

# THE LAHORE JOURNAL OF ECONOMICS

Lahore School of Economics

*Akmal Hussain*

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Perspective for Regional  
Growth and Development  
in Pakistan

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and its Implications in the APEC  
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Development Economics – A New  
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*Editorial Staff:* Tele. No: 5874385  
Telefax: 0092 - 42 - 5714936  
E-mail: [ies@brain.net.pk](mailto:ies@brain.net.pk)

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## **An Alternative Planning Perspective for Regional Growth and Development in Pakistan**

**Akmal Hussain**

In Pakistan, historically, regional economic disparity has been an important political issue. During the 1960's the economic disparity between East and West Pakistan fueled the movement for provincial autonomy in East Pakistan and subsequently the movement for national independence in what became Bangladesh in 1971. During the late 1970's and 1980's the issue of regional disparity between the provinces of what remains of Pakistan has acquired an explosive potential. However, this is an issue that has been charged by emotion, and it may be time now to begin a serious analysis to enable effective policy formulation to overcome the problem.

It is important to note that not only does the overall growth rate of provincial income vary between provinces but recent research suggests that there is also considerable inter-provinces but recent research suggests that there is also considerable inter-provincial variation in the level of poverty and changes over time. What is interesting is that the pattern of variation in the inter-provincial economic growth rates may not be congruent with the pattern of variation in the inter-provincial poverty levels. Therefore, the emotional charge of regional identities mobilised on the basis of differing regional economic growth rates could be mitigated by the fact that a province like the Punjab for example, with a relatively high provincial growth rate also has a relatively high level of poverty measured in terms of the percentage of population below specified calorific norms.

In this article we will briefly present some of the available evidence on regional economic disparities with respect to economic growth rates as well as the levels of poverty, in an attempt to begin formulating a policy framework within which more regionally equitable economic growth can be achieved in an era where rapid moves towards economic liberalisation are being accompanied by growing assertion of regional identities within a state structure that is evolving a democratic polity.

### **The Mechanism and Nature of Regional Economic Disparity in Pakistan**

The early studies on regional disparities focused on economic inequality between East-West Pakistan. The first major study on regional disparity within (West) Pakistan was conducted by Hamid and Hussain in

which they estimated district-level value added in large scale manufacturing and agriculture, and also district level economic and social infrastructure, for the period 1959-60 to 1969-70<sup>1</sup>. (See Tables 1 to 4).

**Table-1: Per Capita Income by Provinces at Constant 1959-60 Factor Cost**

	1959-60		1964-65		1969-70	
	Rupees	Index	Rupees	Index	Rupees	Index
West Pakistan	358.69	100	436.47	100	513.63	100
N.W.F.P.	186.57	52	222.83	51	254.20	49
Sindh	506.23	141	641.66	147	758.40	148
Balochistan	293.29	82	330.65	76	354.48	69
Punjab	365.25	102	434.51	100	509.08	99

**Source:** Naved Hamid and Akmal Hussain: Regional Inequalities and Capitalist Development: Pakistan Economic and Social Review, Special Issue, 1976.

**Table-2: Provincial Contribution to Value Added in Large-Scale Manufacturing Industry (At Constant 1959-60 Factor Cost)**

	1959-60		1964-65		1969-70	
	Rupees Million	Index (%)	Rupees Million	Index (%)	Rupees Million	Index (%)
N.W.F.P.	64.9	5.6	148.9	5.9	278.9	6.9
Punjab	532.0	45.9	1082.0	42.9	1730.0	42.8
Sindh	556.3	48.0	1287.0	51.0	2021.0	50.0
Balochistan	5.9	0.5	5.0	0.2	16.2	0.4
West Pakistan	1159.0	100.0	2523.0	100.0	4042.0	100.0

**Source:** Naved Hamid and Akmal Hussain: Regional Inequalities and Capitalist Development: Pakistan Economic and Social Review, Special Issue, 1976.

<sup>1</sup> Naved Hamid and Akmal Hussain: Regional Inequalities and Capitalist Development, The Case of Pakistan. Pakistan Economic and Social Review, Special Issue, Winter 1976.



**Table-3: Industrial Concentration – Karachi Gross Value Added in Large-Scale Manufacturing Rupees in Million (At Current Price)**

	1954	1959-60	1964-65	1969-70
Karachi	211.0	448.0	1133.0	1820.0
West Pakistan	548.0	1159.0	2581.0	4811.0
Karachi as Percentage of				
West Pakistan	38.5	38.7	42.9	37.9

**Source:** Naved Hamid and Akmal Hussain: Regional Inequalities and Capitalist Development: Pakistan Economic and Social Review, Special Issue, 1976.

**Table-4: Percentage Share of Large-Scale Manufacturing**

	1959-60	1969-70
Karachi	38.7	37.9
First Five Districts (Excluding Karachi)	34.7	29.7
Second Five Districts	10.5	15.1
Third Five Districts	6.0	6.9
Remaining Thirty Districts	10.1	10.4
West Pakistan	100.0	100.0

**Source:** Naved Hamid and Akmal Hussain: Regional Inequalities and Capitalist Development: Pakistan Economic and Social Review, Special Issue, 1976.

The study showed that not only did inter-provincial inequality increase over time, but also the degree of inequality within provinces accentuated. What was interesting was that the regional disparity was positively correlated with the level of growth, i.e., the rank ordering of intra-provincial inequality was congruent with the rank ordering of provincial growth rates. The study indicated that when growth occurs within the framework of the market mechanism there is a cumulative tendency for the relatively developed regions to grow faster than the relatively less developed regions. The developed regions enjoy internal and external economies, and lower costs of production relative to other regions which make the initiating region cumulatively more advantageous for

further investment. The specific factors underlying cumulative divergence in the attractiveness of regions for further investment and hence increased disparity in regional growth rates are: concentration of communications, banking facilities, public utilities, technical know-how, trained manpower, and maintenance facilities. Conversely, as growth is concentrated in the developed region, it pulls capital and skilled labour from the backward region, thereby adversely affecting the age composition, skill and capital endowment of the backward areas.

### Levels of Economic Development by Region

The following Table-5 shows the comparative rankings of districts on the basis of each of the four major studies on regional development in Pakistan. It is seen that all four studies report similar results with respect to the infrastructure endowment of districts. Both the top ranking and the bottom ranking districts are consistent for all four studies, except for variations that are explicable on the basis of development diffusion. (For example, Sheikhpura has substantially improved its development ranking over time as the result of substantial increase in infrastructure facilities).

**Table-5: Comparative Ranking of Districts**

Districts	Helbock Naqvi Infrastructure of Social Development 1960	Hamid Hussain, and Atta Infrastructure and Production Indices late 1960	Pasha and Hussain Infrastructure and Social Development 1970"	Qutub Production per Capita 1980's	Qutub Infrastructure 1980's
Karachi	1	1	1	1	1
Lahore	2	2	2	28	4
Peshawar	3	13	5	28	5
Rawalpindi/ Islamabad	4	3	3	14	2
Quetta	5	30	4	36	3
Hyderabad	6	15	6	6	7

Faisalabad	7	4	7	11	10
Multan	8	5	9	9	11
Jhelum	9	7	16	10	9
Sanghar	10	15	18	4	32
Bannu	11	36	29	35	18
Rahim Yar Khan	12	10	15	2	27
Gujrat	13	8	23	26	19
Gujranwala	14	9	8	12	11
Mardan	15	14	13	8	26
Sargodha	16	16	20	21	14
Sahiwal	17	6	14	18	21
Bahawalnagar	18	17	28	17	30
Sukkur	19	18	21	16	8
Bahawalpur	20	19	17	22	28
Sheikhupura	21	12	12	3	6
Nawabshah	22	24	22	7	29
Maianwali	23	20	34	15	25
Jacobabad	24	37	37	24	38
Dera Ghazi Khan	25	21	35	34	35
Sialkot	26	11	10	32	12
Campbellpur(Attock)	27	22	33	30	13
Khanpur	28	23	26	13	33
Kohat	29	35	32	31	22

Dadu	30	31	25	5	24
Muzaffargarh	31	25	31	25	31
Larkana	32	27	27	29	20
Jhang	33	26	24	19	23
Tharparkar	34	37	19	20	40
Dera Ismail Khan	35	33	11	37	16
Hazara	36	34	36	38	17
Thatta	37	32	30	27	39
Chagai	38	38	40	44	34
Kharan	39	44	46	46	45
Sibi	40	42	41	33	37
Zhob	41	41	38	43	36
Kalat	42	44	43	39	42
Loralai	43	43	39	40	41
Mekran	44	45	42	45	44
Kachi	45	39	46	42	43
Lasbela	46	60	45	41	46

**Source:** EPRU: Study on industrialization potential of Selected back ward districts. A. Qutub, A.I. Hamid, A. Hussain.

Ayub Qutub<sup>2</sup> studied the relationship between production per capita and infrastructure intensity. A logistic curve relationship emerges between infrastructure (independent variable) and productivity per capita (dependent variable). According to Qutub, for very backward districts initially marginal improvements in infrastructure do not induce a significant increase in

<sup>2</sup> Ayub Qutub: Spatial Impact of Macro Economic and Sectoral Policies. NHS Policy Study. Government of Pakistan, Environment and Urban Affairs Division (n.d.).

production per capita. Once the basic infrastructure has been created (at a level of half the national average) a sharp increase in production per capita takes place. However, beyond a maximum limit (1.7 times the national average), the kinds of infrastructure traditionally provided in Pakistan do not seem to substantially stimulate industrial or agricultural production.

### Change in Spatial Concentration of Industry

The following Table-6 presents an interesting differentiation of economic regions on the basis of industrial growth over time.

**Table-6: Value Added in Large-Scale Manufacturing by Economic Regions  
(% Share of all Pakistan)**

#### I. NATIONAL CORES

##### A-Karachi

	1959-60	1969-70	1976-77
(1) Karachi	38.7	37.9	35.03
	38.7	37.9	35.03

##### B-Central Punjab

(1) Faisalabad	11.0	7.2	6.32
(2) Gujranwala	2.5	1.1	1.09
(3) Sheikhpura	0.7	3.8	5.61
(4) Lahore + Kasur	11.9	6.4	5.47
(5) Sahiwal	1.9	1.5	0.87
	28.0	20.0	19.36

Total National Cores-I	66.7	57.9	54.4
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(more) 15

#### II. LOCAL CORES

##### A-Greater Federal Capital Area

	1959-60	1969-70	1976-77
(1) Rawalpindi	4	5.6	8.39
(2) Islamabad	-	-	-
	4	5.6	8.39

**B- Peshawar**

(1) Peshawar	3.6	3.4	2.98
(2) Mardan	1.3	1.3	2.60
	4.9	4.7	5.38

**C-Multan**

(1) Multan + Vehari	2.5	4.7	3.2
	2.5	4.7	3.2
Total Local Cores-II	11.4	15.0	17.2

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**III. INTER PERIPHERY**

**A-Punjab**

	1959-60	1969-70	1976-77
(1) Gujrat	0.6	1.0	0.97
(2) Sargodha	0.7	1.3	1.68
(3) Jhang	0.1	-	0.75
(4) Sialkot	0.8	0.6	0.56
(5) Muzaffargarh	0.5	0.6	1.11
(6) Rahim Yar Khan	2.9	2.2	2.57
(7) Attock	0.4	0.7	0.9
(8) Jhelum	2.6	3.7	3.29
	8.6	10.1	11.83

**B- Sindh**

(1) Dadu	0.1	0.6	3.04
(2) Hyderabad + Badin	5.3	5.8	3.07
	5.4	6.4	6.11

<b>C-N.W.F.P.</b>	<b>Nil</b>		
<b>D-Balochistan</b>	<b>Nil</b>		
Total Inner Periphery-III	14.0	16.5	17.9

**IV. OUTER PERIPHERY I****A-Punjab**

	1959-60	1969-70	1976-77
(1) D.G. Khan	-	-	0.09
(2) Bahawalpur	0.1	0.9	0.24
(3) Bahawalnagar	0.1	0.5	-
(4) Mianwali	2.0	1.8	1.35
	2.2	3.2	1.68

**B- Sindh**

(1) Khairpur	1.4	1.3	0.04
(2) Jacobabad	-	0.1	-
(3) Sukkur + Sheikhupura	0.7	2.0	1.91
(4) Nawabshah	0.5	0.6	1.00
(5) Larkana	0.1	0.1	2.47
(6) Sanghar	0.5	0.3	-
(7) Tharparkar	0.8	0.8	0.50
(8) Thatta	0.6	0.4	0.28
	4.6	5.6	6.20

**C-Balochistan**

(1) Quetta	0.4	0.3	N.A.
(2) Lasbella	0.5	0.4	N.A.
	0.9	0.7	0.35

**D-N.W.F.P.**

(1) D.I. Khan	-	0.1	-
(2) Hazara	0.6	1.2	0.90
(3) Kohat	-	0.5	0.70
(4) Bannu	0.1	0.5	0.63
	0.7	2.3	2.23
Total Outer Periphery-I	8.4	11.8	10.50

**V. OUTER PERIPHERY II**

<b>A-Punjab</b>	Nil		
<b>B-Sindh</b>	Nil		
<b>C-Balochistan</b>			
	<b>1959-60</b>	<b>1969-70</b>	<b>1976-77</b>
(1) Quetta	0.4	0.3	N.A.
(2) Lasbela	0.5	0.4	N.A.
	0.9	0.7	0.35
(1) Zhob	-	-	-
(2) Sibi + Nasirabad + Kohlu	0.1	0.1	-
(3) Chagia	-	-	-
(4) Loralai	-	-	-
(5) Kalat + Khuzdar	-	-	-
(6) Kharan	-	-	-
(7) Mekran	-	-	-
	0.1	0.1	0
<b>D-N.W.F.P.</b>			
(1) Swat	-	-	-
(2) Dir + Chitral	-	-	-
	0	0	0
<b>E-Azad Kashmir + Northern Areas</b>	Nil		
<b>Total Outer Periphery-II</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>

**Source:** Ayub Qutub: Spatial Impact of Macro Economic and Sectoral Policies National Human Settlements Policy Study Government of Pakistan. Environment and Urban Affairs Division. **PEPAC REPORT.**

The evidence shows that in 1959-60, as much as 39 per cent of the value added in industry is accounted for by Karachi. This is followed by Lahore and Faisalabad. These three districts together accounted for 60 per cent of the value added in industry. The rest of the industry was fairly evenly distributed across the local core and the inner periphery. Over time



the local cores, inner periphery and outer periphery all gained at the expense of the national core, although at the end of the period, Karachi still accounted for 35 per cent of value added in industry, and the Central Punjab districts constituted 19 per cent.

In Central Punjab the most rapidly industrialising district is Sheikhpura, in northern Punjab it is Jhelum, and in Sindh the most dynamic district in terms of industrial growth is Dadu.

### **Incidence and Intensity of Poverty: The Regional Dimension**

In a recent paper, Aly Ercelawn (1991)<sup>3</sup> has estimated both the incidence and the intensity of poverty in each of the provinces of Pakistan for rural and urban households respectively. This has been done by first specifying the minimum expenditure required for a daily intake of 2550 calories per adult equivalent, using existing dietary patterns. The calorie-expenditure function on the basis of which the expenditure norm was derived allowed for both provincial and locational differences. The incidence of poverty indicated the percentage of households below the poverty line. 'Poverty line' is defined as the expenditure below that required for a calorific intake of 2550 calories daily per adult equivalent. The intensity of poverty estimates were based on the widely recognised proposition that an intake of between 70 to 80 per cent of the calorific norm over a sustained period constitutes a very high risk of starvation and undernourishment.

The results of Ercelawn's study suggest that in Pakistan, the incidence of poverty is highest in the Punjab and lowest in the NWFP. The percentage of households below the poverty line in rural areas are approximately 31 per cent in Punjab, 27 per cent in Balochistan, 18 per cent in Sindh and 15 per cent in NWFP. In urban areas while Punjab has the highest incidence of poverty, Sindh has the lowest.<sup>4</sup>

Thus the percentage of urban households below the poverty line are approximately 25 per cent in Punjab, 23 per cent in Balochistan, 14 per cent in NWFP and 10 per cent in Sindh.<sup>5</sup>

If we define the intensity of poverty as the percentage of households unable to acquire more than 75 per cent of the calorific norm, then Ercelawn's estimates show that for the rural areas the intensity of poverty is highest in Balochistan and lowest in Sindh. The percentage of households unable to reach 75 per cent of the calorific norm in rural Pakistan are 19

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<sup>3</sup> Aly Ercelawn: Undernourishment as Poverty in Pakistan, AERC, (Mimeo), 1991.

<sup>4</sup> Ibid.

<sup>5</sup> Ibid.

per cent in Balochistan, 10 per cent in Punjab, 12 per cent in NWFP and 6 per cent in Sindh. For urban areas the figures are 13 per cent in Punjab, 9 per cent in Balochistan, 7 per cent in NWFP and 4 per cent in Sindh.<sup>6</sup>

### **Towards an Alternative Planning Perspective for Regional Growth**

The achievement of regionally equitable growth means changing the conception of Pakistan's economic planning within the framework of the market mechanism. At the moment economic planning essentially involves allocating government resources amongst various "sectors" of the economy such as agriculture, industry, energy, irrigation, etc. The current planning exercise involves achieving consistency between sectoral growth targets and external and internal financial resources. Space is assumed out of the planning exercise except for sops like Special Development Programmes, which consider investment in backward areas as marginal to the overall plan. Regionally equitable development requires placing the regional dimension into the heart of the planning exercise. Each investment package must be evaluated in terms of its impact on regional growth, before designing fiscal/monetary policy incentives and institutional support.

Pakistan's experience has shown that the development of backward regions cannot be stimulated simply by giving tax incentives to entrepreneurs for investment in backward areas. The attractiveness of infrastructure and markets in the developed regions far outweighs the attractiveness of tax incentives for the entrepreneur. In rare cases where the entrepreneur does invest in the area designated "backward", (e.g., Hub Chowki) he indulges in "border hopping", i.e., he locates the unit just across the boarder between the developed and backward regions. The industrial unit draws its inputs and sells its outputs in the developed region, and therefore generates secondary multiplier effects in the developed rather than the backward region. If investment is to go deep into the backward regions to generate self-sustained growth, the development of infrastructure in these regions is essential. The question then arises, where in the vast "backward" region to set up the infrastructure and how much? A regional planning exercise would involve mapping the economic and social infrastructure, geographic location of markets by size and source of raw materials. On the basis of such a "map", potential growth NODES could be specified in the backward region. These would be locations which on the basis of some existing infrastructure, closeness to a local market, or raw material deposit, qualify for supplementary infrastructural investment by the government. The first step towards specifying such growth nodes has already

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<sup>6</sup> Ibid.

been taken with our study on Industrialisation Potential of Selected Districts. This study has proposed growth nodes in the following districts: Khairpur, Nawabshah and Sanghar in Sindh; D.G. Khan, Muzaffargarh and Bhakkar in the Punjab. A similar exercise could be conducted for all the backward regions of the country. The nodes could be specified in such a way that as growth begins to occur, they begin to interact in terms of factor markets, thereby generating self-sustained growth diffusion in the backward areas.

### **Conclusion**

Just as in the designing of fiscal/monetary policy incentives the regional dimension needs to be taken into account in the same way in the design of poverty alleviation measures by the government and NGOs, differences in the level of poverty and the dynamics of poverty creation as between provinces should perhaps be an essential consideration.

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## **International Labour Migration and its Implication in the APEC Region**

**Rashid Amjad<sup>1</sup>**

### **Introduction**

For those trying to find answers to the large number of unresolved and pressing issues resulting from international labour migration, the economies of APEC and their future development provide an area of very special interest. APEC<sup>2</sup> includes amongst its member economies the world's two largest exporters of labour, namely Mexico and the Philippines, as well as the world's three largest destinations for permanent migration, namely, the United States, Canada and Australia. It includes economies, which both import as well as export labour and economies which have passed through the "turning point" or transition from a labour exporting to a labour importing country. It also includes the world's most populous economy, the People's Republic of China, which still exercises strict controls on labour migration, a situation, which could change dramatically in the foreseeable future. APEC, including as it does all the major economies in the fastest growing dynamic economic region in the world, is also ideally placed to provide an answer to the growing debate on whether globalisation will accelerate or slow down the present labour migratory pressures.

Yet, so far the issue of international labour migration has not figured prominently and indeed been somewhat played down in the deliberations of APEC. Although some recent initiatives<sup>3</sup> have been taken to support and facilitate the mobility of qualified persons through sharing of labour market information on skills, wages and working conditions, among

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<sup>1</sup> The author is Director of the ILO's South East Asia and the Pacific Multidisciplinary Advisory Team (ILO/SEAPAT) based in Manila. The views expressed in this article are his personal views and in no way reflect those of the ILO. The author would like to express his thanks to Mr. G. Battistela, Mr. W.D. Salter, Mr. G. Bhattacharya, Mr. M.I. Abella, Mr. P. Wickramasekara, Mr. A. Oberai and Mr. J. Connell for their assistance in the preparation of this paper. The assistance of the ILO Office, Mexico and ILO Multidisciplinary Team, Santiago, in providing information on Latin American countries is gratefully acknowledged. Thanks are also due to Ms. K. Landuyt for her assistance in the translation of documents from Spanish into English.

<sup>2</sup> APEC members include Australia, Brunei Darusalam, Canada, Chile, the Peoples Republic of China, Hong Kong, Indonesia, Japan, Republic of Korea, Malaysia, Mexico, New Guinea, Philippines, Singapore, Chinese Taipei, Thailand and USA.

<sup>3</sup> See APEC Joint Ministerial Statement on Human Resource Development, Manila, 11 January 1996.

others, the more critical issue of how governments can learn from each others' experiences and cooperate to manage and cope better with the legal and illegal flows of labour across international borders, including most importantly affording better protection to migrant workers, has not been directly examined. While APEC has rightly concentrated on human resources development issues, amongst others in order to provide and improve needed skills that would better facilitate the movements of capital, goods and services amongst member economies, the broader issue of how best to develop and utilise the common pool of all i.e., skilled and unskilled human resources, has not been taken up, even though it has been raised by some of the member economies.

The purpose of this paper is to identify some of the key issues which confront the member APEC economies arising from both the legal and illegal movements of labour across international boundaries, mainly to draw attention to the advantages that may accrue from discussing these issues in the APEC forum. In order to identify these key problems and issues the paper starts by presenting a brief review of existing labour flows within the APEC regions. There is also a brief discussion on some of the current explanations of how best to explain these flows and more important on the possible impact of globalisation and increasing trade liberalisation on the quantum and pace of the international movements of labour, in the APEC region.

#### **Trends in International Labour Migration<sup>4</sup>**

The fact that international migration issues figure prominently on the national agenda and preoccupy an increasing number of governments across the globe reflected the spread of labour migration across nations. While reliable estimates are difficult to establish, the ILO estimates that, if one disregards the situation in the successor states of the USSR, there are between 35 and 40 million persons economically active in a country other than their own in the world today, legally or illegally, and that they are accompanied by at least as many dependents (see Table-1).

No classification can neatly and comprehensively capture the variety of today's international labour migrants. Even the former distinctions between temporary migrants or contract workers and permanent settlers have become blurred. Unskilled or semi-skilled labour, including mainly farmers or peasants, who leave temporarily or permanently in search of wage-paid activities represent an important component of cross-border migrants. Skilled industrial or construction workers, who move individually

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<sup>4</sup> This section is based on ILO (1996).

or as part of an enterprise's labour force, constitute another sizeable element of present-day migrants. Highly qualified professionals and managers move much more than previously across the globe, both within and outside transnational enterprises. There is also a small but significant number of young persons, sponsored through government channels, for upgrading their skills in foreign enterprises, and who increasingly perform as normal workers, as well as entrepreneurs admitted by countries on the promise of citizenship if they bring along sufficient funds to generate employment for themselves and for others.

Broadly speaking, following these classifications, two kinds of international labour flows can be distinguished. The first are the movements of highly qualified professionals and managers across all countries of the world whether developed or developing. The second is the movement of mainly unskilled or semi-skilled workers who seek employment in lower rung jobs, mostly in high- and middle-income countries. The exceptions to this general pattern are countries with small populations (e.g. Brunei Darussaiam, the Arab States of the Persian Gulf and Malaysia), which are in need of migrants across the whole skill range, as well as the traditional immigration countries, United States, Australia and Canada, which still admit many migrants with skills in the middle ranges, though not necessarily on the basis of skills alone but for family reunification.

It is important, however, to point out that labour importing countries are not necessarily limited to those which are facing labour shortages or those with small population. Many developing countries have also become importers of labour well before they reach the level of full employment. This situation arises if the wage level in the developing country becomes higher than that of its neighbouring countries. This results in the inflow of labour, in many cases illegal, mainly from its surrounding countries where wage rates are lower, well before it has exhausted its own supply of underemployed or unemployed labour. Many developing countries in South Asia, Latin America and Africa find themselves in such a situation. There are also an increasing number of developing countries which find themselves in the situation of being both an importer and exporter of labour, well before they reach the "Lewisian turning point" of having exhausted their supplies of surplus labour.

### **Labour Flows in the APEC Region<sup>5</sup>**

In examining labour flows in the APEC region it is convenient to divide its different member economies into three broad categories. The first

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<sup>5</sup> This section relies extensively on Stalker (1994) and in parts Amjad (1992).

are the major destination economies for permanent migration, namely the United States, Canada and Australia to which we can add New Zealand, but keeping in mind that the United States also allows in large number of temporary migrants, mainly from Mexico, and that the distinction between permanent and temporary migration is becoming increasingly blurred. The second category includes economies which are dominated by intra-Asian flows of migrant workers. These can be further sub-divided into those fast growing economies which resulted in labour shortages and recourse to foreign workers, i.e., Japan, Republic of Korea, Taiwan/China, Hong Kong and Singapore and the emerging NIEs which are both importers and exporters of labour, namely Malaysia and Thailand and the major labour exporters in the region, namely the Philippines, Indonesia and the People's Republic of China. Also covered here are Brunei Darussalam and Papua New Guinea, although they clearly have their own distinct labour market needs. The third category covers labour movements within Latin America and the Caribbean. Although, Mexico and Chile are at present the only APEC members in this category, a brief description of dominant labour movements in Latin American countries is included to give a feel for the dynamic labour flows in this region, from which many economies may join APEC in the future.

As regards the flows of professional, management and higher skilled migrants which cover all economies, whether developed or developing, and whose number though small in relation to total migration flows is significant and increasing rapidly within the APEC region, this is dealt with separately in the next section.

#### *(i) The Major Economies of Permanent Settlement*

Starting in the 1960s far reaching changes introduced in their immigration policies had a major impact on the ethnic composition of immigrants to the United States, Canada, Australia and New Zealand. A significant proportion of those who now joined the migration stream to these countries were from the Asia-Pacific rim and mainly from APEC member economies.

The *United States* receives more immigrants than any other country – indeed almost more than all other countries put together. Total legal registered migration to the United States, according to Simon (1989), was 2.5 million between 1951-60, about 3.3 million during 1961-70, about 4.5 million during 1971-80 and 7.3 million during 1981-90. Of the 7.3 million migrants that came to the USA during 1981-90, three-fourth were from Latin America and Asia and nearly 3.2 million or about 45 per cent were from APEC economies.



To form an idea of the arrivals from the APEC economies into the United States in 1992 for example of the 973,977 immigrants admitted, 364,639 or 37.4 per cent were from the APEC economies (Table-2). Of these, the major sending economies were Mexico (213,802), the Philippines (61,022), People's Republic of China (38,907), Republic of Korea (19,359), Taiwan/China (16,344) and Canada (15,205). Another 77,735 came from Viet Nam, and 26,191 from El Salvador on the Asia-Pacific rim. It is estimated that in 1990 of the total population of the USA of about 248.7 million, about 4.7 per cent or 11.6 million were of Mexican descent (Stalker, 1994, Table 11.2). Saith (1996) estimated that there are about 1.6 million Filipinos residing permanently in the USA in 1993 (p. 28).

In *Canada*, the other major destination of migrants from the Asia-Pacific region, immigration has generally been more closely regulated than that to the United States. As in the United States significant changes were made in its immigration policy which lowered racial and ethnic barriers and removed almost all privileges reserved for European immigrants. According to Richmond (1991) of a total labour force of 11.9 million about 20 per cent were immigrants. During 1980-89) about 1.26 million immigrants landed in Canada of whom about 41 per cent were from countries in the Asia-Pacific region. Of the total 248,200 immigrants who entered Canada in 1992, the largest number came from Hong Kong (15.3 and 11.4). Those from the other APEC economies included the People's Republic of China (4.1 per cent), Taiwan/China and the United States (2.9 per cent each). The large number coming in from Hong Kong in recent years have been mainly investors and entrepreneurs looking for a safe area of settlement in advance of the reversion of Hong Kong to the People's Republic of China. In many cases, the investors move some of their households to Canada but still commute backwards and forwards to Hong Kong – a high-flying lifestyle which has caused them to be dubbed “astronauts” (Stalker, 1994, p. 179).

*Australia*, the third largest of the traditional countries of settlement, till the late 1960s with very few exceptions restricted immigration to Europeans only. This position was slightly altered in the 1960s when, in response mainly to sustained criticism by some Asian countries, the Australian Government admitted for permanent settlement a small number of highly qualified and professional workers from Asian countries. However, by the early 1970s the so-called “White Australia” policy was drastically changed, if not all but abolished. According to Appleyard (1988) this included the rapid increase in trade between Australia and Asian countries after the United Kingdom joined the EEC. Also following the Viet Nam war, there was increasing awareness that Australia's future, given its proximity to

Asia, was closely linked to the socio-economic changes which took place in this region.

This change in attitude and policy was to shift the balance of immigration substantially in favour of Asia. During 1961-70 about 91,000 immigrants, or 6.5 per cent of the total, were from Asia and this increased to 207,000 or 23.1 per cent of the total during 1971-80 and had increased further to 40 per cent of total arrivals in the mid-1980s. In 1991-92 of the 107,391 settler arrivals almost 33 per cent were from APEC economies, namely from Hong Kong (12.5 per cent), New Zealand (6.7 per cent), Philippines (5.5 per cent), Taiwan/China (3.0 per cent), Malaysia (2.9 per cent) and the People's Republic of China (2.2 per cent), (Stalker, 1994, Tables 11.5 and 11.6). the other major source from the Asia-Pacific rim was Viet Nam (8.9 per cent). As in the case of Canada those from Hong Kong and Taiwan/China are business people in search of new opportunities, particularly in advance of the British colony's reversion to the People's Republic of china.

In the case of *New Zealand* the total number of migrants from APEC has been far less with about 10,000 migrants from Asia during 1961-70 (or 3.1 per cent of the total) and about 11,000 in 1971-80 (or 5.5 per cent of the total). Many migrants into New Zealand have been from the neighbouring South Pacific countries. Also in recent years, there has been an increasing number of migrants from Hong Kong, mainly investors and entrepreneurs, although some of them have subsequently moved on to Australia. Between 1987 and 1992, 13,500 Hong Kong citizens were granted permanent residence in New Zealand and between 1990-1992, Hong Kong citizens were the largest single group of people approved for permanent residence. Between 1987-1992, about 34,000 people from the People's Republic of China, Hong Kong, Malaysia, Singapore and Taiwan/China gained permanent residence in New Zealand.

In respect of the problems and issues which international migration has raised in these countries on the top of the list, especially for the United States, is the problem of illegal migrants. The United States is especially vulnerable, with a 2000 mile border with Mexico, which is also the main source of illegal migrants (almost 90 per cent, if they follow the pattern of aliens apprehended by the Immigration and Naturalisation Services [INS]). Estimates of illegal migrants range from 1.9 to 4.5 million (Stalker, 1994 p. 146) and besides those crossing overland, the United States also has people arriving by boat, chiefly from the Caribbean. A large number of these illegal migrants work as farm workers but they are also conspicuous in other sectors. An estimated 350,000 illegal immigrants in the United States work as domestic helps. To combat the rising number of illegal immigrants, the

Government is increasing expenditure on border controls and denying access to welfare services to illegal immigrants.

Public opinion in these countries is also turning against immigration especially during periods of economic recession and high domestic unemployment. In both Canada and Australia, the “immigrant tap” has been turned on and off according to the economic circumstances. In Australia in 1992, a survey showed that one in three immigrants who had arrived in 1990 was unemployed and that for some ethnic groups, the jobless figure for recent arrivals was above 80 per cent. The Government therefore decided to cut immigration by more than 25 per cent in 1992-1993, the biggest cut in 25 years. However, the United States has not yet responded to the anti-immigrant lobby by reducing immigration levels and Canada envisaged moderate growth in its immigrant flows with around 250,000 settlers per year during the second half of the 1990s.

Another concern, especially in the context of globalisation, has been the need to attract highly skilled workers into these countries and especially the United States has taken steps to increase inflows of foreigners with “extraordinary ability” without the need for pre-arranged employment or nomination by a US employer.

### ***(ii) Intra-Asian Labour Migration***

Within the Asian economies of APEC according to Pang Eng Fong (1994) three streams of labour flows can be distinguished and each of these has expanded rapidly in the past decade.<sup>6</sup> The first and fastest growing is between developing South-East Asia and the third among the North-east Asian economies.

The first stream involves the flow of mostly unskilled, legal and illegal workers from South-east (and South Asia) into North-east Asia, mainly Hong Kong, Taiwan/China and Japan and the flow of skilled and professional workers in the opposite direction.

The labour migration flows are much more complex amongst the South-east Asian economies. There is the flow of skilled and unskilled labour into Singapore from its ASEAN neighbours mainly Indonesia, Malaysia, the Philippines and Thailand. Also the emergence of growth triangles in the region, of which the most prominent is the Indonesia-Malaysia-Singapore Growth Triangle (IMS-GT) encompassing Malaysia’s Johore state, Singapore and the Riau Islands of Indonesia, is expanding labour market links within

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<sup>6</sup> The description of the flows that follows is also taken from Pang Eng Fong (1994).

the South-east Asian neighbouring countries. Other major flows are from Indonesia and southern Thailand into Malaysia, from Myanmar into neighbouring Thailand and from various parts of South-east (and South) Asia into Brunei Darussalam.

The East Asian flows are equally complex. They include the flows into Japan of again both legal and illegal migrants (including as students and trainees) from the People's Republic of China, Hong Kong and Taiwan/ China but also from other Asian economies including the Philippines and South Asia. There is also a small flow of unskilled migrants into Hong Kong from the People's Republic of China and much larger reverse flows of professionals, managers and technicians into the Pearl River Delta area, where many labour-intensive firms are relocated. There is also a mainly illegal flow of workers from the People's Republic of China into Taiwan/ China and the Republic of Korea, and a sizeable, short-term, unofficial flow of managers and professionals from Taiwan/China into the People's Republic of China.

In all the major labour-receiving Asian economies the major cause for these rapidly rising inflows has been the labour shortages that resulted from their fast growing economies which could not be met by a relatively slowly growing labour force. During the decade of the 1980s, the fast growing Asian NIEs grew at anywhere between 6 to 8 per cent annually, while Japan averaged 4.3 per cent or well above the average for the industrialised countries. (Abella, 1996). However, again as Pang Eng Fong (1994) points out, the size and timing of these flows has been vastly different. As distinct from Singapore and Malaysia, foreign labour inflows in Japan, the Republic of Korea and Taiwan/China, did not occur until many years after the labour shortages occurred. Japan which had first experienced labour shortages in the early 1970s, attracted illegal workers in large numbers only after 1986. Similarly the Republic of Korea and Taiwan/China achieved full employment in the late 1970s but the number of mainly illegal workers flowed into these countries a decade later.

It is also important to note that in the East Asian economies, mainly Japan, Republic of Korea and Taiwan/China, demand for migrant workers was fostered by emerging shortages of labour for certain occupations and sectors. These cover the hazardous jobs in construction, low-paying jobs in the services sectors and dirty or bottom-end jobs in manufacturing mainly in small and medium enterprises – the so called 3D jobs (dirty, demanding and dangerous).

To quickly survey<sup>7</sup> the international labour migration scene in the Asian region starting with the labour-receiving economies, the estimated number of foreign workers in *Japan* in 1993 was 1.32 million or 1.5 per cent of the workforce as compared to 696,000 in 1969. Of these, permanent resident Korean workers were 316,000, legal temporary professional (95,000) trainees (17,000), working students (63,000), ethnic Japanese from South America (152,000 in 1992) and the rest were mainly illegal workers. In *Hong Kong*, the estimated stock of foreign workers in 1994 was 220,000 or 7.3 per cent of the workforce. Of these, about 50,000 were skilled and unskilled foreign workers employed as technicians and construction workers, and about 150,000 foreign maids, mostly Filipinos. The rest were foreign professionals. In the *Republic of Korea*, the 150,000 or so legal, illegal, and trainee workers accounted for less than one per cent of its 12 million strong workforce. According to Kang (1996), of these, there were 7,840 foreign professionals at the end of 1995, 41,000 trainees, and 102,000 illegal foreign workers, mostly ethnic Koreans from China, or nationals of Philippines, Bangladesh and Pakistan. The Republic of Korea has experienced one of the fastest migration transitions. Some 200,000 Koreans emigrated in 1982 and a decade later, there were about 100,000 legal and illegal foreign workers in the country. In *Taiwan/China*, again from no foreign workers in 1980, the number increased in 1995 to 220,000 mostly legal foreign workers, up from about 100,000 mostly illegal workers in 1989, about 2 per cent of the country's labour force. In *Singapore*, there were in 1995 about 250,000 foreign workers or approximately 18 per cent of the workforce, up from 80,000 in 1980 (7.4 per cent of the workforce) and 21,000 in 1970 (or 3.2 per cent of the workforce).

Of the two Asian economies which are both importers and exporters of labour, in *Malaysia* in 1994, there were about 1.1 million foreign workers or about 15.5 per cent of the workforce. Of these, 563,000 were legal foreign workers and the rest were illegal. At the same time, there were about 250,000 Malaysians working legally and illegally abroad. *Thailand* is another fast growing economy that is simultaneously exporting and importing labour. There are an estimated 500,000 Thai workers employed abroad, including 25 per cent each in Saudi Arabia and Singapore. There are also about 500,000 foreign workers in Thailand – 200,000 professional expatriates, and 300,000 unskilled farm and construction workers from neighbouring countries.

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<sup>7</sup> This survey is based primarily on Martin (1996), supplemented in parts by Abella (1996), Amjad (1996), Saith (1996), Nayyar (1991), Wickramasekara (1995), Connell (1996) and Hung (1996).

Of the major labour exporters, *the Philippines* is the second largest country of emigration with an outflow of 719,602 overseas contract workers (OCWs) in 1994. Of these, land based OCWs were 565,226, up from 12,501 in 1975. The largest number of deployed land based OCWs was in Saudi Arabia (215,631), followed by Hong Kong (62,161), Japan (54,879), Taiwan/China (34,387) and UAE (27,713). In 1994, about 48 per cent of the total deployed OCWs were females but they accounted for almost 60 per cent of new hires. The majority of the new hires in 1994 were in the vulnerable occupations, with domestic help (26.34 per cent) and entertainers (18.17 per cent) accounting for almost half of total new hires. In such occupations, about 95 per cent were women. The estimated stock of Filipino workers abroad is estimated at around 4.2 million in 1995, of which permanent migrants (mainly in the United States) are estimated at 2 million, circulatory stocks in the range of 1.5 to 2.1 million and the rest are illegal migrants (mostly in Japan, Taiwan/China, Singapore and Malaysia). In terms of its labour market impact, if one restricts the figure to only land-based new hires, this would account for about 34.7 per cent of the total incremental active labour force for the country. In 1994, the remittance flows entering officially through the banking channel were US\$ 2.94 billion or 20 per cent of export earnings, and as much as 4 per cent of GDP in 1994. In recent years, there has been an important change in public thinking and policy perspective on migration's contribution to the development process following the hanging of a Filipino maid in Singapore in February 1995. Much higher priority is being assigned to increasing productive employment opportunities in the domestic economy and the gradual phasing out of female migration in the vulnerable categories.

In the case of *Indonesia*, the dimensions of the official labour flows and the financial flows associated with it are small, if not negligible, in the wider context of the national economy. In 1992, official labour outflows were 166,244 of which Saudi Arabia was the major destination (61.2 per cent) followed by Malaysia (20.1 per cent) Singapore (71 per cent) and Taiwan/China (3.1 per cent). However, a significant number leave Indonesia unofficially, mostly to nearby Malaysia where the men are employed on plantations and construction sites and the women are employed in factories and domestic service. It is estimated that the total number of Indonesian migrants in Malaysia may be as high as 750,000 with almost two-thirds as illegal workers (Martin, 1996). There are two striking attributes to international labour migration from Indonesia. Two-thirds of the migrants were women and there were no migrants with professional expertise. According to official estimates, total remittances in 1994-1995 were US\$ 344 million which is puzzling as the level of remittances per capita is only a fraction of what it is in other Asian labour-exporting countries. Most probably, a large proportion of remittances from illegal migrants in Malaysia

came through unofficial channels. In Indonesia, the Government's pronouncements on migration indicate a shift in policy objectives by gradually phasing out migration of domestic helpers, mainly females, and moving towards the export of more highly skilled workers.

Overseas migration from the *People's Republic of China*, can, according to Hung (1996), be divided into four broad categories: labour-exporting through contracted projects; direct recruitment (through domestic agents) by overseas employers; migration through relatives or friends in foreign countries and illegal migration. Under the first category, there were 225,578 workers at the end of 1994 (compared to 31,771 in 1982) working on projects with a contracted value of approximately US\$ 8 billion. Of the 100,000 students who went to study overseas between 1978 and 1989, only about 40 per cent returned home after graduation. In the 1990s, about 20,000 students go overseas each year and most undertake part-time or even full-time work especially in Japan and Australia. It is difficult to estimate the extent of illegal immigration from the People's Republic of China but Hung (1996) estimates it between 100,000 to 200,000 a year.

Turning to the last two economies in this region, Brunei Darussalam has a total labour force of about 112,000 from a population base of approximately 268,000. According to the 1991 population census, about 54,000 in the labour force are Brunei citizens, 7,000 are permanent residents and 45,000 are temporary and other residents employed by establishments in the public and private sector. Skilled foreign workers for both private and public sectors mainly came from Thailand, the Philippines and Indonesia. In the case of *Papua New Guinea*, localisation has already substantially reduced the amount of expatriate labour from around 30,000 at the time of the 1971 Census to around 9,000 at the start of 1982. Since then, decline has proceeded more slowly and the demand for foreign labour is more or less stable (Connell, 1996). Professionals and executive positions account for over 70 per cent of all work permit holders. As the European population has declined the number of Asians has increased. This increase has led to various objections to Asian migrant workers, mainly that members of their families take up other jobs and they also engage in commercial activities. Nevertheless, the total number of migrants has remained small and rare outside urban centers. More recently, Malaysian and Chinese workers are engaged in forestry employed by a Malaysian-based company.

In the context of intra-Asian labour migration, some of its distinct features and problems encountered can be summarised as follows:

- (i) A significant feature of the rapid economic transformation of East and South-East Asian economies has been the accompanying growth

of labour migration which increased from approximately just over a million (including long-term Korean residents in Japan and Indonesians in Malaysia) in the early 1980s, to over 3 million in the mid-1990s.

- (ii) Although labour migration has grown rapidly in the region, only three economies namely, Malaysia, Singapore and Taiwan/China, have statutes which provide for the admission of unskilled foreign labour. Japan and the Republic of Korea both still have ambivalent policies on the importation of foreign labour.
- (iii) State policies on the admission of foreign workers are primarily based on the idea of providing flexibility in the labour market. Foreign workers are seen as filling in the gaps and work permits are limited to short periods.
- (iv) Mainly as a result of ambivalent migration policies, there has been a large increase in the numbers of illegal migrants, who find themselves increasingly exposed to all types of exploitative practices.
- (v) There has been a growing feminisation of Asian labour migration, with more than half of migrants from the Philippines and Indonesia being women. According to a recent ILO study (Lim and Oishi, 1996), among the industries fuelling demand for Asian female workers "entertainment" is frequently a euphemism for prostitution. Outright prostitution is widespread and, in many cases, women contracted to work in legitimate jobs are then forced into prostitution. Women in any occupation who enter countries illegally or overstay their visas are subject to exploitation, but so-called entertainers are particularly vulnerable.

### **Labour Flows in Latin America and Caribbean Economies**

At present only Mexico and Chile are members of APEC amongst the Latin American economies. While most migration from Mexico has been to the United States and this is discussed in more detail at the end of this section, migration from Chile has been mainly to neighbouring Argentina in the past and these flows have slowed down considerably in recent years as unemployment levels have grown in Argentina (nearing 20 per cent) and falling in Chile (at present, 5 per cent).

It may, however, be important to point out that Latin America and the Caribbean (LAC) was in the past a region of significant immigration. The major flows into the region took place from 1870 to the 1960s. It is



estimated that the net migration to Latin America and the Caribbean from the beginning of the 19th century to 1970 was 13.8 million mainly to Argentina, Brazil, Cuba, Uruguay, Venezuela, Mexico and Chile. Of these, 1.55 million were from Asia with significant flows from China, India and Japan totaling about 900,000. The largest flows were Italians moving to Argentina (3 million) but there were four other flows of over 1 million each: the Spanish to Argentina, and the Italians, Portuguese and from countries in Africa to Brazil.

The picture has changed dramatically in the post-1970 period. The region as a whole is losing people. Between 1976-85 net migration was -1.6 million compared to +1.8 million during 1950-64 (Stalker, 1994, p. 221). The most significant factor contributing to this change was the drop in immigration from outside the region to Argentina and the massive outflow from Mexico.

During the 1970s and 1980s most labour movements were within the region mainly into Argentina and Venezuela but this too slowed down and these countries are now experiencing much higher levels of emigration. Most of the immigration into Argentina was from Paraguay, Chile, Bolivia and Uruguay with men from these countries mostly found in construction and women in domestic services. More recently as Argentina begins to emerge from recession the Government plans to encourage immigration and believes it could take up to 300,000 East Europeans. It has identified Latvia, Estonia and Lithuania as recruiting grounds and is targeting middle-level skills.

In Venezuela too, starting in the 1960s most of the immigrants have come from the neighbouring countries, particularly Colombia, a large proportion of whom are illegal migrants. In 1981 of the total 1.07 million born foreign population, 508,166 were from Colombia and relatively much smaller number (25,200) from Chile. In recent years there has also been a large influx of Brazilians. Also as in Argentina with the economic difficulties in the 1980s there was a slow down in net labour immigration but since 1990 as the economy has begun to recover the Government has begun to worry about skill shortages and has also set its sights on Eastern Europe.

In Central America most of the recent flows have been of refugees rather than of labour migrants. In the 1960s many rural migrants moved into neighbouring countries including seasonal movements of Guatemalans to Mexico. Since the late 1970s, political conflicts have uprooted some 2 million people and by 1980 some 10 per cent of Central Americans were living outside the countries of origin although as an uneasy peace returns to the region some of these are now beginning to return.

The only significant migration flow between the Asian and Latin American economies is the result of the Japanese Government policies of attracting foreign nationals of Japanese descent by offering them long-term resident status, legal protection almost equal to that of Japanese-born citizens. Of the 1.1 million citizens of Japanese descent in Brazil and 80,000 or so in Peru many have been attracted by the prospect of work in Japan. In Sao Paulo between 1988 and 1991, the number of visas issued jumped from 8,602 to 61,500 and in Peru about 15 per cent of the Nikkei have gone through the formalities of emigration (Stalker, 1994, p. 251).

*Mexico* is the world's largest exporter of labour if we include both permanent and seasonal migration, most of which is to the United States. It also has a significant number of migrants working in the country mostly from Central America. According to the 1990 Census, the total resident population of Mexico was 85.5 million, the total number of immigrants was 383,000 and emigrants was 4.5 million. The latter number has increased from 576,000 in 1960 to 2.2 million in 1980. In addition, there are a significant number of seasonal workers in agriculture who migrate within Mexico as well as to the United States. Emigration to the United States increased from 159,000 in the 1950s, to 250,000 in the 1960s, 1.4 million in the 1970s and 2.4 million in the 1980s. It is estimated that in 1990, there were 4.5 million Mexicans living in the United States (Vasquez, 1993). In the United States, Mexican workers form a significant portion of the service sector in major cities (San Diego, Los Angeles, Chicago) and in the agricultural sector in California, Texas, Illinois and Florida (Murillo-Castano, 1984). Total remittances were estimated at US\$ 2.3 billion in 1989 and contributed 1.1 per cent to GDP and were 10 per cent of total export earnings in that year (Stalker, 1994, Table 8.2).

### **Flows of Highly Skilled Labour**

Accompanying the high growth of foreign direct investment in the Asia-Pacific region has been the striking increase in the flow of professional, managerial and other skilled workers who have been accompanying investments by multinational companies throughout the region. In the earlier years most multinationals used their own expatriates to manage their operations but most countries increasingly rely on managerial and professional staff from within the region. Also as foreign investment flows from within the NIEs has gradually overtaken investment from Japan, a large number of professionals and highly skilled workers from Hong Kong, Republic of Korea, Taiwan/China and Singapore are working abroad. Companies from these countries are also more willing than Japan to employ third-country nationals. Also as job opportunities due to economic recession decreased in the developed countries in the region especially Australia and

New Zealand, highly skilled labour from these countries have moved into the fast growing NIEs and other economies namely Malaysia, Indonesia, Thailand and more recently the Philippines.

Garnier (1996) provides estimates of the highly skilled labour and service providers in the Asian rim of the Asia-Pacific region (Table-3). Of the 87,000 professionals and managers from Hong Kong working abroad almost 50,000 are daily commuters to China's Southern Province. In early 1996, there were 110,000 expatriates working in Hong Kong coming from the United States (36,000), Canada (29,000), Japan (24,200), Australia (21,100) and the United Kingdom (34,500)<sup>8</sup> More recent estimates from Indonesia reported that in early 1995 these were almost 57,000 expatriate workers in the country with a wage bill of \$2.5 billion (Amjad, 1996). The example of Japan is also revealing. In 1993, about 273,000 Japanese workers resided abroad (with 25 per cent in Asia alone) working as the expatriate staff of the subsidiary of a Japanese multinational. In addition to this number, between 15,000 to 20,000 people are thought to have travelled abroad in the 1990s for short periods (of a few months at most) to provide some type of service.

Another interesting development is the steady flow of Asians (especially in the Republic of Korea, but also in other Asian-rim economies) who are returning from North America, Europe and Australia as new and equally well-paid opportunities open up in their own or neighbouring countries within the region.

### **Impact of Globalisation on Labour Flows in the APEC Region**

The rapid pace of economic globalisation, especially in the APEC region, has been made possible by the process of liberalisation and the opening up of national economies to a far freer flow of goods and services. APEC members are committed to "open regionalism," designed to encourage greater openness throughout the global economy as well as in the region. Its goal of a free trade and open investment area was agreed upon by its member economies in November 1994 to be realised by 2010 for the developed economy members and by 2020 for the developing economy members. Progress within APEC towards regional trade and investment liberalisation is meant to supplement the multilateral trade system and to benefit all members of the global economy.

Economic globalisation at the present time has four main characteristics, namely the large and accelerating flows of foreign direct investment (FDI), large movement of portfolio capital, easier access to new

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<sup>8</sup> Far Eastern Economic Review, 25 April 1996, p. 55.

technology, and the freer movement of goods and services between countries. *A priori*, an acceleration in these flows and the opening of national economies should lead, at least in the medium and long-term future, to a reduction in labour flows, rather than its acceleration. This is primarily because these flows should result in the more efficient use of a country's economic resources reflecting its comparative advantage. It should imply that labour-scarce economies would specialise in more capital-intensive and skill-intensive production, while labour surplus economies would specialise in the production of labour-intensive goods. The freer movement of capital should help further exploit each country's comparative advantage and accelerate the trend of multinational corporations moving production from high wage to lower wage economies. This should mean that industries located in advanced or semi-industrialised countries which are dependent on the use of cheaper migrant labour, would now be under greater pressure to relocate production to low wage labour surplus economies.

This trend, however, of reducing the demand for labour in the labour scarce economies would need to take into account the growth of sectors and production processes in these economies which cannot be relocated to take advantage of low labour costs, and whose growth may increase due to higher overall rate of economic growth (as a result of globalisation). This would increase the demand for labour, at least in the short run, and for foreign workers for jobs in the services sector, construction, plantations and domestic services, including the so-called 3D jobs, mentioned earlier, which the nationals may not want to undertake. However, even in these sectors, in the long-term technological developments and movements of labour from the more labour-intensive industries should lead to a reduction in demand for foreign workers, except of course in the case of those jobs which nationals are not willing to undertake.

At the same time, globalisation would result, mainly due to increased inflows of FDI, but also as demand for a more highly skilled work force increases, in much greater flow of higher skilled labour, including professionals and managers across countries. This trend which has increased rapidly in recent years will be further accelerated, although over the long run trained nationals may gradually replace the expatriate work force especially where it would be cheaper to hire nationals rather than expatriates.

The more recent experience of the fast growing Asian economies, it would appear, has gone against the conventional economic wisdom that freer flows of goods between countries would substitute for the movements of labour between them. Indeed, it is now argued that based on this experience, the relationship between free trade regimes and migration flows is more often a complementary one and not one in which trade

liberalisation substitutes for migration (OECD, 1994). To what extent should one accept this proposition?

In examining the experience of the East and South-East Asian economies, two important developments should be kept in mind. The first was the speed or pace of economic transformation as economies, especially the NIEs, achieved very high rates of economic growth for a sustained period of time (which had never been recorded before in economic history). The second was that this period of high economic growth coincided with changes in their demographic structures which led to a slowing down in the growth of the labour force and the emergence of an ageing population. At the same time, there were important changes in the attitudes towards certain kinds of work which the younger entrants into the workforce were not prepared to do. To this must also be added the factor that the surrounding labour surplus economies not only had workers willing to work abroad, but the recent experience in working in the Gulf countries where demand was declining, had prepared them to more aggressively seek employment abroad. Clearly, these factors combined together to lead to the dramatic increase in the use of foreign workers, estimated by Abella (1996), to have increased from 1 million to about 3 million in the short period of 10 to 12 years in the region.

The more important question therefore is whether migration is a passing phenomenon or a more permanent feature of development and growth in the East and South-East Asian region. Abella (1996) has argued that taking into account projected future growth in the region, which is expected to continue to be high, the slowing down in the growth of the labour force and increases in service sector employment in these economies will mean that there will be growing labour supply deficits in the coming decades in these countries in the region.

While there is reason to believe that these Asian economies will continue to be dependent upon the use of foreign labour, there is at the same time no reason to believe that there would be an appreciable increase in these flows. This is because one has already seen over the last decade the gradual movement of the more labour-intensive industries from the labour-scarce to the more labour-abundant economies in the region. As globalisation and liberalisation intensifies and other economies in the region open up further, including Viet Nam and the People's Republic of China, the relocation of labour-intensive industries would further increase.

What is perhaps more challenging for the major labour importers is how they respond to changes in incremental labour demand in response to structural changes, especially the ageing of the population and growth of

jobs in sectors in which the local population is not prepared to work. Here there will be two types of trade-offs. The first of allowing more organised labour immigration to provide services to their ageing population and improving the quality of old people's lives. The second is in relation to meeting demand of those sectors especially construction, essential services and small scale manufacturing where the local population is not willing to work. Here they can either translate "real demand" into officially allowing foreign workers into the country, or they can feign ignorance while fully knowing the existence of illegal workers. The way they decide on these choices will have a far reaching impact on the lives and conditions of work for foreign workers in these countries.

While clearly, more work is needed in this area to project labour supply and demand in the APEC region, some broad conclusions can be made:

- (i) The first that the demand for higher skilled labour will increase and there will be greater movement of such labour in the region. Already, countries such as the United States and Japan are adjusting their laws in order to better tap into the emerging global labour market for highly qualified workers. Thus, the US Immigration Act of 1990 permits the annual settlement of 40,000 foreigners of "extraordinary ability" without the need for pre-arranged employment or nomination by a US employer. A further 40,000 immigrants of "exceptional ability" can be admitted where their services are required by US businesses. In the case of Japan, until 1990, the country admitted 18 categories of foreigners with notable skills or business acumen, but it added ten categories in that year, as well as simplifying the formalities and speeding up the relevant procedures (ILO, 1996).
- (ii) The second that most of the labour-receiving economies in East and South-East Asia will continue to be dependent on foreign labour and although it is difficult to project the additional demand for foreign workers in these countries, it will certainly be a major challenge for these economies to gradually adjust their economic structures to reflect their comparative advantage.
- (iii) We have not yet separately examined the impact of globalisation on the more advanced economies of APEC as well as in the Latin American region. In the case of the former, as mentioned in (i) demand for higher skills will increase and in the case of Latin American economies as the recovery proceeds, there will be greater intra-regional movements as well as inflows of foreign migrants especially from the East European countries.

### **Key Issues in International Labour Migration in the APEC Region**

The review of major labour flows within the APEC region and the issues and problems that it has posed, for both the labour sending and the labour receiving countries, clearly points to the fact that while on the whole labour markets have functioned well, the regulatory and institutional framework has not always responded adequately to the challenges posed by international movements of labour, especially in recent years. Boutany and Papademetriou (1994) have suggested in a global context that “a crisis of legitimacy in migration policy has developed, caused primarily by quantitative and qualitative changes in migration and the way it is perceived.” Yet, as Martin (1996) points out, while one is struck by the ability of societies and governments in Asia to lay the basis for rapid economic growth and economic integration through trade and investment, at the same time, “an outsider is also struck by the absence of transparent plans to deal with the long-term consequences of labour migration.” (p. 9). Miller (1996) also points out that “International migration looms as a key factor affecting prospects for world order and disorder in the late 20th Century. Yet theories of international relations and world politics as well as studies of bilateral and regional relations have relatively little to say about international migration” (p. 1). He goes on to state that, “A key question for the next century is whether democratic ideals will foster regional integration which facilitates unproblematic labour migration” (p.9).

There is, however, a growing realisation that these issues cannot be tackled solely at the country level given the widespread involvement of the large number of countries in the migration stream. The need for a global approach to management of migration and the need for policy harmonisation is becoming all the more urgent. Also, it is now increasingly accepted that essential for the development of a successful approach is the need for a dialogue between the labour-receiving and labour-sending countries at bilateral, regional and global levels. There are also emerging instances of successful efforts at collaboration illustrated by greater harmonisation in their approach between the three main competitors (Australia, Canada and United States) for international labour skills through permanent migration, as well as notable instances of international cooperation between Latin American countries on refugee flows that have resulted in concrete steps like legalisation opportunities, through pacts and international agreements (Miller, 1996).

In this regard, it is also especially important to mention the ILO’s standard setting activities and redress mechanisms to protect migrant workers and secure equality of treatment between nationals and non-nationals. The ILO Convention No. 97 (Migration for Employment, 1949)

and Convention No. 143 (Migrant Workers, 1975), call upon governments to respect the basic human rights of all migrant workers, male and female, to prevent clandestine migration for employment and stop manpower trafficking activities. (For details of major ILO Conventions and Recommendations on migrant workers see Annex A). Topical as ILO Conventions on protecting migrant workers have been at various points of time, they have, however, enjoyed limited numbers of ratifications and most Member States that have ratified have been sending rather than receiving workers at the moment of ratification. This trend is confirmed by the *International Convention on the Protection of the Rights of All Migrants and Members of Their Families*, which was elaborated with the technical assistance of the ILO, and adopted by the United Nations General Assembly in 1990. However, only five countries have so far been willing to be bound by it – Egypt, Columbia, Morocco, the Philippines and Seychelles – all labour-sending countries.

While clearly there is a wide range of important and diverse issues arising from international labour migration which deserve high priority and immediate attention, this section focuses attention on only a limited number of issues which could play a part in the better management of migration flows in the future.

- (i) There is a need for joint concerted action by both the labour-receiving and labour-sending countries to reduce the flows of illegal migration especially trafficking of illegal migrants by international criminal and smuggling syndicates. In many cases, migrants are passed along a chain which often involves a number of smugglers, safe houses, transit points and varied means of travel. To combat this trafficking, action is needed at the global as well as at the regional level and the combined efforts are required of both the labour-sending and labour-receiving countries. APEC, with significant migration flows in the region, and with large numbers of illegal migrants, can play an important role in furthering these efforts.
- (ii) Both the labour-receiving and labour-sending countries need to jointly address the problems and high costs of the labour-recruiting industry which exists in both these groups of countries. One of the major factors encouraging illegal migration is that in many cases the fees and costs (both official and unofficial) of securing employment abroad are so high that migrants find it more attractive to move through illegal channels which they perceive to be less costly (but which they later discover is not necessarily the case). Clearly better exchange of information on labour needs and mechanisms for recruitment between the labour-sending and labour-receiving



countries would greatly facilitate the process. Also the question whether it is more efficient to conduct recruitment through government channels (i.e., government sponsored agencies) or private sector recruiting firms and the checks and balances that are needed in the form of official controls needs to be impartially examined and discussed in appropriate forums with the aim of devising more efficient and effective mechanism to facilitate legal cross-border flows at reasonable costs to the migrant. The need for developing a more efficient system becomes all the more important if APEC economies wish to facilitate the movement of higher skilled workers to meet shortages and surpluses (see vi).

- (iii) There is a need for many of the labour-receiving economies in the APEC region, which at present have a rather ambivalent policy, to develop more transparent plans to deal with foreign workers. Many countries which at present tacitly approve illegal migration to meet labour shortages need to take a more realistic attitude and take necessary steps to ensure that “real demand” for imported labour is met through legal channels which affords full protection to the migrants and recognises their genuine rights. There is much that countries can learn in this regard from each others’ experiences, including policies to further integration of migrants into the domestic economy. In this context, many APEC economies need to remember Max Frisch’s summary of the European experience – we asked for workers, we got people instead – and fact up to the reality that some of the migrants will inevitably settle and the need for them to plan for a smooth integration.
- (iv) There is little doubt that the highest priority must be given to combating the exploitation and physical, sexual and other abuse of female migrant workers, especially given the increasing feminisation of labour migration flows in the Asian region. This would require action at the national, regional and international level as well as by the migrants themselves in the host countries. Forums such as APEC could play an important role by increasing awareness and developing measures for action and protection to combat such exploitation including encouraging member economies to adopt and respect International Labour Standards, to protect the rights of migrant workers.
- (v) There is a need to initiate steps that afford much greater social protection to migrants especially equality of treatment in qualifying for social security benefits and the removal of territorial restrictions in this regard. The adoption and respect for ILO Convention No. 118 [Equality of Treatment (Social Security) Convention, 1962] and

Convention No. 157 (Maintenance of Social Security Rights Convention, 1982) could play an important part in achieving this goal.

- (vi) There is a need to ensure timely and regular exchange of information on shortages and surpluses for higher level skills and measures to facilitate movement of such skilled labour. This will greatly assist in facilitating the growth of investment and trade flows amongst the member APEC economies. Some important steps in this regard have already been initiated by APEC under its Working Group on human resources development.
- (vii) There is a need to develop strategies and policies which lead to maximising the development benefits of overseas migration for both the labour-sending economy and the individual migrant, while at the same time minimising to the extent possible its adverse effects on the economy. These policies should include measures to facilitate the productive reabsorption of return migrants. Again, APEC members could learn from each others' experience in dealing with macro-economic and sectoral issues arising from international migration and the flow of remittances into the national economy.

### **Conclusion**

APEC has already initiated steps to better monitor labour markets in its member economies which would improve the functioning of labour markets including facilitating movements of highly skilled labour within APEC. There is little doubt that APEC can play a leading role in extending the scope of global economic liberalisation in the most dynamic economic region in the world. At the same time, while reaping the benefits of faster growth that globalisation and liberalisation will make possible, and indeed to assist in ensuring their sustainability, APEC must also respond with imaginative solutions to the challenges and pressures that arise in this process. The issue of international labour migration definitely poses one of these challenges on which different perceptions exist, but APEC can meaningfully contribute in the quest for a more orderly and humane management of international labour migration. A start could be made by extending further its work on analysis of labour market issues to deal with some of the issues proposed above.

**Annex A**

The *Migration for Employment Convention (Revised) 1949 (No. 97)* and the accompanying *Migration for Employment Recommendation (Revised) 1949 (No. 86)* are milestones in international migration legislation and put emphasis on *inter alia*, medical services, equality of treatment in respect of remuneration and membership of trade unions, the provision of free public employment services and the supervision of employers' or private agencies' recruitment, introduction and placement operations. The *Equality of Treatment (Social Security) Convention 1962 (No. 118)* addressed problems faced by migrant workers and their families due to difficulties in qualifying for certain benefits and the territorial restriction of benefits. Part I of the *Migrant Workers (Supplementary Provisions) Convention 1975 (No. 143)* constitutes the international community's first attempt to tackle the questions of irregular migration movements and illegal employment that became acute at the beginning of the 1970s. Part II seeks to promote greater equality of opportunity and treatment of lawful migrants with respect to employment and occupation. The *Maintenance of Social Security Rights Convention 1982 (No. 157)* represents a comprehensive attempt to cover migrant workers and their family members, particularly those who, due to the temporariness of their moves and employment, may not be able to benefit from acquired rights or rights in the course of acquisition.

**Table-1: Estimate of Non-nationals by Region in 1990 (in millions)**

Region	Economically Active	Dependents	Total
Africa	5-6	11-14	16-20
Americas, North	7	8-10	15-17
Americas, Central and South	3-5	4-7	7-12
Asia, South, South East and East	1-3	3-4	4-7
Asia, West (Arab States)	6	2-3	8-9
Europe (excluding the USSR)	8	12	20
<b>Overall Totals</b>	<b>30-35</b>	<b>40-50</b>	<b>70-85</b>

Source: ILO (1996)

**Table-2: United States of America:  
Immigrants Admitted from Top Fifteen Countries of Birth,  
Fiscal Year 1992**

Country of birth	Total		Non-legalisation		IRCA legalisation	
	Number	Percent	Number	Percent	Number	Percent
All countries	973,977	100.0	810,635	100.0	163,342	100.0
(1) Mexico	213,802	22.0	91,332	11.3	122,470	75.0
(2) Viet Nam	77,735	8.0	77,728	9.6	7	Z
(3) Philippines	61,022	6.3	59,179	7.3	1,843	1.1
(4) Soviet Union	43,614	4.5	43,590	5.4	24	Z
(5) Dominican Republic	41,969	4.3	40,840	5.0	1,129	0.7
(6) People's Republic of China	38,907	4.0	38,735	4.8	172	0.1
(7) India	36,755	3.8	34,629	4.3	2,126	1.3
(8) El Salvador	26,191	2.7	21,110	2.6	5,081	3.1
(9) Poland	25,504	2.6	24,837	3.1	667	0.4
(10) United Kingdom	19,973	2.1	19,757	2.4	216	0.1
(11) Republic of Korea	19,359	2.0	18,983	2.3	376	0.2
(12) Jamaica	18,915	1.9	16,820	2.1	2,095	1.3
(13) Taiwan/China	16,344	1.7	16,232	2.0	112	0.1
(14) Canada	15,205	1.6	14,958	1.8	247	0.2
(15) Iran	13,233	1.4	12,808	1.6	425	0.3
Others	305,449	31.4	279,097	34.4	26,352	16.1

**Source:** Immigration and Naturalization Service, 1992.

**Table-3: Estimate of the Movements of Highly Skilled Labour and Service Providers in the Asian Pacific Region**

Country or Region	Nationals		Abroad		Temporary residence of highly skilled foreigners				
	Business Travels	Short term provision of services	Expatriate	Long-term highly skilled migrants	Business travels	Short-term provision of services	New entry of expatriates	Posted expatriates	Year 1993-94
Australia	-	-	35,000	35,000 (Hong Kong)	202,000	13,000	-	12,500	-
People's Republic of China	-	-	10,000 (construction sector)	-	-	-	-	-	Recently
Hong Kong	-	-	87,000	36,000	-	-	6,500	50,000	1991
Japan	1,025,000 (1988/89)	5,000(?)	85,000	-	-	-	21,000	64,000	1992
South Korea	315,000 (1988/89)	-	87,000	-	-	-	18,260	-	1992
Indonesia	-	-	20,000	-	-	-	-	52,000	1993
Malaysia	-	-	1,000	40,000	-	-	8,200	61,300	1993
Philippines	60,000	40,000	10,000	-	-	-	-	-	1993
Singapore	-	-	10,000	20,000	-	-	7,500	50,000	1994
Taiwan/China	-	-	120,000	-	-	-	-	-	1992
Thailand	-	-	-	-	-	-	36,600	-	-

**Source:** Garnier (1996).

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## **Reforming the Taxation Structure**

**Shahid Kardar**

An essential component of a programme for structural readjustment is a reform of the taxation system so that it supports the basic thrust of the reform package. Although the system of taxation in Pakistan is supposedly based on the principles of equity and has a progressive character it has not actually functioned in this manner. This is so because the system has evolved as a result of changes made at different moments in time in response to the exigencies of the government's revenue needs and the pressures exerted by different lobbies. The attempt to use the taxation system to serve a variety of social and economic objectives has created distortions and made the structure rather complex and non-transparent, thereby weakening its potency as a revenue generation instrument, while adding unnecessarily to costs. The structure is, therefore, characterised by direct taxes not being paid by those who should be paying them, indirect taxes being largely paid by those who are otherwise considered too poor to pay taxes and subsidies and exemptions being cornered by those who should not get them.

There are limits to which expenditures can be compressed without hurting the economy, unless there is a decline in defence expenditure and the debt servicing obligations can be reduced by using the proceeds from privatisation for debt retirement. Therefore, revenues must rise for the long term sustainability of the economic and taxation reforms. Hence, the prime objective of the tax reform should be to enhance the revenue buoyancy of the system by overhauling the structure and administration while facilitating compliance and enforcement.

The package of reforms being designed by the government is also expected to address the basic issue of the inadequacy of the federal government's revenue receipts, which currently stand at a mere 17 per cent of GDP. At Rs. 211 billion in 1993-94 they fell short by Rs. 32 billion to cover the government's revenue expenditure. The gravity of the problem confronting the state should be apparent from the fact that it is unable to meet even its annual running expenditure from the taxes it levies on its citizens. If the government has to borrow to satisfy its recurring obligations it is understandable that all development expenditure has to be financed from loans.

With this introduction, we examine below the government's strategy on reforming the structure of income tax, customs duties and sales tax.

## **Income Tax**

Largely because of some innovative taxation measures introduced during Nawaz Sharif's tenure, revolving around presumptive taxes and greater reliance on withholding taxes, the government's revenue from income taxes has shown a robust growth of 30 per cent per annum during the previous three years. The extension of the systems of withholding and presumptive taxes has facilitated both revenue generation from the hard-to-tax sectors as well as detection of tax evasion (especially in respect of capital incomes), to such an extent that withholding taxes now represent over 65 per cent of gross income tax revenues. The revenues from these sources has grown at a remarkably healthy rate of over 40 per cent per annum during the period 1989 to 1993. These instruments have simplified the taxation system, thereby reducing the cost of compliance for tax payers.

However, although the share of direct taxes in the total tax revenue of the federal government has grown from 12.7 per cent in 1990-91 to nearly 17 per cent in 1993-94 (having risen from 2 per cent of GDP in 1990-91 to over 3 per cent of GDP) the level of direct taxation still compares rather poorly with the 5.5 per cent of GDP in the case of other developing countries and 7 per cent of GDP for similarly placed economies.

Even rough estimates suggest that the difference between actual receipts from direct taxes and potential revenue is still quite large. If we, for instance, assume that 70 per cent of incomes are from non-agricultural activities then in 1993-94 the income liable for taxes was around Rs. 1,100 billion. If 50 per cent of this income had accrued to the richest 20 per cent households then the potential base for income tax would have been Rs. 550 billion. Even a 15 per cent tax would have yielded over Rs. 82 billion whereas total receipts from income tax were Rs. 45 billion. In other words only 55 per cent of potential incomes are being taxed. If this base were to be taxed almost 28 per cent could be shaved off the budgetary deficit.

The base of tax payers is small, partly because of the exemptions granted to different types of income. Despite the improvements referred to above, the government has been unable to adequately exploit the instrument of income tax. There is, therefore, a need for a further widening of the base (bringing more tax payers into the net), particularly the withdrawal of the numerous tax exemptions. According to one estimate the cost of exemptions is as high as 2 per cent of the GDP, between Rs. 35 to Rs. 40 billion today.

Furthermore, the growth in tax revenues from the corporate sector has been disproportionately lower compared with the increase in turnover

or, even, paid-up capital. It is instructive that of the 330 companies listed on the Karachi Stock Exchange in 1991/92 only 90 were paying income tax, of which only 20 companies had paid income tax every year since 1981. Several companies that seem to be doing well and paying decent dividends are not paying taxes because of liberal tax exemptions/provisions.

Therefore, the exemption or concessionary provisions, particularly those applying to incomes from agricultural activities (wealth in the form of agricultural assets) should be withdrawn and the level of income at which the maximum rate would apply should be raised. The raising of the level of income for the application of the maximum rate would neutralise the impact of inflation in pushing money incomes into the higher tax brackets, while the elimination of exemptions would not cause any revenue loss.

For the corporate sector we could retain the requirement of a minimum tax introduced in the shape of a turnover tax introduced earlier. However, without compromising on the principle of a minimum tax paid by all tax payers, we should replace the turnover tax by a levy – a fixed percentage – on gross profits or by a tax on depreciated business assets (book value of assets adjusted for inflation). Such a tax would put pressure on less efficient companies to use their assets more productively.

Furthermore, in view of domestic socio-economic and political realities and the weak administrative structure, there should be greater recourse to withholding and presumptive taxes; the fact that withholding taxes form a predominant part of income tax revenues indicates the weakness in the administrative areas of taxation.

The purpose of a presumptive system is not to absolve the tax department of the responsibility to identify those liable for taxation but to make it convenient for the marginally taxable, who are not able to maintain regular accounts, not to have to maintain elaborate records for tax purposes. An example frequently cited as evidence of failure of the presumptive system relates to the fixed tax for shops. However, the reasons for the poor response of the presumptive scheme introduced for shops includes fear of being caught in the clutches of the tax department, having once filed a statement with them, and the perception that the chances of being caught and penalised are, as things stand today, low anyway. The presumptive tax at the rate of x rupees per sq. ft. for different types of shops needs to be modified to reflect the location of the market and the nature of the business conducted from the outlet (this information is readily available in the records maintained by the Provincial Excise and Taxation Department for the purposes of property tax). This rate should be indexed to inflation and the GDP growth rate.

The maximum rate of tax can be further lowered but after all tax exemptions and incentives-related provisions have been withdrawn. The Nawaz Sharif government's political strategy in this regard was faulty, it reduced tax rates without simultaneously withdrawing all the major exemptions, thereby making it politically difficult for the successor government to remove the many remaining exemptions without offering anything in return.

At the level of an individual tax payer, there is need to tighten tax provisions regarding the value of fringe benefits like furnished accommodation, free use of company cars (in many cases these are luxury cars), free provision of utilities, servants, etc. This could even be achieved by instituting a separate tax for fringe benefits.

To encourage tax payers to maintain records the government could legislate that those with a turnover in excess of a specified level would have to maintain records (the level of detail varying for different kinds of activities, sectors or industries) with a penalty of say 10 per cent to 20 per cent throughout the period the tax payer is in default. Other penalties could include disallowance of interest charges as an expense or disqualification from entering into contracts with the government.

Small scale enterprises with a turnover below this specified limit should only be subjected to a presumptive tax (a surcharge on electricity consumed was introduced as a proxy for income three years ago).

We could also introduce a system whereby the income tax number should become a requirement for gaining access to telephone and gas connections, credit facilities, etc. To make this condition easier for farmers this requirement may be exempted for facilities extended in rural areas.

The poor administration of taxes challenges the principle of equity because actual recovery depends upon the conscience of the potential tax payers. Also, as a consequence of weak management there is a tendency to rely on the taxation of easy-to-tax sectors thereby creating intersectoral inequity in tax incidence.

To ensure workability of the system some deterrents have to be introduced. But then, if mere documentation, stricter laws and warnings of reprisals could frighten the tax evader and produce the desired results, the black economy would have disappeared long ago. The tax dodgers have known all along that the various policies introduced and the threats issued by governments from time to time have had a hollow ring to them. A variety of government-sponsored measures have had a great deal to do with

these impressions on the minds of the tax evaders. As long as the tax evader perceives, and in fact experiences, that the cost of evasion (government attitude, extent of penalty, probability of being caught out, etc.) is low and that in most cases he will get away with it, how can he be expected to mend his ways? For him a simple calculation of costs and benefits of non-compliance are far in excess of the costs. Along side the ultimatums of far reaching consequences there have been a number of promises of turning a blind eye to past evasion if investments are made in government black money whitener schemes (whitener bonds, foreign exchange accounts, bearer schemes and in public sector enterprises that the government wishes to dispose off) and promises are made that they will become good, honest tax paying citizens in the future. Strong words and repeated warnings on the government's determination to bring to book offenders, cannot seriously be expected to force recalcitrant tax evaders to disclose all and repent, especially if these warnings are supplemented with tax cuts and "all will be forgiven" incentives.

The behaviour of tax officials towards tax payers also influences the climate for compliance. If they act as facilitators they are likely to be more successful than if they act as policemen hunting down tax evaders. Ultimately, however, compliance depends upon the socio-cultural environment within which taxes are administered. Although cultural change only takes place slowly, it will only come if there is an environment conducive to change, which is currently rather poor considering that tax evaders continue to enjoy the hospitality and friendship of those holding the highest offices in the land. Tax evaders rank among the who's who of the land who, even when they do not stalk the corridors of power, command respect from the ruling elite. It is instructive that since the birth of the country no one has ever been convicted of tax evasion, despite it being widespread. The government's commitment to check evasion can only be taken seriously if tax evaders are not only prosecuted but also barred from holding any public office.

The Nawaz Sharif government had achieved notable success in opening up the budget formulation process to those most affected by these decisions – the business community. Unlike the past practice of budget-making in secrecy, representatives of trade and industry were members of a high powered committee on the budget. This positive development was reversed by this government. There is an urgent need to revive this committee and open up the budget making process again.

Finally, all the measures discussed above need to be supported by a system of rewards and penalties for tax administrators.

### **Indirect Taxes – Import Tariffs**

The present package of reforms in the indirect taxation structure is centred around the lowering and rationalisation of import duties and the introduction of a broad-based general sales tax to be levied at the rate of 15 per cent.

Under the taxation reform package the maximum tariff rate for customs duties will be brought down to 35 per cent by the beginning of 1996-97. In the past the high tariffs encouraged smuggling. According to one estimate this was to the extent of 5 per cent of GDP, Rs. 80 billion in today's prices. Although tariff rationalisation may lead to an overall reduction in tax revenues, by radically altering the protection levels currently available to a number of sectors and manufacturing units, industrial efficiency would be expected to improve.

In principle, the revised structure should discourage smuggling while facilitating and giving direction to the process of industrialisation in the country. For instance, it should permit duty free imports of inputs to support the export-oriented industry. It should also be simple to supervise and regulate (an objective that will be largely achieved through a reduction in the number of duty slabs and in the number of classification of goods) and make more transparent the discretionary powers granted to the administration to give or cancel fiscal concessions through SROs, should be withdrawn.

Another key area of reform relates to exemptions. There is a myriad of exemptions which has resulted in 40 per cent to 45 per cent of imports entering the country duty free. The consequence of these exemptions can be illustrated by an examination of the import data for the nine months to March 1995. During this period customs duty collection was a bare Rs. 35 billion against the potential collection of Rs. 65 billion, giving an effective rate of import duty of only 24 per cent. In other words, if all exemptions were to be abolished and a flat rate of 24 per cent were to be imposed on all imports, the government would have, at the very least, collected as much as it is collecting now.

The other harmful effects of these exemptions have included rate structure distortions, extension of discretionary powers of officials, enhancement of the vulnerability of the duty structure to the pressures of special interest groups and, finally, encouragement to rent seeking.

However, there could be political costs if all concessions were removed. Today some public sector agencies such as WAPDA and PTC have access to

imports at preferential duty rates. The impact on utility tariffs after the elimination of these advantages could have daunting political consequences.

Also, to effect the changes envisaged under the tariff reform package, greater consultation with the parties likely to be affected is urgently required. Unfortunately, the workings of the Ministry of Finance continue to be shrouded in unnecessary, and perhaps suicidal, secrecy.

### **General Sales Tax**

A key component of the package has been the introduction of a broad-based General Sales Tax (GST). GST grew by 29 per cent in 1993-94 and 41.5 per cent in 1994-95 and the share of sales tax in total tax revenues increased from 7.6 per cent to 14.4 per cent, while sales tax receipts from domestic production as a percentage of total sales tax receipts were 46.5 per cent in 1994-95.

The primary purposes underlying the introduction of the GST was to a) neutralise the revenue loss that would arise from the reduction in import duties as a result of the tariff reforms, b) tax consumption; and c) to create an incentive for documentation, through the institution of a system of invoices for raising claims for tax refunds.

The generalised sales tax is obviously preferable to a straight forward sales tax because it helps avoid the cascading effect of a tax on turnover and the snowballing incidence of a tax on tax as the taxed product passes from one manufacturer to the other and then onto the wholesaler and from the latter to the retailer. It would be in the interest of a firm to account for the taxes that it has paid on its inputs otherwise it would have to bear the cost of this tax. Any firm attempting to understate its output would be caught by the disclosures of those who purchased inputs from this firm. This cross-checking and cross-auditing would also enable the tax authorities to check tax evasion.

Such a tax would also support efforts to improve efficiency as a firm would not be exempted from its tax liability even if it were to make a loss. It would, therefore, facilitate the release of resources for use by the more efficient producers.

The GST is in the process of being extended to the retail level. The shifting of GST to the sales point will allow sales tax collection even on smuggled goods – a yield of around Rs. 156 billion – thereby also protecting industries hit by smuggling. Value added in trading activity will also become taxable (value added at wholesale and retail level is 20 per cent).

The broad basing of the tax to include small units is being welcomed by the larger enterprises. Greater documentation will also facilitate the assessment of income tax. However, the cost of compliance will increase with the need for maintaining a more elaborate accounting and documentation system. It is difficult to estimate the associated administrative and compliance costs as well as the potential for overstated claims for tax credit.

The GST, based on principles of VAT, is a rather sophisticated tax which has not been introduced even in developed economies such as the US. Hence, it seems to run contrary to the objective of greater simplification of the taxation system. Therefore, there should be an incentive to maintain records. The government could decide either to levy a lower, say a 12 per cent GST for those maintaining records or it could impose a punitive presumptive GST (over and above the lack of a facility to such assesses to adjust for the GST paid by them on their inputs) for those reluctant to have a set of records for an assessment of their liability on account of GST.

On the face of it, the extension of the system of general sales tax, the replacement of specific customs duties by *ad valorem* duties, the elimination of different tax rates for the same commodity according to use, the reduction in rates and categories of duties, etc., all seem desirable and overdue.

However, in the view of this writer, a greater reliance on presumptive taxes is desirable both on the grounds of practicability (because of the simplicity it introduces by reducing the discretionary element in taxation), considering the characteristics of Pakistan's socio-economic structure, and the capacity (as well as the credibility) of the tax collection machinery. Such taxes enable the government to broaden the tax base. In the case of the extension of the GST to retail outlets, it will be difficult to monitor the turnover of shops in view of the proliferation of 'with bill or without bill' practices. A rate as high as 15 per cent will also open up avenues for corruption. A presumptive tax on the area of the shop (taking into account its location in the city) would at least for the foreseeable future, be a better option.

Another area that requires urgent attention relates to sales tax exemptions. Exemptions, as argued earlier, are the biggest curse in the taxation structure, as a result of which the average rate of sales tax on imports and domestic output in 1991/92 was 5.6 per cent and 5 per cent respectively, although GST was 12.5 per cent. The various exemptions with regard to sales tax, particularly for those settling in lesser developed areas,



are also burdening tax revenues heavily. Sales tax exemptions to those locating in Hattar and Gadoon Amazai are not achieving much by way of objectives of development and industrialisation of the backward regions as they have encouraged 'border hopping' - manufacturing units are being merely established on the borders of the exempted areas to be as close as possible to Islamabad, the non-exempted area. As an illustration take the cases of an existing unit in Hattar manufacturing polyester fibre and another similar sized enterprise being set up. The net loss of sales tax revenue from these two units alone will be Rs. 1400 million per annum. Large revenue losses are also being incurred as a result of exemptions to manufacturers of cement, plastic goods and iron and steel products in Hattar and Gadoon Amazai.

The sales tax is being supported by the provincial administrations, as 80 per cent of the revenues from it will flow to the provinces. However, a tax rate of 15 per cent will practically extract all the surplus available at the local level, which local governments would like to tap to finance their activities. A 15 per cent GST, unless it is shared with the local bodies (of which there is little hope), is an anti-decentralisation move. In Pakistan, decentralisation is the only viable solution now left to efforts directed at improving the access of the population to social welfare services of reasonable quality. It, therefore, runs contrary to the spirit of the much touted 'social contract'.

In the context of the GST, greater effort needs to be directed at the development of mechanisms for tax collection and the training of both tax administrators and tax payers.

### **Conclusions**

In the early days of the implementation of the package of tax reforms the overall elasticity and progressivity of the tax structure in Pakistan is rather low, just 0.3; the elasticity of customs duties is 0.31 and even direct taxes are inelastic, although at a more respectable 0.61.

Our review suggests that the problem of the ownership of the reforms and their acceptability among both tax payers and tax collectors and the institutional arrangements for their effective execution continue to be areas of weakness which could end up scuttling the whole process of the reformation of the taxation structure.



## **Central Asia – the Political Economy of Events in 1995**

**Ahmed Rashid**

### **Introduction**

No greater disappointment for Pakistan's foreign policy since the break up of the Soviet Union has been the inability to benefit from increased trade and traffic with five Central Asian Republics (CARs). The continuing civil war in Afghanistan has blocked land routes while neighbouring countries such as Iran and Turkey have surged ahead with strengthening economic links with Central Asia.

Five years ago Pakistani businessmen dreamed of turning Peshawar and Quetta into large trading hubs for doing business with Central Asia. At the very least Pakistan could have served as a major service centre for Central Asian trade and Western investors wanting to exploit markets of the region. The CARs in turn would use the port of Karachi as a major export centre. That dream is still not a reality, but in the meantime Iran has linked Turkmenistan to the Gulf by a railway line and Turkey, although having no direct trade route, has invested nearly US 2 billion dollars in Central Asia since 1991.

Hopes for a peaceful solution to the Afghan civil war in 1995 were constantly dashed and all the CARs were faced with increasing economic problems, partly stemming from their lack of alternative trade routes apart from the one across Russia. The continuing economic downturn created political problems for the CARs and led to the rising trend towards authoritarianism. There were never high expectations that working parliamentary democracies would evolve in the CARs after they became independent four years ago. But there was some hope that these authoritarian one party states would decentralise power and become more open societies, if for no other reason than to contain and to accommodate ethnic and Islamic fundamentalist pressures from within and an economic meltdown.

However, the run of presidential and parliamentary elections in these states in 1995 showed a steady reversal. As their problems have multiplied, their economic crises worsen and ethnic fissures deepen, leaders of all the states have resorted to a tightening of political control and a ban on all opposition forces from participating in the political process. The ruling elite, almost entirely a left over from the communist era, is under siege and the Presidents have all held referendums extending their mandate to rule indefinitely.

The CAR regimes have few outside pressures to force them to open up their societies. Russia, still the most powerful foreign presence in the region, has in fact encouraged the regimes to maintain the status quo and limit political democracy. However, the net result has been an exacerbation of tensions because of the frustrations felt by not only the numerous ethnic minorities, opposition parties and Islamic fundamentalists, but even by the newly emerging business groups who face opposition from the neo-communist bureaucracy in their attempts to create a market economy. Unless power is decentralised and those left out of the political process not accommodated, all the CAR regimes will face increasing internal political problems.

Over the years, the continuing civil war in Tajikistan and the dangers of it spreading, pre-occupied all the CARs. Despite several rounds of UN sponsored talks between the Tajik government and the Islamic opposition, both sides refused to seek accommodation. The war in Chechnya launched by Russia also became a major problem because it demonstrated that Russia would not tolerate secession by a Muslim people from within Russia or independent Muslim states in Central Asia striking out on their own. The brutal killing of Chechens acted as a demonstration effect for all the Muslim peoples in the former Soviet Union and increased Russian-Muslim tensions in Central Asia.

Despite continued Russian pressure, all the CARs began to play a greater role in the Economic Conference Organisation (ECO) which includes Iran, Turkey, Pakistan and Afghanistan and now comprises ten countries, 300 million people and a sizable chunk of Asia. ECO summits and meetings produced plans for an ECO Trade and Development Bank, an ECO Shipping Company, an ECO airline and an ECO Reinsurance Company. An ECO transit trade agreement will facilitate transit land trade across member states territories without payment of duties, while another agreement promised to rationalise visa regulations for businessmen.

All the CARs continued to face severe economic problems with falling GDP, rising inflation and unemployment and the lack of foreign investment except for select areas such as oil and gas. Ultimately when and how the economic recovery of the region takes place, will determine the future political stability and the role the region will play in the wider world.

### **Kazakhstan**

President Nursultan Nazarbayev faced the most critical political crisis of his long career during 1995, as Kazakhstan continued to face severe economic problems, tensions with Russia and growing militancy by the large

Russian population settled in Kazakhstan. However, the United States, Europe and international lending agencies demonstrated more support for Kazakhstan than for any of the other Central Asian Republics.

In a surprise move in March, the Constitutional Court upheld a private petition asking for the dissolution of Parliament because of the government's rigging of the 1994 elections.

The court called the 1994 elections "unconstitutional and illegitimate", echoing the views of many critics and the opposition at the time.

Nazarbayev was forced to dismiss parliament on March 11, promised fresh elections and appointed Akezhan Kazhegeldin as an interim prime minister. Even though the parliament had been virtually hand-picked by the president, it had resisted the government's privatisation plans and offered considerable opposition to Nazarbayev's growing presidential powers during the 12 months that the parliament functioned.

For several days the country was in a constitutional limbo and the president was forced to cancel visits to Europe, Australia and Indonesia. On March 15 some 130 rebel MPs, led by the poet and anti-nuclear campaigner Otzhas Suleimenov, rejected the court's ruling and set up an alternative people's Parliament.

Nazarbayev retaliated by saying he would rule by decree. He later appointed an Assembly of the Peoples of Kazakhstan to discuss reforms. After a few days the rebel movement collapsed, though a long hunger strike by some MPs inside the parliament building continued.

The crisis and partly been perpetrated by the president himself so that he could dispense with a critical parliament and rule by decree. In a highly controversial move, but one that followed the trend set by leaders of other republics, on March 26 Nazarbayev announced a referendum to extend his mandate as president until the year 2000. The referendum, held on April 26, resulted in a landslide for the president, with 95 per cent of the voters in favour of giving him the necessary mandate. However, opposition groups – including Lad, the Russian settlers' party – called it a fraud and accused the government of vote-rigging.

Nazarbayev then announced a debate for a new draft constitution which, following the French model, would give enormous powers to the president. French legal experts arrived to help frame the new laws, which would give the president the power to dissolve parliament in return for the

assembly being able to impeach the president. There would be a new two-chamber parliament with a 55-seat lower house and a 47-seat senate or upper house with seven senators nominated by the president.

With Nazarbayev refusing to hold fresh parliamentary elections, the cleavage between the Russian population, which is 36 per cent of the total, and Kazakhs grew wider with Lad taking a stronger anti-government position and receiving support from Moscow. The president faced unrelenting pressure from Moscow to concede to local Russian demands.

In January he had partly complied when he signed 17 agreements with Moscow, ensuring virtual dual citizenship for his local Russian population and handing over the defence of the Kazakh state to Russia. Both sides also agreed to free currency convertibility and a customs union. However, tensions with Moscow and the local Russian population persisted. In an attempt to counter Russian pressure, Kazakhstan also tried to enhance greater cooperation within the five republics. On February 10, the leaders of Kazakhstan, Uzbekistan and Kirgystan met in Almaty to sign four documents pledging to build "a common economic space." They agreed to set up a Central Asian bank with initial capital of \$9 million, an interstate council and a regional common market. However, similar attempts and pledges in the past have never yielded concrete results because of the inherent rivalry within the republics.

On February 11, a Commonwealth of Independent States summit was held at Almaty under the shadow of the war in Chechnya, which was proving to be a major embarrassment for the republics' regimes in their relations with Russia. With the Russian army killing Muslim Chechens, there was considerable anger among the largely Muslim population of Central Asia, which their leaders had to contain so it did not spill over into inter-ethnic tensions between locals and Russian residents.

Nazarbayev tried to persuade the summit to agree to a pact of peace and stability between CIS member states and a defence agreement, which would integrate the air defences of the CIS, but the idea was shot down by the more suspicious and independent-minded Uzbekistan, Ukraine and Azerbaijan.

Kazakhstan's dismantling of its nuclear arsenal was praised by the visiting US Defence Secretary, William Perry, on a trip to Almaty in April. The US pledged \$43 million more for the dismantling process in addition to the \$350 million it had already given. During the past 12 months, Kazakhstan had stripped the warheads of half of the nuclear armed missiles

it held in 1992. The US also pledged \$6 million for a joint US-Kazakh technology research centre, while four US companies signed investment deals with Kazakhstan. US concerns had been heightened by a major political embarrassment when the news leaked in February that on December 27, 1994 fire had broken out at the Mangistausky nuclear power plant near the Caspian Sea, after oil had caught fire. Experts pointed out that the nuclear industry faced grave dangers because of the exodus of trained Russian workers, which the Kazakhs were unable to replace.

With Western companies exploring for oil and gas in Kazakhstan and in view of the government's willingness to dismantle its nuclear weapons, international lenders made every attempt to bolster the Kazakh economy. On January 6, the Asian Development Bank gave its first loan of \$60 million to finance imports. On May 27, at the Paris meeting of the International Monetary Fund, Western donors pledged \$1.22 billion to Kazakhstan in loans for budgetary support and development programmes.

A few days later, the World Bank announced aid of \$41 million as help for a new social protection programme to help with unemployment as the privatisation of state-run industries continued. On June 20, the International Finance Corp. (IFC) agreed to invest \$57 million as partial financing for a joint Kazakh-German oil company, which would start drilling in the Akshabulak oilfield.

However, the Kazakh economy remained in the doldrums. Releasing figures in May, the government said that GDP for 1994 decreased by 25 per cent and inflation stood at 35 per cent, though by March 1995, inflation had been reduced to 5 per cent. Unemployment hovered around 10 per cent, but unofficial figures put it much higher.

Economic problems had been intensified by Russia's refusal to allow the Chevron Corp. of the US to build a new pipeline from its oilfields in Tenghiz to Europe, while demanding a hefty transit fee for chevron to use old Russian pipelines. Russia did its utmost to exploit and restrict the export of Kazakh gas and oil.

The Russian gas agency, Gazprom, was buying Kazakh gas for \$8.74 per 1,000 cubic feet, when world prices for gas stood at around \$80. Russia was also buying gas condensate for \$1.25 per 1,000 cubic feet, when the international price was around \$18.

The Western interest in Kazakhstan, its rich mineral resources and its high profile among all the five republics encouraged many foreign investors. In April, Indonesia President Suharto signed several agreements in

Almaty. He was followed by German President Roam Herzog, who met with some of the 550,000 ethnic Germans still living in Kazakhstan.

Although several cooperation agreements were signed, neither country made it any easier for ethnic Germans to leave their homes and resettle in Germany. Nazarbayev also refused to allow funding for any special German schools or language training, in case it increased ethnic tensions in the country.

In May, Nazarbayev visited South Korea, signing several economic agreements. On June 13, Turkish President Suleyman Demirel signed contracts in Almaty for a Turkish-funded 954 megawatt power plant at Aktubinsk. After visiting religious sites in the south, he donated \$35 million for restoration work and the construction of a new Turkish-Kazakh University.

Kazakhstan also played a major role in trying to end the civil war in Tajikistan, hosting United Nations-sponsored talks between the Tajik government and rebels in Almaty in May. Despite Nazarbayev's personal intervention on several occasions, the talks ended in failure after 11 days.

Perhaps the most substantial agreement was the finalisation of a new trade route between Kazakhstan, Kirgyzstan, China and Pakistan, using the Karakorum Highway through northern Pakistan down to Karachi port. Pakistan plans to improve the 20,000-foot high mountain road, only open in summer, to make it an all-weather road. A major foreign policy concern for Kazakhstan was the development of export routes out of the landlocked country which did not use Russian ports.

### **Kazakhstan Data**

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#### **Basic Data**

Area: 2,717,300 square kilometers

Population (1993): 17 million

Ethnic composition: Kazakh 41%, Russians 37%, 100 other ethnic groups

Labour force: 9.2 million

**GDP (1993): \$24.73 billion (1992: \$28.6 billion)**

#### **Military**

Army: 63,000 men under joint CIS control

Nuclear weapons: ICBMs

Air Force: 40 bombers

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National forces: to be formed with 5,000 men



## **Kirgyzstan**

The exception to the lack of democracy in Central Asia has been the tiny Republic of Kirgyzstan under non-communist President Askar Akayev. But in trying to ensure that opposition parties can operate and that parliament is functional rather than a rubber stamp, the president has met with serious political and economic problems in this largely nomadic country, where the people are more concerned about their falling living standards.

On February 5, some 2.3 million Kirgyz shepherds turned out to vote for 1,400 candidates for the new 105-seat parliament or Yogorku Kenesh. But with only 161 candidates representing 12 registered political parties, with the rest standing as independents, the result was a free-for-all that confused voters and led to only a poor 43 per cent turnout. Many people said they did not vote because economic hardship prevented them from wanting to participate in politics.

Several former communists were elected to parliament, reflecting public antagonism to the spate of economic reforms and privatisation carried out by the government under International Monetary Fund guidelines. Moreover, during the past 18 months there have been frequent cabinet changes, intense power struggles and massive corruption scandals within the ruling elite which have disillusioned many people.

Facing a dire economic meltdown despite aid from the IMF, the United States and Japan, Akayev was forced to claim even more powers for the presidency to give him more control over the economy and stamp out rampant corruption. Falling GDP, large-scale unemployment, rising inflation and the lack of foreign investment continued to make it difficult for the country to provide even basic services to many people.

However, there was some foreign aid. On May 30, the Agha Khan arrived on a state visit after visiting his Ismaili followers in Tajikistan. The Agha Khan promised to help Kirgyzstan develop roads and other projects. A few days earlier Akayev had visited Manila in order to extract more aid from the Asian Development Bank. The ADP gave \$60 million in loans to finance the privatisation of agricultural land and renovation of the power and heating plant in Bishkek, plus \$5 million in technical assistance. The ADP is also supporting a loan package to small farmers as the government tries to eliminate large communes. On July 11, the International Finance Corp. said it would provide \$40 million towards financing a private-sector gold-mining project near the lake of Issyk Kul.

Kirgyzstan remains the darling of the international donor agencies because of its commitment to democracy and economic reform, but its lack of resources and its severe, landlocked geography make it difficult to attract either tourists or foreign businessmen.

### **Kirgyzstan Data**

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#### **Basic Data**

Area: 198,500 square kilometers

Population: 4.6 million

Ethnic composition: Kirgyz 56.5%, Russians 17.5%, Uzbeks 12.9%, 80 other ethnic groups

Labour force: 1.75 million

GDP (1993): \$3.92 billion (1992: \$3.67 billion)

#### **Military**

Army: 8,000 men under joint CIS control

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National forces: to be formed with approximately 5,000 men

### **Tajikistan**

The civil war which has continued unabated since 1992, claiming 30,000 dead and displacing hundreds of thousands of people, has devastated Tajikistan's economy and forced the government to depend increasingly on military and economic support from Russia and Uzbekistan. During 1995, United Nations-sponsored peace talks between the government of President Imamali Rakhmanov and armed Islamic opposition groups, who have their bases in northern Afghanistan, failed to yield any positive solution. The government's attempts to legitimise itself through elections were also unsuccessful.

During the winter months, fighting continued on the Tajik-Afghan border as Islamic rebels mounted raids into Tajikistan from Afghanistan. A Russian border force of some 25,000 men were involved in frequent clashes with the rebels. On January 3, six guards were killed by rebels on the border; two days later, Russian guards shot dead some 15 rebels.

A so-called cease-fire concluded in September 1994 under the auspices of the UN was due to expire on February 6. Although it was extended to the end of March, neither side took much notice, despite the presence in Dushanbe of some 17 UN military officers who monitor the accord. By the end of the year there were some 70 UN officers monitoring the cease-fire.

On February 26, the government held elections for a new 181-member parliament in a desperate attempt to try to legitimise itself. Reminiscent of polls during the communist era, the only candidates allowed to stand were those who supported Rakhmanov. The turnout was reported to be 85 per cent, even though the president's writ only runs in about half the country. The United States and Europe had refused to send observers to the elections, saying they could not be fair.

On Islamic opposition refused to take part and condemned the polls as a conspiracy. The only legal opposition party allowed to stand for just five seats – the People's Unity Party, led by former Prime Minister Abdumalik Abdullahdzanov – pulled out of the polls just two days before voting began, because of what it called "the anti-democratic practices by the Rakhmanov regime." The government did not seem to care.

On November 6, 1994, Rakhmanov had held presidential elections, which he won, even though the UN, Russia and Western countries had warned him that such polls were meaningless without the Islamic opposition being allowed to participate. That election also included voting on a referendum for a new constitution which gave the president even more powers, and which the new parliament now endorsed.

Fighting continued despite the cease-fire and the elections. At least eight Russian soldiers, part of the 25,000-strong CIS contingent propping up the regime, were killed by Tajik guerrillas in separate incidents in the capital Dushanbe. Dozens of rebels were killed in gun fights along the Afghanistan-Tajikistan border. Despite the government's best attempts, the elections did little to legitimise the Rakhmanov regime.

In March, UN Undersecretary-General Aido Ajello held four days of talks with the government in Dushanbe, and then arrived in Islamabad to meet with the Tajik opposition. The opposition's demands that Russian troops pull out of Tajikistan, prisoners be freed and a neutral interim government be established until fresh elections could be held, were constantly rejected by the government. One rebel leader, Akbar Turanzoda, warned on March 6 in Islamabad of an escalation in hostilities unless the Tajikistan government was more accommodating. Sporadic fighting continued.

In April, border guards killed 200 rebels on the Afghan border from an attacking force of some 600 rebels, who mounted a spring offensive against government outposts. Using heavy artillery and helicopter gunships, Russian border guards fought pitched battles with the rebels, who had laid siege to several government outposts. Some 40 Russian guards were also killed in these encounters.

The UN Special Mediator on Tajikistan, Piriz Ballon, escaped death near Dushanbe on April 10 when a mine blew up a military truck that was escorting his car. Russian planes bombed rebel bases in the Afghan province of Taloqan on April 14, resulting in protests from the Afghan regime of President Burhanuddin Rabbani and serious tensions with Kabul.

Fighting also spread to the Pamir region of Gorno-Badakhshan where the Pamiris were fighting a separate war demanding autonomy and even independence from Tajikistan. On April 14, some 50 rebels and six border guards were killed near Khorog, the capital of the region. By the end of April, Moscow had sent an extra 2,000 troops to Khorog to confront the rebels, who in turn accused Russia of breaking an agreement not to station additional Russian troops in the Pamirs.

Another round of UN-sponsored talks began in Moscow on April 16, but were broken off by the rebels after slurs made against them by the Russian Foreign Minister Andrei Kozyrev. The UN later persuaded the rebels to return to the negotiating table. On April 22, four foreign ministers from Russia and the republics issued a statement demanding an end to the civil war and direct talks between Rakhmanov and rebel leader Abdullah Nuri, who is based in Iran.

On May 14, the government arrested 20 rebels in Dushanbe, apparently for plotting to kill Rakhmanov. Nevertheless, Rakhmanov traveled to Kabul on May 17 to hold direct talks with Abdullah Nuri. Little progress was made, but after three days both sides signed a declaration of good intentions, and promised to meet in Almaty a week later. Subsequent talks lasting 11 days in the Kazakh capital also yielded no concrete results, though the official cease-fire was extended for another three months.

Meanwhile, faced with war in Chechnya, Russia beefed up its forces in Tajikistan and appointed the hawkish Gen. Valentin Bobryshev as the new commander of Russian border forces in Tajikistan. Despite extra pay, discipline among the border guards had been deteriorating rapidly because of the harsh conditions, frequent attacks by the rebels and no sign of peace being in sight. As many as 1,000 of the Russian and Central Asian guards were reported to have deserted over the past two years.

On the diplomatic front, Rakhmanov continued to be snubbed by most world leaders. However, in May the Agha Khan visited Dushanbe and the Pamir region, where large numbers of the Ismaeli community live. He promised to give considerable help to develop roads, agriculture and education in the area through the Agha Khan Development Network, despite the continued fighting. The Agha Khan was concerned about the

desperate plight of the Ismaelis living in the Pamirs, who were cut off from the outside world.

In July, Rakhmanov visited Iran and publicly asked President Rafsanjani for help to end the civil war in Tajikistan. Although Iran had backed the rebels in the past and several rebel leaders continued to live in Teheran, Iran had for some time tried to play a conciliatory role in the conflict. Some 12 agreements were signed between the two countries, and Iran gave \$10 million in credits to Tajikistan.

The economic crisis in Tajikistan continued to worsen, as the government was incapable of either providing effective security to the population or ensuring that industry and commerce continued to run. Most factories in the republic have already closed down or are running at much-reduced capacity, due to the shortages of raw materials and spare parts and the lack of technical personnel, many of whom have fled the republic.

Moscow continues to subsidise heavily the prices of basic commodities such as bread. On May 15, the government introduced the Tajik rouble, which was to be backed by the Russian rouble. This led to another round of price rises in major population centres.

The civil war in Tajikistan, along with the conflict in Afghanistan, remains one of the most pressing concerns for all the Central Asian Republics. The fact that the conflict involves Islamic fundamentalism, escalating ethnic and clan rivalries and hatreds and allows Russia to maintain a major military presence in the region, continues to give concern to all the regional capitals. However, there is no indication that either side is yet willing to compromise sufficiently to allow a peace agreement to take shape.

### **Tajikistan Data**

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#### **Basic Data**

Area: 143,100 square kilometers

Population (1993): 5.8 million

Ethnic composition (1993): Tajiks 58.5%, Uzbeks 23%, Russians 2%

Labour force: 1.9 million

**GDP** (1993): \$2.52 billion (1992: \$3.79 billion)

#### **Military**

Army: 25,000 Russian troops

Some 2,000 troops from Uzbekistan, Kazakhstan and Kirgызstan

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Estimated 5,000 rebel forces based inside country and in Afghanistan

## **Turkmenistan**

Turkmenistan continued on its path of authoritarian rule under President Saparmurad Niyazov, with opposition parties banned and a massive personality cult built up around the president. Earlier hopes that Turkmenistan would be able to tie up lucrative deals to build pipelines, so that it could export its vast resources of natural gas to Europe, remained on the drawing boards, due to the lack of international funding and political unrest among its neighbours.

In 1994, Turkmenistan's hand-picked parliament had extended Niyazov's term as President unconditionally until the year 2002. In parliamentary elections on December 12, 1994 to a new, smaller 50-man parliament, there were only 50 candidates from the ruling Democratic Party for all the seats. Naturally, they all won; members of opposition groups were either in jail or had gone into exile in Moscow.

In view of Turkmenistan's oil and gas riches, Niyazov had promised that he would turn his country into a new Kuwait. But so far there is no pipeline as an outlet for these products, except through Russia, which has been demanding higher and higher fees for the transit of Turkmen gas. There are plans to develop gas pipelines through Iran and Turkey to Europe, and another pipeline through southern Afghanistan and Pakistan via Karachi. But these are still on the drawing boards, because of the continuing civil war in Afghanistan and the unwillingness of Western donor agencies to fund building projects in Iran.

In January the president visited Turkey to try and seek funding for a \$6 billion gas pipeline through Turkey to Europe, but talks on financing the deal were not finalised. Meanwhile, a Spanish company was carrying out a \$900 million feasibility study for a gas pipeline, from Kushka on the Afghan border to Herat and Kandahar in Afghanistan, and on to Quetta and Karachi in Pakistan. Such a pipeline is unlikely to be built until the war in Afghanistan comes to an end.

In April, Turkmenistan, Iran and India signed a trade pact in New Delhi to allow India access to trade with Turkmenistan through the Iranian port of Bandar Abbas, on the Arabian Gulf. India will thus be able to bypass Russia and war-torn Afghanistan in developing its future relations with Central Asia.

The new railway link between the Iranian town of Meshad and Sarakh, on the Turkmen border, now allows Turkmen goods to be exported directly through Bandar Abbas. However, Iran remains apprehensive about

allowing the transit of Turkmen gas exports, because of the effect they may have on exports of Iranian gas.

On March 3, Turkmenistan took the lead in calling for a summit on cleaning up the highly polluted Aral Sea. All five Central Asian leaders participated in the meeting, which set up a fund to study the problem. The World Bank has given \$40 million to conduct a study on how the sea can be saved.

Turkmenistan has maintained strict independence, refusing to join organisations based in the Commonwealth of Independent States or to participate in plans for integration of the Central Asian states. However, at the same time, the president has firmly linked the country's security and defence forces with those of Russia through a series of military pacts, ensuring that Russia does not interfere politically in the republic.

Despite its vast gas and other mineral resources, Turkmenistan's geography – trapped between the war-torn Afghanistan and an unacceptable Iran – has made it extremely difficult for the country to attract foreign investment. Moreover, Niyazov's harsh authoritarian rule, media censorship and lack of economic reforms have made the country a natural target for international human-rights groups and led to a dampening of outside interest in the country.

### **Turkmenistan Data**

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#### **Basic Data**

Area: 488,000 square kilometers

Population (1993): 3.9 million

Ethnic composition: Turkmen 72%, Uzbeks 13%, Russians 12.6%

Labour force: 1.85 million

**GDP** (1993): \$5.16 billion (1992: n.a.)

#### **Military**

Army: 34,000 men under joint CIS control

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National forces: to be formed

### **Uzbekistan**

President Islam Karimov, a former communist party member, has held a firm grip on Uzbekistan since independence, banning opposition parties, maintaining a large state-run economic sector and being slow to liberalise either politically or economically. Moreover, he has played an

increasingly important regional role, which makes leaders of the other Central Asian republics both suspicious and anxious.

Karimov held two rounds of elections on December 25, 1994 and January 15, 1995 for a new 250-seat parliament or Oli Majlis. His People's Democratic Party or PDP (the former Uzbek communist party) won 231 seats, with the remainder going to close allies in the Party of National Progress, which Karimov himself set up two years ago. Turnout was again reported to be 93 per cent, with government officials forcing voters to vote. However, it was also reported that in at least seven constituencies re-polling had to be carried out because the initial turnout was less than 50 per cent.

Opposition parties, whose members have mostly been jailed or gone into exile, have been banned since 1992 and were barred from standing in the elections. The strident Uzbek nationalist groups who oppose continued Russian influence in Central Asia have been eliminated, while the Islamic fundamentalist opposition remains strong, especially in the Ferghana valley, though it has been driven underground. The government did not bother with the formality of inviting foreign observers to the elections.

Following the trend in other Central Asian states, Karimov then held a referendum on March 26 to extend his presidency until the year 2000. The government claimed that there was a 90 per cent turnout by the country's 11 million voters, of a total population of 22 million. By deciding on the referendum, Karimov avoided the politically sensitive decision of holding presidential elections, which were due later in 1995. Most Central Asian leaders have used the same tactic to avoid elections and having to face up to the problem of candidates standing against them.

On March 3, Karimov joined other Central Asian heads of state at the special summit to discuss the clean-up of the Aral Sea. With much of the sea located in western Uzbekistan, and the drying up of its waters having led to severe ecological and economic damage to the entire region, Karimov was at pains to try to persuade his fellow leaders to contribute to the clean-up, for which the World Bank has already given \$40 million.

Former Turkish Prime Minister Tansu Ciller visited Tashkent on July 7 for two days. She inaugurated a new theme and cultural park called "Tashkent Land," a \$100 million project built by the Turkish private sector. Ciller also announced a new \$200 million credit line for Uzbekistan and signed four agreements to expand trade ties. She stresses that Turkey, which has 172 joint ventures in Central Asia and has invested over \$1 billion there over the past four years, would continue building closer links with the region, despite Turkey's own severe economic problems.



Pakistan, meanwhile, has 54 joint ventures with Uzbekistan, worth some \$72 million. Pakistani delegations signed several new agreements with Uzbekistan, including the avoidance of double taxation, a continued credit line of \$30 million which had initially been given in 1992, and organising trade fairs. Prime Minister Benazir Bhutto visited Tashkent; both countries have a common policy in Afghanistan, which is to oppose the government of President Burhanuddin Rabbani and back Uzbek warlord Gen. Rashid Dostum.

Other foreign investment in Uzbekistan remained small because of the slow pace of economic reforms. On March 31, the World Bank gave Uzbekistan \$160 million for its promised privatisation and economic reform programme and to help ease the country's shortage of foreign exchange. This loan followed a cooperation agreement in 1994 between Uzbekistan and the International Monetary Fund to develop the country's private sector and initiate major economic reforms. However, Karimov has been particularly slow in implementing many parts of the agreement.

On May 27, Newmont Mining Co. of the United States announced that it would start work on a \$225 million project to develop the gold mine in Muruntau, in the Kizil Kum region. The European Bank for Reconstruction and Development raised \$105 million for the project – the first syndicated loan ever raised for Uzbekistan.

Uzbekistan has continued to play a major regional role. It has backed the government of Tajikistan in its war with Islamic rebels by providing military aid and military technicians as well as pilots to Dushanbe. Tashkent is also providing military support for Dostum in northern Afghanistan. In 1995, Dostum received ammunition, spare parts and fuel for his tanks and aircraft, as well as an unknown quantity of tanks from Uzbekistan.

At the same time, Karimov has repeatedly snubbed Turkmenistan's attempts to build a gas and oil pipeline for itself through Iran and Turkey to Europe. Karimov remains adamant that Uzbekistan must be a part of any new regional pipeline to the West.

Uzbekistan's relations with Russia have remained a mixture of defiance and surrender. Karimov remains militarily dependent on Russia, especially for Moscow's containment of the civil war in Tajikistan, where the local Uzbek population is opposed to the Islamic rebels and has backed the government fully. At the same time, Karimov has tried to appear as an Uzbek nationalist by defying the Russians over such issues as the granting of dual nationality to Russian settlers in Uzbekistan – something which the much weaker Turkmenistan has already conceded.

Uzbekistan with a population of 22 million, over 50 per cent of whom are under 20 years old, is facing a continuing economic crisis, growing unemployment, rising prices and a weakening of its currency. Despite the considerable mineral resources in the country, foreign investment has remained small because of the authoritarian style of the Karimov regime, the sluggish bureaucracy and the lack of reforms and modernisation.

Despite an apparent political calm, there is a growing Islamic movement in the Ferghana valley in the east of the country. With Uzbekistan's size, population and clout, no government in the region can afford to ignore the country or its post-communist leadership. Despite the fears and suspicions he generates in the Central Asian region, Karimov has been slow to play a more positive role in bringing the five republics together in a more productive programme of economic integration.

### **Uzbekistan Data**

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#### **Basic Data**

Area: 447,400 square kilometers

Population (1993): 21.9 million

Ethnic composition (1993): Uzbeks 71%, Russians 10.8%, Tajiks 4%, Tartars 4.2%

Labour force: 8.11 million

**GDP** (1993): \$20.43 billion (1992: n.a.)

#### **Military**

Army: 15,000 men under joint CIS control

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National forces: one brigade of 700 men

## Competition Policy and Democracy in Pakistan

Shahid Amjad Chaudhry

### Abstract

This paper argues that competition policy has focused exclusively on the productive and financial sectors which has consequently seen periods of extreme concentration of assets by the private sector, nationalisation and subsequent privatisation and de-regulation. However, the political momentum generated from the nationalisation moves in industry and finance has resulted in complete government control through nationalisation of the education sector which has had adverse consequences for human resource development. Public administration has also deteriorated as a result of expansion of the nationalised sector and consequent diversion of economic rents to public administrators. The challenges facing the economy are to increase competitiveness and reduce rent seeking through eliminating trade barriers, privatisation and de-regulation in the production, finance and education sectors which are only possible in democratic environments and which reinforce the democratic process itself particularly through human resource development. An important dilemma relates to the infrastructure and energy sectors where issues of privatising natural monopolies and cartels raise questions of institutional capacity in regulating these sectors.

**Table-I: Pakistan – Review of Competition Policies**

	% of GDP 1992-93	Democracy 1947-58	Dictatorship 1958-71	Democracy 1972-78	Dictatorship 1978-88	Democracy 1988-95
Agriculture	25%	Concentration	Land Reform	Land Reform	Concentration	Trade Lib
Industry L/S	12%	Competition	Concentration	Selective Nationalisation	Concentration	Trade Lib
Finance & Insurance	03%	Competition	Concentration	Total Nationalisation	State Owned	
Education	03%	Competition	Competition	Total Nationalisation	State Owned	State Owned
Public Adm.	08%	Competition	Competition	Politicised		Politicised
Electricity	03%	Competition	State Owned	State Owned	State Owned	State Owned
Gas	01%	Cartel	Cartel	Cartel	Cartel	Cartel
Transport & Comm.	0.1%					
Infrastructure	10%	State Owned	State Owned	State Owned	State Owned	

*Paper presented at a symposium on "Markets and Democracy" at Vrije University, Amsterdam on September 28, 1995.*

## **Introduction**

Pakistan has had a chequered history alternating between roughly equal periods of democratic government and military dictatorship over the past almost 50 years of its existence as an independent country. Five historical perspectives are important from the point of view of the analyses at hand:

- (i) The first democratic period 1947-58 was a period of weak democratic but liberal governments.
- (ii) The first military dictatorship (F.M. Ayub Khan) 1958-68 was largely liberal and focused on reducing concentration in agricultural land – holdings while allowing concentration in large scale industry and finance to increase in protected democratic markets. This the second successor military government of Gen. Yahya Khan tried to correct by creating a Monopoly Control Authority but was overtaken by events in 1971 in East Pakistan.
- (iii) The second democratic period (Mr. Zulfikar Bhutto) 1972-1977 saw wide – spread nationalisations not only in industry and finance but also in education, as well as land reform – reflecting a populist anti-concentration platform and the pro-public sector philosophy of the time;
- (iv) The third military dictatorship (Gen. Zia-ul-Haq) 1977-1988 saw a strengthening of concentration both in the nationalised public sector and the private industrial and agricultural sector; and
- (v) The current democratic period (1988-to date) has seen unprecedented liberalisation and de-regulation, yet many sectors still remain to be deregulated and exposed to competition.

## **Competition Policy in the Agricultural Sector**

The first sector on which competition policy focused ten years after the creation of Pakistan in 1947 was the agriculture sector in which large feudal holdings (many in excess of tens of thousands of acres) dominated. Of the total farm area of 45-50 million acres, 12-15 per cent officially and about 20-30 per cent unofficially was owned and cultivated by about 6000 big landlords during the first democratic period of 1947-58 and these land-owners soon began to exercise political supremacy in the country.

**Table-II: Pakistan – Concentration of Assets in the Agricultural Sector**

	Democracy 1947-58	Dictatorship 1958-71	Democracy 1972-78	Dictatorship 1978-88	Democracy 1988-95
Agriculture Growth rates	2.4%	3.9%	2.2%	3.9%	
Agriculture Policy	Concentration	Land Reform	Land Reform	Concentration	Trade Lib
Gini Coefficients of operated areas		0.5137	0.5177	0.5353	0.5847
Big Farms/ Ceiling (acres)	None	500	150	150	150
Acreage (Mn acres)	7.5	7.7	4.5	4.0	4.8
Number	6061	5904	16163	14031	15471

**Source:** The Pakistan Development Review, Spring 1974 and Winter 1993.  
Data are for 1948, 1959, 1970, 1980 and 1991 respectively.

Both the first military dictatorship and Mr. Bhutto’s democratic government elected on a populist anti-big industrialist, anti feudal platform cut down agricultural land holdings. A great degree of reduction of concentration in landholdings was achieved although the 1972 legal ceiling of 150 acres is alternatively measured in Produce Index Units which can increase it to about 350 acres. Lately there has again been an increase in average size of farm area in large holdings to 310 acres in 1991 from 286 acres in 1980. However, while farms of thousands of acres still exist (held in names of family members and retainers), unlike earlier times there is no serious demand for further land reform. The current democratic government of Ms. Bhutto with its deep roots in the agricultural sector received a recommendation from (its) Prime Minister’s Task Force on Agriculture to allow “Corporate agriculture” without area limits. This may indicate future direction of political policy actions.

With regard to sub-sector and crop specific competition policies the sector has received largely negative effective protection (with the possible exception of the live-stock sector). Limited price support programme (all below international prices) are in place for a few crops. There are trade restrictions on exports of foodstuff but competition policies in the current democratic environment are focusing more on freer trade in agriculture. An important policy action being considered is to price irrigation water more realistically and distribute it through Area Water Boards. Since access to cheap water resources is an integral part of the big farmer/feudal syndrome, if implemented this will greatly increase competition in the agricultural sector.

**Competition Policy in Industry and Finance:**

Whilst the first military dictatorship (1958-1968) focused on land reform (reflecting its largely urban ideology and power base) it encouraged concentration in the industrial and finance sectors. By the end of 1970, eighteen industrial groups (Dr. Mahbub-ul-Haq's 22 families) controlled an overwhelming dominant share of the country's industrial assets, banks and insurance companies. The subsequent democratic government's (Mr. Z.A. Bhutto) reaction was populist and state oriented. Major industrial sectors (steel, petroleum chemicals, cement, vegetable oils) were nationalised as were all banks and insurance companies. There followed a period of industrial stagnation which recovered in the following dictatorship period as private industrial and commerce houses rebuilt themselves under military patronage.

**Table-III: Pakistan: Concentration of Assets in the Industrial and Finance Sector**

	Democracy 1947-58	Dictatorship 1958-71	Democrac y 1972-78	Dictatorship 1978-88	Democracy 1988-95
Industrial growth rates(LS)	18%	10.8%	3.7%	9.0%	4.8%
Industrial Policy	Competitio n	Concentration	Selective Nationalisa -tion	Concentration	Trade Lib
Finance Sector Policies	Competitio n	Concentration	Total Nationalisa -tion	State Owned	Competitio n
Number of "Monopoly Houses"		18%			38%
Control of Karachi Stock Exchange Assets		60%			46%
Control of all Assets in Large Scale Industry		35%			Less than 20%
Control of Banking Assets		51%			Less than 10%
Control of Insurance Assets		50%			Less than 10%

**Source:** For 1970 "Private Industrial Investment in Pakistan", R. Amjad for 1992, Lahore School estimates.

The recent democratic governments have followed a patter of de-regulation and privatisation of both state owned industry and financial and banking sectors. While industrial concentration is again on the rise, with 38

local industrial groups now controlling almost half the assets listed on the Karachi Stock Exchange (book value), trade policy in the form of reduced tariffs (now down to about 65 per cent from about 120 per cent in the early 1980;s) is being used to reduced economic rents. Although recently the industrial lobby delayed the phased reduction in tariffs agreed to with the IMF. The banking and insurance sector has been introducing new private institutions which are constraining the rents accruing to the beneficiaries of the state finance sectors and leading to increased efficiency in the financial sectors.

### Competition Policy in Education

Whilst the focus of competition policy was on the agricultural, industrial and financial sectors which suffered from the excessive use of a blunt policy instrument of nationalisations, these sectors proved to be fairly robust in their recovery as more sophisticated competition policies were adopted particularly in the last several years of democratic governments. However, the sector which has suffered the most has been the education sector and the excesses here have not yet been redressed with drastic effects on Pakistan's human resource development.

**Table-II: Pakistan – Concentration of Assets in the Agricultural Sector**

	Democracy 1947-58	Dictatorship 1958-71	Democracy 1972-78	Dictatorship 1978-88	Democracy 1988-95
Pakistan	Competition	Competition	Nationalisa-	State	Competition
Education Policy	Public/Private	Public/Private	tion	Monopoly	
Schools				Public	
Colleges/Universities	Competition	Competition	Nationalisa-	State	State
	Public/Private	Public/Private	tion	Monopoly	Monopoly
				Public	98% Public
					02% Private
<u>Pakistan</u>					
(End Decade)					
Primary School E/R	30%	40%		46%	
Secondary School E/R	11%	13%		21%	
Higher Education E/R	01%	04%		03%	
<u>India</u>					
<u>Education Policy</u>					
(End Decade)					
	Competition	Competition	Competition	Competition	Competition
	Public/Private	Public/Private	Public/Private	Public/Private	Public/Private
Primary School E/R	41%	73%		102%	
Secondary School E/R	23%	26%		44%	
Higher Education E/R	02%	05%		n.a.	

**Source:** Data for Enrollment Rates are for 1960, 1970 and 1992 respectively from the World Development Reports, World Bank..

When Pakistan came into existence in 1947 the education sector was deregulated and quality education by public and private institutions (including foreign and local religious and church run institutions) were provided at both school and college levels all over Pakistan – although coverage was understandably fairly thin after a hundred years of colonialism. This situation prevailed in both the first democratic period and the first dictatorship period (which has been characterised as a liberal dictatorship). However, the education sector was engulfed by Bhutto's populist democratic government where the extreme left in his government prevailed in the nationalisation of all private education institutions in the country (except the dozen missionary schools). The biggest single bureaucracy in the country was created (there are more than 400,000 state employed teachers in Punjab alone) and the emphasis shifted in schools, colleges and universities from providing quality education to maximising bureaucratic benefits. This state of affairs continued in the subsequent military dictatorship period where General Zia-ul-Haq fostered a religious agenda on the educational institutions and religious political groups were given effective control over all educational institutions which they exercised to the utmost, particularly in the Universities.

It was almost inevitable therefore that education in Pakistan deteriorated both in qualitative and quantitative terms as the State itself could not mobilise the required resources and even the resources utilised were used inefficiently. All Pakistan's present educational indicators (Table-IV) show Pakistani performance in education at roughly half the Indian level despite a real per capita income level twice that of India. The saddest aspect is that the higher education sector in Pakistan, with a very few notable exceptions, has become an intellectual wasteland.

The recent democratic governments have not yet moved to deregulate the education sector and the huge public education bureaucracy. Their political mentors are creating every obstacle to protect their monopoly positions and prevent the creation of private and non-profit (NGO) educational institutions. Despite this, some private educational institutions (largely at the school level) are surfacing – basing their curricula and degrees on foreign examination authorities. Overall however, the monopolised public sector educational system presents a thoroughly unsatisfactory state of affairs and needs to be corrected. Bangladesh's de-regulated educational sector policies which allow both public and private universities and treat public and private schools and colleges equally without bureaucratic regulation provide an excellent model for Pakistan to follow.



### **Competition Policy in Public Administration**

Mr. Zulfiqar Bhutto's pro-public sector policies discussed above created a vast bureaucracy (currently there are 3 million government civil employees plus a million in the Armed Forces) which comprises 36 per cent of the total employed labour force of the country (there are another 14 million self-employed including agricultural workers and 7 million unpaid family labour). This vast bureaucracy (with a very few honourable exceptions) is essentially not living off its government salaries but is the beneficiary of large economic rents accruing in all sectors where the public sector is actively engaged – nationalised and publicly owned financial institutions, nationalised and public sector industry (particularly steel), public infrastructure, nationalised education, civil administration, etc.

Given the above situation it was almost inevitable that all political and military governments starting with Mr. Bhutto (who undertook the nationalisation and monopoly processes in favour of the public sector) have sought to undermine the independence of the bureaucracy and fill positions with their own supporters. While fortunately elements of integrity remain in the selection of the elite bureaucracy through Public Service Commissions, the lower bureaucracy which comprises 95 per cent of total government employment are now subject to political appointments (almost always in relaxation of rules which specify minimum qualifications) and subjected to complex regional/provincial quota restrictions. Many of the current political problems particularly in the urban areas of Karachi where educated youth find public and semi-public employment avenues closed to them (including in the vast public education sector) can be traced to this erosion of merit as a criteria for employment in the public sector.

An appropriate competition policy for the public administration sector would need several components, (i) A fair and competitive selection process for both initial selection and through successive promotions, (ii) Openness in bureaucratic decision making through a "Freedom of Information Act.", and (iii) A pay and incentive structure relating salary to performance. These are not currently being contemplated in the present political environment.

### **Competition Policy in Infrastructure Sectors**

Pakistan has launched itself on the complex route of privatising the key telecommunications sector to a selected foreign company. Twelve percent of the state-owned telephone monopoly (2.5 million lines) has been sold for \$ 1 billion to the general Pakistan public (2%) and foreign investors (10%) in anticipation of a remaining major share disinvested to a foreign

“strategic” buyer. Similarly, the power authority (WAPDA) with gross revenue in excess of \$ 3 million per annum (30 per cent of the Pakistan Federal Budget) is also being readied for privatisation.

While WAPDA has announced a power purchase programme from private generators at attractive prices, its monopoly over the sector will remain largely intact even with these “captive” power plants. This Power Authority is particularly inefficient with transmission and line losses (in many cases through theft, aided by employees) at about 25 per cent – which is three times the world average. Both this Authority and PTC are obviously the beneficiaries of monopoly rents. A sensible privatisation programme (including a foreign buyer) would obviously be in order if appropriate regulation could be ensured. Given the state of poor public administration in Pakistan, several questions arise whether regulation would be adequate. In such a situation, an appropriate alternative strategy would be to privatise both the telecommunication and power system in parts, starting with distribution, privatising a large number of companies (both local and foreign) in different regions, cities and other areas grouped within local government boundaries. This has worked very successfully in the de-regulation process of these sectors in the USA.

Another set of competition policies and regulatory issues arise with regard to petroleum import, refining and distribution policies. Pakistan imports roughly two thirds of its petroleum requirements (with a value of about \$1.5 billion). Oil and petroleum product imports are a state monopoly (of Pakistan State Oil). Refined products are handed over for distribution to essentially three companies – one state owned and two foreign owned – (Pakistan State Oil, Caltex and Shell). Similarly, gas production in Pakistan (meeting 50 per cent of national energy requirements) is largely generated by one major field (Sui)-which is foreign owned and distributed by two state owned companies in the process of being privatised to strategic foreign buyers. The entire energy sector is essentially a large cartel. Regulation of both the petroleum and gas sectors is not transparent. There are therefore serious questions which relate to the privatisation strategy of the government in the absence of adequate regulatory capacity and it may make a great deal of sense to privatise it in ‘many parts’ as recommended for the electricity and telephone sectors.

In the roads sector, the Pakistan Highways Authorities are encouraging a BOT (Build, Operate, Transfer) approach to a large number of construction companies, both domestic and foreign with regulated but generous tariffs. This seems to be a sensible approach – being in line with the proposals made above – and should be encouraged.

## **Competition Policy and Democracy**

Prudent competition policy and de-regulation go hand in hand with democracy and mutually re-inforce each other. In Pakistan, competition policy is appropriately focusing in the case of traded sectors on increasing competition through more liberal trade policies and reducing and eliminating tariffs. Some recently privatised industrial sectors such as cement, where transportation costs are high, have formed cartels and a regulatory authority for the private industrial sector – The Monopoly Control Authority – is struggling to deal with them. However, these problems are manageable in the long term as regulatory capacity is developed. It is in the non-traded sectors, notably the human resource sectors like education and public administration, that competition policy has failed and no solutions are being sought or are in sight. Finally, the infrastructure and energy sectors raise questions of regulation both in their public and currently proposed private sector modes.

The Regulatory Authority which presently exists in Pakistan to deal with these issues is the Monopoly Control Authority established in 1971 under the Monopolies and Restrictive Trade Practices (Control and Prevention) Ordinance 1970 promulgated by the second military government (1968-71). This was a response to the public concern about the increased concentration of economic power in industry and finance during the first military government of F.M. Ayub Khan (1958-1968). The Ordinance (Law) regulates the following situations: (i) Undue concentration of economic power; (ii) Unreasonable monopoly power and (iii) Unreasonably restrictive trade practices. Regulation of “Undue Concentration of Economic Power” can be ordered through disinvestment of share capital to the general public while “Restrictive Trade Practices” (including price fixing by a monopoly or cartel) can be ordered to be corrected. While this Law is a good starting point it has not been applied or used in the last few years to any significant effect (unlike India where it is used fairly effectively). It is also restricted to the private industrial sector. The Law needs to be extended to all sectors and to public and semi-public enterprises. The Monopoly Control Authority needs to be strengthened to ensure that competition is encouraged in every sector of the economy.

Finally, it should be noted that the first Pakistani democratic response to extreme concentration of economic power and monopoly situations was that of nationalisation. This was probably in line with the pro-state economic philosophy of the times and did not recognise the fact that state monopolies are both inefficient and encourage rent-seeking by bureaucrats. However, the current emerging concentration in the industrial sectors and the potential inherent for extreme concentration as a result of the planned privatisation process, particularly in the infrastructure sectors, is a cause for concern. While the current democratic response and economic thinking in Pakistan is more

enlightened and in line with current economic philosophy to use more sophisticated indirect policy instruments to encourage competition, unless the democratic governments in power encourage competition, regulate monopolies, and by any means do not create new monopoly situations (even for progressive, big multinationals), the next democratic response may be emotional. It could possibly lead to re-nationalisation or at the very least the slow down of desired privatisation in many sectors of the economy.

*Annexure – I – I*

**Sectoral Growth Rates**

	<b>Democracy 1947-58</b>	<b>Dictatorship 1958-71</b>	<b>Democracy 1972-78</b>	<b>Dictatorship 1978-88</b>	<b>Democracy 1988-95</b>
G.D.P.	3.1	5.2	5.8	6.6	4.8
Public Administration	2.7	5.9	12.7	6.5	3.3
Agriculture	2.4	3.9	2.2	3.9	3.5
Industry LS	18.0	10.8	3.7	9.0	4.8
Finance & Banking	8.6	13.0	11.9	7.1	4.1
Electricity & Gas	9.9	20.9	8.0	8.9	9.5
Transport & Communication	4.7	5.1	6.9	7.6	4.1

**Source:** Pakistan Economic Survey, Statistical Supplement 1993-94.



## **Gender and Structural Adjustment in Pakistan**

**Shahrukh Rafi Khan and Mehnaz Ahmad**

### **Abstract**

We review the change in the socio-economic condition of women during the intensive period of structural adjustment (1987/88 onwards) in their role as producers, as home managers and as mothers. In their role as producers, overall female labour force participation increased such that their share in the labour force virtually tripled. However, over this period there has also been a dramatic decline in female self-employment and a more dramatic rise in the female unemployment rate. In their role as home managers, women confronted a more than doubling of the sensitive price index and a cut in consumption subsidies as a percent of the budget by about two-thirds. The price of wheat, from which the poor derive almost three-fifths of their caloric intake and three-fourths, also more than doubled. In their role as mothers, data show that compared to 1987-88, education expenditure as a percent of GNP has been constant while that of health has actually declined.

### **Introduction**

“If men and women were to take turns bearing children and if men were to bear the first, no family would have more than two children.” This is a hard hitting saying by a down-to-earth woman. One could also say that if men lived the lives of poor rural or urban women for a day, they would quickly endorse a special focus on the condition of women. As things stand, in Pakistan, a special focus on women is often suspected to be driven by a foreign agenda. Even so, one needs to consider the ideological resistance to studying women and to subsequent interventions to improve their social and economic conditions.

Without quoting specific sources, it is possible to present the general view negating a special focus on women. Households are viewed as integrated units to which all contribute as teams. Women are viewed as part of households in their capacity as mothers, wives, daughters etc. Hence any independent identity for them negates this concept of an integrated household in which women play a central role for which they are accorded due respect. This is a comfortable view for men, but it denies the harsh

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social reality that women confront. There are many quotes which illustrate this harsh social reality, but the following one from the *Report of a Commonwealth Expert Group on Women and Structural Adjustment*<sup>1</sup> (1989, p. 3) sums it up well: "Women account for half the world's population, perform two-thirds of the hours worked (though are recorded as working only one-third of those hours), received one-tenth of the world's income, and have one hundredth of the world's property registered in their name." Given such statistics, one has to be blind to basic social justice to condemn studies and policies with a special focus on women as inspired by a culturally alien foreign agenda.

The harsh social reality confronted by so many women is an important reason that justifies a special focus on women as a subject of research and as a target group. Another reason for such a special focus is that women may not share men's vision of an integrated household. There is evidence that women have opted for wage work rather than work for their husbands in order to retain control over income (Elson, 1991). This does not negate that women in general work as a team with their husbands to attain household goals. However, it suggests, as is corroborated by evidence, that women's expenditure choices are often different. Various studies have documented that women are likely to spend more on improving the nutrition, health and education of their children than men are (Onimode, 1991). This gives credence to the conceptualisation of household decision making in a cooperation-conflict framework as opposed to the more simplistic framework of new household economics that assumes a benign household head (normally male) acting in the best interests of the family.<sup>2</sup>

### **Conceptual Framework and Method**

The *Commonwealth Report* suggests a useful conceptual framework for systematically presenting empirical evidence pertaining to women and structural adjustment. This framework suggests sorting information in terms of the multiple roles women perform, i.e. as producers, household managers, mothers and community organisers.<sup>3</sup> Structural adjustment affects the nature of women's labour force participation, working hours and wage rates and hence their role as producers. It results in household reallocation decisions by affecting consumer prices and subsidies and hence their role as home managers. Finally, it affects the price and availability of social services

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<sup>1</sup> Referred to in this paper as the *Commonwealth Report*.

<sup>2</sup> See for example Dreze and Sen (1989, pp. 56-59).

<sup>3</sup> Also see ed. Afshar and Dennis (1992), particularly the contributions of Frances Steward and Diane Elson, Tanski (1994) and Haddad et. al. (1991). In Pakistan and other developing countries, instead of viewing women as community "organisers," it may be more appropriate to study the impact of structural adjustment on womens' community "role".



and hence their role as mothers. A more active community role could be a component of survival strategies that women seek in dealing with the effects of structural adjustment.<sup>4</sup>

This multiple role framework concentrates on women's current situation. In addition, structural adjustment could also affect the future ability of the current generation of girls to perform these multiple roles by more adversely affecting their nutrition, health and education than it does that of boys. Thus, evidence on comparative social statistics of children by gender is relevant to an investigation of women and structural adjustment.

Most empirical work on the impact of structural adjustment confronts the problem of establishing causality since it is impossible to replay history to see what the condition of the relevant social group would have been without structural adjustment. The lack of such a counter-factual deters only the purist, while the rest pursue other lines of inquiry making the relevant qualifications.<sup>5</sup> One such qualified line of inquiry is "before-after" studies. Here one has to make the assumption that the change observed by such studies can be attributed predominantly to the impact of structural adjustment. Since many other social and economic trends could be operating independently of structural adjustment, such evidence is at best viewed as circumstantial.

Our view is that it is possible to go beyond circumstantial evidence. Thus in looking at the role of women as producers in the agricultural sector, it could be possible to identify how price liberalisation affected the agricultural goods price structure and subsequently how the cropping pattern changed. Given independent information on female labour intensity by cropping pattern, it would be possible to infer how structural adjustment is likely to have affected agricultural employment of women. More generally, public sector job retrenchments and a (short term) rise in unemployment induced by stabilisation measures may induce a rise in female labour force participation rates.

Again, it is possible to see how reform induced subsidy cuts changed prices of essentials and how this altered consumption patterns and nutritional intake over time. Thus, women may change consumption patterns by switching to cheaper foods, economising on fuel, cutting expenditures on consumer durables and attempting communal buying. As mothers, women may have to confront cuts in basic social services like health, education and

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<sup>4</sup> This conceptual framework is useful for organising and presenting data into categories, although the originators of this framework are unlikely to assert that these are either exhaustive or non-overlapping.

<sup>5</sup> Toye (1995, pp. 13-18).

water supply or deal with new user charges for such services. Cuts in social sector expenditures may raise morbidity rates, reduce life-expectancy and reduce educational attainment.

Thus it may be possible in some cases to isolate specific structural adjustment policies and investigate their gender impact. To do so, we work with a “before-after” scenario. Since the intensive period of structural adjustment reform started in 1987/88, when possible we will compare the period following 1987/88 to earlier periods.

### Evidence

#### *a. Women as producers*

In most countries, including Pakistan, women’s household work is ignored by the national accounts and women’s contribution in the informal sector, where the majority of women are employed, is also under-estimated. Women supplement the family income by selling home grown vegetables and craft goods such as embroidered clothes. Alternatively, they are involved in subsistence agriculture and this contribution to the economy is also seldom recognised. Thus inadequate statistics on the contribution of women in various activities serves as a barrier in estimating the true contribution of women to the economy and hence in discerning the impact of structural adjustment policies on women as producers.

The age specific participation for the years 1969-79 and 1988-92 are reported below in Table-1.

**Table-1: Labour force participation rates by age and gender**

<b>Age Group</b>	<b>1969-79</b>	<b>1988-93</b>
10 Years & Above		
Male	76.6	70.5
Female	8.3	12.8
10-14		
Male	32.6	20.1
Female	4.8	7.3
15-44		
Male	87.6	82.7
Female	9.5	12.1
45-60+		
Male	86.6	85.6
Female	7.7	11.4

**Source:** Pakistan Economic Survey 1995-96, Statistical Appendix, p. 24.

For the 10-14 age group, there is a very notable decline in labour force participation rates for males over the two sub-periods. This suggests a decline in male child labour which is a positive development. However, for the same age group, female labour increased by about 2.5 per cent. This selective increase in female child labour is distressing given that girl enrollment ratios are already much worse than those of boys (section 3c).

Overall, male participation in the most active 15-44 age group rates declined by about 6 per cent across the two periods while there was a corresponding increase in female participation rates of 2.6 per cent (3.7 per cent in the 45-60 age bracket). Thus it would appear that as men were forced out of the labour force or migrated, more women entered it to compensate for the fall in household income.<sup>6</sup> This is confirmed by looking at the gender composition of the civilian labour force which shows almost a tripling of women in the labour force over the structural adjustment period being considered.

**Table-2: Selected labour force statistics by gender (percentages)**

	1987-88		1993-94	
	Female	Male	Female	Male
Civilian labour force	5.1	94.9	14.6	85.4
Self-employed	20.9	55.7	15.6	46.3
Unemployed	0.9	3.4	10.0	3.9

**Source:** *Labour Force Survey* 1987-88 (pp. 100, 101, 137) and 1993-94 (pp. 169, 284, 200).

Table-2 above however also shows a sharp increase in the female unemployment rate from about 1 per cent to 10 per cent. Thus while many more women entered the labour force, many of them were unable to find jobs or were squeezed out by men. It also appears that over this period the ability to make ends meet by working for oneself sharply declined. There was about a 10 per cent decline in self-employment among males and about a forty per cent decline in self-employment for females.<sup>7</sup>

<sup>6</sup> For evidence on a dramatic increase in unemployment rates post 1987-88 in occupations where one could expect a high incidence of the poor, see Khan and Aftab (1993).

<sup>7</sup> Unfortunately the secondary statistics we are relying on are not reported by household head. The Household Integrated Economic Surveys however show that the reported female headed households increased from 6.07 per cent of the total in 1987-88 (p. 51) to 7.86 per cent of the total in 1992-93 (p. 51), a thirty per cent increase.

***b. Women as home managers***

While men allocate income for household consumption, managing and budgeting household consumption to meet basic needs is usually the responsibility of women. Inflation makes making ends meet more difficult. Table-3 below reports inflation from 1977-78 onwards with averages for two sub-periods.

**Table-3: Annual percentage change in the sensitive (SPI) and general consumer price index (CPI)**

<b>Year</b>	<b>SPI (12 months average)</b>	<b>CPI (12 months average)</b>
1977-87	4.6	4.8
1988-95	10.6	9.8

**Source:** Annual Report 1994-95, p. 24, State Bank of Pakistan.

**Note:** 1980-81 is the base year.

The CPI coverage is confined to 464 items of mass consumption collected from 24 urban centers. The SPI is confined to 46 essential items and 47.6 per cent weight in the basket is given to low income consumers with a monthly income of Rs. 1000/-.

From being slightly lower than general inflation prior to 1987, the SPI, became higher in the following period. Thus coping became more difficult for women in poor households.

Ironically, coping with inflation is one of the main areas of concern for structural adjustment policies and yet may components of structural adjustment induce supply side shocks that can result in a spiraling process of cost-price increases which generate self fulfilling inflationary expectations. These structural adjustment “shocks” include price increase from the reduction of subsidies especially on food items, from more general price de-controls (e.g. raising producer prices for farmers), from devaluation and from the imposition of user charges for various publicly provided services.

Table-4 below shows the subsidy cuts over the last decade.

**Table-4: Government expenditure on subsidies of major consumption goods of the poor**

Year	Subsidies as % of Government Expenditure	Subsidies on Sugar & Wheat as % of Current Subsidies	Subsidies on Edible Oil as % of Current Subsidies
1985-86	4.2	66.9	---
1986-87	3.8	47.9	---
1987-88	4.4	49.3	---
1988-89	6.6	54.9	21.5
1989-90	4.1	50.0	---
1990-91	4.1	41.0	19.9
1991-92	2.5	74.9	2.4
1992-93	2.1	52.7	---
1993-94	1.4	70.4	5.5
1994-95 <sup>RE</sup>	1.5	53.2	12.5
1995-96 <sup>BE</sup>	1.3	9.8	5.2

**Source:** Economic Survey 1995-96, Statistical Appendix, p. 141.

**Notes:** E = Revised estimate  
BE = Budget estimate

The dramatic decline in subsidies by about two-thirds as a percentage of total government expenditure is evident from the second column of Table-4. Of more concern is the decline in subsidy to wheat and edible oil which constitutes large proportions of the caloric and protein intake for the poorest quarter of the population. Between 1987-88 and 1992-93, the consumption of cereals for the bottom 10 per cent of the population declined by 10 per cent.<sup>8</sup> Such a decline could be expected given the decline in wheat subsidy indicated above which translated into a more than doubling of the retail price of wheat flour as reported in Table-5 below.

<sup>8</sup> Khan, Kazmi and Ahmad (1996).

**Table-5: Average retail price level of wheat and wheat flour**

Year	Wheat Avg. Qty. Kg	Wheat flour Avg. Qty Kg
1974-81	1.4	1.5
1988-95	3.6	4.2

**Source:** Economic Survey 1995-96, p. 150.

Between 1980-81 and 1994-95, food and wheat prices increased by 20 per cent more than non-food prices. Thus women as home managers in the lowest income groups have had to confront much higher prices for food in general and for wheat in particular. Our estimates also show that the poorest 25 per cent of the population derived 47 per cent and 75 per cent of their calories and protein from just wheat.<sup>9</sup>

Wages have not kept pace with price increases. Real daily wages of unskilled and skilled labour (depreciated by the food price index) declined by 15 per cent and 21 per cent respectively in Karachi, Pakistan's highest paying city.<sup>10</sup> Entitlements and capabilities for the poor have in general declined since the start of the structural adjustment period. This includes a steep rise in the unemployment rates and a sharp fall in household incomes, which can be expected to accompany a rise in unemployment and a fall in real wages.

Based on perceptions about intra-household bargaining power, one might expect that the nutritional fallout of a decline in entitlements and capability to be worse for girls and women. Past evidence we were able to muster is reported below in Table-6 and it does not support such a view.

**Table-6: Percentage under 70 per cent of recommended daily allowance (RDA) of calories by gender**

Year	Adult male	Adult female	Boys 6-15 yrs	Girls 6-15 yrs	Boys 0-5 yrs.	Girls 0-5 yrs.
1976-77	27	20	na	na	na	na
1985-87	32	18	28	18	34	30

**Source:** Mairo Nutrient Survey 1976-77, p. 40; National Nutrition Survey Report 1985-87, p. 103.

**Note:** The finding of the 1976-77 survey are based on 1,000 households while those of the 1985-87 survey are based on 8,334 households.

<sup>9</sup> *ibid.*

<sup>10</sup> *ibid.*

The Table above shows that the nutritional intake of adult females exceeded that of males and that it improved over time while that of males declined.<sup>11</sup> The numbers for 1985-87 also show that girls nutritional input was better than that of boys.<sup>12</sup> More recent evidence is unfortunately not available by gender disaggregation.

### **c. Women as Mothers**

The more the state divests its social sector provision to the private sector, the greater the burden on poor mothers in preparing the young for future survival. Structural Adjustment Programmes, with their emphasis on budget cutting, have been severely criticised in the past for the collapse in public social sector expenditure which has imposed a greater burden in the role of women as mothers. Probably in response to this criticism, in which Cornia, Jolly and Stewart (1987) are particularly influential, Structural Adjustment Programme budget cutting started protecting basic social sector expenditures.

In Pakistan, this protection has taken the form of the Social Action Programme (SAP) which is designed to concentrate massive expenditures on basic education and health and sanitation to eradicate various imbalances such as the gender and rural-urban imbalance in schooling.<sup>13</sup> SAP became operational in 1992-93 so one could consider 1991-92 as a benchmark year. Table-7 shows how the share of expenditure on education and health has changed since the structural adjustment and the SAP periods. Our interest here is in the total sector allocation to ascertain if the SAP represented a net reallocation to these sectors or if it induced a sectoral reallocation.

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<sup>11</sup> As is now well known, the numbers in Table 6 are very crude indicators of aggregate nutrition security since they make no allowance for age or gender. However, even if they did, caloric intake is still a very crude approximation for nutrition security for many reasons including different dietary needs across different individuals at a point in time and across time.

<sup>12</sup> Alderman and Garcia (1993, p. 83) also expressed surprise at their finding of gender having no statistically significant impact on nutritional status for children. We conferred with Dr. D.S. Akram, who is a nutritional expert at the Dow Medical College and Civil Hospital in Karachi, for a possible answer to this puzzle. Her response was that her own studies, based on patients in the Hospital and squatter communities, consistently show the nutritional status of girls to be worse than that of boys. The evidence reported in Table-9 also supports the latter view. A more conclusive answer will follow from further research.

<sup>13</sup> For an official statement see *Economic Survey 1992-93*, pp. 137-144.

**Table-7: Expenditure on education and health as a percentage of GDP**

Year/Expenditure	Education expenditure as a percentage of GDP	Health expenditure as a percentage of GDP	Total
1987-88	2.4	1.0	3.4
1988-89	2.4	1.0	3.4
1989-90	2.2	0.9	3.1
1990-91	2.1	0.7	2.8
1991-92	2.2	0.7	2.9
1992-93	2.2	0.7	2.9
1993-94	2.2	0.7	2.9
1994-95	2.4	0.6	3.1
1995-96	2.5	0.8	3.3

**Source:** Pakistan Economic Survey 1995-96, Statistical Appendix, p.7.

The Table above indicates that for both education and health, SAP has meant a net addition to the sectors since total expenditures since 1991-92, the benchmark year, have increased by 3 and 4 per cent of GNP respectively in 1995-96.<sup>14</sup> Even so, educational expenditure as a percentage of GNP in 1995-96 barely caught up with the structural adjustment base year of 1987-88 while health expenditure in 1995-96 as a percentage of GNP was still below that in 1987-88. Input in the form of expenditure are important, but progress in any sector must be measured by looking at output data.

Table-8 shows the progress in school enrollment over benchmark years and over the SAP time period.

<sup>14</sup> One could also take the position that SAP should be given credit for preventing a decline in social sector expenditures and for re-ordering priorities without a powerful indigenous lobby calling for it.



**Table-8: School participation rates by level and gender**

Level Year/gender	Primary		Middle		High	
	Female	Male	Female	Male	Female	Male
1987-88	48	80	19	41	10	24
1991-92	49	83	30	59	17	37
1992-93	54	85	30	58	18	38
1993-94	55	86	31	58	19	38
1994-95	55	87	31	58	20	38
1995-96	57	89	32	59	22	42

**Source:** For 1987-88, Seventh Five Year Plan, Statistical Appendix, pp. 414-415 and for 1991-92 to 1995-96, Economic Survey 1995-96, p. 111.

There was a sizable jump in female primary enrollment in 1992-93 compared to 1991-92, the benchmark year. Thus the concerted focus of the SAP on female primary schooling does show up in the numbers. Boys primary enrollment rates have also shown steady progress. However, the big gains for both girls and boys at both the middle and higher level between 1987-87 and 1991-92 have tapered off.

Some comparison to other countries puts these enrollment numbers in perspective. Pakistan is still poorly lagging behind even by South Asian standards. For example, the participation rate at the primary level in 1992 for low income economies was 102 per cent and for India it was 98 per cent.<sup>15</sup> The secondary enrollment for low income countries is reported in the *World Development Report 1995* (1995, p. 216) to be 41 per cent which is almost double the rate cited for Pakistan (21 per cent). Also, between the benchmark year, 1991-92, and 1994/95, the gender gap in absolute terms closed slightly at the primary level but were unchanged at the middle and higher levels.

In any case, enrollment represents only half the battle and retention the other important half with regard to which Pakistan has not been doing well. While about seventy seven per cent of boys and girls who ever attended school complete class five, less than half complete the eighth class

<sup>15</sup> *World Development Report 1995* (1995, p. 216). Note that this source cites Pakistan's total primary enrollment rate for 1992 to be 46 per cent.

and less than a third matriculate.<sup>16</sup> Thus while there has been some progress with regard to the support available to mothers in educational provision it has been slow and the levels attained are poor even by South Asian and low income country standards, despite the Social Action Programme. As in the case of education, we concentrate on children's health output statistics in Table-9 below.

**Table-9: Childhood mortality rates by gender**

Childhood Mortality Gender	1965-79*		1981-91@	
	Boys	Girls	Boys	Girls
Neonatal Mortality (<1 Month)	79	70	60	46
Infant Mortality (0-11 Months)	120	117	102	86
Child Mortality (1-5 Years)	44	48	22	37

**Sources:** \* Sathar (1987, p. 355)

@ Ahmad, Bhatti and Bicego (1992, pp.118).

Mortality rates could be viewed as a summary health statistic. Girls natural advantage of higher survival rates at an early age show up in lower and more rapidly declining neo-natal and infant mortality rates. However, this natural advantage is already offset, possibly via intra-household food allocation, in early childhood and this shows up in lower and more rapidly declining boy child mortality rates relative to those of girls.

Apart from the gender differentials, Table-9 above indicates that children's health and hence mortality indicators improved in the period that coincides with the structural adjustment period compared to an earlier period. However, much of the credit for this could be attributed to the Expanded Programme of Immunisation (EPI) which was launched in 1979 and accelerated in 1982.<sup>17</sup> While significant improvements have been made, Pakistan lags behind other low income countries even in prominent health indicators as in the case of education. For example, the less than 5 year child mortality rate (per 1000 live births) of 129 for girls and 142 for boys for the year 1992 is much more than the average of 102 and 114 respectively for low income countries.<sup>18</sup>

<sup>16</sup> *Pakistan Integrated Household Survey, Final Results* (1992, p. 72).

<sup>17</sup> *Pakistan Economic Survey 1993-94*, p. 110 and Cornia (1996).

<sup>18</sup> *World Development Report 1994*, p. 214. Also, the infant mortality rate of 92 (per 1000 live births) in 1994 for Pakistan was much higher than the corresponding rate of 58 for low income countries (*World Development Report 1996*, p. 198).

The role of women as mothers has been facilitated indirectly by the improvement of children's health and also more directly by the improvement in their own health. This is evident from the decline in the material mortality rate (per 100,000) from 500 in the 1980-87 period to 270 in 1988-93.<sup>19</sup> Recent progress in women and childrens' health has been made despite a decline in health expenditure. However, with this low level of commitment, Pakistan is unlikely to be able to even match, on various indicators, the health standards of low income countries.

### **Summary and Conclusions**

We review the impact of structural adjustment on the role of women as producers, as home managers and as mothers. In most cases, it is very difficult to isolate the effects of structural adjustment from the effects of other social and economic changes in society. However, in some cases, the chain of causality can be identified and we have attempted to do so wherever possible. In other cases, we merely compare the social and economic status of girls and women in an earlier period to the period following 1987-88 when the intensive bout of structural adjustment was underway in Pakistan.

Overall, female labour force participation in the 1988-93 period was 4.5 per cent higher than in the 1969-79 period and between 1987-88 and 1993-94 their share in the civilian labour force increased about threefold. Simultaneously, there was a corresponding decline of 6 per cent in the male labour force participation rate over these periods. While there are reasons to applaud a rise in the female labour force participation rate, this statistic in conjunction with two others puts a bleak slant on the socio-economic status of the poor. First, over the 1987-88 to 1992-93 period, there has been a decline of 8.2 per cent in female self-employment. Second, there has been a decline of 8.2 per cent in female self-employment. Second, there has been an increase in the female unemployment rate from 9 to 10.3 per cent over this period. Thus while it seems that women are being forced to enter the labour force to compensate for male unemployment, migration and subsequent fall in household income, the opportunities for attaining employment are not as readily available. If wage work were to lighten the domestic burden of child and home care, it may be welcome given the increased bargaining power in the household this can accompany. This however is unlikely to be the case in Pakistan's current cultural milieu.<sup>20</sup>

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<sup>19</sup> *Human Development Report 1992*, p. 148 for the 1980-87 number and *World Development Report 1995*, p. 218 for the 1988-93 number.

<sup>20</sup> Thus the term triple burden for women has been coined indicating labour market, child care and home care responsibilities.

Another negative aspect of the labour force participation statistics are that in the 10-14 age group, female labour force participation ratio increased by 2.5 per cent (from 4.8 per cent to 7.3 per cent). This increase in female child labour occurred across the 1969-79 to 1988-93 time periods when boys' labour force participation rates in this age group dropped by over one third from 33 per cent to 20 per cent. Since boys school enrollment rates are already much higher than those of girls, this trend for girls is doubly unwelcome.

As home managers, women have had to confront several hardships. The doubling of the sensitive price index from 4.6 per cent to 10.6 per cent between 1977-87 and 1988-95 made it difficult to make ends meet at a time when joblessness was rising. While structural adjustment can not directly be blamed for this inflation, it could have contributed to the cost-price spiral and rising inflationary expectations via the devaluation, user charges, price de-control and cuts in consumption subsidies.

Between 1985-86 and 1995-96, consumption subsidies as a per cent of the budget declined by about two-thirds. The subsidy to wheat and sugar as a per cent of the total declined by 86 per cent and the subsidy to edible oil declined by over three-fourths from 22 per cent to 5 per cent. As expected, the retail price of wheat doubled between the 1974-91 and 1988-94 periods. This probably led to a decline in the consumption of wheat by about one-tenth between 1987-88 and 1990-91 for the poorest income group. Research has shown that the poor in Pakistan derive about three-fifths of their calories from wheat and so this consumption decline could be of concern.

Women's role as mothers is facilitated by social sector provision. Structural adjustment faced hostile criticism in the 1980s for inducing budget cuts and letting the burden fall on the social sectors. The philosophy underlying the UNICEF inspired *Adjustment With a Human Face* seems to have been absorbed by the World Bank and it is endorsing and partially funding social safety nets such as the Social Action Programme (SAP) in Pakistan. SAP has a particular focus on rural women and girls. We looked at expenditure on education and health to investigate if SAP represented an additionality or whether it simply reallocated existing social sector expenditure. Data show that compared to 1991-92, the SAP benchmark year, education and health expenditure as a per cent of GNP have increased but if 1987-88 is used as a benchmark, educational expenditure has remained constant while health expenditure has declined.

The SAP reallocation towards rural girls shows up in a 5 per cent increase in rural primary girls enrollment from 49 to 57 per cent between

1991-92 and 1995-96. These enrollment rates however are way below the mean for low income countries and comparable enrollment rates in India. Also, enrollments and gender gaps at the middle and high levels have been virtually static.

Overall, there is little positive to report about the socio-economic condition of women during the recent intensive phase of structural adjustment. The decline in the maternal mortality rate and infant mortality rates are the exceptions. It is encouraging to read that improving the status of women and girls appears to be on the agenda of donors and of the Government of Pakistan. This expressed concern needs to show up in the numbers.

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## ***Book Review***

**Tasneem Ahmed Siddiqui.** *Developmental Issues: Innovations and Successes*, Lahore, Fiction House, 1996. pp. 214.

The fifties and the sixties were the years when a suitable development strategy was keenly debated and many good ideas and fresh thoughts were generated both in terms of abstract models and derivations from country experience. The world seems to have grown tired of this subject now. Where have all the ideas gone?

Enthusiasm about finding the magic route to development and economic emancipation of the deprived masses of the Third World seems to have yielded place to cynicism, inertia and an air of resignation. No wonder, the world has gone back to the two hundred years old Adam Smithian philosophy of market mechanism, and unbridled capitalism ----- a "systemless system". The present "back-to-the-market" wave, of course, has been expertly marketed by donor agencies and governments. But the meek way in which the developing countries have accepted it is also the product of frustrations resulting from assorted strategies and programmes implemented in the last few decades. Rural development, basic needs, population planning, import substitution, export-led growth, nationalisation, public sector corporations, agricultural extension, heavy industry ---- the list of half-backed policies is long. These were supposed to have been delivered by bureaucracies which lacked imagination, energy and empathy for the poor. But their appetite for corruption and capacity for inaction and lethargy were enormous.

The inevitable result is economic distortions, agricultural stagnation, massive rural-to-urban migration, slums, crime and social tensions in cities, and poverty and inequity all over the developing world.

The book under review, though modest in size and get-up, is a breather for a gloomy, crisis-ridden Pakistan. It presents innovations and success cases in meeting challenges of such problem areas as urban poverty, education, healthcare, family planning and corruption. It seeks to highlight the role of such social instruments as community participation, urban-rural interaction, people-oriented programme formulation, communication with the masses (through, among other means, theater "as a means for mobilisation and social change").

It stresses the role of NGOs and grassroot groups in carrying out innovative programmes at the micro-level in meeting some of the obstacles

in the path of the betterment of the masses. A strong case is built for assigning an active role for women in development as workers, income earners and entrepreneurs, but not by rejecting the traditional household functions. The book contains case studies of women taking over their new vocations essentially as an extension of their traditional responsibilities.

But the role of government and the bureaucracy is not rejected. In fact, the editor of the book is a senior bureaucrat himself who is well known for his innovative thinking, hard work, integrity, commitment to social causes, and understanding and empathy for the poor. He was able to articulate and design a programme of 'incremental housing for the poor' in Hyderabad while heading the local development authority. He was able to proceed with this idea which was at variance with the conventional 'sites and services' approach governing housing policies at that time (and even now, except for *Khuda Ki Basti*). Tasneem Ahmed Siddiqui is now associated with the development of *katchi abadies* in Sindh. He has contributed an article presenting a perceptive analysis of the phenomenon of urban slums, in addition to another on incremental housing in Hyderabad.

The book has also been enriched by the contribution of three articles by Dr. Akhtar Hameed Khan, a man whose field work in rural development and urban renewal has made him a legend in his life time. Khan, director of the world famous Orangi Pilot Project, writes on the capacity of the people of Orangi, especially the women, to solve their own problems by dint of hard work and ability to "blend the past with the present and foreign culture with their traditional life style". He also mentions the case of two small and poor villages with little more by way of resources than their labour and arid lands. With small loans and good advice from OPP, the people of these villages turned themselves into successful entrepreneurs selling fodder, fruit, vegetables and milk to Karachi within a period of three years.

Other contributors include such familiar names as Javed Jabbar, Shahid Kardar, Dr. Anis Dani, Farrukh Nigar Aziz, Ayub Qutab, Ghulam Kibria, Shahid Nadeem and M. Allauddin, known widely as competent professionals in their own right, and also some relatively lesser known people outside the social activist and NGO circles such as Sara Siddiqui, Dr. Asif Aslam Farrukhi, Dr. Badar Siddiqui, Sami Mustafa, Navaid Hussain, Iqbal Jatio, Shamshad Khan Khattak, Najma Siddiqui and Muhammad Fazal Noor.

The write-ups are mercifully short and crisp, though in many places, the reader feels the need for more data. Nevertheless, the message of this

book is that even in this age of massive corruption, there are people selflessly serving society and, what is more heartening, producing results.

Lahore School of Economics  
Lahore

**Viqar Ahmed**



## ***Book Review***

Syed Nawab Haider Naqvi. *Development Economics: A New Paradigm*. Karachi, Lahore and Islamabad: Oxford University Press, 1993.

The book essentially revolves around a discussion on the implications and meaning of the word 'paradigm' seeking an alternative paradigm for development economics. It is amply apparent that development economics is not an academic discipline and its usefulness is on its way out to all intents and purposes. The author attempts to make a brave effort to rescue it by highlighting its relevance and importance in the current corpus of economic theory.

He argues that it is not a minor branch of mainstream economics but a discipline performing a role that mainstream economics tends to somewhat neglect.

The author makes a useful and lucid distinction between growth theory and development economics, stating that the former has essentially been concerned with esoteric issues and 'elegant proofs' of the existence and stability of steady state growth paths, with no operational content whatsoever. He quotes Hicks who is said to have once remarked that growth theory reflected no more than 'the shadow of the real problems'.

The main thrust of the author's argument is that development economics is 'a viable, scientific research programme' although he could perhaps have gone into more depth to substantiate this claim. He also asserts that development economics must continue to focus on the relationship between economic growth and structural change. Quite rightly to my mind, he states that a redistribution of initial wealth holdings in developing countries is therefore essential to establish some kind of 'optimum regime' wherein the growing chasm between the rich and the poor is kept at a minimum.

The author rejects in fairly strong terms the exclusive reliance on the Invisible Hand, though at the same time he does not claim that it is entirely irrelevant.

He asserts that only if the market does not lead to an exacerbation of inequalities can it be considered as a superior form of economy, as compared to government intervention. This is another central theme of the book that is woven throughout most of it.

He then discusses the role and the functions of the three actors in the development episode, i.e. the policy maker, the development economist, and last but not least the 'defunct economist'.

The author reiterates past theories and says in rather colourful language that during the 'age of chivalry' the predominant sentiment amongst development economists was one of optimism, and they went about alleviating 'the dragon of poverty' by the simple manouvre of raising the rate of capital accumulation, along a balanced or unbalanced growth path.

He points out that both India and Pakistan have always been committed to a philosophy of growthmanship. In the case of Pakistan however, since it could not stand on its own feet, it had to resort to foreign aid as a salvaging measure.

In discussing the basic needs strategy, he states that egalitarianism can be counterposed to humanism as per Streeten *et al*, and that they are two mutually exclusive objectives. He emphasises the fact that Streeten's humanism must be accompanied by an increase in the real income of the poorer sections of society in order for there to be egalitarianism in the true sense of the word.

In rounding off his argument, Syed Naqvi asserts that it does not mean that neo-classical economics is irrelevant but that the deep insights it offers need to be redefined and re-focused for there to be any meaningful analysis of the problem of development. In doing so, the author seems to somewhat gloss over the issue without actually offering any concrete alternatives.

In its entirety, it is difficult to react to this book. When a book has an author a person of the standing and reputation of Syed Nawab Haider Naqvi, one is considerably constrained in commenting on it. He has an understanding of Pakistan and its problem of poverty which will remain a subject of one's admiration and respect. His sole shortcoming as an author is that it would have greatly eased the questioning reader's mind had there been some sort of blueprint for the future in terms of a clear and lucid alternative paradigm.

The author does have a point, rather a unique one in this day and age of massive privatisation and disfavour of government intervention which comes as a breath of fresh air. That is an achievement by itself. No doubt the author does display a strong sense of empathy and sensitivity towards the less privileged, a trait quite rare in today's world of the rat race and seeking after materialistic gains.

One of the author's main contentions is the dire need for incorporating a sense of morality in the body of development economics, that is, what is right and what is wrong. The knee jerk reaction of a layperson would, I imagine be to balk at this moral slant, but he does have a point. The author tends to give much leeway to subjective values in this regard. He calls for the need for a creative symbiosis of ethics and economics, but there again where does one draw the line? Is he just a preacher pontificating from the pulpit or is this what is truly lacking in development economics? That is left to the reader to ascertain.

All is not despair – in a world in which a wave of privatisation is sweeping the four corners, it is almost a lone voice in the dark, that somebody somewhere is advocating the imperative need for government intervention, which I for one, see as being of utmost necessity for developing economies.

Lahore School of Economics  
Lahore

**Nina Gera**





### Notes For Authors

1. Manuscripts of research articles, research notes, review articles, comments, rejoinders and book reviews - in English only - should be sent in duplicate together with floppy in MS - Word to the Editor, The Lahore Journal of Economics, 105, C-2, Gulberg-III, Lahore-54660. Each request for a book review in the journal must be accompanied by one copy of the book concerned.
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