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## *Report – Panel Discussion*

# **“Economic Security and Geo-Economics: Challenges and Opportunities for Pakistan”**

**March 9, 2022**

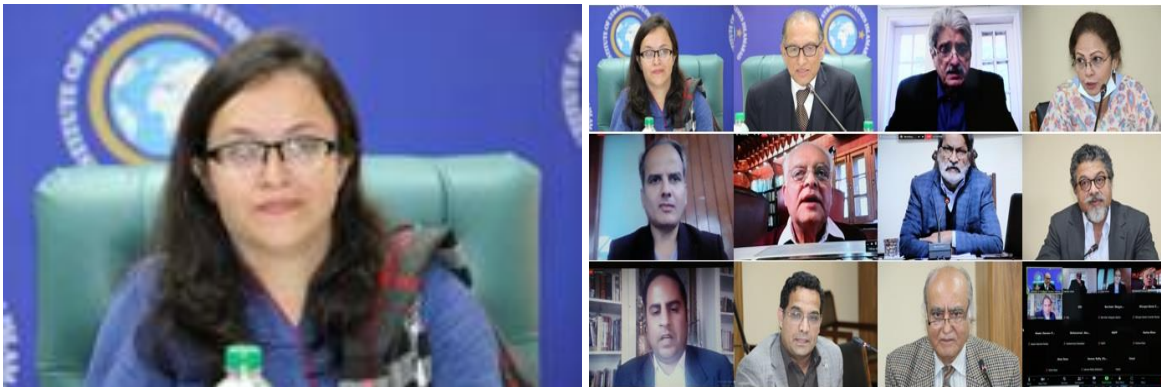


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### PICTURES OF THE EVENT





The Centre for Strategic Perspectives (CSP), Institute of Strategic Studies Islamabad (ISSI) organised a Panel Discussion on “**Economic Security and Geo-Economics: Challenges and Opportunities for Pakistan,**” on March 9, 2022. The keynote speaker was **Dr. Salman Shah**, *Former Finance Minister of Pakistan*. Other panellists at the discussion included: **Dr. Aisha Ghaus Pasha**, *Former Finance Minister, Government of Punjab*; **Dr. Sajid Amin**, *Research Fellow/ Founding Head Policy Solutions Lab, SDPI*; **Dr. Akmal Hussain**, *Distinguished Professor, Department of Economics, BNU, Lahore*; **Dr. Safdar Sohail**, *Dean, National Institute of Public Policy (NIPP), Lahore*; **Dr. Liaqat Shah**, *Executive Director, Centre of Excellence for CPEC*; **Dr. Usman Chohan**, *Director Economic Affairs and National Development, CASS*; and **Mr. Amer Zafar Durrani**, *President, Reenergiz*. The discussion was moderated by **Dr. Neelum Nigar**, *Director CSP at ISSI*.

### **Introductory Session**

#### ***Introductory Remarks by Dr. Neelum Nigar, Director CSP, ISSI***

In her introductory remarks Dr. Nigar said that today’s discussion is on a very important topic. The government has recently launched a policy document the National Security Policy (NSP) 2020-26, which takes a comprehensive approach to security by considering all pillars of national security. This document puts geoeconomics at the epicentre of Pakistan’s national security with a focus on economic security and human security to achieve the overall security. This policy document puts focus on the structural issues which are important to address to achieve economic stability in the country. The policymakers in Islamabad have realised that to make maximum benefit from geoeconomics it must take advantage from the relationship it has cultivated with other nations through its diplomatic history and even further expand them.

#### ***Welcome Remarks by Ambassador Aizaz Ahmad Chaudhry, DG, ISSI***

Ambassador Chaudhry welcomed the panellists and said that the recently launched NSP document is a step in the right direction as it is good to have a document of such a nature which spells out the larger policy direction of Pakistan. It is also important to note that in the tripod of national security comprising traditional, economic, and human security, economic security has been given the primacy. The nation runs on the treasury that it has, and it is the right approach to

focus on economic security. Currently in the larger worldwide context multilateralism, interdependence and globalization seem to be receding into the background and unilateralism and interventions are coming to the fore. It is a matter of great anxiety and concern for everyone that the world might be headed to different camps or coalitions. It is an evolving situation and a matter of concern for countries like Pakistan and other developing economies. The Government in Pakistan keeping in mind the situation has announced that it wants to maintain good mutually beneficial relationship with all major powers as well as the neighbours, but it needs to address its economic security challenges.

***Keynote Address by Dr. Salman Shah, Former Finance Minister of Pakistan***

Dr. Shah started off by saying that there is a need to define economic security in a very comprehensive manner so that a proper analysis can be done to come up with good policy prescriptions which meet the countries goals and objectives. According to Dr. Shah economic security is something which can be articulated as enabling a system in which the state can mobilise resources in terms of human capital, physical capital, energy, and other inputs into the production system that creates acceptable level of wealth in the country and the finances the country needs to survive. The state must ensure the continuation of resources access to the market, access to technology, access to know-how elements of the economy so that the economy does not suffer from the kind of shocks which people are quite accustomed to in Pakistan.

The first order is if a country has economic strength, it underpins economic security, it underpins national security, it underpins geoeconomics, and all elements of state power is really underpinned by the economic strength of that country. The relationship between countries is also dependent upon the economic relationships. Even if a country has a very solid plank for its policies, but if economics is not there and it is being looked at from a perspective of human principles it does not work because ultimately it is economics which determines what kind of support it can generate in the world.

Dr. Shah added that looking at Pakistan's internal economic strength it is at the bottom in terms of wealth, the per capita income is in the last 20 of world, and its economy has been in the IMF program at least 22 times. Every time Pakistan must go the IMF is an indication that it is highly insecure economically and it does not have the kind of economy which could achieve economic

security for its citizens as well as the state a reality. Looking at history 50 years in terms of potential Pakistan had the greatest potential and its per capita income was on the same level as South Korea, and since then South Korea has added almost 233 times to its per capita income whereas Pakistan has only added 11 times to its per capita. In this sense Pakistan has been a massive failure in terms of generating wealth, in terms of creating economic security.

Economic base is really what determines what the country can spend on its national security or defence mechanisms. Dr. Shah continued by saying that Pakistan is scrapping for aid, looking for IMF, looking for largess and trying to build national security on these elements which is not possible. Economic security is also a clash of anarchy versus the discipline of the economy and the economy needs efficient markets, economy needs uncertainty to disappear. Whereas our politics keeps generating the opposite effect. The first big move towards economic security was PPPs socialistic approach in which the production and financial systems were nationalised, but it was a big failure. The second attempt was during the General Zia's Islamization and the focus during that time was not on access to global markets, tourism, exports, and technology resulting in internal instability and economic eco-system was not developed. The third attempt was made by political hybrids like PML-N which tried to make Pakistan into an Asian tiger which did not work as well, and Pakistan continued to be dependent upon the IMF and the economic strength was not build up. The fourth attempt was Musharraf's enlightened moderation and accountability, during which the economy did a little better with debt to GDP ratio coming down 54% and there was investment generation with liberalization of the economy, but it did not last also.

Dr. Shah added that what Pakistan now has is a very dysfunctional economy which is highly indebted and cannot survive without the IMF. The politics of the country is not able to cope with IMF conditionalities. So, the biggest challenge is how to put the economic house in order, how to get those resources financial, capital, human resources, value-chains, access to global markets, competitiveness, and quality in productivity. All of these need a program embedded in the overall national security policy of the country where there is talk about transformation of the economic security of the country and which are the things which need to be done. These reforms include finishing the IMF program, developing value-chains for global competitive markets, fixing energy problems, making local markets more efficient, reducing the size of the

government, deregulations, increasing private investment, attracting FDI, and to maintain overall stability.

According to Dr. Shah the economic strength of Pakistan does not permit it to have a proper economic security with acceptable levels of wealth and prosperity for the people. The opportunities are there for Pakistan to take advantage from the geoeconomics situation where globalization is taking shape of extreme competition for influence with blocks forming but overall trade and economic relationships taking centre stage. This will lead to openings especially for South Asian region and in that sense geoeconomics becomes important and Pakistan should be ready for that by connecting Central Asia and Western China to the Indian Ocean and Chinese economy is going to be a driving force for Pakistan. In that sense alignment of Pakistan as a non-aligned country but with more economic relationships with China, Central Asia and Russia and keeping economic channels open with Western countries where all these powers can meet will be the key. If Pakistan can generate that kind of competition, it would be a very big success for its geoeconomics and for its foreign policy.

In conclusion Dr. Shah said that the openings Pakistan has been making under CPEC in terms of infrastructure, connectivity, business to business investments, technology transfers, and joint ventures need to be made into a base for economic strength, and production. Going forward Pakistan is very well positioned in many ways, but it must do its homework very well and ensure that when a situation arises where Pakistan can exploit all its advantages and overcome its weaknesses it is ready. It is a tall order in which all the state institutions need to work together to navigate these challenges and have a total consensus on the game plan going forward.

### **Session I: Pakistan's External Account Balance and road to IMF**

***Dr. Aisha Ghaus Pasha, Former Finance Minister, Government of Punjab***

Dr. Pasha started off by saying that discussing economic security in the age of 5<sup>th</sup> generation warfare is not only about the number of guns the country has but how much clout it has in terms of economic strength. When a country has a budget deficit the country cannot just keep asking the State Bank to keep printing money as it will lead to a debt trap but on the external side dollars cannot be printed and the reserves must be maintained. This is one of the reasons the country has had to go to the IMF to service its liabilities. Going to the IMF and getting a comfort

letter from them also opens the door to get funding from other multilateral organisations. This is important as when Pakistan goes to commercial markets its risk rankings are high and no one is willing to lend on easy terms without the comfort letter of the IMF.

In this geopolitical environment according to Dr. Pasha the IMF also has its concerns which are not only technical but also strategic and their handling of Pakistan's program depends upon on how happy the western powers are with the country. One thing that needs mentioning is that the Pakistan did not go very well prepared into the recent IMF program and should have had a growth reform package ready, and the terms were dictated by the IMF and the deal was not a soft one on both performance and indicative criteria. The IMF wants the net international levels to be at a certain level and given Pakistan's foreign reserves level it does not place it in a comfortable level. Secondly there is a ceiling on governments primary budget deficit, and it would be difficult for the government to meet it in the current international situation. Given Pakistan's financial requirements it is not in a good position with the IMF, and it needs to generate about USD 31 billion to get out of the program and from where is it going to be generated.

Dr. Pasha also said that given the new geopolitical environment with blocks forming Pakistan is likely to be collateral of the great power game and therefore it needs to insulate itself and be more resilient economically. But this is a long-term fix and in the short-term Pakistan has to depend on the IMF. A self-reliant Pakistani economy means a very tough transition with austerity measures, wider tax net and cutting of government spending. Tough decisions are needed to get out the cycle of going back to the IMF.

***Dr. Sajid Amin, Research Fellow/ Founding Head Policy Solutions Lab, SDPI***

Dr. Amin said that there are two important aspects that need to be investigated that why Pakistan could not sustain higher growth and was the growth sustainable or not. Banning imports is not a solution, increasing tax to GDP ratio may be a necessary condition but not a sufficient condition because it depends on where are those tax revenues coming from. Bangladesh for e.g., with a low tax-GDP ratio then Pakistan has been able to sustain an economic growth rate of 8-9 percent.

The first recommendation is that public policy on macroeconomy may needs rethinking and right questions need to be asked because wrong questions lead to wrong perceptions and that is what



Pakistan has been suffering from. For e.g., Pakistan has tax reforms, but its objective is to maximise the revenue at any cost. Pakistan has never had a taxation for development or for economic growth. The second recommendation Dr. Amin gave was that short-term solutions do not work. Borrowing, restricting imports are just ad-hoc solutions, but there are two approaches that Pakistan can take to avoid the IMF. First is to stay on low growth that is whenever the growth rate goes over 4% there is a balance of payment crisis because of the poor structure of economic growth and the second is to restructure the economic model as there are no short-term fixes.

Dr. Amin gave several solutions to fix the growth problem:

- Pakistan's macroeconomic policy needs to shift its focus from stabilisation to sustainability. A monetary policy focused on stabilisation will over-value exchange rate to cut the imports, but sustainability policy will focus on exports.
- Economic inclusion of people and businesses because in a higher growth regime it needs to be financed because savings cannot be promoted by artificially fuelling consumption therefore SMEs policies need to be the development policies for the country. SMEs policies increases jobs, it promotes employment, it promotes household savings, and it promotes overall inclusion of the people and the businesses.
- Pakistan needs to manage its population growth as it leads to sustained economic growth and improves the efficiency of social spendings and the country can have a higher GDP per capita with lower GDP growth. It enables countries to better invest in the people.
- Investing in people where social spending should not be taken as expenditure and these include investments in health and education as they are investments in skill developments.

Pakistan needs to shift its growth structure from consumption to investment, from imports to exports and from current services sector to industrial base. Absolute rethinking of the economy is needed as ad-hoc solutions do not work and lead the country back to the doors of the IMF.

## **Session II: Dynamics of Pakistan`s Human Security**

*Dr. Akmal Hussain, Distinguished Professor, Department of Economics, BNU, Lahore*

While expressing his views on the issue of sustainable economic growth and ways to achieve it, he said that sustainable economic growth in fact is the distinguishing feature between the underdeveloped countries and the countries, which came out of the category of underdeveloped countries in recent years e.g., China, South Korea, Malaysia, Singapore, Philippines, etc. The critical analysis of Pakistan`s economic growth reveals that it has been characterized by the “stop-go pattern.” Pakistan had the periods of relatively high growth e.g., eras of President Ayub Khan, Zia-ul-Haq, and Musharraf, followed by the periods of low or even negative economic growth rate. Therefore, the gains made during the high growth period were largely lost during the period of stagnation. Consequently, Pakistan`s per capita income has increased only 11 times since 1960s. On the other hand, the per capita income of a country like South Korea which started from the same point at the same time as Pakistan, has increased approximately 250 times. Hence, the root cause of Pakistan`s underdevelopment is its inability to sustain the high per capita income growth over the longer periods of time. To develop a clear understanding of this root cause, it is necessary to dig deep into the dynamics of high growth periods and identify the factors responsible for its end. Interestingly, at the end of each high growth periods there was a balance of payment crisis that resulted in getting the programs from International Monetary Fund (IMF) and other multilateral agencies that contracted the growth process.

He opined that the export structure of Pakistan was mainly responsible for this balance of payment crisis. Recent empirical research shows that higher the percentage of knowledge intensive goods in the national exports, the higher the long-term per capita income growth. Various other research also proved that the key determinant of economic sustainability is the domination of knowledge intensive goods in country`s export structure. Building an export structure on knowledge intensive goods is completely different ball game compared to shifting to the high value goods and diversification model. The ability to produce knowledge intensive goods involves developing a wide range of technological specializations and capacity to develop coordinating mechanisms for bringing these specializations together to manufacture numerous goods for export. In case of Pakistan, the knowledge intensive goods are 2 per cent of total exports. However, this dependency rate is 26 per cent for Malaysia that was on the same level as

Pakistan few years ago. The shift to knowledge intensive export structure is not an overnight event rather it is a process that require tough and consistent policy decisions over the protracted period. Furthermore, building a national knowledge infrastructure based on advanced research is also a prerequisite. Therefore, Pakistan should focus on building a network of research institutions, excellent universities and create their linkages with firms to accomplish the goal of knowledge-based economy.

While addressing the issue of how the provision of human security will help countries to achieve sustainable economic growth and national security, Dr. Hussain said that countries couldn't achieve the sustainable economic growth as well as knowledge intensive export structure without building a "human economy" by investing in its own people. Recent research shows that greater the depth and scope of country's innovations, the higher is the country's long term per capita income will be. Currently, Pakistan's economic infrastructure has an extremely restricted social base. It is systematically designed to generate an unearned income for a small group of elites while excluding most of the middle class and poor from investment opportunity pool, specialized education, access to resources, savings, productivity increase, and enjoying the final benefits. Developing a knowledge-based economy necessitates the expansion of social base for human economy. If a country builds an economy whose dynamism is based on the innovation, creativity, and enterprise of the people then it can have an equitable and sustained growth process. Keeping in view the geostrategic location of Pakistan, he opined that Pakistan have a great potential as well opportunities to building linkages with China, Central Asia, Russia, India and build export markets.

The knowledge-based economy is also becoming a backbone for sustainable national defence. No country in the world can rely on imported technologies for its national security. The dual-use emerging technologies like cyber and artificial intelligence have wider civilian as well as military applications. They are being used to build sophisticated weapon systems, aircrafts, and naval ships. To achieve the knowledge-based economy in Pakistan, he gave following key recommendations:

- Make a national commitment to provide a universal provision of high-quality education, health, and social protection. It will enhance the innovative capability of common people and social cohesion.
- Invest in building the research institutions and universities.
- Promote the culture of openness and freedom of ideas.

***Dr. Safdar Sohail, Dean, National Institute of Public Policy (NIPP), Lahore***

While expressing his view on the Dynamics of Pakistan's Human Security, Dr. Safdar Sohail said that the acceptability of social protection as a right is a major issue faced by the people of Pakistan. Basically, the objective of any country's economic policies are social in nature. While reiterating Dr. Sajjad's argument regarding designing the SME policy, he said that SME is the key opportunity for common people to participate in the national economy. However, he also expressed his concern regarding the level of social protection given to citizens of Pakistan who are investing in these micro enterprises. What kind of vulnerabilities they will have to face as the percentage of informality in terms of social security is extremely high in Pakistan? The institutionalized social security in Pakistan only covers 5 per cent of secured labour. If Pakistan could not create an effective social protection policy for SMEs, then the financial investments and economic growth will remain at risk.

The recent COVID-19 pandemic exposed the level of social protection and sustainable economic growth in Pakistan when after ten days of lockdown, government reached the point to choose between dying from hunger or virus. Government went for income transfers and emergency relief programs. That was the moment to reflect on the long-term needs of effective social protection in the country. Instead of self-reflection, government expanded the base of "EHSAS Program" which is a charity program and not a right based program. He acknowledged the fact that Pakistan needed these charity programs because of massive number of poor people but the money went into these programs without any proper mechanism. After 18<sup>th</sup> amendment, the social protection is clearly a provincial subject. Therefore, this was the high time for an increased and serious coordination among centre and provinces to review the existing national social security arrangements. This was an opportunity for the federal and provincial government to

restructure their social security framework to include the informal labour as well. However, government failed to recognize this opportunity. He also emphasized that this is a right time to ask questions about the tripartite (national, human, and social securities) process in Pakistan. The 5 per cent secured labour means that the 1967 law on social security of employees is not working. Current thinking is to bring the informal labour again in the charity-oriented program in the name of including the poor and middle class.

Widening universal health coverage can stay effective but Pakistan is going big way to provide universal national health insurance. The evidence shows a different mechanism around the world. The public provisioning of social security institutions in Pakistan has been far better in quality and coverage as compared to existing universal national health insurance. By linking this system to CNIC, the government would be able to claim in 2030 that they have achieved the provision of providing the facility of health insurance. However, it is necessary to think that this will be of no use if this system could not increase the quality of health facilities, decrease the out-of-pocket health expenditure, and increase the overall health outcomes.

What is happening in Pakistan in terms of health is classical. The latest national security policy of Pakistan has one chapter on human security where one section deals with the population growth and demographic dividend. The average life expectancy at birth is 66 years in Pakistan but a healthy life expectancy in Pakistan is 56 years. The cluster of diseases that hits the average Pakistani at the age of 55 hits the South Korean at the age of 75. Therefore, Pakistan is losing 20 years of healthy life expectancy. The class segregating analysis reveals that a healthy life expectancy in the poorer section of the society for men is early 50s and for women is late 40s. According to various surveys, the younger people in Pakistan are entering late in the national labour force due to various reason including mental health issues. Across the globe, the most productive human decade is 50s but in Pakistan, it is 40s. The creation of knowledge-based economy depends on innovation and creativity which in turn depend on the vitality of physical and mental health. In addition to existing factors of pollution and poverty, the lack of effective health facilities and social protection system, the durability of labour force in Pakistan is eroding at a fast pace.

Why Pakistan is not aware of this acute situation of social protection in the country? In recent times, the term human security has emerged as a catchy term. It has created another fake binary of human security vs. national security. Now, the dominant narrative a donor is giving is that individual should be free from want and fear. As far as the freedom from want is concerned, it is being applied in Pakistan to a certain extent. In human security narrative, there is a lot of emphasis on freedom from fear and its linkage with globalisation behind which everyone has their own agendas. He expressed his concerns regarding the increasing influence and internalization of narratives of foreign / western donors in Pakistan. The government has accepted and included the catchy terms like climate security, demographic dividend, gender equality, water security under the single umbrella of human security without establishing their concrete linkages with economic security in the new National Security Policy of Pakistan. It is a high time for Pakistan to look after the disenfranchise sections of the society, but it is following the policies designed to look for the individual security.

While talking about the issue of population control, Dr. Sohail said that the land reforms and access to education are preconditions for it. The academic research and global experience dictate that equal distribution of wealth and better education will automatically create awareness in people vis-à-vis having less children.

### **Session III: Pakistan`s Regional Trade and Economic Integration**

*Mr. Amer Zafar Durrani, President Reenergia*

Mr. Durrani while making his presentation spoke on the importance of regional integrations for a comprehensive economic security and regional integration as a prima matter to increase trade with the regional countries be it the East-West connectivity or the North-South connectivity. He was of the view that it is time to end regional isolation as well as the isolation of mind and cultures and start playing bold economics by letting go the genetic economic which is now archaic. Pakistan needs to start thinking out of the box and explore its own predisposition by breaking away from financial aid be it the World Bank or the Chinese assistance. He elucidated on the idea of bold economy which requires Pakistan to end its economic hibernation and indulge into the idea of inventing and innovating economic thought in the 21st century rather than being adopters of economic thought. Pakistan is still holding up on the traditional 20th

century macroeconomics and has become stagnant because it is not using the latest technology and thoughts. He was of the view that Pakistan should now fundamentally start thinking about modernizing not just thought but also the intellect primarily by investing its own capital into itself by unlocking local capital and putting it into more productive investments. He further stressed that economy and aid should be discussed at the highest foreign policy level which is fundamental to how the idea of geo-economics shape in the future.

While shedding light on the idea of ending regional isolation Mr. Amir opined that Pakistan needs foreign intellectual labour. Pakistan as important as it has been also one of the most isolated countries; realistically Pakistan is a cacophony the melting pot of everybody from the Central Asia to the South Caucasus, the South Asian regions be it the Buddhist trails. Mr. Amir raised alarm that Pakistan by not being regionally integrated is wasting its potential while it can achieve much by certain policy changes through lowering regional tariffs, improve border connectivity develop, green borders instead Pakistan is doing exactly the opposite. It is imperative to open easy border access like Europe and invest in active patrolling and regulating control instead of doing the opposite by closing borders which has done nothing else but created problems for Pakistan.

He further highlighted that poor economy is not caused by lagging regions or by geography they are caused basically not having mobility between the regions. Having mobility between borders will also help explore the untapped trade between the regions. Concluding his remarks Mr. Amir suggested that to build on the idea of geo-economics and regional integration it is essential to get out of the vicious cycle of regional conflicts and focus on regional stability and move towards a virtuous circle and the virtual circle is regional integration trade and connectivity growth.

#### **Session IV: Pakistan`s Industrial Development and SEZs**

*Dr. Usman Chohan, Director Economic Affairs and National Development, CASS*

Dr. Chohan shared his thoughts on Pakistan's industrial policy and the industrial development of Pakistan. While Pakistan has made multiple mistakes regarding its industrialization policy including nationalization in the past, things have started to slowly change towards the better whilst it's a smaller percentage of exports and for a percentage of GDP. Moreover, there are questions and concern that beg attention and facets to look through including operational and

tactical level things and industrial policy as a strategy, rampant smuggling, under invoicing, the disproportionate burden on industry for taxation purposes, knee-jerk measures to meet revenue shortfall, the miss declaration of imports, poorly negotiated trade agreements are a reasonable argument high input costs, the energy crisis as well as improving the tariff policy. He was of the view that Pakistan has a low complexity economy as a result it's de-industrializing prematurely in the same way. Moreover, Pakistanis not integrated well into the global value chains and requires generating 2 to 3 million jobs for the youth who reach the age of employment every year pinching the economic security aspect as well.

Dr. Chohan spoke on the need to set targets for a new industrial policy about how manufacturing should be relative to other metrics in terms of exports in terms of GDP and it's ambitious. he highlighted six targets:

- a percentage contribution of manufacturing to GDP,
- manufactured goods to represent over 85% of exports,
- annual rate of growth manufacturing to be 10% plus,
- investments to represent 30% of GDP,
- Pakistan's share of world exports to grow to 0.25%, and
- export of goods and services to amount to 12.5% of GDP.

He stressed that achieving these targets requires a concerted effort. In doing so SEZs have been positive as part of CPEC's broader architecture and its phase two requires increased participation from the public, private and joint public-private engagement. Furthermore, offering various terms to incentivize investors will also help to flourish the overall CPEC architecture offering self-contained areas with the possibility to leverage transportation, logistics manufacturing utilities and other itinerary to create pockets of rapid growth in the country to accelerate an industrial policy as well as an overall economic policy – the logic behind special economic zones.



Another important question that Dr. Chohan raised was that happens to the system that was there before the new system and what happens to the industry and the economy that is outside the SEZs or what happens to the industrialist that are not in the SEZs. He was of the view that while SEZs can be a good vehicle Pakistan should not count on it to solve every problem and especially in the context of a national development strategy or the national security policy because if economics is at the core, then the core must be very well situated to balance all the other factors.

***Dr. Liaqat Shah, Executive Director, Centre of Excellence for CPEC***

Dr. Shah while making his remarks spoke on the industrial development and its role in the national security. He was of the view that the industrial development should not only count on the SMEs alone and reiterated that Pakistan's past industrial policies have still had it covering from the hit. He was of the view that because of number of reasons Pakistan has missed on its journey to industrialization and now where we stand, we have a limited time to industrialize and revamp our policies and system to walk towards development as we see happening around the world. He was of the view that while ambitious plans are good, industrialization is a process with steps and system with technicalities and missing steps might lead to failure in some cases.

A country like Pakistan can have a mixed model of import substitution and export promotion at the same time. However, problem arises when a country moves toward large-scale manufacturing without having the capacity you don't have basically the competence to run those organizations. Hence it is imperative to move in steps and explore different level of industries including the cottage industry, SMEs and jump into the large-scale industry benefits. He presented case studies of China and Latin America who undertook two completely different approaches to industrializations. While Latin America embarked upon large scale manufacturing China followed a stepwise industrial process, progressing gradually and moved towards lower to higher ambitions. Dr. Shah stressed that while Pakistan should take different approaches and projects such as the semiconductor industry to overcome the need to refurbish industrialization, its focus should be on the SMEs. While touching on the issue of premature deindustrialization, Dr. Shah said that premature deindustrialization is a complex phenomenon and there are multiple reasons that goes into it including Pakistan's transformation from industrialists to traders which

was the case in the aftermath of the first FDA between Pakistan and China which improved in its second phase.

Concluding his talk Dr. Shah pointed out that Pakistan has tried its level best from the beginning till today to industrialize over time and has built and accumulates knowledge as well as institutions. Pakistan now has 105 industry states, seven export processing zones, 22 SEZs with over 120 to 125 business associations in Pakistan in each sector. Moreover, Pakistan he opined has the right infrastructure and the industrial ecosystem of the Pakistan; Pakistan has 60 businesses Chamber of Commerce in Pakistan including section 42 companies like KPSM and Frederick. The direst shortfall that Pakistan facing regarding the issue of industrialization is the issue of connectivity – connectivity between the region which is at the lowest if compared to other regions across the globe like the European Union or the ASEAN. Equally important is to focus and rebuild the failure of social coordination which is due to the lack of social trust. Hence, the *Modus Operandi* to enhance industrialization would be to firstly encourage connectivity between the country, focus on SEZs and industrial parks, industrialization under a unified framework at central level. Second important aspect is to prioritize sectors within the industrial policy as should be the case with making good use of limited resources as well as economic structure. Third important element is to improve product quality to compete in the international market which can be achieved through upgrading the industrial policy of Pakistan including functional upgrading, product upgrading process efficiency as well as inter-sectoral upgrading

### **Concluding Session**

#### ***Reflections by Ambassador Aizaz Ahmad Chaudhry, DG, ISSI***

- The governments in Pakistan did not maintain the continuity of economic policies. Various governments followed numerous prototypes like socialism Islamisation, the Asian Tiger Model, and the enlightened moderation, etc.
- There is an urgent need to facilitate the foreign direct investment in the industrial sector by rationalizing the regulations in Pakistan.

- Building self-sufficient and self-reliant system is not a simple undertaking. It is a systematic process that necessitates several harsh decisions and a painful transitional phase.
- There is a need to shift from macroeconomic policies to the policies of stabilization and sustainability.
- While talking about human security people tend to focus more on human freedoms like opinion and expression rather than freedom from poverty and hunger.

He also acknowledged the other recommendations like developing a value chain, increase in knowledge intensive exports, fixing energy problems, making markets efficient, investment in human resource and reduction in the size of government.

***Vote of Thanks by Ambassador Khalid Mahmood, Chairman BOG, ISSI***

Since 1947, the national security policy of Pakistan has been always centred on the traditional aspects of security and there were tangible reasons behind it. However, with the passage of time, Pakistan has realized that sound economic base is a prerequisite to ensure credible national security that is clearly reflected the new national security policy. While referring to the discussions held with the National security Advisor, Ambassador Mahmood clarified that shift to economic security does not mean to divert national resources from traditional security sector to economic security sector. The rationale is to enlarge the pie and every included sector will get the bigger share. While appraising the recommendations put forward by the panellists, he opined that the major way of going forward with the national policy of economic security is regional integration and knowledge-based production. The already existing regional organisations e.g., SCO, ECO, OIC, SAARC provide various opportunities to achieve the economic security. Unfortunately, member states are just using these organisations for their own strategic interest and do not putting much effort in utilising these organisations to advance their political, economic, and cultural interests. It is a high time for Pakistan to expand its horizons beyond Kashmir, disarmament, and nuclear issues. Achieving the national economic security requires constant and sustainable efforts in the right direction. It also involves taking certain harsh decisions and measures for which we should be ready.