The Lahore Journal of Economics
17 : SE (September 2012): pp. 213–241

Competitiveness and Pakistan: A Dangerous, Distorting, and Dead-End Obsession?

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Abstract

Competitiveness has become a mantra and organizing framework for much government policymaking in Pakistan and beyond. Rarely does anyone question the concept and use of the competitiveness paradigm itself. Krugman (1994) argues that this "obsession with competitiveness is both wrong and dangerous." This article draws from Krugman's work and examines the use (or abuse) of the concept of competitiveness in the context of contemporary Pakistan. We focus on three recent and influential reports on competitiveness in Pakistan by the Asian Development Bank, World Bank, and Competitiveness Support Fund, and agree with Krugman's negative view.

Keywords: Competitiveness, policy, Pakistan.

JEL classification: E60.

1. Introduction

In the 1990s, the concern with competitiveness, or more specifically the apparent lack of it, became something of an obsession in the countries of the European Union (EU). Earlier euphoria at the end of the Cold War and the resulting prospects for pan-European integration faded. Anxious governments looked aghast as manufactured exports surged from China while GDP and employment growth stalled through much of the EU. These twin narratives of rising China and stagnant Europe were frequently ascribed to "competitiveness," the abundance of it in rapid growth, disciplined, low-wage, hard working China and the lack of it in slow growing, highly regulated, high-wage, early retirement-addled Europe. In Europe, this combination became known by some as "Eurosclerosis."

These concerns acquired the status of a numerical measure through the Global Competitiveness Report with its index and league table of "competitiveness" published by the World Economic Forum. The report

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had been published since 1979 but by the 1990s was including most of the world in its rankings, and shifts up and down the table became an annual obsession for much of the media in both developed and developing countries. In response to the 2012 Global Competitiveness Report for example, the British *Guardian* excitedly reported that Italy needed a "red tape bonfire before labor reform" ("Italy needs red tape," 2012). The debate in the developed world was nicely captured in Klein's 1996 novel, *Primary colors*. The following is a quote from the character in the book based on Clinton campaigning for the presidency in 1992:

> So let me tell you this: No politician can bring these shipyard jobs back. Or make your union strong again. No politician can make it be the way it used to be. Because we're living in a new world now, a world without borders—economically, that is. Guy can push a button in New York and move a billion dollars to Tokyo before you blink an eye. We've got a world market now. And that's good for some. In the end, you've gotta believe it's good for America. We come from everywhere in the world, so we're gonna have a leg up selling to everywhere in the world. Makes sense, right? But muscle jobs are gonna go where muscle labor is cheap—and that's not here. So if you want to compete and do better, you're gonna have to exercise a different set of muscles, the ones between your ears. And anyone who gets up here and says he can do it for you isn't leveling with you. So I'm not gonna insult you by doing that. I'm going to tell you this: This whole country is gonna have to go back to school. We're gonna have to get smarter, learn new skills. And I will work overtime figuring out ways to help you get the skills you need. I'll make you this deal: I will work for you. I'll wake up every morning thinking about you. I'll fight and worry and sweat and bleed to get the money to make education a lifetime thing in this country, to give you the support you need to move on up.

Competitiveness has become a mantra and organizing framework for much of government policymaking in Pakistan and beyond. Arguments that reforms of labor markets, universities, infrastructure, or social legislation are needed to ensure "competitiveness" are frequently heard. There are counter-arguments, which tend to accept the validity of the competitiveness argument, such as whether a given reform will have a

significant impact on competitiveness, whether other pro-competitiveness policies are more desirable, or whether the loss in terms of equity or welfare of some group is too much to sacrifice in the pursuit of competitiveness. Rarely does anyone question the concept and use of the competitiveness paradigm itself. Krugman (1994) is an exception—he has noted how the concept is a "growing obsession" and "taken for granted" but ultimately that "competitiveness is a meaningless word when applied to national economies ... the obsession with competitiveness is both wrong and dangerous" (1994, p. 44). This article draws from his work and examines the use (or abuse) of the concept of competitiveness in the context of contemporary Pakistan.

To narrow the analysis to manageable portions, we focus on three recent and influential reports on competitiveness by major organizations: (i) *Industrial competitiveness: The challenge for Pakistan*, published by the Asian Development Bank in 2004, (ii) *The state of Pakistan's competiveness: Report 2010–2011*, published by the Competitiveness Support Fund (a partner institution of the World Economic Forum and heavily funded by USAid), and (iii) *Pakistan: Growth and export competitiveness*, published by the World Bank in 2006. For ease of presentation, these three reports will henceforth be referred to as ADB, CSF, and WB, respectively. The reports should not be viewed as abstract economic commentaries by outsiders but as real and fundamental inputs into the policymaking process. All three donor organizations have a substantial impact on policymaking in Pakistan. Zaidi (2005, Ch. 15), for example, argues that, since 1988, Pakistan's economic policies have been "completely determined by adherence to the IMF/WB, and that Pakistan's government have no independent policies of their own." This may be something of an exaggeration but these reports have an importance beyond anything equivalent in India or China.

The article is organized as follows. Section 2 introduces the three Pakistan-related competiveness reports, in particular their understanding of the term "competitive" and their stated goals, and states how we will evaluate them. Sections 3 to 6 evaluate the three reports using the criteria outlined in the previous section, i.e., "theoretical and empirical consistency," "feasibility of policy recommendations," "use of evidence from comparator countries," and "learning from past policy interventions." Section 7 concludes the article.

2. An Introduction to the Competitiveness Reports

Despite the fanfare with which "competitiveness" is discussed, there is no clearly accepted and unambiguous definition of the concept. CSF draws on the Global Competitiveness Reports, which define competitiveness as "the set of institutions, policies, and factors that determine the level of productivity of a country" (World Economic Forum, 2012, p. 4). For CSF, competitiveness is positively related to productivity, whether relative or absolute is not made clear. The definition ignores the possibility that low levels of productivity can be offset by low domestic costs or devaluation of the exchange rate.

There is no clear definition evident in WB—the report simply lists a number of things that contribute to competitiveness: "an investment friendly business environment" (World Bank, 2006, p. i), "macroeconomic stability" (p. i), "transport logistics and trade facilitation" (p. 5), and on and on. ADB is, however, much clearer: "Competitiveness means the ability to compete with firms at the international frontier of best practice" (Asian Development Bank, 2004, p. xiii). This does not make much sense. Either only a small number of technologically advanced countries are able to compete at the best practice frontier so that "competitiveness" has no general applicability, or else all countries can attain competitiveness in export markets simply by devaluing their currency and maintaining low wages until cost considerations offset quality differences, so attaining competitiveness is something relatively easily accomplished. Without a rigorous measure, it becomes impossible to quantify competitiveness and so prioritize policy interventions. Section 4 of this article shows the real and bewildering implications of this first failing.

In various degrees, the three reports seek to offer guidance to policymakers. For WB, "This report focuses on the goal of accelerating Pakistan's economic growth and on the related challenge of export competitiveness and ways to meet it ... The findings of the report also point to a number of high priority areas where early actions might have high payoffs, some requiring stroke of the pen type policy decisions, some longer term effort" (World Bank, 2006, p. 147). WB contains a detailed list of recommendations for action. ADB is more reticent, concluding that there is a "need for a competitiveness strategy" (Asian Development Bank, 2004, p. 61) and "lessons from East Asia" (p. xx) but "refrain from making detailed policy recommendations" (p. 2). CSF is explicit: "This report is designed to help policymakers ... its objective is not simply to issue a report, but to motivate and stimulate effective action" (Competitiveness Support Fund, 2010, p. vi). As noted above, these reports and the influence

their writers/funders have on the policymaking process in Pakistan gives them an importance in determining policy beyond anything they care to make explicit in the reports.

This article evaluates the reports according to their own stated aims. To what extent are they useful as guides to policymaking? We use the following list of criteria against which to make this judgment. Are the reports theoretically consistent, are the policies they recommend feasible, do they make good use of evidence from comparable countries, are they rooted in a clear understanding of the opportunities and constraints of the Pakistani context, and do they draw on an understanding of the successes and failures of past efforts to promote similar policy reforms? The following sections examine each of these criteria in turn.

3. Theoretical and Empirical Consistency

There are a few criticisms one could make about the compilation of the indices. For example the global competitive index (GCI)—on which CSF is based—draws much of its data from its own "Executive Opinion Survey." The survey for the 2012 report is carried out among 130 executives in Pakistan; 85 of these 130 (65 percent) worked in firms with more than 100 employees. This is not representative of Pakistan's business community where, by the mid-2000s, 70 percent of new jobs in nonagricultural employment were being created in the informal sector (Amjad, 2005) and 98 percent of manufacturing firms were small-scale. Executives are more likely to notice and be concerned with the state of airlines, airports, and central-level corruption and not the roads, public transport, public service delivery, and everyday petty corruption that would trouble the mass majority of the (smaller-scale) business community. Some of the sub-indicators used are very puzzling. Why, for example, is infant mortality included and, however desirable, why would reduced infant mortality make an economy more competitive? This article, though, is more concerned with a bigger question—the use and abuse of "competitiveness" as a central organizing theme for policy and governance reform in Pakistan.

The first and rather unfortunate thing about the GCI is that it has no link with economic growth. Table 1 shows that the top ten most competitive countries in the world according to the 2005 Global Competitiveness Report and their GDP growth rates in 2004/05. The table shows that the most competitive countries in the world experienced slow but positive growth rates (before the global financial crisis made their performance noticeably worse).

Table 1: Growth and competitiveness in 2004/05: Top ten GCI rankings

GCI ranking 2005	Country	GDP growth rate in 2004/05 (%)
1	US	2.5
2	Finland	1.8
3	Denmark	2.8
4	Switzerland	1.2
5	Singapore	3.7
6	Germany	0.9
7	Sweden	2.3
8	Taiwan	4.0
9	UK	1.2
10	Japan	2.6

Source: World Bank (2007, pp. 288–289) and World Economic Forum (2006, p. xii).

Table 2 shows the fastest (mainly nonoil) growing countries in 2004/05 and their GCI scores for 2005. The table shows that fast growing countries generally have very low competitiveness scores.

Table 2: Growth and competitiveness in 2004/05: Fastest growing countries

GCI ranking 2005	Country	GDP growth rate in 2004/05 (%)
29	Czech Republic	6.2
34	Lithuania	8.0
39	Latvia	10.8
45	India	7.1
48	China	9.2
71	Turkey	6.0
74	Vietnam	7.4
81	Armenia	14.4
86	Georgia	10.5
89	Moldova	7.3
112	Mozambique	8.7
116	Ethiopia	6.8
125	Angola (2006)	11.5

Source: World Bank (2007:288-9) and World Economic Forum (2006:xii).

This is, admittedly, very limited empirical evidence—that growth in one year is not linked to a country's competitiveness in that same year. More valid perhaps would be to relate a longer-term average of competitiveness against long-term growth. But it is more empirical evidence than either WB or CSF offer. There is a very well developed empirical literature going back to Barro (1991) examining the determinants of economic growth through the use of cross-country regression analysis. This literature has examined the impact of investment, trade liberalization, institutions, political stability, and many others. It is not clear why WB and CSF shy away from including the GCI in such a regression. From the limited empirical evidence above, a good guess would be that it would have (embarrassingly) little link with growth. In truth, there is no good reason to assume that the GCI should have any close link with GDP growth rates. There are two reasons for this: first, the theoretical and empirical complexities linking competitiveness and growth, and second, the problematic issue of causation.

Both WB and CSF assert with strident hubris that all sorts of policy and institutional factors are good for promoting growth. Yet, first, nowhere does either report discuss, reference, or even acknowledge the enduring theoretical and empirical controversies surrounding the causes of economic growth. A good example is that of education—for both WB and CSF, more education is always and everywhere a good thing and always improves the GCI. A large body of theoretical discussion would agree, emphasizing the potential productivity gains for educated workers, indirect impacts on health and fertility, and the strengthening of democratic norms that may result from the greater ability of literate people to participate in debate and discussion.

There is also, though, a well established body of theory that questions such optimism, suggesting that rising educational attainments may reflect intensifying competition for a limited number of poorly paid jobs (a government clerk position that once required high school graduation may now require a Master's degree). It also casts doubt on the quality of much education or its relevance for equipping people with the skills to work in the fields and factories of a developing country. In general, empirical studies find it very difficult to locate any positive impact from education to economic growth. In his 2001 study, Pritchett made a plaintive call, "Where has all the education gone?" Studies looking at the education–growth link are mixed for Pakistan. Khan (2005) finds positive and significant results linking literacy rates, average years of schooling, gross secondary school enrolment, and life expectancy and GDP growth. Iqbal and Zahid (1998) find that various measures of education—including

primary, secondary, and high school enrolment—are either insignificantly or negatively related to GDP growth. There are similar results for investment, trade openness, and other policy factors (McCartney, 2011, Ch. 2). The empirical ambiguity extends to the case of India and other developing countries (McCartney, 2009, Ch. 2).

A second problem is the issue of causation. Of particular importance—given the epic grandeur of the associated policy recommendations (see Section 4)—is the link between institutional change and economic growth. Acemoglu, Johnson, and Robinson (2001) is a good example of an extremely influential and very widely cited study that went to great lengths to examine the issue of causation, in this case between institutions and long-run economic growth. This and all other theoretical and empirical engagements with the issue of causation are completely ignored in the construction of the GCI and in WB and CSF. Both reports assert unequivocally that institutional reform is necessary to promote growth but fail to acknowledge the large body of historical evidence that shows that institutional reforms associated with increases in growth have been very minor (Rodrik, 2003, 2004).

Democracy, well-enforced private property rights, the protection of intellectual property rights, an independent judiciary, trade liberalization, good governance, tough competition laws, prohibition of child labor, and the protection of labor rights were, historically, not preconditions of economic growth. Institutions in all of today's developed countries—including the rapidly growing economies of northern and Southeast Asia—were very poor at the start of their periods of rapid growth. Good institutions only emerged with the process of economic growth, urbanization, and development. Full protection of patents, for example, only emerged in today's developed countries by the end of the nineteenth century; and in Switzerland, in its pioneering pharmaceutical industry, by the 1950s (Chang, 2002). Another example, relevant to the preceding discussion is Bils and Klenow (2000) who find that economic growth causes higher educational attainment by raising the return to skilled labor and so increasing the incentive for parents to invest in their children's schooling.

The rhetoric of the competitiveness agenda is that, achieving competitiveness relative to other countries is the key to achieving long-run sustainable economic growth. WB is internally inconsistent—it promotes both this view and a contradictory one. In "Chapter 2: Economic Growth in Pakistan: Sources and International Context," WB conducts a regression analysis to "understand Pakistan's growth performance." The report decomposes the factors responsible for the increase in GDP growth in 2001–

05 relative to 1991–2000, and finds that domestic factors—in particular the initial output gap, public infrastructure, and government burden—explained more than ten times as much of this increase as did trade openness. Projecting growth forward from 2006 to 2015, WB finds, again, that domestic factors under the assumption that strong progress is made in policy reforms (education, financial depth, government burden, and public infrastructure) will explain around 20 times as much GDP growth as will trade openness. It is baffling, then, to read elsewhere in the same report that, "Pakistan needs to improve its microeconomic fundamentals to boost export competitiveness and promote export diversification. Given the relatively small size of its domestic economy, strong export performance will be critical to sustaining high growth" (World Bank, 2006, p. 3). This former empirical finding should not be surprising; it is a widespread and well-established fact. As Krugman (1994) notes, "Even though world trade is larger than before and is increasing, national living standards are overwhelmingly determined by domestic factors rather than competing for world markets." During the acceleration (2003/04–2005/06) in GDP growth in Pakistan, domestic demand (consumption plus investment) was overwhelmingly more important than net exports, which made a negative contribution in both 2003/04 and 2004/05 and only a marginal positive contribution in 2005/06 (McCartney, 2011, p. 200).

The rhetoric of the competitiveness agenda is that the gain in competitiveness for one country must necessarily be at the expense of a loss of (relative) competitiveness for another, and trade is then ultimately a ruthless zero-sum game. This would be a very strange idea to anyone having taken a course in basic international economics. This perspective also represents a stunning theoretical volte-face, being completely contrary to everything the International Monetary Fund (IMF), World Bank, USAid, and World Trade Organization (WTO) have been pushing for decades through structural adjustment programs—the doctrine of comparative advantage—that trade liberalization is mutually beneficial for those countries undertaking it. To find a school of thought in economics advocating the doctrine of zero-sum trade, that growth and development in one country is at the expense of growth and development in another, one must go back to debates among the neo-Marxists of the 1960s and 1970s, most famously Frank, who argues that,

> Most of our theory fails to explain the structure and development of the capitalist system as a whole and to account for its simultaneous generation of underdevelopment in some of its parts and of economic development in others (1966, p. 5).

A more reasonable supposition than the idea that the CSF and WB have embraced neo-Marxism is theoretical confusion. Krugman (1994) contends that the notion of competitiveness is applicable for the study of management and business but makes little sense when applied to the study of entire economies. He makes the important point that countries do not compete with each other in the way that firms do. Coca-Cola and Pepsi Cola are pure rivals where the sales of one are likely to be at the expense of market share for the other, so they are engaging in a zero-sum competition. For countries by contrast, while they may sell products that compete with one other, they are also each other's export markets and sources of useful imports—international trade is not a zero-sum game. A rise in productivity in China, for example, is very likely to cause a rise in wages and so stimulate the demand for imports, some of which could be sourced from Pakistan.

It is a very widespread and long-held view that Pakistan remains stuck with a low-technology, low value-added production and export structure. Both WB and ADB are clear on this. Sustained higher growth requires "greater export diversification" (World Bank, 2006, pp. v–xiii) and upgrading to more technologically demanding and higher value-added production techniques; "strategic options for growth of the sector [cotton jeans] in Pakistan are clear ... increased capabilities in research, development, and design" (p. 33), and "sustained global competitiveness in processed marble products will depend on increased outward orientation or higher value added products, exploiting rapidly advancing technologies" (p. 65). Additionally, "it is clear that overwhelming specialization in this [textiles and clothing] industry is not desirable for Pakistan's future competitiveness: it is unlikely to yield sustained growth in a world where dynamism resides increasingly in technology-intensive products" (Asian Development Bank, 2004, p. 47). The responses to this dilemma are different.

WB asserts that upgrading is desirable but nowhere explains the logic beyond muttering about "cost competitiveness." Conventional economic theory suggests that countries should produce and trade according to their patterns of comparative advantage. According to the standard textbook Hecksher-Ohlin theorem, this would mean that a country should export those goods and services that are intensive in its abundant factor and import those that are intensive in its scarce factor. Producing according to comparative advantage, i.e., not upgrading, which requires scarce skilled labor and more complex capital, would therefore minimize costs. The textbook model shows that this leads to mutually advantageous gains from trade. For Pakistan, this would imply exporting unskilled/semi-skilled labor-intensive goods and importing technology or capital-intensive goods. WB does not justify this apparent break with conventional orthodoxy.

ADB likewise produces a barrage of evidence to show that, in the 1980s and 1990s, exports from Pakistan remained stuck in areas of low technology. The report does, however, justify a strategy of upgrading, very simply, "activities with higher 'technological intensity'—those with higher than average expenditures on R&D—are growing faster than other activities" (Asian Development Bank, 2004, p. 13). ADB makes the common mistake—one highlighted by Krugman (1994)—of suggesting that high-technology sectors are synonymous with sectors of high value-added i.e., industries with a high value-added per worker. The report notes that the growth of manufacturing value-added in Pakistan was below comparator countries in the 1980s and 1990s (p. 28). This is not empirically consistent with the more general argument in favor of focusing more technologically complex industries. Value-added does not, in general, equate to technological complexity. High value-added sectors are typically those sectors with very high ratios of capital to labor in traditional industries such as automobiles, steel, cigarettes, and petroleum refining. The link between high value-added and capital-intensive sectors is entirely consistent with theory: "Capital-intensive industries must earn a normal rate of return on large investments so charge a much higher markup over labor costs than labor-intensive industries so have a high value added per worker" (Krugman, 1994). There is not necessarily a case for deliberate efforts to channel investment resources toward high value-added (capital-intensive) industries; being capital-intensive, a given quantity of investment resources will buy little extra value-added.

Both WB and CSF support further trade liberalization: "Improvements in the trade policy regime have been implemented through tariff cuts and rationalization, as well through the removal of import quotas, import surcharges and the regulatory duties" (World Bank, 2006, p. 119). For CSF, reductions in tariff levels automatically have a positive impact on the competitiveness index. Trade liberalization will lead to production and exports being more determined by the market and relative factor prices—exactly as predicted and advocated by the textbook model of comparative advantage, WB, and the WTO. For Pakistan, being a low-skill/low-wage economy (World Bank, 2006, pp. 111–112) where access to finance is an important constraint (p. 113), this will necessarily mean a shift to low-skill, labor-intensive techniques of production.

In addition much of the WB report is concerned with cost competitiveness. Its value chain analysis of five key production sectors (cotton jeans, fisheries, mining, milk, and light engineering) "make it possible to decide which impediments do the greatest harm to cost

competitiveness and what remedial policy actions, institutional changes and other corrective measures deserve priority" (World Bank, 2006, p. v). Such a policy focus would likely undermine the report's aspirations to upgrade the structure of production. Competing on the basis of low costs and, hence, cheap prices emphasizes the advantages of low wages and long hours by a sweated labor force and a depreciating currency—what may be called a low road of competition. Advocating technological upgrading and promoting policies that encourage the use of unskilled, low-wage labor is where the competitiveness reports can lead to a developmental dead end. This is exactly the point made by Amjad (2005) when he argues for a deliberate strategy to boost wages and skills and improve labor market conditions to remove the option of following a low road of competition and instead forcing producers to compete on the basis of higher skills, higher wages, and higher productivity—a high road of competition.

4. Feasibility of Policy Recommendations

Both WB and CSF are clear that the aim of writing the reports was to influence government policymaking and both include detailed policy agendas.

CSF does rate institutional reform as "the most important priority" (Competitiveness Support Fund, 2010, p. 61), but includes within the heading of key objectives for the short term (one year) an incredible list of reforms. These include: "launch integrated programs to regularize informal settlements" (p. 63); "expedite the application and review process for patent filing at IPO" (p. 63); "fast-track SEZ legislation" (p. 65); "finalize and pass a Corporate Rehabilitation Act to provide a legal framework that enables restructuring to be driven by stakeholders in a transparent manner" (p. 65); "introduce modern Agricultural Marketing Law" (p. 66); "ensure e-government facilitation amongst the business enterprises" (p. 66); "diagnose problems in enforcement of Securities and Exchange Commission Pakistan (SECP) and take steps to improve compliance" (p. 67); the "identification of specific programs for judicial and law enforcement reform" (p. 67); "focus on enhanced resource mobilization through reforms in taxation, revenue administration and collection" (p. 71); "approve the National Governance Plan with consensus of key stakeholders" (p. 72); "implement uniform public procurement rules in all government agencies" (p. 73); a "short-term action to address high-profile instances of corruption" (p. 73); "create and publish a credible strategy for lowering costs of security to businesses" (p. 74); and "improve funding, equipment, transportation, communications and responsiveness of police" (p. 74). The list continues.

WB is more focused, it includes among its list of "high-priority measures" the "preparation of regulations for the New Employment Services Act" (World Bank, 2006, p. 149); and recommends steps be taken to "establish a consistent legal framework, registry, and property tax system" (p. 149) and "improve the legal framework and judicial processes for enforcement of financial contracts" (p. 149). The report also advocates measures to "make intermediate and secondary education more purposeful" (p. 149); to "improve governance in the education sector ... to monitor teachers' competencies and absenteeism, implement transparent recruitment procedures for teacher training" (p. 149); as well as "setting an appropriate pricing structure for [electricity] distribution companies" (p. 150); and steps to "highlight SPS (Sanitary and Phytosanitary) management constraints and issues, prioritize them and [an] elaborate action plan" (p. 152).

Both reports are very clear that they are advocating a big-push approach to reform. CSF says a "comprehensive institutional reform program is vital to Pakistan's competitiveness strategy" (Competitiveness Support Fund, 2010, p. 62), and WB sums up its agenda as "broader and deeper investment climate reforms" (World Bank, 2006, p. i). This agenda is at best irrelevant and at worst dangerous. Firstly, WB and CSF are both clearly agreed that the capacity of Pakistan's bureaucracy is low: "The consistency, certainty, and predictability of the economic governance framework—including the laws and regulations, the adjudication mechanisms and their enforcement agencies, and the public agencies involved in government–business interface—still fall far short of minimal standards" (World Bank, 2006, p. 105); and "Pakistan performs poorly in terms of governmental effectiveness in delivering public services, human development, poverty alleviation, and devising policies in an independent, transparent and efficient manner" (Competitiveness Support Fund, 2010, p. 54). Moreover, the bureaucracy's capacity is declining: "Transparency of Government in Policy Making" according to CSF in Pakistan, declined from 105 (from among approximately 140 countries) in 2009/10 to 115th in 2010/11. It would seem reasonable to suppose that, given such agreement on the capacity of the Pakistani state policy, recommendations would be, likewise, careful and measured. This, as described above, is clearly not the case.

Second, the WB report does make some effort in Chapter 2 to gauge the relative impact of policy factors on past and future growth. As noted earlier, the most important were education, public infrastructure, and financial depth. All this is forgotten by Chapter 9, when reforms in these areas are lost amidst a welter of other "priorities." Perhaps this is inherent

in the construction of the GCI, which uses 140 indicators to rank countries. The indicators are weighted slightly differently to distinguish between developed and developing countries but otherwise offer an enormous policy menu for countries to improve their ranking and no means to make choices among.

Third, Rodrik (2000), notes that one particular aspect of this reform process—integration into the world economy—has highly demanding institutional prerequisites that could easily crowd out other priorities. Abiding by WTO obligations—including customs valuation, sanitary and phytosanitary measures, and intellectual property rights—he estimates, cost the average LDC USD 150 million, and would place extensive demands on the capacity of developing country governments and overwhelm limited managerial capabilities. Morss (1984) has described how a large number of donor projects have, in the past, wreaked institutional destruction in developing countries.

Finally, lists of recommendations such as these completely ignore history. The possibility of such rapid institutional change is contradicted by the historical experience of today's developed countries, which had experienced, according to Chang (2002), a "long and winding road" of institutional development that took "decades." For example, from full male to universal suffrage, it took France from 1846 to 1946, and Switzerland from 1879 to 1971. The need for a modern professional bureaucracy was first mooted in Britain in the eighteenth century and became a reality only in the early nineteenth century. Such slow development was often because of the widespread realization that many changes were expensive (labor laws and social security) or because of the resistance of those who would lose out (democracy, income tax), lacking supporting changes (the tax revenue needed to pay for professional bureaucracies), or prejudice (female suffrage) (Chang, 2002).

5. Comparative Studies

All three reports are explicit that competition is a relative term—competing against whom? So policy guidance must be made through reference to comparable countries: "Evaluation should use quantitative benchmarks against selected comparators" (Asian Development Bank, 2004, p. xx), while "to gain insight into Pakistan's competitiveness rankings, it is useful to compare it to countries with which it shares an economic or geographic proximity" (Competitiveness Support Fund, 2010, p. 7). Moreover, "key constraints to competitiveness ... discourage private investment and make domestic production less competitive in relation to

many of Pakistan's competitors" (World Bank, 2006, p. 90). This is inherent to this particular way of considering competitiveness, where competitiveness is not absolute but explicitly considered in comparison to other countries. CSF, for instance, notes some examples of where absolute scores on a number of sub-indicators have not changed, but Pakistan's competitiveness has declined because other countries have improved at a faster rate. The report is replete with examples of where Pakistan performs poorly relative to comparator countries, on "strength of auditing and accounting" (p. 54), "transparency of government policymaking" (p. 54), 'favoritism by government officials" (p. 56), and so on.

ADB likewise benchmarks "indicators of skills and technology in Pakistan" and the "sophistication of exports against other countries and throughout the report accepts the idea that competitiveness is something that needs to be judged relative to other countries. WB is less systematic but the implications are the same: Investment is lower than in other countries and so should be increased (World Bank, 2006, p. 99); governance indicators are lower so should be improved (p. 105); and, again, refers to education attainments (p. 111), infrastructure performance (p. 116), and tariff levels (p. 120), etc. All of these "lessons" are extremely simplistic and of the form "country x is doing well, it has high levels of variable y, therefore Pakistan should improve increase y." Lessons require proper and detailed analysis to gauge their applicability; there are no such studies or references to any such findings in the reports.

A good example of how a proper comparative study could moderate naive calls for reform comes from land use and transfer legislation. CSF called for "fast-track SEZ legislation" (Competitiveness Support Fund, 2010, p. 65), and WB for "a consistent legal framework, registry, and property tax system" (World Bank, 2006, p. 149). There is a massive political problem over the border in India where the state has tried to do just this. The formal power of compulsory acquisition was established in India by the Land Acquisition Act of 1894, which was based on the concept of "eminent domain"—enabling the state to make compulsory purchase of private assets. The Act enabled the acquisition of land for public purposes with compensation linked to market prices. This law was reincarnated as the 2005 Special Economic Zone (SEZ) Act that set a framework for state governments to acquire land for industrial estates. By 2008, 404 SEZs had been approved, covering 54,280 acres. After being launched, many SEZs then stalled in response to massive political protest against the terms of compensation, valuation of assets, forcible eviction of existing land users, and nonpayment of compensation. Suspended or

abandoned projects have included the Salim Group's petro-chemical SEZ in Nandigram, West Bengal; the Reliance Group multipurpose SEZ near Mumbai; and the USD 12 billion POSCO steel SEZ in Orissa (Levien, 2011). This process has been extensively discussed, debated, and legislated on in India and utterly ignored by WB and CSF.

There is no excuse for the naive aspirations passing as policy advice in Pakistan. In the WB and CSF reports as well as more widely, Pakistan is often compared unfavorably to and urged to emulate the rapidly growing economies of East Asia. There is rarely if ever a proper considered discussion of the factors that permitted those East Asian countries to boost investment, education, and exports to extremely high levels. These development successes are not something that can be simply chosen by an informed policymaker after reading CSF. There exists an extensive literature on what we may roughly call the "politics of the developmental states"—the political preconditions that enabled mainly—but not exclusively—East Asian states to pursue developmental policies. Leftwich (1995) has constructed a widely circulated list, which includes a determined developmental elite; a state that was autonomous from the rest of society; a powerful, insulated, and competent economic bureaucracy; a weak and subordinated civil society; the effective management of nonstate economic interests; and a state basing its rule on a mix of repression and legitimacy based on successful performance. There is a wide range of works that study the specific internal and external historical and contemporary conditions that enabled developmental states to emerge. These include the experience of Japanese colonialism (Kohli, 1994); severe political crisis; external threat (Levi-Faur, 1998); and waging war (Tilly, 1985). There is an ample, detailed, and well-known literature, none of which is referred to or referenced in either WB or CSF. There is no excuse to base analysis on naive calls to replicate successful comparators.

6. Learning from Past Policy Interventions

Both WB and CSF suffer from historical myopia. They make no reference to past policy interventions or any effort to understand why policy has or has not worked in the past. There is no attempt in either report to understand the political economy context in which reforms have and will operate. Those who forget history, goes the expression, are bound to repeat it.

All three reports mention the dire state of education and skills in Pakistan, both absolutely and relative to comparator countries. It is therefore surprising perhaps that only WB, and then only in passing,

makes any reference to the Social Action Programme (SAP). Launched by the World Bank in 1993, the SAP was a two-phase scheme carried out from 1993 to 1997 and then to 2002, which cost nearly USD 8 billion. The program was a massive and sustained effort to tackle the same problems in education as noted by the competitiveness reports. As a result of the SAP, expenditure on the social sectors increased between 1993 and 1998 and declined subsequently to pre-program levels. There was a marginal improvement in education indicators between 1991 and 1996 and a decline thereafter until 1999. WB acknowledges this failure in passing, and then calls for an extensive list of urgent actions relating to improving governance in education: To better manage and monitor teachers, implement transparent procedures for teacher recruitment and training, expand public–private partnership initiatives to improve access and service delivery, focus on upgrading the quality of primary education, and improve the educational content of intermediate and secondary education (World Bank, 2006, pp. ix–x, 148–149). There is no detailed discussion of the previous failure, only a repetition of the same failed exhortations to reform.

Despite claims in the CSF and WB that they undertook extensive local consultation, there is no sign of any detailed understanding of the Pakistan context—of its political economy. In fact, at an abstract level, the policy recommendations—to improve infrastructure, health, and education—are equally applicable to every developing country and were included in the election manifestos of the major political parties at the last UK general election.[1] A specific understanding of the Pakistani political system, for example, could help explain why service delivery—particularly of health and education—has been so poor in Pakistan. Between 1988 and 1999, the country experienced its longest democratic interlude, yet social services for the majority of voters (the poor) showed negligible improvement. Elected politicians over the 1990s seemed adept at providing patronage/targeted favors to small numbers of privileged groups rather than general public goods that would benefit the majority of citizens, such as clean water or literacy improving basic education.

In Sindh, for example, there was a substantial increase in the number of teachers but a decline in measures of educational quality. Using state-level data, Hasnain (2008) has found that the higher the levels of fragmentation, factionalism, and ethnic/linguistic/religious polarization,

[1] WB does include a number of sector-specific case studies. The micro-analysis replicates all the problems discussed in this article. WB lists various problems and argues that all of them should, therefore, be tackled as "policy solutions."

the greater the incentives for patronage and the poorer the quality of general service delivery. His model explains both the low level of provision of general public goods and also the variability in provision across space. The (political) party fragmentation of the 1990s increased the informational demand on voters since there were more candidates and more messages to evaluate during election time, making it harder to link an improvement in service delivery with a particular politician. This increased the incentives on politicians to provide targeted benefits rather than general public goods. The party organization of the Pakistan People's Party and others was highly personalized, and those close to the leadership assumed positions of responsibility rather than those winning internal elections. This personalization promoted factionalism. Such factionalism did not provide party members with stable career prospects and, so, politicians had a greater incentive to focus on targeted public goods to build a personal reputation that would carry across party lines.

There was also a high degree of candidate churning in Pakistani politics during the 1990s. A significant number of incumbents changed constituency or competed as members of other parties in provincial assemblies. This gave incumbents an incentive to establish a reputation for themselves among voters that transcended party identity and, so, created incentives to focus on particularized benefits. Party factionalization was linked to the provision of targeted rather than general public goods. In more ethnically/linguistically/religiously divided parts of Pakistan, the provision of general public services would have provided fewer political benefits than targeted benefits to particular ethnic groups. So, again, polarization was linked to the provision of targeted rather than general public goods.

Such an understanding of the political economy context could direct reform efforts, perhaps to building the organizational structure of political parties or to voter awareness campaigns. An example of a reform effort carefully tailored to the local context is education funding in Uganda—which started with many of the same problems as now experienced in Pakistan. In Uganda, the central government began to publish monthly transfers of public funds to districts in newspapers and required primary schools to post public notices on all inflows of funds. This promoted accountability by giving both schools and parents access to the information needed to understand and monitor the workings of the grant program. Preliminary evidence from an evaluation of the information campaign suggests markedly improved outcomes (Reinikka & Svensson, 2004).

Another good example is taxation. CSF and WB both call for a familiar mix of reducing tax evasion and mobilizing revenue by reducing loopholes, rationalizing tax rates, and improving tax administration. Both ignore the IMF's long and ignominious history of tax reform. The following list is of occasions on which the IMF has loaned money to Pakistan between 1995 and 2010, each accompanied by an extract from the IMF website of the (tax-related) conditionality. After this long list comes the result—what happened to tax revenue.

1995 IMF approves $596m standby credit for Pakistan

> The program is designed to cut the budget deficit in relation to GDP through a combination of revenue and expenditure measures.

1996 IMF approves extension and augmentation of $231m standby credit to Pakistan

> These policies will be supported by far-reaching actions on the structural front, with emphasis on an improvement in the operations of Pakistan's major banks, broadening of the tax base, and rationalization of government expenditures.

1997 IMF approves combined $1,558m ESAF/EFF financing for Pakistan

> In the public sector, the domestic tax base will be broadened; tax administration strengthened; government expenditure shifted towards the social services and human capital formation; and key public enterprises restructured.

1999 IMF approves $575m second annual ESAF arrangement

> The budget deficit is targeted to decline from 5.5 percent of GDP in 1997/98 to 4.3 percent of GDP in 1998/99, and to 3.3 percent in 1999/2000. To achieve this target, the government has already taken or intends to take several fiscal measures: an increase in the GST rate to 15 percent from 12.5 percent...

2000 IMF approves $596m standby credit for Pakistan

> The program envisages a reduction in the overall budget deficit in 2000/01 to 5.2 percent of GDP, from 6.4 percent

> in 1999/2000, with further consolidation over the medium term. The budget target is to be achieved through increased tax collections with a widening of the tax base, improved tax administration, and strict expenditure controls.

2000 IMF approves release of $133m credit to Pakistan

> Another challenge will be to boost revenue collections, a key pre-condition for containing the fiscal deficit while increasing social and pro-poor spending. This will require resolute action to broaden the tax base and strengthen tax administration. The extension of the sales tax coverage, and steadfast implementation by the Central Board of Revenue of the recently adopted short-term action plan to improve tax administration, will be critical.

2001 IMF completes last review under Pakistan's standby arrangement, approves $135m disbursement

> At the same time, the broadening of the tax base and a fundamental reform of tax administration are urgently needed.

2001 IMF Executive Board approves $1.3b PRGF credit to Pakistan

> The strategy centers on sustained fiscal adjustment supported by a major reform of tax administration and a widening of the tax net, while increasing public spending for poverty alleviation.

2002 IMF completes first review of Pakistan's PRGF-supported program, approves $107m disbursement

> The Executive Board approved two waivers for the non-observance of performance criteria on tax revenue and credit to public enterprises, and modification of the tax revenue performance criterion for end-March 2002 and of one structural performance criterion on tax issues ... On the fiscal side, a significant improvement in tax revenue remains a key challenge. The recent tax measures taken by the authorities are welcome, but looking ahead, a significant improvement in the fiscal position will be

> needed to ensure debt sustainability, while raising allocations for basic social services. This will require the further reduction of tax exemptions, subsidies, and unproductive expenditure, and improved tax administration, in particular through a vigorous reform of the Central Board of Revenue.

2002 IMF completes second review of Pakistan's PRGF-supported program, approves $114m disbursement

> This will, however, require strong determination in enforcing tax collection, the continued timely implementation of reforms to enhance tax administration, and improved tracking and effective monitoring of social expenditure and related outcomes. The authorities should also stand ready to undertake appropriate corrective fiscal measures, if needed, to achieve the budgetary targets.

2003 IMF completes fourth review of Pakistan's PRGF-supported program, approves $118m disbursement to Pakistan

> In approving the disbursement, the Executive Board granted a waiver of Pakistan's non-observance of the continuous structural performance criterion regarding tax exemptions and regulatory import duties ... The removal of a significant number of tax exemptions with the next budget should lead towards a tax system where the burden is more fairly distributed across income earners.

2003 IMF completes fifth review of Pakistan's PRGF-supported program, approves $123m disbursement

> This will require forceful pursuit of reforms aimed at simplifying the tax system and broadening the tax base, including through the elimination of a number of tax exemptions, to reduce distortions and the potential for corruption.

2003 IMF Executive Board completes sixth and seventh reviews of Pakistan's PRGF-supported program, grants waivers and approves disbursements amounting to $247.54m

> In this regard, Pakistan's request for waivers for the non-observance of three structural performance criteria was approved by the Executive Board ... In the fiscal area, this will include efforts to broaden the tax base through an expansion of the general sales tax to services, a reduction of tax exemptions, and an improvement in the capacity of local governments, which administer most poverty-related expenditures.

2004 IMF Executive Board completes eighth review under Pakistan's PRGF-supported program and approves disbursement amounting to $253m

> It will be essential to press ahead with the ongoing reforms to simplify the tax system and broaden the tax base.

2008 IMF announces staff-level agreement with Pakistan on $7.6b loan

> This fiscal adjustment will be achieved primarily by phasing out energy subsidies, better prioritizing development spending, and implementing strong tax policy and administration measures.

2009 IMF completes second review under standby arrangement for Pakistan and increases financial support to $11.3b

> A durable solution to the problem of low tax revenue should start with the early implementation of VAT and the ongoing tax administration reform.

2009 IMF completes third review under standby arrangement for Pakistan, approves $1.2b disbursement

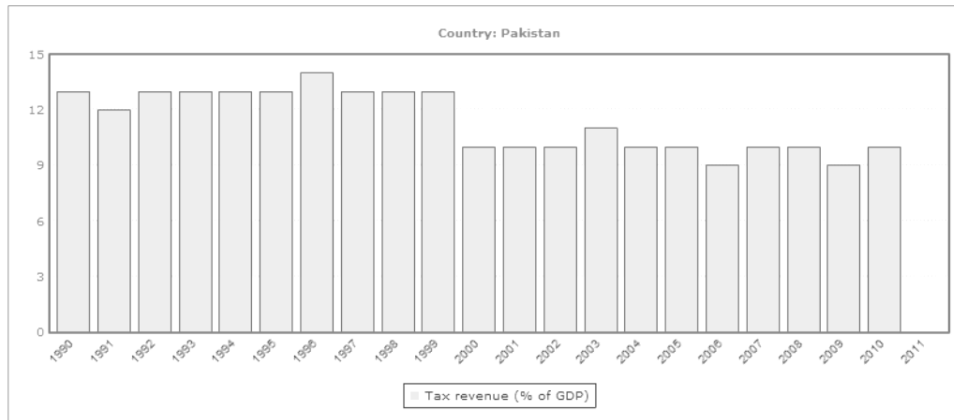
> The introduction of the VAT and associated administrative reforms, scheduled for July 1, 2010, is key to strengthening revenue, crucial for reducing poverty and financing needed investment in human and physical capital. Prompt submission of the VAT law to parliament and its passage will therefore be important.

2010 IMF completes fourth review under standby arrangement for Pakistan and approves $1.13 billion disbursement

> Achieving the 2009/10 fiscal target will require strong efforts, including from the political leadership. Resolute continuation of tax collection efforts, tax administration reform, and expenditure restraint, together with timely disbursement of the pledged foreign financing will be critical to facilitate fiscal management.

And, as a result of 15 years of cajoling, assisting, pressurizing, enticing, persuading, inveigling, flattering, coaxing, and wheedling Pakistan to reform its tax system—and spending billions of dollars in the process—what happened? Nothing. Figure 1 shows that tax revenue remained essentially unchanged during the 1990s, or if one were being a little unkind, one might say Pakistan did exactly the opposite of what the IMF spent so long requesting, and let tax revenue decline.

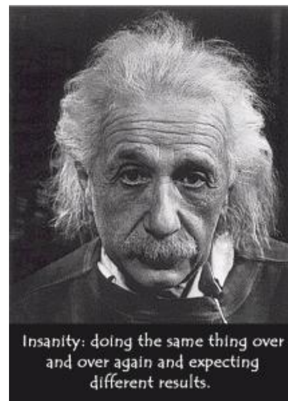
Figure 1: Tax revenue in Pakistan, 1990–2010



Source: World Bank (2012).

Albert Einstein (Figure 2) famously said that the definition of insanity was doing the same thing over and over again and expecting different results. Could this apply to the IMF? Certainly not. There is no doubting the technical expertise, experience, and high caliber of the IMF. The answer probably lies in the murky waters of politics and international relations and must await another paper.

Figure 2: Albert Einstein and insanity



Have the competitiveness reports learnt from this debacle and built a sensible tax reform strategy into their policy advice? No. Instead this hopeless IMF rhetoric has been fully absorbed by CSF and WB. CSF hopes that "tax reforms will help the Government to increase its tax-to-GDP ratio to 15% by 2014" (Competitiveness Support Fund, 2011, p. 33). WB calls for a "comprehensive strategy to increase tax revenues and the

implementation of actions to increase tax collections, not only at the federal level, but also at the provincial and local level" (World Bank, 2006, p. 98).

7. Conclusion

This article has shown that competitiveness, despite its intuitive appeal as currently utilized, is a dangerous, distorting and dead-end obsession. It is dangerous because it overwhelms policymakers with incoherent lists of priorities that risk undermining morale among policymakers and increasing distrust by the general public. It is distorting because the competitiveness agenda turns economic theory upside down, abandoning without explanation the widely accepted view of comparative advantage and mutual gains from trade. Finally, it is dead-end because, while advocating upgrading, many of the policy measures the reports espouse will entrench low-skill, labor-intensive sweated labor. Where then to start on an alternative agenda? To start, the notion that international competitiveness is the fundamental constraint to a country's long-term growth prospects should be dropped. The overwhelming impact on growth is and is likely to remain that of domestic factors.

A good place to start in devising an alternative is the work of Rodrik who has written extensively on "rethinking growth policies in the developing world" and "growth strategies." His general argument is summarized as a sequence of logical steps (Rodrik, 2004). The reforms of the 1980s and 1990s—and still being advocated by CSF and WB—produced disappointing results. Despite extensive stabilization, liberalization, and privatization, growth rates in reform countries (including Pakistan) were low in absolute terms and also relative to their own historical experience. Successful growth performers have followed heterodox policies. China and India have become more market-oriented but through unorthodox means. In China, for example, small-scale *state*- (not private) owned enterprises (township and village enterprises [TVEs]) were the economy's most dynamic sector for the first 20 years of reform. In India, rapid economic growth began in the early 1980s and did so in an environment of *increasing* trade protection. Others, such as South Korea and Taiwan, experienced rapid economic growth with the extensive use of trade and industrial policies.

All successful growth stories have adhered to some basic principles—these have included macroeconomic stability, monetary and fiscal policies that have avoided high inflation or unsustainable debt, prudential regulation of the financial system, providing investors with effective protection of property rights, and maintaining a degree of social

cohesion and political stability. These principles of macroeconomic policy do not, though, map onto unique policy agendas. There are multiple ways of achieving them. China, for example, protected property rights not by immediately reforming its legal system to duplicate those in developed countries—as advocated for Pakistan by CSF and WB—but through partnerships between entrepreneurs who ran businesses and local government officials who protected their property rights in return for agreed revenue payments to support local public spending. South Korea and Taiwan did not re-orientate their economies to exporting in the 1960s by liberalizing imports—as advocated by CSF and WB—but by subsidizing exports. Chile, despite its commitment to the free market, retained its largest export industry (copper) under state ownership and retained controls on capital outflows throughout the 1990s.

Macroeconomic stability has proved to be compatible with a vast range of exchange rate regimes and regulations governing central bank functioning. Consequently, policy diversity, experimentation, and scaling up successful local experiments are desirable. A reform agenda should not be based around the desire to emulate developed countries as quickly as possible. Economists should utilize their undoubted training to evaluate their relative scarcity of different growth drivers and the tradeoffs involved in their provision. Economists should stick to economics and not be tempted into management theories about competitiveness. Policy recommendations should be practical to undertake by the Pakistani bureaucracy and political classes; they should be rooted in a careful analysis of potential lessons from comparator countries that recognizes the different constraints and opportunities of those countries, and in a clear understanding of the Pakistan context—its political economy and related analysis of the successes and failures of past policy interventions.

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