Reassessing growth narratives

Shahid Sattar and Eman Ahmed

There is no dearth of development discourse in the context of Pakistan, but the burning question is how to achieve real, sustained economic growth. Research dictates that that the growth rate of per capita GDP is linearly dependent on technological progress, gross capital formation, the initial level of output per capita, and labour productivity growth, as well as human capital formation. Pakistan's economy requires a growth rate of 8 per cent in the coming 30 years to meet the needs of its rapidly growing population. To achieve this, policymakers must contend with the numerous issues that stymie the economy, and reassess past strategies for development, as well as aid programs, that have not yet borne results. At a broader level, there is a need to bridge the gap between economics as a discipline and how policymakers employ it as a tool for growth – a gap identified in the IMF Working *Paper Crouching Beliefs, Hidden Biases: The Rise and Fall of Growth Narratives.*

The IMF paper criticizes the prevalent growth recipe, in terms of how it emphasizes government failures as the primary constraint to economic growth and development. Both government and market failures have a significant impact, but government failures dominate the discourse, with a minimal focus on structural reforms, institutions and privatization. Economic terms that could describe solutions for market failures such as industrial policy, industrialization, or export orientation, are barely featured in growth discourse, and this has resulted in misplaced policies and blame games, rather than productive discourse and reform. Research has shown that Pakistan has more of a software (management and productivity) problem than a shortage of hardware (physical infrastructure).

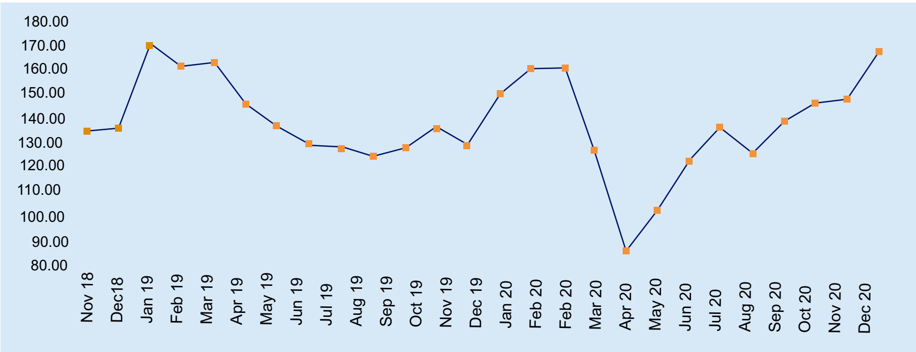

Figure : Monthly Quantum Index of Manufacturing

Ideally, the state should limit its intervention to ensuring macroeconomic stability. This includes investing in infrastructure and education, as well as providing access to new markets and a business environment conducive to private enterprise. The term "macroeconomic stability" describes a national economy that has minimized vulnerability to external shocks, and thus greater prospects for sustained growth. At present, Pakistan's growth recipe is too focused on “projects” – short-term oriented plans that are frequently introduced by the government and rarely lead to tangible outcomes. For the long-term, industrialization and export orientation are key paradigms that must be employed to ensure macroeconomic stability.

In keeping with the “Make-in-Pakistan” Policy, industrial growth has accelerated to a 22-month high despite the COVID pandemic. The overall output of Large-Scale Manufacturing Index (LSMI) increased by 8.16% for Jul-Dec 2020-21 as compared to Jul-Dec 2019-20. For Dec-2020, the LSMI output increased by 11.40% compared to Dec-2019. This growth in industrial output will not only lead to job creation but it is also contributing to an increase in our exports.

Pakistan has immense potential in the form of natural resources, a promising youth population to form an energetic workforce, and a resilient textile industry. However, the country is faced with serious environmental issues, particularly water scarcity, energy crisis, air and water pollution and depletion of its natural resources. In particular, energy availability, affordability and quality remain elusive, posing an existential threat to the competitiveness of the country and its economic growth potential. The majority of firms have reported energy pricing and accessibility as major obstacles to productivity and growth, while textile industries and small firms bear highest losses. “It takes a business in Pakistan 161 days to obtain an electricity connection, compared to South Asia's regional average of 98 days, and the cost is 50 percent higher than anywhere else in the region.” The estimated business losses occurring due to energy crisis are reported at PKR 210 billion, 400,000 jobs and USD 1 billion worth of exports in 2008 (Institute of Public Policy 2009), which are expected to have increased overtime. These are direct costs and do not take into account indirect costs such as risk mitigation, lower investments, firm closures or moving to another country–all of which hurt long-term growth potential of the country.

It is no wonder Pakistan lags behind in the ease of doing business and competitiveness indices, as many potential startups are burdened by overregulation that hinders them from flourishing. Those that do manage to take off are soon crippled by high levels of advance tax and lengthy bureaucratic procedures. Furthermore, outdated technology, the lack of policy continuity and redundant business practices exacerbate the problem.

Technological upgradation can increase the productivity of labour and enable them to produce better quality goods in more quantity and less time. However, Pakistan's engineering sector is not advanced enough to contribute to our industries in automating production.We are therefore dependent upon imported machines, and faced with the costs of high protectionism. As a result, industries often prefer to continue with outdated and inefficient technology, which ultimately hurts labour productivity and gives way to uncompetitive product pricing. Furthermore, without investment in human capital, value-addition and software reforms, productivity remains unattainable. With our reliance on agriculture, one would presume that sector to be up-to-date, but antiquated farming techniques, water scarcity and limited seed varieties hold our agricultural exports back, along with inadequate and outdated processing technology and practices keeping Pakistani agri-products uncompetitive in the international market.

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In developing and implementing an export-led growth strategy, the target is not short-term growth; rather it is long-term holistic growth which requires robust productivity reforms and investments in human and physical capital. In this regard, we must place our faith in the local business community as well as entrepreneurs. They have the potential to bring us out of the debt cycle, and it is critical that we empower them to do so. We must revisit our policies, reassess our priorities and do away with redundant practices. These are largely skewed against the local business community, exporting sectors and especially SMEs. SMEs are particularly vulnerable as turnover tax of 1.5% is deducted at each stage. Nearly 80% of export-oriented products go through SMEs, while they are denied access to refinance schemes and LTFF. The amount of turnover tax applicable to SMEs must be reduced to achieve any semblance of international competitiveness. Furthermore, it is practically impossible for indirect exporters to utilize DTRE; the process of DTRE should therefore be simplified and made accessible to them.

Enhanced trade competitiveness leading to an increase in exports is undoubtedly a sustainable path to economic growth, and unlike aid, it is not tied up in any form of liability. Addressing market failures through industrial policy and export orientation is a viable path to macroeconomic stability. Unreasonable anti-export biases including tariffs and duties must be removed, as the textile sector remains under immense pressure to maintain a heavy chunk of Pakistan's exports, and is thus critical for Pakistan's economic prosperity. Furthermore, it is detrimental for Pakistan's economic growth to remain primarily reliant on agriculture while global competitors are making impressive strides in diversification and structural transformation. Even with high concentration in the agricultural sector, it is evident that production costs are too high and yields are too low for agricultural products. A new green revolution is needed to bring Pakistan's agriculture sector out of its rut. In addition, long-term policies for market development, industries, textiles and tariffs must work in tandem for Pakistan to have a real chance of holistic development with tangible results, thereby providing jobs for the millions of young people joining the workforce each year.

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PAKISTAN INSTITUTE OF DEVELOPMENT ECONOMICS

www.pide.org.pk policy@pide.org.pk. 92-51-924 8051 92-51-942 8065

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