INDUSTRIAL POLICY UNDER CLIENTELIST POLITICAL SETTLEMENTS

THE CASE OF PAKISTAN

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BACKGROUND

CONTEXT OF GROWTH AND DEVELOPMENT TODAY
Developed and developing countries -
expected to converge

Developed countries will reach the limit of production expansion

Developing countries will learn and benefit from experience of developed countries and approach developed countries

CONVERGENCE THEORY
- Gap instead is widening for the most part:
  - Developed countries pushing production frontiers out
  - Most developing countries struggling to catch up
- Developing countries can be grouped into two categories:
  - Diverging
  - Converging

CONVERGENCE THEORY - FACTS
CONVERGENCE THEORY

Property Rights and Economic Growth 1980-90

Property Rights and Economic Growth 1990-2003

CONVERGENCE THEORY

CONVERGENCE THEORY

CONVERGENCE THEORY

**EXPLAINING THE DIVERGENCE**

- **Source of growth of developed countries** - **Industrialization**

- **Channel** employed by developing countries to emulate – **Industrial Policy**
Prioritized industrial sector development

Specifically designed policy instruments

- Acquiring capabilities and physical technology

Inconsistent experience across countries
POLITICAL SETTLEMENTS

CONCEPTS AND THE DEBATE
- Relationships determine whether developmental efforts are a:
  - Success or failure

- How the state manages to maintain social order while organizing a political compromise
  - between itself and groups within society
Term first introduced by Melling (1991) as:

- Describing political processes and their impact on welfare policies during the time of 19th century British industrial capitalism and the welfare state.

- No absolute definition of the term

- Depends on the context / focus of research

POLITICAL SETTLEMENTS - LITERATURE
# Political Settlements - Literature

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<td>Representing power structure (balance and distribution) in society</td>
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Source: Based on Laws (2012)
- Context of political power is explicitly analyzed
- State effectiveness is not implicitly assumed
- Accounts for formal AND informal sectors
- Focus on economic bargains between state as patron and society as client(s)
- Definitions tend to focus on vertical context
- Gloss over class conflict within groups in society
- Society comprised of heterogeneous, diverse elements
- Pronounced stratification, especially of marginalized groups
- Khan (1995) and Khan (2004)’s definition is appropriate
A lens to look at institutional performance in development studies context:

- Khan (1995), Khan (2004) - “distribution of organizational and political power between competing groups and classes” in society

And:

- Fritz and Menocal (2007) - A binding agreement between state and society

POLITICAL SETTLEMENTS
1. **Power:** holding power of elites or "capability of an individual or group to engage in and survive conflicts"

2. **Sustainability:** creation of "minimum levels of economic performance and political stability" that ensure the settlement endures and does not collapse in on itself

3. **Compatibility:** sufficient number of powerful groups and elites in society receive adequate share of economic benefits to comply with the existing order and forego any contestation and conflict

**POLITICAL SETTLEMENTS DEFINITION – KEY COMPONENTS**
4. Viability: being economically productive enough to forestall economic crisis, and politically stable enough that conflict and violence do not threaten to overthrow core institutional and political arrangements.

5. Symbiotic: institutions create economic benefits for groups and elites in society, while powerful groups and elites will attempt to influence the working of institutions to deliver more favourable economic benefits.
POLITICAL SETTLEMENTS DEFINITION – RELEVANCE

- Important in the context of policies – determine capability of organizations

- Actual outcome of policies can be significantly different from intended outcome due to rent allocation given political settlement prevailing
AYUB KHAN’S GROWTH TAKE-OFF PERIOD
- Growth experience inconsistent
- Promising growth periods → faltering growth, instability
- Frequent political leadership changes
- Sharp policy reversals

PAKISTAN’S GROWTH EXPERIENCE
Rapid expansion of large scale manufacturing
State bureaucracy established
Agriculture dominated, but stagnating
High population growth rate
Rising disparity between groups → political discontent

PRECURSOR TO AYUB KHAN’S PERIOD
AYUB KHAN’S GROWTH TAKE-OFF PERIOD - HIGHLIGHTS

- Political regime committed to development of capitalism
- Willing to intervene in the economy
- Massive allocation of resources to select industrialists → asset accumulation, accelerated investment
- Export promotion schemes launched
- Massive concentration of wealth
- Capital intensive industries selected for investment
- SME neglected
- State unable to deliver conditional subsidies based on output performance
- Political contestation and unrest -> resources diverted away from productive uses -> loss of credibility -> start of rent-seeking

AYUB KHAN’S GROWTH TAKE-OFF PERIOD - DOWNSIDE
• Industrialists formed mutually beneficial connections with bureaucracy and political leadership

• SME industrialists:
  • lacked economic power to influence state
  • Dominated trade associations and used political power for allocation of scarce resources

• Clientelist political settlement

AYUB KHAN’S GROWTH TAKE-OFF PERIOD - OUTCOME
POST-ZIA DEMOCRACY PERIOD
Renewed effort to establish democratic rule

Party-based elections -> PPP emerged victorious

Frequently changing political landscape

4 elected governments dismissed in ~ 8 1/2 years

Continuation of SAP

Focus on liberalization, privatization, deregulation

POST-ZIA DEMOCRACY PERIOD - HIGHLIGHTS
- Continued rising inequalities
- Share of manufacturing ↓
- State unable to deliver conditional subsidies based on output performance
- Political contestation and unrest -> resources diverted away from productive uses
- Clientelist political settlement

POST-ZIA DEMOCRACY PERIOD - DOWNSIDE
COMPARATIVE ANALYSIS
Clientelist political settlement:

- Vulnerable authoritarian coalition
- Strong excluded factions
- Strong implementation capabilities of state coupled with weak favour for growth and development
Clientelist political settlement:

- Weak dominant party
- Increased fragmentation, especially at lower levels
- Excluded factions gain more power
CONCLUSION

SUMMING UP
- Represent distribution of power across economic, political and bureaucratic organizations in society
- Evolve over time
- Are relevant for economic development and policy formulation

SUMMING UP – POLITICAL SETTLEMENTS
- Are particularly relevant for policies aimed at learning and technology acquisition
- Determine the capability of organizations to affect allocation of rents
- Actual outcome of policies may end up being different from intended outcome

SUMMING UP – POLITICAL SETTLEMENTS
Unlike South Korea, the state in Pakistan did not allocate rents based on performance
  - Rent seeking encouraged
  - Domestic firms had difficulty achieving global competitiveness

Unlike India, the state in Pakistan was unable to compel a foreign manufacturer to upgrade domestic firms