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Presidential Remarks

Pakistan's Development: Successes, Failures, and Future Tasks

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It is an honour for me as President of the Pakistan Society of Development Economists to welcome you to the 13th Annual General Meeting and Conference of the Society. I consider it a great privilege to do so as this Meeting coincides with the Golden Jubilee celebrations of the state of Pakistan, a state which emerged on the map of the postwar world as a result of the Muslim freedom movement in the Indian Subcontinent. Fifty years to the date, we have been jubilant about it, and both as citizens of Pakistan and professionals in the social sciences we have also been thoughtful about it. We are trying to see what development has meant in Pakistan in the past half century. As there are so many dimensions that the subject has now come to have since its rather simplistic beginnings, we thought the Golden Jubilee of Pakistan to be an appropriate occasion for such stock-taking.

The movement for independence was driven by the belief that a separate homeland for Muslims would facilitate the achievement of high and equitable growth than would have been the case for them in united free India. It is natural to evaluate the economic performance against expectations of high growth. A definitive evaluation, however, is a difficult exercise due to lack of statistical information as well as a conceptual problem in determining an appropriate counter-factual. The performance of Pakistan economy since independence needs to be compared with the performance of areas constituting Pakistan in the context of a united India. As the proper counter-factual needs to be estimated first, this inherent difficulty forces one to evaluate the extent and quality of growth in Pakistan against the yardstick of growth in other countries either in South Asia or East Asia and Southeast Asia with similar beginnings and a similar counter-factual situation.

While other sessions and presentations in this conference will offer detailed analyses, I take this opportunity to highlight some of the major successes and failures as well as missed opportunities. I would conclude by pointing out a few future tasks that need the attention of the policy-makers to yet attempt to fulfil the economic dream of our founding fathers.

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I. THE DEVELOPMENT RECORD

Against the yardstick of high, equitable, sustained and stable growth, Pakistan's economy in its first fifty years has logged a mixed record. The critics who thought that Pakistan's economy would crumble after its independence have been proved wrong. Despite adverse initial endowments in terms of lack of industry, entrepreneurs and civil servants, and despite large Partition-induced transition costs, Pakistan's economy has registered an aggregate growth rate higher than the population growth rate. The growth performance has been superior to that of its immediate neighbour, India. In terms of sustainability, stability, and equity outcome of the growth process, the performance in Pakistan has, however, not matched the expectations of its founding fathers either absolutely or relatively to other similarly-placed countries. It is to this broader evaluation of the development performance that I now turn.

(i) Growth and Structural Transformation

Let us take first the growth aspects since 1947. Pakistan has experienced a growth rate in GDP of over 5 percent and in per capita income of about 2 percent per year over the past fifty years since its independence. The acceleration from the pre-independence low growth performance has been a truly remarkable achievement for a country which was thought by some to be non-viable in economic terms.

This sharp acceleration in the growth momentum in the economy was accompanied by periods of uneven development. The 1960s and the 1980s experienced rapid growth while the 1950s, the 1970s and the 1990s have not only been periods of slow growth but have also shown much instability in the yearly growth rates. External shocks experienced by the economy partly explain the variability in growth performance. The delayed adjustment policies, however, have been mainly responsible for the slow recovery from each crisis faced by the economy.

The Pakistan economy has also performed better than all other countries in the Subcontinent except Sri Lanka. However, if a comparison is made with East Asian tigers, we notice that Pakistan has been left behind in the economic race, as is evident from Table 1. This is true for both growth in GDP as well as for per capita income.

Pakistan has also experienced a favourable structural change as proportion of output contributed by industry and services that are expected to grow in relative importance has increased substantially over time (Table 2). The shift in terms of the share of employment of the modern sectors in total employment has not been that large, however.

Table 1

Growth Performance of Pakistan Relative to Other Asian Countries

	GDP Growth Percent Per Annum		Index of PPP$ Per Capita Income (Pakistan = 100)	
	1965–1980	1980–1993	1950	1993
Pakistan	5.1	6.0	100	100
Other South Asian Economies				
India	3.6	5.2	87	56
Bangladesh	2.4	4.2	–	60
Sri Lanka	4.0	4.0	175	138
Nepal	1.9	5.0	–	47
East and Southeast Asian Economies				
China	6.4	9.6	78	107
South Korea	9.6	9.1	135	443
Taiwan	9.3	9.0	133	–
Indonesia	8.0	5.8	–	145
Malaysia	7.3	6.2	–	365
Thailand	7.2	8.2	123	288

Sources: 1. World Bank, *World Development Report,* various issues.
2. World Bank, *World Tables,* various issues.
3. Asian Development Bank, *Key Indicators of Developing Asian and Pacific Countries*, various issues.

Note: PPP$ incomes for 1950 are from Summers and Heston (1984) while the 1993 figures are from the *World Development Report*, 1995.

Table 2

Change in the Sectoral Composition of GDP
(Percent in GDP)

Sectors	1949-50	1996-97	Change (%)
Commodity-producing	**62.8**	**50.6**	**–12.2**
Agriculture	53.2	24.2	–29.0
Manufacturing	7.8	17.9	10.1
Mining and Quarrying	0.2	0.5	0.3
Construction	1.4	3.9	2.5
Electricity and Gas Dist.	0.2	4.1	3.9
Services	**37.2**	**49.4**	**12.2**
Retail and Wholesale Trade	11.9	16.3	4.4
Transport and Communication	5.0	9.9	4.9
Banking and Insurance	0.4	2.6	2.2
Ownership of Dwelling	5.1	5.7	0.6
Public Administration and Defence	7.0	6.4	–0.6
Services	7.7	8.5	0.8

Source: Government of Pakistan (1997) *Fifty Years of Pakistan in Statistics*, Vols (II & IV). Islamabad: Federal Bureau of Statistics, Statistics Division.

(ii) Savings-Investment Gap: A Source of Major Unsustainability

Pakistan's savings and investment rates were low at the time of independence which is not surprising due to low per capita income in the initial years. The improvement in the national and/or domestic saving rates and investment over time has been marginal (Table 3). The rates of investment as well as savings in Pakistan have been low relative to most low-income countries as is evident from Table 4. The large difference in investment rates explains the difference in growth rates between Pakistan and the East Asian countries. The excess of investment over domestic savings in Pakistan was financed in the past mostly by large unrequited transfers and/or low-cost foreign resources. Pakistan's options to finance the large foreign exchange gap at low-cost have vanished after the end of the Cold War and a change in the international economic environment when foreign direct investment has been substituted for official aid flows. The need to raise the investment rate to achieve higher growth is obvious. To do so without resorting more to foreign capital inflows, strong action on the two most important policy areas is required. It will result in higher domestic savings and rapid export expansion. The slow rise in the rate of investment in Pakistan has been due to the slow rise in the rate of domestic savings. Dependence on capital inflows for financing the low rate of investment in Pakistan has been a major shortcoming of the financing strategy.

Table 3

Investment and Savings Rates (as Percentage of GDP)

Year	Investment Rates	National Savings	Foreign Savings
1949-50	4.10	2.00	2.00
1959-60	12.50	6.50	6.00
1964-65	22.10	10.60	10.50
1969-70	14.60	10.10	4.50
1976-77	19.30	12.30	7.00
1987-88	18.00	13.60	4.40
1995-96	18.20	11.20	7.00

Source: Hasan, Parvez (1998) *Pakistan's Economy at Crossroads*. Karachi: Oxford University Press.

Table 4

Savings and Investment Performance of Pakistan Relative to Other Asian Economies

	Investment Rate (% of GDP)			Saving Rate (% of GDP)		
	1965	1975	1993	1965	1975	1993
Pakistan	21	17	21	13	5	12
Other South Asian Economies						
India	17	21	24	15	20	24
Bangladesh	11	6	14	8	1	8
Sri Lanka	12	16	25	13	8	16
Nepal	6	15	21	0	10	12
East and Southeast Asian Economies						
China	24	30	41	25	31	40
South Korea	15	27	34	8	26	35
Taiwan	–	30	25	–	27	27
Indonesia	8	24	28	8	20	31
Malaysia	20	25	33	24	26	38
Thailand	20	27	40	19	22	36

Sources: 1. World Bank, *World Development Report,* various issues.
2. World Bank, *World Tables,* various issues
3. Asian Development Bank, *Key Indicators of Developing Asian and Pacific Countries,* various issues.

(iii) Achieving Sustainable Current Account Position

In the past, Pakistan has under-saved. The shortage of domestic savings had necessitated the strategy of reliance on foreign resources. With the cessation of concessional lending in the 1980s, this strategy led to the rapid accumulation of external debt, whose servicing has become a major issue in the 1990s. The external debt crisis has emerged as a major constraint on development prospects. The role of rapid export expansion is now more urgent to avert the serious balance-of-payments crisis.

Merchandise exports as a percentage of GDP have increased from 4 percent in early 1950s to 15 percent in 1990s. The increase in exports, however, has not been adequate as import needs have expanded more rapidly. The current account imbalances have consequently been large and have led to the accumulation of expensive foreign debt. The composition of exports has changed from a dominant reliance on primary exports to manufactured exports (Table 5). However, the important point to be stressed

Table 5

Change in the Composition of Exports
(Percentage of Total Value of Exports)

Commodities	Years: Average from 1950-51 to 1954-55	Years: Average from 1992-93 to 1996-97	Change (%)
Primary Commodities	**86.48**	**11.73**	**–74.75**
Fish and Fish Products	2.51	1.97	–0.54
Fruit and Vegetables	0.89	0.67	–0.22
Grains, Pulses, and Cereals	3.49	5.18	1.69
Raw Cotton	72.85	3.79	–69.06
Raw Wool	6.74	0.12	–6.62
Manufactured Goods	**13.52**	**88.27**	**74.75**
Garments	0.07	20.48	20.41
Industrial Chemicals	0.41	21.90	21.49
Cotton Textiles	1.08	30.61	29.53
Leather and Leather Prod.	0.05	3.82	3.77
Art Silk and Synthetic Textiles	–	6.93	6.93
Carpets	–	2.55	2.55
Others	11.91	1.98	–9.93
All Exports	100	100	–
Exports as % of GDP	3.94	13.23	9.29

Source: Government of Pakistan (1997) *Fifty Years of Pakistan in Statistics.* Vols (II & IV). Islamabad: Federal Bureau of Statistics, Statistics Division.
Note: – Indicates negligible proportion.

is that the export expansion in the past has not been rapid and the changed composition of exports does not imply that Pakistan has successfully exploited opportunities in the rapidly growing world economy over the last 50 years. Pakistan's exports remain undiversified and consist mostly of lower end of cotton textile products. Pakistan has failed to make a mark into the export markets of technologically advanced and labour-intensive commodities.

(iv) Population and Development

Let me turn now to some of the worrying aspects of the past growth. The demographic transition in Pakistan to date is not only incomplete; it started very late in Pakistan as well. The current rate of population growth of 2.6 percent has fallen from the post-independence peak of 3.1 percent per year. Total fertility rate has declined from 7 in early 1950s to 5.4 in 1996-97. The contraceptive prevalence rate has increased from 5.5 percent in early 1960s to only 24 percent in 1996-97. These achievements, though laudable in absolute terms, put Pakistan behind its neighbours in South Asia. The total fertility rate in Pakistan is lower than in Nepal but higher than in all other countries for which information is presented in Table 6.

Table 6

Indicators of Demographic Transition

	Total Fertility Rate		Life Expectancy at Birth	
	1965–1980	1980–1993	1950	1993
Pakistan	7.2	6.1	49	62
Other South Asian Economies				
India	5.7	4.5	50	61
Bangladesh	6.6	5.7	45	56
Sri Lanka	4.2	3.2	65	72
Nepal	6.2	6.3	43	54
East and Southeast Asian Economies				
China	3.8	2.3	64	69
South Korea	4.0	2.4	61	71
Taiwan		2.8	1.9	–
–				
Indonesia	5.5	4.1	49	63
Malaysia	5.7	3.7	63	71
Thailand	6.3	3.2	60	69

Sources: 1. World Bank, *World Development Report*, various issues.
2. World Bank, *World Tables,* various issues.
3. Asian Development Bank, *Key Indicators of Developing Asian and Pacific Countries,* various issues.

The failure to control population growth rate during the past fifty years appears to be one of the major threats to continued high and equitable growth. The demographic burden has already taken its toll and would constrain future growth for a number of decades. High population growth has hindered upgradation of the technology in the country as the labour supply pressure has forced the productive structure of the economy to remain an absorber of unskilled and semi-skilled labour. The lack of skill formation in the country can also be explained in terms of the overstitching of the social infrastructure over large population. It should be noted that a slower population growth permits a greater release of resources by households as well as governments for investment in human capital and physical infrastructure. The high dependency ratio has negatively influenced the saving capacity. The degradation of environment is also an outcome of high population growth in Pakistan.

(v) Equity Outcome of Growth

The relatively rapid economic growth since independence, which had provided an increase in per capita income of 160 percent, has resulted in a substantial decline in the incidence of poverty. Despite an increase in the measure of inequality in the current decade, the distribution of income has not moved clearly in the direction of either equality or inequality (Table 7). It is no wonder that rising living standards have resulted

Table 7

Household Income Distribution in Pakistan

Year	Household Gini Coefficient	Household Income Share Lowest 20%	Household Income Share Highest 20%	Ratio of Highest 20% to Lowest 20%
1963-64	0.386	6.4	45.3	7.1
1966-67	0.355	7.6	43.4	5.7
1968-69	0.336	8.6	42.0	5.1
1969-70	0.336	8.0	41.8	5.2
1970-71	0.330	8.4	41.5	4.9
1971-72	0.345	7.9	43.0	5.4
1979-80	0.373	7.4	45.0	6.1
1984-85	0.369	7.3	45.0	6.2
1985-86	0.335	7.6	44.0	5.8
1986-87	0.346	7.9	43.6	5.5
1987-88	0.348	8.0	43.7	5.5
1990-91	0.407	5.7	49.3	8.6

Source: *Pakistan Economic Survey, 1994-95.*

in a significant decline in poverty from about 60 percent in 1947 to 22 percent in 1992-93 (Table 8). There is some evidence that the incidence of poverty has increased in the1990s.

On aspects of human capability, other than consumption poverty, Pakistan has also not performed well. Pakistan ranks quite low on the basis of Human Development Index. In human development term, Pakistan is the most backward country in Asia and resembles countries in the Sub-Saharan Africa [Haq (1997)].

Table 8

Trends in the Incidence of Poverty as Measured by Proportion of People in Poverty

(%)

Year	Total	Rural	Urban
1963-64	40.24	38.94	44.53
1966-67	44.50	45.62	40.96
1969-70	46.53	49.11	38.76
1979	30.68	32.51	25.94
1984-85	24.47	25.87	21.17
1987-88	17.32	18.32	14.99
1990-91	22.11	23.59	18.64
1992-93	22.40	23.35	15.50

Source: Rashid Amjad and A. R. Kemal (1997) Macro Economic Policies and Their Impact on Poverty Alleviation in Pakistan. *The Pakistan Development Review* 36:1.

The important point to be noted is that, despite a declining trend in poverty incidence, as much as a quarter of the population is trapped in poverty. The pervasiveness of poverty, despite reasonably high rates of growth, points to the phenomenon of growth not widely shared by the masses in Pakistan. A number of policy biases explain why the attack on poverty in Pakistan has been a timid one despite the loud political rhetoric in Pakistan in favour of equity and social justice. The capital-intensive growth has failed to generate sufficient employment to absorb the rapid growth in labour supply. The taxation effort in Pakistan has been not only low, it has been regressive in nature. The taxation of wealth is almost non-existent. The pattern of expenditure has not mitigated the anti-poor bias of the tax structure in Pakistan.

Let me conclude by giving a summary verdict on economic performance on the 50th anniversary of Independence. I feel that while Pakistanis should be proud of the growth record and its impact on the reduction of absolute poverty, which has declined from 60 percent in 1947 to 22 percent in 1992-93, they should be worried about the fate of about 25 percent of its population who are trapped in poverty. The poor performance in human development, savings and investment, and export earnings, and the over-reliance on foreign savings are constraining achievement of high growth and poverty reduction.

II. DEVELOPMENT AGENDA FOR FUTURE

The task of poverty alleviation and catching up with fast-growing countries requires Pakistan to target and achieve at least a 7 percent annual growth in GDP over the next 15 years. The key question in this context is whether Pakistan can position itself, in a policy and institutional sense, to finance the needed investment through increased domestic savings, expand its export capability, re-orient the development strategy it pursued in the past to generate larger employment, and ensure a broader participation of the poor in the economy. Looking backwards at economic performance clearly identifies major policy failures. There is a broad consensus among analysts that a sea-change in economic and social policies is needed to help Pakistan enter the next century in good shape. Let me briefly point out the needed policy changes.

First, the importance of conservative fiscal and monetary policies and the open trading regime as an important initial condition for economic development is now well-recognised. However, stabilisation and trade reforms during the 1990s in Pakistan have a history of false starts, slow progress, and sometimes failed attempts. There is a need to achieve, soon, the initial condition of macro stability to give a fair chance to structural reforms which will produce their intended impact.

Second, the need to generate high domestic savings is obvious. The policy question is: How to raise the saving rate? High positive real interest rates, developing efficient financial markets, and encouraging a savings culture need urgent policy attention. Reforms are needed in such areas as the pension funds, mutual funds, and the insurance sector so as to provide long-term funds for development. In addition to raising personal savings, attention needs to be paid to public savings and corporate savings.

Third, price and non-price measures should be taken to ensure that exports increase to reduce the reliance on capital inflows, which are, in any case, volatile in nature. On the price side, over-valuation of the rupee needs to be avoided. Enhancing productivity of the export sectors is also a policy need.

Fourth, the issues of poverty alleviation and moderation of income and wealth inequalities should be of central concern. High growth results in poverty reduction but it may not, by itself, touch the hard-core poor. There is a need to broaden the scope of the development strategy to ensure at least (i) vigorous growth of labour-intensive production, especially manufactured exports; (ii) instal a strong small-farm support policy; and (iii) implement a vigorous small and medium enterprise sector including micro-enterprises. The institution of effective social safety nets should also be accorded priority.

Fifth, the development strategy should be broadened further to enhance human development, to increase the provision of social services in the areas of education and health. The issues of quality of life, including environment, also need to be addressed.

Last but not the least, improved governance, including a frontal attack on corruption, and decentralisation are the need of the hour. Good governance along with stabilisation and structural reforms are essential to achieve sustained, rapid, and equitable growth. If the economic reforms currently under implementation are complemented by institutional reforms within the context of a broad participatory development strategy, one can confidently predict that Pakistan would graduate from the status of a low-income country now to that of a development economy in the next fifty years.

III. CONCLUDING REMARKS

As we all understand, a conference of this type requires a great deal of effort, public interest, and private support. We have been fortunate with all of these as our friends everywhere have been helpful and generous both with moral and material support. I would like to acknowledge and thank particularly the members of the PIDE community for the countless tasks that they have performed to make it possible. Crucial to the undertaking has been the financial support given by numerous organisations to make the organisational, logistical, and the frequent prandial needs fulfilled. Our banner over there [in the hall] says it so, but let me name them to be sure: it is the World Bank, Islamabad Office, Lever Brothers Pakistan Limited, the Overseas Investors Chamber of Commerce and Industry, Karachi, Friedrich Ebert Stiftung, Islamabad, and the National Bank of Pakistan. Personal active interest of Dr Hafiz A. Pasha in this Meeting not only contributed a great deal of enthusiasm among various sections of the official and business communities but also helped generate direct cash inflows as well as promises from several quarters. We are grateful to him for his support and for the support given us by all the organisations, colleagues, and friends present here and outside this room, here and abroad.

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