

Elephant in the room

- Global crisis
- South Asia is of course affected but really the story of S Asia success or failure never depended on global events
- East Asian crisis and South Asia

Some admissions

- I am going to take a broad sweep of South Asia bearing in mind different stages of development and success
- I will stress commonalities
- But most often will stress Pakistan
- Resist SA ego and nationanism

Building a counterfactual

- Different speeds at different times
- None have broken into ranks of MIC
- Poverty remains
- Our job is to understand how we can change this legacy—need to understand legacy

Path dependence

- Resistance to reform
- Retaining colonial structures
- The educated class –still stuck with Fabianism
- The civil service still intact and resistant to change

Reform and markets

- Cost of doing business
- Banking
- Central bank independence
- Airline and travel
- Real estate
- agri

Corruption

- CS politicized –
- underpaid

***The key question to ask is why
does reform remain slow?***

***what is the process of making
policy and reform?***

Policy process

- Donors define
- Consultants –expat and local
 - TA
 - Training
- PIUs and civil service
- Evaluations consultants

- Local academic civil society and civil servant

Result

- Donor led agenda—studies and fads
- Erosion of domestic thinking
- No local ownership
- Local official loses interest in core funding in search of funding

The Problem with Development Economics

**What is required to end poverty
and break into the Middle
Income Group?**

Cookie cutter

- All South Asian countries are following similar policies
 - struggling to maintain macro balance while putting in place projects that seek to address sectoral and development issues.
 - WB and ADB websites reveal that the ongoing projects are in the areas of capacity building, governance, health and education in almost all South Asian countries.
 - Sector-wide and nation wide approaches.
 - Repeated--evaluations not complimentary --Yet repeated and often by the same teams.
 - Donors and current development policy also expends a lot of money and effort in trying to achieve a uniform development and economy wide egalitarian policies.

Old models

- Simplistic growth model with exogenous productivity improvements.
- None of these interventions are informed of the incentives of agents involved in the various sectors.
- Nor are they informed of the inter-linkages.
- Nor does the unreformed colonial structure and its rentseeking factors in.

Economic research moves on

- *Endogenous growth* innovation –intangibles-- governance, institutions and social capital.
 - Entrepreneurship which happens in markets and environments of trust and law.
- *Experimental economics* -- rational atomistic representation model revised to include social aspects of humans and the limited knowledge
- People live in communities and their communal side can have productivity impacts.

- *New Institutional Economics* --exchange and trade requires the development of devised constraints to structure human interaction.
- Beliefs, norms and ideas lead to institutions that will shape the efficiency of human action.
- As North notes “In such a world ideas and ideologies play a major role in choices and transaction costs result in imperfect markets.”

- *Game theory* combined with information economics points to incentives and strategic plays that underlie behavior of groups.
- Policy must seek to align the incentives of these groups with reform for developing institutions and social capital that will produce innovation and growth.

- *Complexity* --- development may itself be an emergent phenomenon.
- Underlying behavioral mechanisms and how society configured
- Policy interventions need to understand

- *Economic geography* contra sector-based, nation-wide approaches
- Productivity growth, skills innovation happens in human clusters known as cities.
- Historical evidence
- A systems-wide integrated approach rather than of isolated and independent sectors.
- National egalitarian policies that seek to develop regional equality need to be reconsidered in light of cities and cluster development.
 - Eg Baluchistan---utilities policy

What do we learn from this.

- We need to think of
 - connectedness of people.
 - trust and community.
 - cities being configured to be engines of growth and modernization.
 - Enlightened and modernized individuals, with a feeling for community living in productive and liberal cities will lead to the emergence of development.
- Our sector-wide and national approaches contra

State effectiveness

- With the state apparatus focused on development, and law and order starved of resources and the law enforcers poorly paid and turned to corruption, the infrastructure of trust that so depends on contracting and associational law, has been eroded.
 - Sialkot
 - Apartments in Lahore

South Asian cities

- Culture
- Community
- Entertainment
- Connectivity
- Modernity
- Commerce
- Architecture
- City centers
- Room for the poor

Pakistan

- Lahore, an important South Asian city has no public libraries or community centers.
- Cities in Pakistan have all adopted a barren suburban approach to development with no mixed use development or dense city centers. The poor have no room in these cities; nor does culture and modernity.
- ***Is it a wonder then that fundamentalism and intolerance is on the rise and productivity declining?***

Making change

- Ideas lead nations
- But thinking at behest of donor
- And we have followed donor prescriptions
- Liberalization ,,export and industrial development----postponing property rights, governance, institutions and cities
- No one questions the prioritization

Thinkers bottom of barrel

- junior consultants.
 - brain drain -- not empowered at home.
- Paternalistic approaches to build think tanks universities and various other institutions without domestic intellectual debate and empowerment have failed.
- The key lesson to learn is that **Capacity building is more than technical assistance: it is more than human capital development; it is empowerment of local talent!**
- Build a profession.

plurality of local professionals with a minimum of (or no) bureaucratic or sponsor demands.

the fundamentalist donor has been more enlightened (talent based, fewer controls, more objective oriented) in his capacity building and consequently more successful.

- Donor interventions --- brain drain. In return TA. This strategy welfare reducing. (See Haque and Khan (2007)).
- “intellectual crowding out”

Rethinking Development Strategy

- Development an emergent phenomenon
- Move away from sector based and national policies
- Configure society
- Community
- Policy making for ownership and domestic understanding—this is an agent of change

Local agents of change

- Empower them
- Intelligentsia
- A reformed civil service
- Cities
- Communties

Effective states

- CSR
- Incentives
- Life Liberty and happiness

