taking a critical view and most taking the note for the lessons for their own economic plans. The China model even gives peace a good chance. Despite a strong military orientation, China has mostly remained a peaceful country for the outside world with no significant conflicts alongside its borders or beyond.

Here in this article I would give a fresh perspective to what Chinese success should mean to the humanity and its survival and



may it look farfetched or even trivial to some to have noted before. There is a saying of one of the most influential man in human history known to the Muslims as Prophet Muhammad (PBUH) that there would come a time in human history when a nation would rise with short heights and would be thirsty enough to even drink the waters of the oceans. Now we know that ocean water composition is high on salt and minerals and is undrinkable to the humans. So what did this parable of the prophet (PBUH) really mean?

Well to explain what he really meant, I would like to bring your attention to a very popular movie of its time named 'Tommorrow never comes' that captured the attention of its audience world over for a scenario of devastated tsunamis that would be experienced world over after high impact earth quakes within the oceanic beds all over the world. Hollywood movies are part entertainment and part awareness campaign for many issues facing the world. The scenario is one of the seriously thought after possibility of the future simulated by environmental scientists.

But to dig deeper into the matter, this scenario is built in human cognition from ancient times even when they were giving linguistic expressions to their surrounding with help of some very simple verbal connotations. For example, simple number counting from 1 to 100 may tell that a digit comes in between that is called Seventy/Sattar/70. Sat means 7 in Urdu/Hindi language and Tar means wet. We know that there are seven oceans (seas). Well to avoid a scenario of global tsunami seven seas should remain on the shores of the lands where most of economically active cities reside. So how humanity should go about it? The prophet Muhammad (PBUH) suggests to facilitate the nation of China to make a economic presence on all the five continents of the world. This is what it means by them drinking the water from the oceans. So OBOR is about the very survival of humanity. Now to take the argument further and enlighten the traditional critics of Islam, Muslims are doing a favor to the world by bowing down five times a day on the lands of these five continents. One way of explaining this action for the benefit of humanity is that this action of submission to abstract God prevents the waters of 7 seas spilling onto lands where the best of human civilizations reside. So freedom of religion that is the hallmark of secularism and which allows muslims to built places of worship all over the world is a wise outcome of humanity's cognitive evolution. Let that evolution be for many reasons and may they all bring peace for humanity.

Well to stretch the argument further, Sattar also mean cloth in Arabic/Persian/Urdu/Hindi. Why humanity clad itself with clothing is also for many reasons. One of them is to prevent oneself from

the calamities of natural weather conditions but also to take them off to show the same spirit of unconscious acceptance to the traditional fear that the 7 seas may remain on the shores of the 5 continents. Well this may also explain the beach culture in the West, where the white man and woman take sun bathing by taking off their sattars (clothing in English) yet confirming to 'Tomorrow never Comes'. So the contemporary world and its deeper understanding ask humanity to be moderate irrespective of any religious or non religious beliefs. Let every man and woman be happy in their own religion and its practice as long as it promotes peace and harmony amongst own social group and across groups is also one of the saying of prophet Muhammad (PBUH).

This short and trivial line of argument puts fore the point that it has always been about human survival on this Earth while co existing with its Eco System in balance. Our economic choices are intricately related with the eco system of this mother earth from a simple cognitive realization by giving it a written or verbal expression of 70 to an international economic plan with the likes of the new silk road in shape of OBOR.

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15.

## Moving beyond rhetoric: Can Islamic banking become mainstream in Pakistan

### Economics and Business teaching in Silos

**T**he concept of interest payment is one of the building blocks of economic theory. The idea is simple. Every economic activity should be compensated duly. Since economic activities differentiate in nature, their respective rewards must carry the property too. Hence it was logical to conclude that labor earns wage; Entrepreneur receives profit; Land brings rent and capital is paid interest. With time the economic theory progressed as the factors of production continue to diversify.

Let me start the argument by focusing on capital and subsequently theory of interest rates in order to evaluate whether interest rates are indispensable in financial apparatus of the economy or they can be readily forsaken for alternative financial concepts contemplated in Islamic financial paradigm. Let us first understand what is meant by the expression 'capital'? Today, capital is a very abstract concept which has different forms e.g. human capital, social capital and environmental capital, etcetera. In finance, the term capital is used for an interest bearing monetary asset. Any financial instrument, which has a rate of return associated with it, is known as financial capital/asset. Banks generate capital by floating variety of instruments in the market. The difference in the instruments is primarily based on two factors: interest rate and maturity date. These financial instruments are open for public. The idea is that every person is an investor as long as he has resources or savings to his disposal. Let us say, if a person has a savings of Rs 100, he has an opportunity to make an

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investment. However, this is not a big amount to carry out any physical investment. Whereas acquiring a financial instrument from a bank is a more attractive option. First, his funds are stashed in a secure place. Secondly, he shall receive an extra amount on the savings depending on the agreed rate of return which in turn depends upon the maturity of the financial asset he shall obtain. Banks attract public savings with this incentive mechanism. After generating deposits from the public, the banks lend money to the investors. The interest rate, charged on the bank loans, is known as lending rate. The lending rate depends upon the principal amount of the loan plus the maturity date. If the loans are for short term they carry higher interest rates and vice versa. It is up to the borrowers to choose a loan amount with particular lending rates with a certain maturity date - which ever is deemed feasible for their investments. This is how, in a traditional financial set up, banks play a role of an intermediary by channeling the savings into efficient investments in an economy.

### **Islamic banking versus conventional banking**

However, this form of return for financial capital is criticized by the proponents of Islamic banking much severely. They argue that financial instruments must be based on profit and loss sharing rather than interest payment in order to include the uncertainty factor. Their line of argument is that investments carry an element of risk. Any individual who decides to open a business is prone to incur a loss as well as profit. Banks, which primarily play the role of intermediaries, should share the risk for the businesses they are helping to finance. The people who are depositing money in the banks should also be open to the risks, the investors are taking. The idea is that if an investor, who has borrowed the money from a financial institution, incurs losses, he should not be made to face the whole brunt of it. Similarly if he incurs profits, the profit has to be shared equally among all stake holders. The existence of pre determined interest rates are prone to exploitation. In case of a loss, the investor is exploited because he still has to pay the predetermined amount to the bank. The public who have saved their money in the banks also receive a predetermined amount, irrespective of the losses incurred by the investment carried out against their finances. In case of a profit, the banks and the public is exploited because they are, by default, left out. Thus in Islamic banking profit and loss has to be shared by all the stake holders: investors, banks and the public - in order to reach an equitable outcome.

Although such a system based on Shariah seems appealing, it fails to accommodate the dynamics of a contemporary financial

system. Let us evaluate the two systems on the base of efficiency. A very relevant question can be asked: why does in the first place public decide to put money in banks?

Every person, who earns also consumes and saves - whereas savings can have many motives. People primarily save for precautionary purposes like unforeseen outcomes in life. Additionally, People might also save in order to forego their present consumption for the future one. It is true for salaried people. Partly they save in order to utilize their savings after retirement. People also save for well-being and improvement in their lives i.e., education, health etc. In short, one of the very common motives to save is to improve earnings by investing in physical or non physical assets. This motive is identified as a speculation motive by Maynard Keynes (See [Keynes, 1936](#)), whereby every individual acts as an investor to perk up his asset base. Every individual, as an investor, has a certain assortment of capital to his disposal. His choice of accumulating further resources depends upon his readiness to take risks. Readiness to take risks, in turn, much depends upon the initial income levels.

A person with low income shall be most careful regarding his savings. Much or all of his savings would be for precautionary purposes. He shall be a risk averse than a risk taker. Given a choice, he shall invest his savings where risk is minimum and return is maximum. For low and lower-middle income earners, channeling their savings into physical assets is generally not a feasible option because of high costs involved. Banks provide them with a less risky and less costly option: Any body after paying a trivial amount to the bank can open a deposit and earn a certain rate of interest on it. However earning a nominal interest rate on a financial institute does not actually mean an increase in savings with time. It much depends upon the inflation rate in the economy. The real rates of return might be negative on the deposits if inflation rate is higher than the nominal interest rates. Nevertheless, putting an asset in a bank is a much wiser option than to keep it in a closet - because in the former case one is somewhat compensated for the inflationary trends in the economy in addition to the safety element.

Similarly an investor on a higher level of income-chain, with adequate resources to incur a physical investment, might also put a portion of his earnings in a bank. There can be many reasons for that. One of the reasons is that any resourceful and rational investor also wants to diversify his portfolio by availing different opportunities of investment. He shall like to maximize his overall returns and minimize the overall risk regardless of being a risk taker or a risk averter. His portfolio ideally would involve physical

investments as well as investments in financial assets. Thus depositing some of his wealth in a bank is one of the pre-requisite steps towards portfolio diversification and minimization of overall risk he is taking as an investor.

In real life, many financial institutions work simultaneously to cater the demand and supply of finance in the economy. For example, in a typical developing country like Pakistan we have public banks, private commercial banks, private investment banks, leasing companies etc. Each bank offers a number of financial instruments to the public. As mentioned above these instruments are differentiated on the basis of rates of return. Pakistan also has secondary financial markets. These markets generally known as stock exchanges also facilitate the supply and demand of finance in the Pakistani economy. The primary difference is that they offer financial instruments which have an element of risk sharing. Many companies float their shares in the stock markets to generate finance for their investments. However the price of the shares primarily depends upon the retained earnings of the firm. If a company is performing well, the stock price will rise - enabling the stock holder to receive a premium in case he wants to sell the stocks at prevailing higher price. In case of loss, the stock prices plummet, decreasing the value of stock holdings of investors. In short stock markets provide an option to the investors to generate resources by acquiring or floating a risk sharing financial instrument. This makes stocks riskier financial assets than banking deposits. The amount of risk depends upon the returns and the volatility of general stock price index. For example in America, before 2008 financial crises, people used to put their life long savings and retirement funds in form of stocks. These stocks normally belonged to billion dollar corporate giants indulged in e-commerce or telecom and were known for bringing high returns. Little did the common American know that in the wake of 2008 financial crises most of these companies shall succumb to accounting scandals and devour them of their life long savings? It is clear that putting one's speculative financial assets in a high return- risk sharing instrument like stocks in a developed country like America can also end up being too risky. Thus bank deposits provide a docile but safe investment arrangement especially, in a developing country where the macro economic situation is uncertain and volatile, a bank deposit is a more debonair and secure investment than risky stock holdings.

Now the Islamic Banking paradigm which calls for the abolition of the fixed interest rates in a banking sector does not really fit in this equation because Islamic Banking recommends profit & loss sharing over fixed interest rates on banking deposits. As explained

above, the low income or lower middle income groups are risk averse investors. Or to put it more clearly, the savings incurred by them are based on precaution rather than speculation: Lower is the level of risk, their savings are exposed to - the better off they shall be. Thus banks not only secure their savings but compensate them for depreciation (from inflation) by paying them a certain amount of nominal interest rate. Under Islamic banking such people shall be discouraged to stash their savings in banks because their savings are now prone to losses as well as profits and greater risks. It only needs basic knowledge of monetary economics to realize that Islamic banking shall squeeze the credit and money creation in an economy because it does not cater any more for risk-averse savers. Another bad news under Islamic banking for domestic banks shall be the loss of those affluent investors who have put their money in the banks only to diversify their portfolio in an effort to maximize their returns and minimize their risks. The banks which earlier provided them with relatively risk free option shall now compete for their riskier ventures in stock markets or goods markets.

To make it short, working for a pure national Islamic banking system, when the world is following the capitalist financial system is an exercise which can at best be explained as futile. The prove in this respect is that despite much rhetoric regarding interest rate abolition in our country, which is also adorned by Supreme court ruling recently, Pakistan has failed to device a comprehensive framework whereby our financial system can be readily transformed into an Islamic one. We need to realize that Islamic banking under the influence of capitalism is just another of the creative option for the investors who are looking for portfolio diversification and nothing more than that. Though if somebody really thinks that Islamic banking is the best option to be implemented on a national level, he better invent new economic theory where agents of economic activity are re-defined so that the concept of interest rate be replaced by a one which is consistent with shariah. Till then, we have no choice but to deal with interest rates which in capitalist economic theory are simply reward for capital - nothing more, nothing less.

### **Way forward for Islamic banking: Challenging conventional economics is profitable**

Moore's Law that is a well established, accepted and tested phenomenon of technology efficiency also indirectly determines the price of innovation and that is time. However this law suggests that there is a negative relationship between innovation and its price. This is in contrast to the basic law of supply where price and output has a positive relationship. Less and less time is being

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required to bring further innovation to technology. So what it tells about conventional law of supply that defines price having a positive relationship with output. Well macro economic observations have already contradicted fundamentals of economic theory. For example through the process of outsourcing that is the prime motivation for globalization, multinationals have actually able to continuously decrease their costs of production and thereby presented their consumers with decreasing prices and higher output. In short, like in demand side in supply side too, price has a negative relationship with output in practice for multinationals. In this context, Islamic banking provides a very lucrative option where profit and loss sharing principle suggests that price of capital would always be lower for borrowers and lenders alike. This is a dream come true for Thomas Pickety (2014) type critique on capitalism. Islamic banking can really be welfare enhancing and make capitalism socially viable for developing countries.

However such would happen when the risks of losses on investment would have a low probability. A stable economy ensures to provide an environment of business competitiveness so that local businesses flourish and eventually expand beyond intra national and intra-regional boundaries. There are micro economic factors as well as macro economic factors of business competitiveness. Micro economic competitiveness deal with the firm's journey from input organization to output management. Input organization deals with issues like leadership, human resources, research and development, learning by doing, academia-industry relationship, and soft and hard innovation processes. Output management is mostly about location of production where proximity to local, national and international cluster is taken into consideration. Macro- economic competitiveness of businesses is defined under the quality of prevalent social, political, economic and legal institutions in a country. The binding constraints for competitiveness at macro level also mean a country is a democracy located in a peaceful region where domestic, regional and international commerce takes place freely and efficiently.

Islamic Banking is a concept introduced, promoted and practiced by pre dominantly Muslim countries like Pakistan. Most of these countries score really low on business competitiveness both at micro level and macro level. In short this means that probability of loss is higher for businesses than probability of success. In other words, success of Islamic banking is highly correlated with establishment of not only robust social, political, economic and legal institutions but a country like Pakistan should promote peace in the region and strengthen democratic culture within. Without achieving and creating an environment of micro as



well as macro competitiveness, Islamic banking that works on interest free principle may not become main stream.

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## 16.

### Environment case study: Forestry and water management in Thailand: A win win situation

#### Case Review

Evidence from different regions of Thailand suggests that forest loss has not necessarily reduced water supply. For example district of Chom Thoung, where the forest loss has been quite significant, has witnessed long-term increase in water supply. There is an analogy between water scarcity and the dry season periods of 1980s and early 1990s, when the environmental issues – water supply and forest loss- also emerged as part of the Thai forest policy discourse. This suggests that water supply or forest loss is both endogenous to drier season rather than the former variables being linked to each other. In support of the above argument, one can challenge the general perception that upland forests serve as catchment sponges. Nevertheless Forests absorb more water than other water surfaces, this is not the sufficient condition for calling them catchment “sponges”. In the contrary, in Thailand, rates of evapotranspiration are such that fully forested landscapes can return up to 80 percent of rainfall back to the atmosphere and since the forests are high water users, the clearing of forests can actually increase the stream flow.

Another vulnerability in the supply side debate of upstream watershed is part of the solution itself. For example one of the ideas, put forward by the studies is to conserve the forest to avoid shortages of water supply during dry season, which enforces initiatives to protect upper watershed areas against erosion by doing re-vegetation. However there are certain costs associated with such process. For example, re-vegetation bars the access of dwellers to the catchments areas, thus aggravating the problems

faced by the upstream people whose livelihood depend on these lands. Thus the conservation policy can make them worse off by forcing them to displace. The evidence is that women are the one who are most affected by the whole process. This outcome of displacement is quite amicably explained by Salih (2001), where he calls such conservation practice as “authoritarian development paradigm” carried out by the “developmentalist state”.<sup>2</sup>

5. Thus there is a need for intensive evaluation on the demand side as a good initiative since it is precise that the global water demand has significantly increased by the end of the 20<sup>th</sup> century (Hoeskstra, 1998). However some studies advocates mostly for the agricultural consumption, whereas I believe it should not be the only evaluated factor that concerns with the water demand. Water is not only for domestic or human livelihoods (Miao, 2003). Despite the fact that most of the global water demand comes from agricultural sector (Shiklomanore, 1997), it is also important to consider the remaining components of the water demand equation<sup>3</sup>.

6. The environmental demand for water is an important aspect that is often left apart because of measurement difficulties which arise from the fact that its impact maybe different everywhere and also because ecosystem has the capacity of adapting to changes. The awareness of environmental conservation is imperative since “ecosystems require certain amounts of water to sustain their dependent species and their ecological process” (World Resource Institute, 2003). In short, the scarcity analysis indicators like price mechanisms, and water policies that should be considered for the balance between human demands and ecological needs. For example the option to import products (*virtual water*) to decrease agriculture water demand is starting to be calculated (Hoeskstra, 1998) and it gives a better option for arid zones (El Zain, 2004).

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<sup>2</sup> “Authoritarian development denies people the right to livelihood resources in the name of progress” (Mohamed Salih, 1993:43).

<sup>3</sup> Water demand can be divided into “offstream use for domestic, agricultural or industrial purpose and instream use for navigation, recreation or hydroelectric power generation” (Van der Leeden et al, 1990:4). As well as consumptive - changes characteristics through evaporation and transpiration -and non-consumptive- which recharges the groundwater and can be reused- (Hoekstra, 1998:21).

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17.

## Mirror image versus Parabolic Reflections of Donor Kebabs: Secret of Economic Success

### Adam Smith (1776) versus Keynes (2016) and the future of Economics

**T**he mirror image as well as parabolic reflection can simultaneously be noted of the meat ball in the meatball machine for the donor kebabs. In the mirror image that is the actual shape of the meat ball; it is vertically skewed and has a shape of American football or rugby ball. In contrast, through parabolic reflection it appears to be more balanced both horizontally and vertically with a shape representing European football or soccer ball. The goal posts for rugby are hanging in the air where as goal posts for soccer are grounded.

The above mentioned analogy explains the difference between Neo Classical Economics (Chicago School) and Neo Keynesian/European Economics (Harvard University). The adherence to pure capitalist economics has resulted in economic gains mostly accrued by the rich as can be seen from phenomenal rise in number of billionaires the world over. In other words, income centric measures of prosperity has mobilized incomes mostly vertically benefitting the already rich. The goals setting for universal wellbeing had not been realized for Millenium Development Goals (MDGs) and Sustainable Development Goals (SDGS) are hanging in thin air with a fragile balance of strict timelines for most developing countries. Thus to exactly copy the industrial and intellectual success of American economy and neo classical economics has lead to a vertically skewed prosperity in most developing countries whereby shanty towns or ghettos have

mushroomed in urban cities putting at risk the very gains of the rich against increasing crime rates of have-nots. Absolute poverty rates may have been curtailed but relative poverty is on the rise for most developing countries. The evident failure of neo classical economics has seen come back of neo Keynesian school of thought whereby role of adequate and active public governance is emphasized as per the agency of market failure in addition to private sector competitiveness. The government is not only viewed as a facilitator of private business but it is considered an equal partner to national (vertical) and local(horizontal) prosperity through institutions of local governance and administration. The dividends of concepts like democracy are seen to be accrued if it means formulation and empowerment of local body governance structures. To bring horizontal or local prosperity, science of economics needs tools of cultural anthropology in order to understand local definitions of development. The strand of indigenous knowledge is needed to be promoted in academic and research institutions by the government which in return would attract the attention of private business to cater to local cultures at village or town level through new and efficient product development. Thus an economics drawn from subjects like anthropology or political economy in addition to mathematics or physics and engaging government and private business together for the benefit of society towards its social, economic, cultural and intellectual prosperity both at national and local level may enable goals setting that are more grounded in nature.

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## Dawood Mamoon

This study is carried out to analyze the factors that results in conversion of borrowers into donors. The findings assist the microfinance institutions in coming up with the most appropriate measures to apply in order to eliminate not only defaults but also gain some financial sustainability by improving its donor profile. The study establishes that religious education and organizational religious philosophy influence borrower's prosocial behaviors. Through religious teaching Akhuwat inculcate sense of responsibility, feeling of gratitude and psychological attachment, along with spiritual satisfaction to motivate borrowers to become donors. Being faith inspired organization; Akhuwat culture and its brand image depict strong association with Islamic value. The study recommends that the MFIs in order to enjoy a cordial relationship need to align their business philosophy with the local culture.

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