

Pakistan's economic future

[Economics](#), [Macroeconomics](#)



PAKISTAN'S ECONOMIC FUTURE DR. ISHRAT HUSAIN Economists have a very poor track record of forecasting the future as the dynamic interactions between complex variables, an imperfect understanding of the non-economic factors and the occurrence of unanticipated exogenous shocks turn their judgements into hit and miss episodes. Despite these weaknesses economic forecasting flourishes as a discipline and the economists show indomitable courage to sketch out their scenarios of an uncertain and unknown future. This article therefore examines the past developments, current trends of Pakistani economy and the future global and regional outlook and builds the most likely scenario for the medium term economic prospects of the country (next 10 years or so) and then reviews the downside risks and upside gains around this scenario. 2. Pakistan is still a low income country and it would require at least next 14 years of 7 percent average annual GDP growth to double its per-capita income to around \$ 2000 (official exchange rate conversion). This growth rate should also be able to reduce the incidence of poverty by half and meet the Millennium Development Goal. 3. It is easy to make this normative statement but more difficult question is how can this growth rate be achieved on a sustained basis? The prophets of doom and gloom in Pakistan (and there are plenty of them) who are constantly polluting the minds of our younger generation and turning them into cynics at very early age sapping their energies for constructive thinking and actions would dismiss this exercise as a figment of imagination or at best a fantasy. To them, all the economic gains have accrued due to the windfall of 9/11 and Pakistan's support to the US in the war against terror. When confronted with the stark fact that Pakistan was

one of the few countries that grew by 6 percent annually between 1960 and 1990 and reduced the incidence of poverty to as low as 18 percent they again dismiss this as outcome of US assistance. The widespread negative mindset of our elites and lack of confidence in the capabilities of our own workers, farmers, traders, businessmen and overseas Pakistanis, is one of the major stumbling blocks that can unravel our projections. Growth momentum can also dissipate if other existing or emerging structural constraints and bottlenecks are not resolved on time. 4. Leaving that aside my own reckoning is that if we are able to fulfill some critical preconditions it is possible to reach this goal of doubling the per-capita income by 2020 and reducing the poverty by half by 2015. What are these preconditions? In my view the main preconditions are: (a) favorable global economic conditions (b) successful integration of Pakistan into the global economy (c) Pursuit of sound, credible and consistent economic policies (d) strong institutional delivery and governance framework (e) investment in physical infrastructure and human development and (f) Continued political stability and peaceful security conditions. 5. Before examining each one of the above factors let us recapitulate the journey we have traversed so far. Pakistan has been a relatively fast growing economy in comparison to other developing countries but has lagged far behind the dynamic economies of East Asia and China. It was a leader of the pack in the South Asia until 1990 but India has overtaken us during the last 15 years. Political instability and frequent changes of governments, poor governance, nuclear explosion, economic sanctions and unfavorable external environment brought about a decline in Pakistan's growth rates in the decade of 1990s below the trend and also resulted in

macroeconomic instability. 6. The reforms initiated since 2000 have put Pakistan back on its historic growth trajectory, revived investors' confidence and access to international capital markets, and developed resilience to face exogenous shocks. Structural reforms in the areas of financial sector, tariff and tax administration, privatization of state-owned enterprises, creation of an enabling environment for private sector, liberalization of foreign exchange and foreign direct investment, market orientation and openness to the global economy have brought about at least 2 percentage point increase in total factor productivity. If this is empirically valid then the output potential of Pakistan's economy should have risen from 5 to 7 percent annual growth. The cyclical fluctuations around this mean would either result in lower or higher actual outcomes depending on the agriculture production variability, external economic environment such as prices of oil and commodities or demand for Pakistani products, macroeconomic stability etc. It would therefore be fair to surmise that the growth rates should range between 6 to 8% annually in the next decade if all other things remained constant. 7. Economic forecasters hedge their bets by using this all encompassing qualification. What are these "all other things" that need to remain unchanged? These are the same pre-conditions that were sketched out in the preceding paragraphs. We will now elaborate on each of these pre-conditions. 8. First, how far the global economic conditions would remain favorable for Pakistan? The global economy is highly buoyant at present and has never had such sustained high growth. Of course, the US is the main driver of the world economy but the relative share of emerging countries particularly China and India is on an inclining path. The risks to the global

economy cannot be ignored but most analysts believe in soft landing and continuation of a benign environment from which emerging countries can derive benefits. 9. Second, the speed at which Pakistan successfully integrates into the global goods, services, financial and labor markets will determine the extent of benefits to our external sector. In absence of both diversification of exports in composition as well as markets the chances are that other countries will overtake us. The latest country that has surpassed us in the world exports is Vietnam and other competing countries are poised to bite into our already meager market share. The mind-set, focus and efforts of the exporters in Pakistan have to undergo a radical change whereby attention to labour productivity, efficiency within the firm and plant, aggressive marketing and research and development should replace the traditional mode of looking to the Government for concessions and subsidies. In case we indulge in business as usual, the results would be highly detrimental to our economic prospects. 10. Third, the policy makers in Pakistan should steadfastly persevere in pursuing sound, credible and consistent economic policies. Fragmented, parochial and turf protecting decision making should give way to a more collegial and collaborative process. A continued feeling of euphoria can lull the policy makers into a false sense of complacency and thereby make them less vigilant and agile. A watchful and continuous hard look at the economic developments and timely corrective actions should be their main preoccupation. Fiscal Responsibility Law would certainly act as a safeguard against excessive borrowing but there may be other policy lapses or delayed responses which can do harm. For example, extra-budgetary and contingent liabilities of public sector

corporations can create fiscal stress and should be carefully managed. 11. Fourth, the intermediation between good policies and their impact on the lives of the majority of citizens takes place through strong institutions and well functioning governance structure. Devolution of powers to local governments has been one of the significant hall marks of the recent times in Pakistan but the lingering reluctance to part with powers by the Provincial Governments, the absence of supporting infrastructure, lack of capacity building at lower levels, clogging of systems and outdated procedures are some of the constraints that have not made this tier of government effective so far. Civil Services have to be strengthened and made more responsive to meet the needs of the common man and carry out the basic functions of the State impartially, transparently and efficiently. Accountability for results has to be built in the system rather than extraneously enforced. Most of our key institutions have lost their way and have to be brought back to their original track. 12. Fifth, supply of critical infrastructural facilities such as power, natural gas, pipelines and storages, roads and railways, urban mass transit, water supply and sewerage, ports and civil aviation have not kept pace with the growing demands of the industry, commerce and general public. Government, despite increased development expenditure outlays, would not be able to meet this demand in any meaningful way. Public-private partnerships in both capital investment as well as operations and maintenance would have to be put in place. 13. Similarly, Pakistan ranks absurdly low in the Human Development Indicators. The way the skills, technology and innovation are changing the competitive advantages of nations Pakistan, as a laggard, would have to redouble its efforts in the fields

of education, skill up-gradation, science and technology. Although a beginning has been made in higher education the state of scientific research organizations in the country is simply pathetic. The whole governance and incentive structure of these organizations needs to be revamped to bring them at par with at least China and India. 14. The pace at which Gwadar Port can be made fully operational and linked with the transport network of Central Asia Republics and China will determine the accrual of additional economic gains to Pakistan in the coming decade. The sooner this network becomes effective and the National Transport Corridor network is completed the economy should be able to extract benefits of at least another half to one percentage point of GDP. The on-going public and private investment projects such as construction of new dams and reservoirs, rehabilitation of canals, barrages and lining of water courses, new power generation plants, Iran – Pakistan gas pipeline, Liquefied Natural Gas, oil refinery at Khalifa point, extensive road network in Balochistan, new science and engineering universities, up-gradation of the quality of technical and vocational education, mass transit systems in Karachi and Lahore, and other projects if completed on time would give a big boost to the economy overcoming some of the supply-demand gaps. 15. Sixth, the continuation of political stability and a predictable, orderly and constitutional transition of power from one regime to the other would add a lot of strength to Pakistan's economic prospects. The risks associated with an uncertain political transition process would be mitigated if different political parties take over the reigns of the government at predetermined regular intervals of time through fair and transparent electoral process. Fortunately, the thrust of economic policies of

all leading political parties in the country is much the same but this positive aspect has been lost in the loud noise of political bickerings, venomous rivalries and unwarranted accusations against each other. The links between political stability, economic growth and social cohesion are mutually reinforcing and need to be further nurtured and developed in Pakistan. The lessons of the 1990s should clearly teach us that the gains achieved so far can be reversed if we do not manage our political governance with tolerance, a healthy respect for dissent and differences of opinion, and reliance on institutions rather than personalities. 16. Pakistan is facing serious problems of internal and external security. Law and Order situation has worsened in some parts of the country more than others. A reversion to normalcy in the security conditions of the country would reassure the investor community and help the mobility of factors of production. Foreign buyers and technical personnel are reluctant to visit Pakistan at present. Improved security would allow their free movement in and out of the country. 17. What are the downside risks and upside gains of the above scenario? The planners and policy makers should keep in mind that growth and integration in the world economy will create painful transitions, dislocations of the existing structures, losses of jobs and increased pressures on urban centres through migration. There will be many losers who will resist implementation of some of these essential preconditions. If the policy makers give into these pressures the outcome will be disastrous. 18. In some intervening years, natural or manmade disasters may further exacerbate the situation and lower growth hurting the poor and vulnerable. On the other hand, peace and normalization of relations with the neighboring countries may provide some

additional economic dividends. If this happens the spill over effects from the two neighboring giant economies — China and India — will have positive impact on Pakistan. Free trade agreements with China and SAARC countries could boost our domestic economy as well as our international trade.

Pakistani firms will then be able to fit into the global supply chain of Chinese industry. However, continuation of tensions and sporadic or intermittent episodes of war or war like situations may strike a serious blow to this benign scenario and slow down the pace of economic growth and poverty reduction.

19. The future economic prospects of Pakistan look promising but their actual realization would depend upon a number of critical factors such as benign global economy, successful integration of Pakistan into the global economy, sound macroeconomic policies, strong institutional and governance framework, investment in infrastructure and human development and political stability. Under a constellation of these favorable conditions, it should be possible for per-capita income to double to \$ 2000 by 2020 and to reduce the incidence of poverty by half by 2015.

----- Mail to Jawaid Bokhari, Dawn Karachi on 10-3-2007