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## Managing Growth with Stabilization II



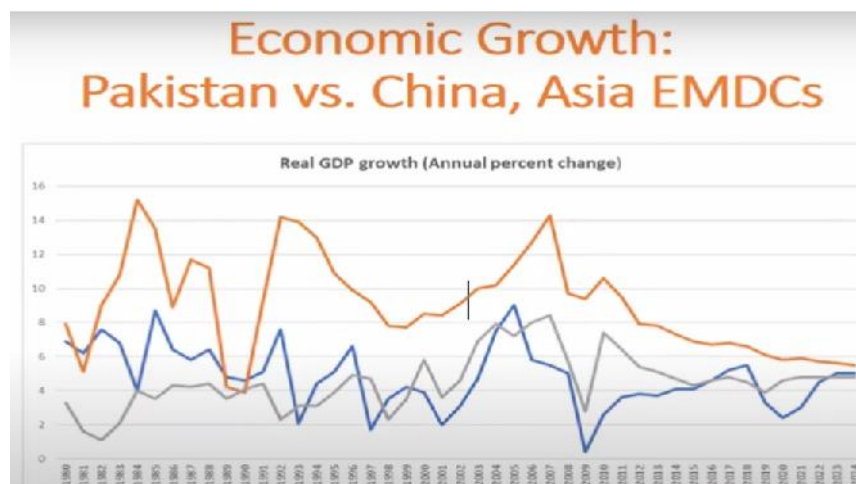
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- How should Pakistan achieve durable adjustment without going through crushing austerity of recent years?
- What can be done to achieve growth acceleration even when developing a stable economy?
- What are the major mistakes made in the last 3 decades of adjustment programs in both design and implementation?

The growth pattern of Pakistan is not stable rather fluctuating from the last few decades. For the first time in history of Pakistan, a negative growth rate accounts for -1.5 is projected by the IMF, after the year 1952 when growth rate declined to 1.8% due to exogenous shock to agriculture. Moreover, the projections of the IMF for the year 2021 and further are optimistic. In the past, as compared to China and other developing Asia, Pakistan could have done a great job. For instance, the GDP per capita of Pakistan was twice as high as China in 1990, however, in 2018,

the growth rate of both countries became closer as China moved faster.

There are a lot of factors which deteriorate the growth of Pakistan such as



In the case of the USA, our GDP per capita was 8 percent of that of the USA and in 2018, it moved to only 9 percent so the record is not satisfactory and as the people of Pakistan deserve.

geopolitical, political and historical shocks, geography, governance and economic incentive structure. Further, Pakistan has not succeeded to control export diversification, except the

year 1984, after that the declining trend again started particularly in agriculture and textile. Contrary to other countries like India and China, we have not modernized our agriculture sector and are attaining low levels of agriculture yields. Other countries like Bangladesh have been focusing on growing exports.

Another factor contributing to the low rate of growth is the absence of Pakistan in global value chains. Although, Pakistan's participation in global chains has improved relatively to past years, as it was 22 percent during 1990-2015, while Vietnam was way ahead with 40% participation rate. The backward participation was negative as it stood at -2% indicating the decline in sophistication of Pakistan's exports. Whereas, the changes in forward participation was good but not significant as compared to other countries. Moreover, it also shows that other countries rely on inputs while Pakistan contributes in value-added.

Pakistan goes through repeated macroeconomic instability and adjustment cycles and the major reason for this is more emphasis on stabilization rather than growth. We often neglect the issue of growth because we repeatedly get confronted with cycles of stabilizing and lack of reforms to address the roots of that instability. One of the main factors behind it is the over-reliance on geopolitical rents and IMF financial safety nets. The reason behind focusing on stabilization rather than growth is the IMF programs that are more stabilization and crisis management oriented rather than growth oriented.

Unfortunately, whenever we have growth over 5%, we have gotten into macroeconomic instability or currency issues. We have been growing slowly because there are a lot of law and order issues in Pakistan and the state being weak has not been able to take care of the law and order situation. Similarly, in the past violence incidents of terror

discouraged international businesses from coming to Pakistan.

Pakistan has not grown as fast as other countries. So, there is an overall need to understand the non-convergence puzzle and focus on growth. This requires balanced breathing space from stabilization. There is a dire need to identify the root cause of instability in growth. These instability cycles mainly, caused by excessive budgetary spending or other balance of payment problems. To overcome this problem, there is a need for a social contract that delivers shared economy prosperity, which focuses on building economic strength, and less reliance on geopolitics. Government should cut down the subsidies which were given to the elite such as the power and gas sector and put them into health, education and research & development for long term positive growth to achieve economic prosperity.

