Pakistan’s Growth Spurts and Reversals: a Historical Perspective

Rashid Amjad

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Traditional division of Pakistan's economic performance : democratic vs military rule

Ahmed and Amjad (1984) and Amjad (2012)

1950s	Low Growth	Early Years (C)
1958-69	High growth	Ayubian regime (M)
1972-77	Low growth	Bhutto period (C)
1977-88	High growth	Zia-ul-Haq (M)
1988-98	Low growth	PPP & PML (C)
1999-08	High growth	Musharraf (M)
2008-13	Low growth	PPP Coalition (C)
2013-	?	PML(N) (C)

- **Can the Nawaz Sharif government change the pattern of Pakistan's economic history?**

Why does military rule result in spurts of economic growth?

- **Increase in foreign assistance (aid, credit, debt relief) inflows which coincide with the take-over of each new military regime**

- **And to a lesser extent:**

  - better economic management

  - determination backed by necessary will and force to undertake economic reforms

New Periodisation: McCartney (2011)

Boom periods

- **1947-58**
- **1960-68**
- **2002-07**

Recessions

- **1972-2002**
- **2008-2011**

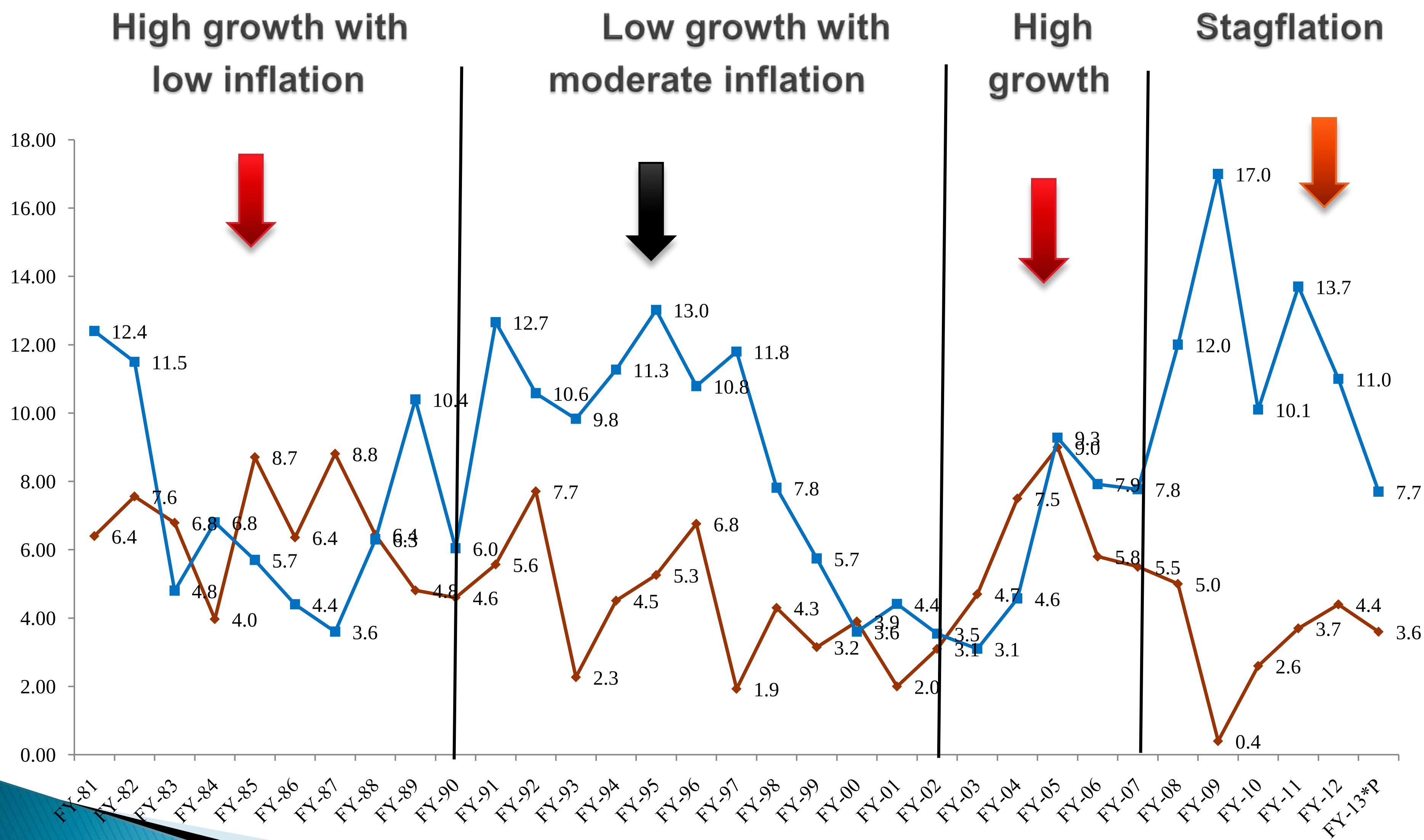
Main Explanation: McCartney (2011)

- Finds no evidence that spurts of growth resulted from external conditions and direct inflow of financial resources

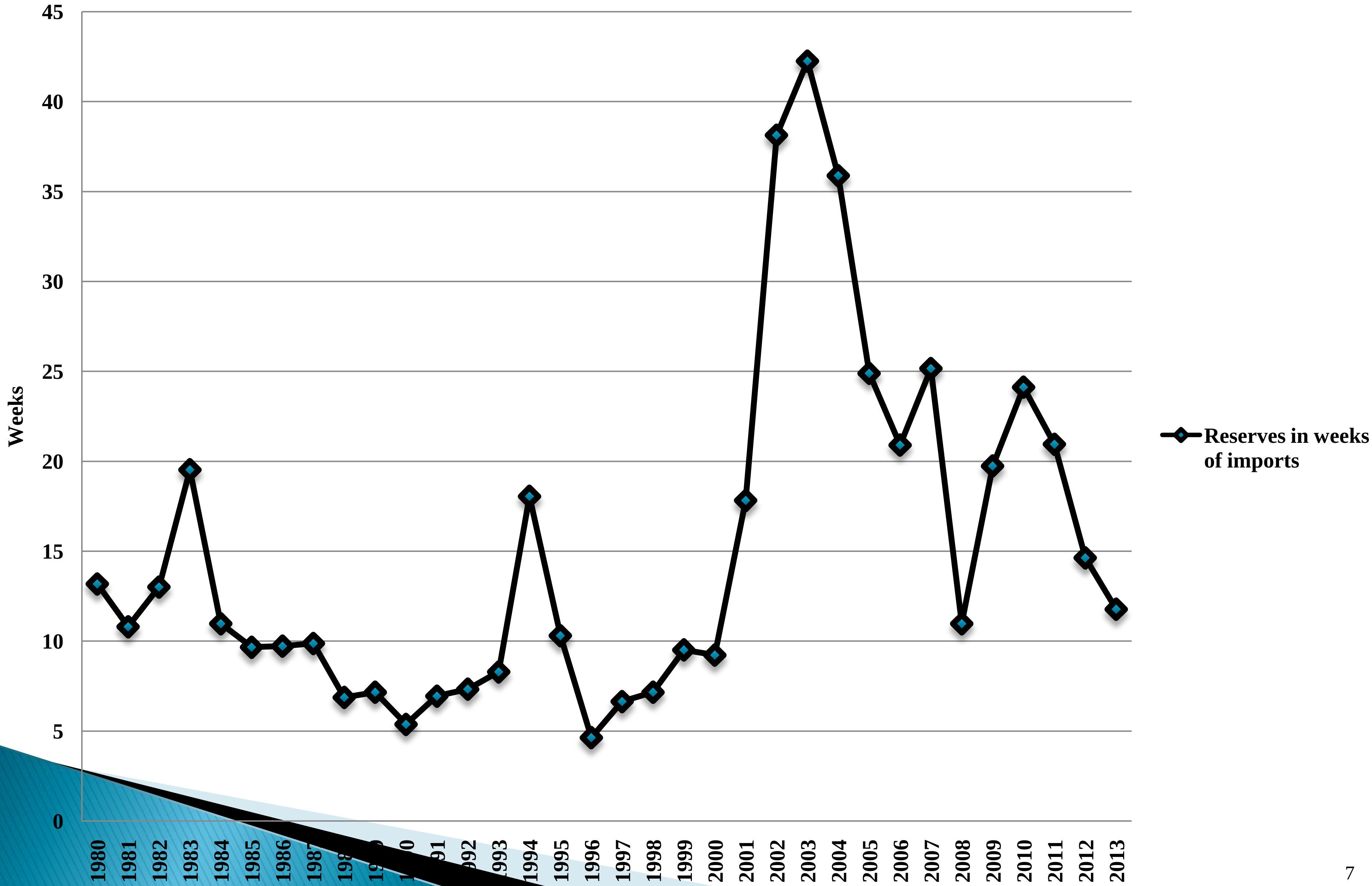
- Contests the view that economic liberalisation has been an important driver of growth in Pakistan and places the state at the center of economic development

- Argues booms basically result from state policies that create conditions of higher profitability and directs financial resources towards it

Economic Performance 1980-2013



Reserves in weeks of imports



Lopez-Calix et.al. (World Bank 2013)

Growth Patterns in Pakistan 1960-2010

- **-High Growth (more than 5 per cent)**
  - **- 8 Episodes covering 28 years (average growth: 7 %)**
  - **- Longest 1978-83 (6 years)**

- **Low Growth (less than 5 per cent)**
  - **-8 Episodes covering 22 years (average growth 3.3%)**
  - **- Longest 1997-2003 (7 years)**

- **- Increasingly short growth accelerations and growth expectations increasingly less optimistic**

World Bank's Explanation

- External shocks produce growth accelerations that fizzle out

- Economic reforms remain a significant predictor of accelerations that are sustained

Do economic reforms result in higher TFP and spur faster growth?

- Amjad and Yusuf (2013) test this proposition for 2000-13 and find:
  - -If we divide period into two sub-periods of high growth 2002-08 and 2008-13 of low growth and test for growth in TFP then former period shows high growth in TFP despite some retreat in reform process
  - - Economic reforms (liberalisation, privatization and de-regulation) not sufficient condition for economic growth
  - - Economic growth driven primarily by new investment which embodies latest technology and knowledge in response to higher profitability but security conditions critical as well as availability of infrastructure and energy

Binding constraint on economic growth

- **Recent stop-go cycles point to the foreign exchange constraint as the binding constraint on sustained growth**
- **What causes the foreign exchange constraint as reflected in precarious level of foreign exchange reserves?**
- **-In the short run it is external shocks e.g. unprecedented increase in oil and food prices in 2007-08 and poor macro management to deal with it**

  -In the medium term it is lack of exports and Pakistan's inability to take advantage of globalization

  -You can and should build-up foreign exchange reserves as a cushion to absorb external shocks but if export growth insufficient to meet consumption and development needs then foreign exchange constraint will reappear

Growth and Structural change in the Pakistan Economy: Suggest a new division of Pakistan's economic history

- Three watersheds or turning points:

  -August 1947: Partition of the sub-continent

  - December 1971: Break-up of Pakistan

  - Winter 1979: Russian invasion of Afghanistan followed by civil war and US-led NATO invasion in 9/11 in 2001

Impact on Pakistan of the Soviet Invasion of Afghanistan and then US-led NATO occupation

- **“Weaponisation” or “Lebanonisation” of significant parts of Pakistan: erosion of state power and the writ of the state**

- **3.2 million refugees - a large portion of which still live in Pakistan: Karachi becomes the largest Pakhtun city in the world**

- **Talabanisation spreads to the interior of Pakistan creating severe law and order problems and urban centers are subject to random terror attacks**

- **Pakistan no longer a safe destination for foreign investors and firms and local large investors also shy away**

Major Economic Impact

- **Pakistan loses out on the rising tide of globalisation that started in the mid-1980s – no reason why Pakistan could not have done as well as India especially as its economy was more open – much lower FDI**
- **Low investment (at peak just over 20 %) despite relatively high profits**
- **Rising share of informal and undocumented economy (latter as high as 90 % of documented economy?)**
- **Increase in defense expenditure and for law and order agencies**
- **Economic costs estimated at US $ 8-10 billion annually 2001-2103**

Despite low investment and poor security situation, how did the economy still manage to grow at over 5%?

- **In all probability growth has been higher – as growth dynamics has shifted from large to medium and small and to the informal and undocumented economy**

- **Shift in growth pole from Karachi to central Punjab where the agriculture-MSEs (light engineering/sports goods/surgical instruments/furniture/electrical)-remittances-service sector interaction results in a vibrant economy**

- **Agriculture showed respectable growth – averaged over 3.5 per cent – livestock sector now contributes more than crop sector to GNP**

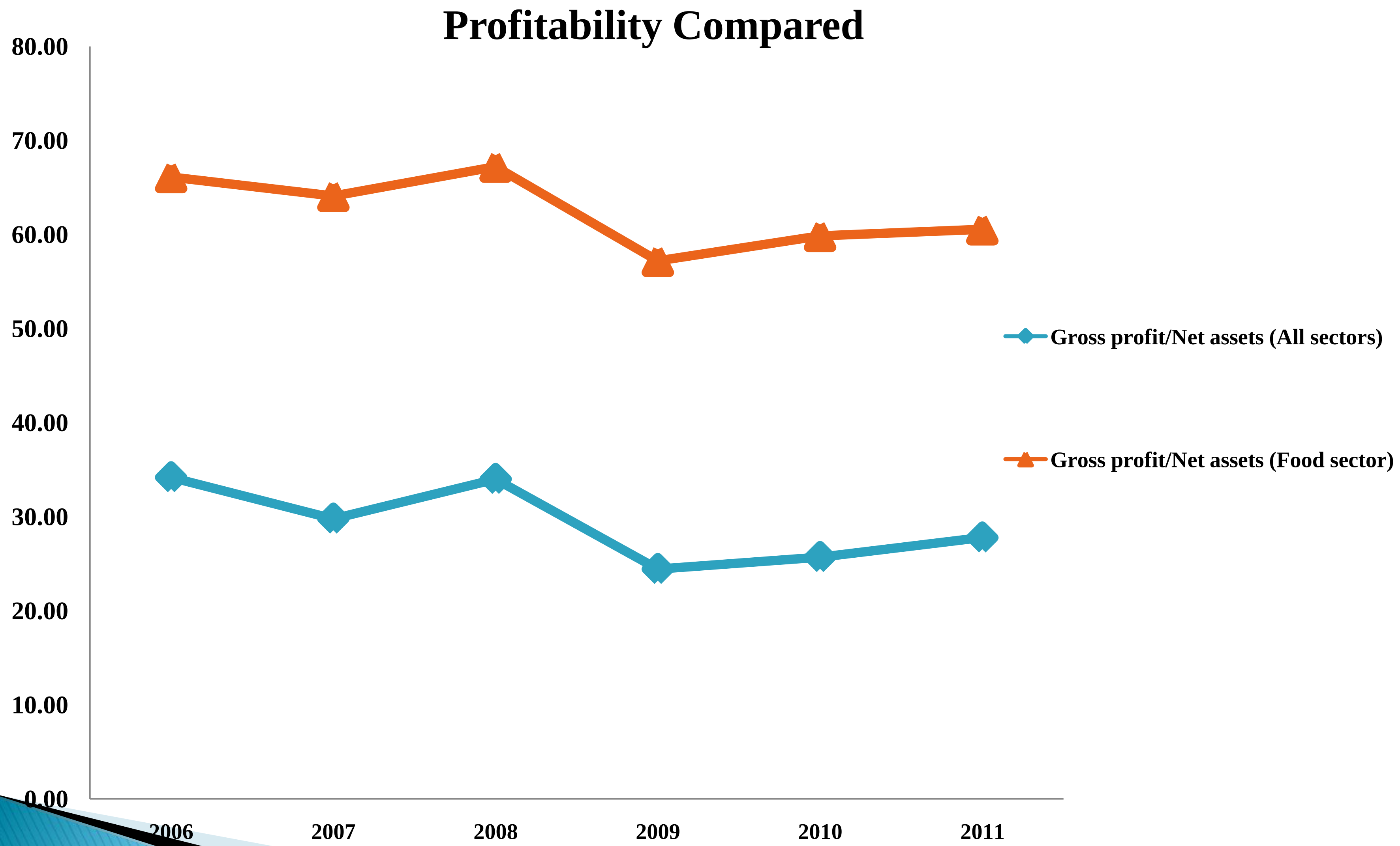
- **High growth in services driven partly by remittances**

- **Primarily consumption-led growth: rising middle-class and growth in rural incomes**

Key factors contributing to resilience

- **Remittances and the Pakistani diaspora (from US $ 1.1 bn. in 2001to over US 14 bn. In 2013)**
- **Youth bulge - many finding jobs overseas**
- **Educated women gradually entering the labour market**
- **Very high mobile density: total mobile subscribers Nov. 2013: 132 million in a population of 180 million**
- **Rising urbanisation**

Profitability: Food sector vs All sectors
(Companies quoted on KSE)



Resilient it may be but Pakistan faces formidable challenges

- Regaining macro-economic stability
- Sectoral pattern of growth and labour absorption shows little change – little movement from low productivity to high productivity sector
- Poverty levels still high in rural Sind, southern Punjab and Balochistan
- Very poor HDI
- Investment levels must increase from dismal levels of less than 15 per cent
- Overcome crippling energy shortages

Can the Nawaz Sharif government revive the economy?

Five Critical Conditions…

1. **Renew confidence in the Pakistan economy at the national, regional and global level**
2. **Prudent macro management: remove disconnect between fiscal, monetary and development policies**
3. **Shift from consumption driven growth to export and investment led growth**
4. **Move away from grand visions and frameworks to hard nosed pragmatic plans to overcome energy and looming water crisis**
5. **Document the economy at least in national income accounts**

Thank You