



## **Policy Brief # PB-73-2023**

May 18, 2023

# **New Development Paradigm**

**Aiman Adnan**  
**Research Assistant**



## New Development Paradigm

By

**Aiman Adnan**

### **Introduction:**

Ensuring a decent standard of living for the citizens of all countries is the responsibility of the state. States that are doing well in the economic sphere in tandem with the progress in the social sphere for people are able to achieve this goal with a more grounded, organized and rational approach in comparison with those that only focus upon the economic progress.

However, for some time now, Pakistan is embroiled in gargantuan political, economic and social dilemmas that have rendered all prior progress useless. The recent political mayhem caused by the arrest of the opposition leader in Islamabad on 9<sup>th</sup> May 2023 is said to have caused the loss of Rs. 6 billion in the Punjab province alone- the largest and most densely populated province.<sup>1</sup> Along with this loss, the Pakistani currency has also taken a downward fall to Rs. 297/\$ in the open market according to the Exchange Companies Association Pakistan, a record low as the gold prices soar i.e. Rs. 240,000/tola in the local markets.<sup>2</sup> Also, the private bank borrowing has also increased from the State Bank of Pakistan, due to the fall of deposits with them. Commercial bank borrowing from the central bank has grown by 3% as the cash-strapped government continued to acquire large amounts of debt from domestic banks according to JS Global research house from Rs317 billion to Rs9.65 trillion in April 2023 while the deposits at commercial banks dropped 1% month-on-month, or Rs133 billion, to Rs23.43 trillion in April 2023.<sup>3</sup> Although the diversification of exports is the key to Pakistan's better economic outlook, yet only textiles are more relied upon as the primary driver of exports. In January 2023, the State Bank of Pakistan (SBP) reported having a mere \$4.3 billion on hand, barely

---

<sup>1</sup> May 9 mayhem caused RS6B loss: Interim Punjab CM. The Express Tribune. (2023, May 15). <https://tribune.com.pk/story/2416824/may-9-mayhem-caused-rs6b-loss-interim-punjab-cm>

<sup>2</sup> Siddiqui, S. (2023, May 11). Rupee hits record low, Gold Soars. The Express Tribune <https://tribune.com.pk/story/2416094/rupee-hits-record-low-gold-soars>

<sup>3</sup> Siddiqui, S. (2023b, May 14). Banks borrow more from SBP as deposits fall. The Express Tribune. <https://tribune.com.pk/story/2416649/banks-borrow-more-from-sbp-as-deposits-fall>

enough to cover three weeks of imports.<sup>4</sup> According to the leadership of the SITE Association of Industries (SAI), Pakistan's imports and exports, both are inelastic, which means that the imports cannot be substituted otherwise the economy would be further dented, and the exports also do not result in any kind of growth despite the rupee devaluation in the open market. Along with such a rigid nature of the exports, it is also to be noted that factors like minimal value addition, high cost of capital, negligible ease of doing business, low efficiency and productivity, the growth in exports is not possible.<sup>5</sup>

### **New Development Paradigm:**

Given the brief overview of Pakistan in the last 75 years of economic crisis and subsequent attempts of recovery, Pakistan must now select for itself a steady course of economic and social development by adopting a new set of pragmatic public policies. According to a renowned economist and the former World Bank Vice President, Shahid Javed Burki, there is a need to adopt a new development paradigm and in his latest intellectual offering "Pakistan: Statecraft and Geopolitics in Today's World", he advises some key components of driving this paradigm ranging from improving governance to investing in the youth.<sup>6</sup> A well- thought out and a well- integrated public policy plan would include the following factors:

*i. Political Stability:*

Countries with socio-economic progress have political stability to start their development journey and to fall back on in difficult times. It is one of the indicators for good governance according to the World Bank. This relationship was the basis of the work by an MIT economist and a Harvard University political scientist that was developed in a best-selling book they titled Why Nations Fail where authors stressed upon "inclusive development" which should replace "exclusive development" in developing countries.

*ii. Revitalizing the Agriculture Sector:*

For countries where the agriculture acts as a significant driver of the economy, it should be revitalized according to the need of the hour. Most countries realize that the production of mere food grains will not suffice in the highly competitive world today, hence are manifesting the desire to move achieve higher yields and producing high value adding crops.

*iii. Facilitate the Small and Medium Enterprises:*

---

<sup>4</sup> Khan, S. A. (2023, January 16). Diversification of exports is key for Pakistan. The Express Tribune. <https://tribune.com.pk/story/2396062/diversification-of-exports-is-key-for-pakistan>

<sup>5</sup> Hanif, U. (2023, March 26). Exports fall as policymaking becomes rudderless. The Express Tribune. <https://tribune.com.pk/story/2408183/exports-fall-as-policymaking-becomes-rudderless>

<sup>6</sup> Burki, S. J. (2022). Pakistan: Statecraft and Geopolitics in Today's World. Oxford University Press.

Instead of big government institutions and state owned enterprises that many a time go into loss making can be replaced by the SMEs as they are more in demand, are more dynamic and can generate profit much faster and without impediments like red-tapism and greater transaction costs.

### **Policy Recommendations:**

The socio-economic and political in Pakistan system needs revamping which requires a significant technological, administrative, human resource, communications and financial outlay from the government, development and the private sector. For a sustained uplift of Pakistan in the tumultuous times, the policies and strategies to be adopted must be a coherent mix of the following:

- i. Pakistan needs a political landscape where the government is formed by those who derive power through the ballot rather than a system of patron-client relations i.e. foreign governments and the biradari system in all provinces and at the center to promote meritocracy, accountability and control of corruption
- ii. Need to revalorize the agriculture sector to shift towards the production of high value-added foods/ crops instead of the conventional food grains that do not bring the desired capital outlay
- iii. Pakistan's youth must be used to harness the youth dividend by providing them the training and skill sets that are most in demand globally to earn greater amounts of foreign remittances. Also, they must be sent to China to avail job opportunities and
- iv. Women education and healthcare must be universally provided so that it enables them to join the labour force of all economic sectors and also ensure a transformative social change that affords them more agency
- v. Decrease dependency on the foreign capital and raise domestic resources by shunning consumerism and raising domestic savings
- vi. Increase the tax net by rigorous tax governance and education to people, along with restoring their trust in the state through opting viable and rational welfare programs that deliver the goals of socio-economic development
- vii. Taxing the import of luxury goods is necessary to keep the money within the country and raise domestic resources to replace imported goods
- viii. Create an enabling environment for the SME's in Pakistan through enhancing the ease of doing business, and explore all options of linking these small businesses with the economic hub of the world- China.