



Middle-income' status

**By
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A recent World Bank report has confirmed Pakistan's graduation to the ranks of middle-income countries. Does this elevation represent anything significant?

The per capita gross national income (GNI) measure generally serves as the official bottom-line for evaluating developmental success and is used to classify countries as low- (below \$1,000 per person in 2009), middle- or high-income (above \$12,000 per person in 2009). The GNI's reliability is often questioned because of measurement challenges. People question its validity as a developmental bottom-line since it ignores critical elements of national economic fortune.

The process of development must ensure rising welfare for all citizens. However, a rising per capita national income may not necessarily benefit all citizens if growth is inequitable. The GNI reveals nothing about inequality and poverty.

Growing environmental consciousness has highlighted a second GNI drawback. Given the inescapable limits imposed by nature, states must aim not to maximize but to optimise national income. They must ensure reasonable levels of welfare for the current generation while minimizing environmental degradation and leaving adequate natural resources for future generations. Thus, the GNI fails to reflect two critical 'outcome' dimensions: equity and sustainability.

The GNI also fails to reflect critical 'input' dimensions: capability and vulnerability. First, it fails to reflect the nature of the inputs driving GNI growth. A glance through the roster of high-income countries reveals two sub-groups: those thriving on natural capital (mainly oil producers) and those on high-end human and technological capital. The second sub-group is obviously on a stronger footing. Second, the GNI gives little indication of whether states are diligently minding critical gaps, especially on the external trade balance and the internal governmental fiscal balance, which can trigger economic crises.

A deeper analysis along these four dimensions highlights Pakistan's multiple weaknesses compared with other middle-income countries. While inequality in Pakistan is relatively modest, as reflected by its Gini coefficient score, almost 60 per cent Pakistanis earn less than the \$2 per day poverty benchmark. Moreover, Pakistan's status on social indicators such as gender equality is poor. While Pakistan's per capita contribution to global warming is lower than average for middle-income countries, the degradation of its own resources is high.

Pakistan's status on human capital possession is mixed. Almost half the population is illiterate while the percentage possessing secondary school certification, probably the minimum requirement for even a labourer position in a high-tech factory, is much lower. However, Pakistan produces large numbers of high-quality degree professionals and is probably among the top five exporters of such human capital. Pakistani manufacturing generally utilises low-end technological capital. Thus, only one per cent of its exports is considered high-tech compared with an average of 20 per cent for middle-income countries.

Pakistan's fiscal position is poor due to a failure to collect adequate taxes and control government expenditures. While the external balance is currently under control, it could deteriorate rapidly if commodity prices increase globally. Moreover, the fiscal imbalance is rapidly taking external debt to unsustainable levels. Thus, the newly acquired middle-income status veils serious economic problems resulting from mismanagement by successive governments.

Pakistan's Planning Commission is currently crafting a growth strategy to tackle these challenges. Unfortunately, the current draft is little better than past failed strategies and heavily reflects neo-liberal IMF thinking. Stung by the manifest failure globally of its earlier advice for states to focus only on macroeconomic stability and economic liberalisation, the IMF has added buzzwords like 'institutional development' and 'governance' to its prescriptions. But the state is still prescribed a minimalist role focused on additionally providing the rule of law and infrastructure and reducing bureaucratic encumbrances for the benefit of the private sector.

However, successful countries in East Asia reflect a more expansive role for the state than under neo-liberalism, though well short of that under communism. These states progressively identified more sophisticated industrial and export sectors and actively shepherded their private sectors into them with the help of their diaspora and/or beneficent superpowers. They generously provided their private sectors with credit, subsidies, market information, infrastructure, technology, human capital and protection from competition while pushing them to achieve stringent

performance standards. Neo-liberal prescriptions, which the IMF dangles, served merely as worthy means to higher ends under their strategies.

Pakistan should abandon IMF advice and emulate the Asian Tigers. Unfortunately, recent IMF and WTO policies have drastically reduced the ability of developing countries to adopt similar policies, e.g. smart subsidies and the protection for strategic industries. Additionally, the US, hamstrung by its own economic blues, cannot provide the same crucial support to Pakistan that jumpstarted Korean and Taiwanese development.

In order to proactively shepherd its private sector into more sophisticated sectors, Pakistan will have to creatively scavenge the remaining developmental space still allowed by the global economic czars and link more closely with its two rapidly developing giant neighbours. This will help Pakistan accumulate human and technological capital, increase tax and export revenues, maintain external and fiscal balances, and increase employment opportunities.

A sensible agricultural strategy will also be required since 50 per cent of Pakistan's population lives off agriculture.

Fortunately, the rural livelihood base in Pakistan is still viable and with the adoption of suitable policies can provide a comfortable standard of living. The key policies that must be adopted include land reform to enhance equity and investment in irrigational infrastructure and organic farming methods to enhance environmental sustainability. Such policies can help make Pakistan's middle-income status a more praiseworthy achievement.

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