

# Theory at Odds with Best Practice – Travails of Industrial Policy

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Pakistan fulfilled rather well the two preconditions for developmental state:

- (i) “systemic vulnerability” in the absence of adequate and dependable rentier income “that could both fund defense spending and buy off key constituencies”. (p. 8); and
- (ii) a bureaucracy powerful and capable enough to co-opt the private sector in pursuit of the development agenda and hold it – to some extent – accountable for delivering on its undertakings.

Naseemullah and Arnold note “ ... autonomy and embeddedness were virtually guaranteed by the fact that bureaucracies [in Pakistan and Turkey] essentially created cohesive industrial bourgeoisies out of a disparate set of traders and merchants.” (p. 10)

Five factors, working together, were probably responsible for the withering of the developmental state:

- (i) Increasing questions about the “efficiency” of Pakistan’s industrialisation – the ISI, which continues to be debated to this day in Pakistan;
- (ii) Increasing discontent with the distribution of gains of economic growth: between the two wings of Pakistan as well as between the rich and the poor;
- (iii) Ayub’s land reforms, that were not welcomed by the feudal elites, and Green Revolution that strengthened them;
- (iv) Nationalisation of industry and banking in the early 1970s; and
- (v) The rise of neoliberalism in the 1980s, which was targeted at weakening the state involvement in promoting economic development generally, but industry in particular.

Continuing concern with ISI. For example, Kemal (2006)

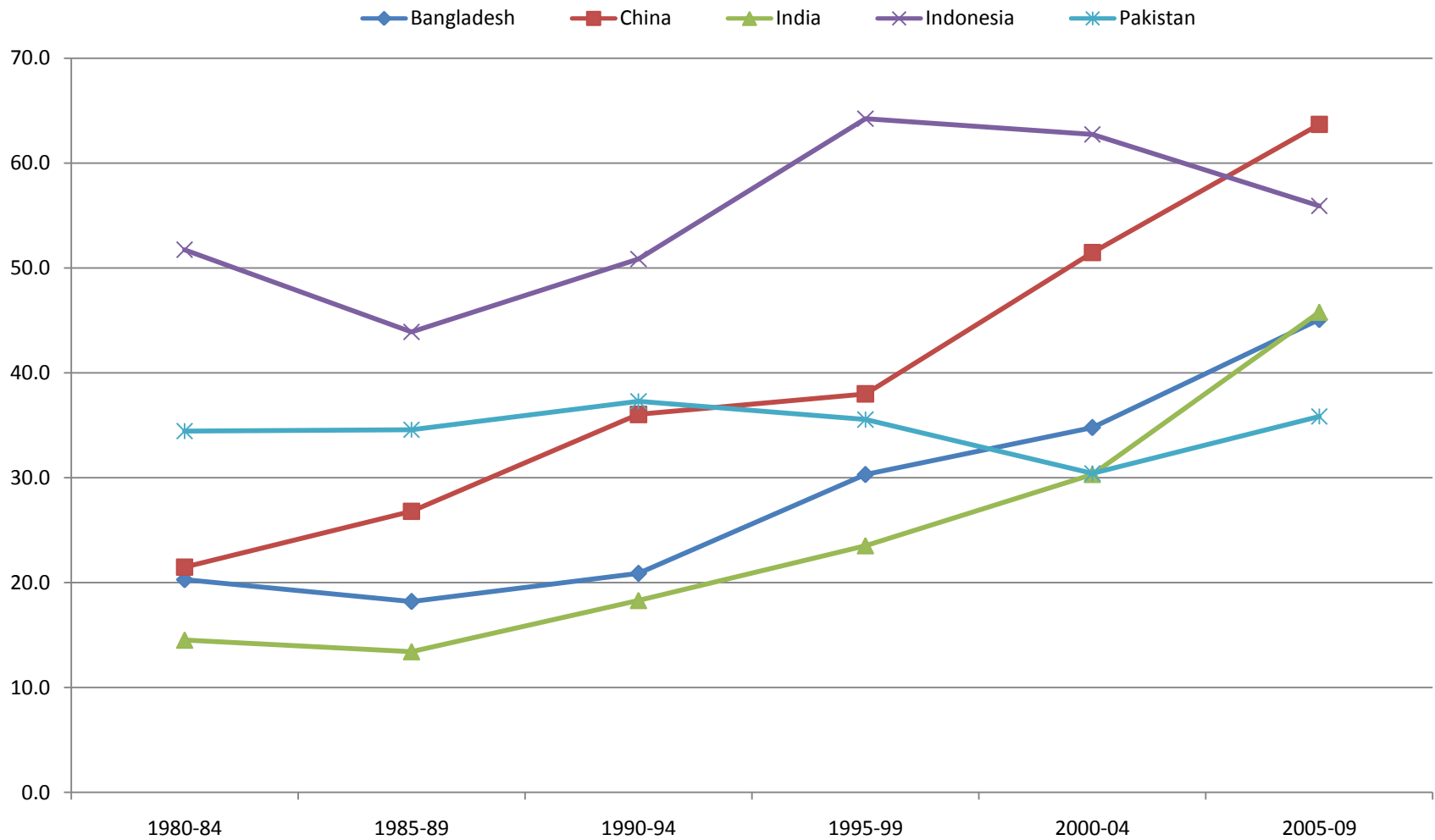
notes:

“Low quality of products, lack of standardization, low value added products sold without any brand names, lack of innovation, and low levels of productivity are *the legacy of import substitution industrialization* and indicate the need for *major restructuring* of the manufacturing sector.” (Emphases added)

And also:

“While trade policy reforms in recent years have exposed domestic enterprises to international competition, these enterprises continue to suffer from the *legacy of import substitution* and have yet to re-position themselves to compete effectively in the global market.” (Emphases added)

## Chart 2. Trade as % of GDP



“Part of the answer lies in *setting the right conditions* for manufacturing to blossom and reach its full potential. This potential exists because of Pakistan’s growing labor force and rising urbanization and connectivity. Yet, Pakistan’s largely low-skilled labor force, poor commercial environment, lack of adequate infrastructure, and its failure to diversify production and climb up the technology ladder prevent this potential from becoming reality.” (p. xi. Emphases added)

World Bank 2014 report

## Four areas for a possible IP for Pakistan:

- Reducing the incidence of management failures.
- Creating and strengthening Pak firms' links with the global value chains.
- Defining Pakistan's strategic interests in the regional trade? What must be done to help Pakistan play its pivotal role? And, not least,
- Making domestic competition work, i.e., a force for enhancing firm-level productive efficiency.