ECONOMY OF PAKISTAN: CHALLENGES AND PROSPECTS IN THE CHANGED GLOBAL ENVIRONMENT

Dr. Pervez Tahir

In less than two decades, the interaction between nations has witnessed such profound changes that the ordinary words such as the 'international arena', 'world scene' and even 'universal' fail to capture the extensive and intensive transformation that has been taking place. Globalisation broadly refers to this process of change. As a result, the global environment has changed in at least four key areas: a highly liberalised trade regime, free and rapid movement of capital, accelerated diffusion of knowledge and real-time flows of information.

A basic feature of this global order is that it cannot be wished away. Large countries such as India and China, ideological blocs such as ex-Soviet countries, even small inward-looking states such as Communist Cuba and Marxist West Bengal in India, who had all managed to stay out the of international economic order in the past, are all vying to benefit from globalization. Opting out is no more a choice.

There is also a limiting feature for the group of countries called developing countries. The main factors in globalization — trade, capital technology knowledge, information — are factors whose supply abundant in the developed countries. Labour, the only factor with abundant — supply in developing countries, is not allowed to move freely. In fact, the war on terrorism has placed further restraints on whatever movement of labour was there in the form of migration.

This changed global environment presents the economy of Pakistan a number of challenges, two of which can be described as the most important: *competitiveness and investment.* As a matter of fact, it is a dual challenge facing up to which requires directed as

well as interrelated effort in terms of policy reform and institutional changes.

Competitiveness is the buzz word of globalization. Competition is between firms, not nations. In the free marketplace, firms have to compete to avoid bankruptcy or annihilation. This does not strictly hold for nations. It is said that capital knows no nationalities in a globalized world. It moves wherever its finds the highest return. The same is becoming increasingly true of products. In many cases, it is difficult to determine the national origin of a product. Transnational corporations operate across the world to produce or obtain the large number of components going into a product. Firms no more produce complete products.

Firms compete by cutting costs or by introducing new products. Both cases involve the application of technology, the former by improving the method of organizing the use of various inputs and the latter by investing in research and development. Both cases also involve higher labour productivity, defined as the cost-effectiveness of labour in the process of adding value to the use of resources or inputs.

At the level of the firm, the key inputs are labour and capital. In Pakistan, there have been very few studies on productivity at this level. As productivity is a significant contributor to the GDP growth in dynamic economies, productivity indicators of key factors such as labour and capital and total factor productivity have been estimated. Labour productivity slowed down from 45.7 per cent in 1980s to 18.6 per cent in the 1990s for the economy as a whole and from 94.5 per cent to 43 per cent for the manufacturing sector. Thus 'cheap' labour said to be in abundant supply in Pakistan is not necessarily cheap in an economic sense. Productivity of capital increased by 11.5 per cent in the 1980s but declined by 1.2 per cent in 1990s. It was stagnant in the manufacturing sector. Similarly, total factor productivity fell from 3.2 per cent to 1.75 per cent for the economy and from 5.4 per cent to 1.6 per cent in the manufacturing sector.

Small wonder, the decade of lower productivity growth, the 1990s, experienced a lower GDP growth of 4.6 per cent per annum

and manufacturing growth of 4.8 per cent per annum compared to the higher productivity growth decade of the 1980s, when GDP growth was an impressive 6.5 per cent per annum and manufacturing growth surged to 8.2 per cent per annum.

What are the critical ingredients of competitiveness? Countries now compare themselves with others by using their position in the *Global Competitiveness Report* prepared annually by the World Economic Forum. However, UNIDO prepares score boards which inform about more relevant information in the context of industrial competitiveness in developing countries. The first, Competitive Industrial Performance Index, is a measures of the ability of an economy to organize production and export competitively. Given at Annex Table 1, it shows that Pakistan ranked 55th in 1985 and 60th in 1998 in a group of 87 countries, faring far worse than India, Indonesia and Thailand. Annex Table 2 gives three indices, each identifying an important driver of industrial performance. There is a Skills Index, which placed Pakistan behind Nepal and Bangladesh, and a technical education index, with similar ranking. The three countries have the same ranking of 61 for Research and Development compared to 46 for India. In terms of foreign investment and infrastructure indicators, all South Asian countries rank lower than the Philippines (Annex Table 3).

The Perspective Plan 2001-11 recognizes the crucial significance of productivity growth. Annex Table 4 indicates negligible total factor productivity growth in the base period of 2001, projects it to contribute 0.3 percentage points in the GDP growth of 5 per cent for 2003-04 and 0.5 percentage points in the GDP growth of 6.3 per cent projected for 2010-11, the terminal year of the Plan.

But the bane of GDP growth in Pakistan in recent years has been the low rate of investment. As can be seen in Annex Table 5, total investment rate fell in 1992-93 to as low as 14.7 per cent by 2001-02. In the same period, fixed investment, defined as investment in plant, machinery and other durable assets, has similarly fallen from 19.1 per cent of GDP to 13.1 per cent. It remained stagnant at 13.1 per cent in 2002-03. What is noticeable is

the dramatic reduction in public investment from 9.1 per cent to 4.5 per cent of GDP. Public Sector Development Programme (PSDP) has been slashed from 7.6 per cent of the GDP in 1991-92 to 3.3 per cent in 1992-93. Private investment also fell, but more slowly. It has somewhat revived since 1999-2000. Its more dynamic component, the large-scale manufacturing sector has begun to regain its momentum. Annex Table 6 indicates that from a low of 1.43 per cent in 1998-99, it has moved up to 2.64 per cent of GDP in 2002-03.

To achieve the targeted GDP growth rate of 6.3 per cent by the last year of the Perspective Plan, the rate of investment would have to go up to 20.6 percent. The real challenge would be to jump start fixed investment and take it to 19 per cent by 2010-11. Assuming that the privatisation programme will have been completed by that year, 15.78 per cent of this fixed investment must come from private sector (Annex Table 7).

The prospects of achieving this level of private sector investment and growth are intimately related to the preparedness of the economy to meet the challenge of competitiveness. It is not only the textile challenge of 2005 posed by the WTO regime. In the past 3-4 years, textile industry has invested around $ 3 billion to position itself for the challenge. There are definite limits to raising productivity in textile and other traditional industries. Quantum jumps are required for the high enough growth to make a difference to rising poverty, unemployment and marginalization. This would be possible only through technology-related industrial development. Macroeconomic stability and a liberal and market-friendly framework is only a necessary condition for this transition. The sufficient condition is to provide an adequate knowledge infrastructure, which is best achieved through appropriate public investment.

Public policy has reduced average import tariff from 80 per cent in 1985 to 15 per cent. Investment Policy 1997 put in place a liberal regime of rules and procedures. Fiscal deficit is low and current account has been in surplus. External debt has begun to decline and foreign exchange reserves have crossed $ 11 billion. Yet

total investment is low and foreign investment very small. Non-economic factors like law and order and the varying perceptions about the country's image are important, but a number of economic concerns remain. Pakistan's labour costs are higher than India and China. Utilities, particularly electricity, cost relatively more. Port handling costs 50 per cent more than Mumbai. Despite an improved regulatory framework, a host of irritants remain. Compared to competitors, customs clearance, business start-up, telephone and electricity connection take longer and business inspections are more numerous.

Technology needs to play a greater role to raise the level of sophistication of industry and its exports. Several steps have been initiated. Federal Public Sector Development Programme now devotes higher allocations for higher education, science and technology and information technology. Specific projects related to enhanced competitiveness are being planned and funded. Some of them include trade facilitation, R&D in trade and industries, strengthening of laboratories and related facilities and new quality control laboratories. Ministry of Science and Technology has set up Pakistan National Accreditation Council for accreditation of certification bodies (ISO Guide 62, 66 & 65), accreditation of laboratories (ISO 17025) and registration of personnel, training course providers. A National Quality Policy is in the offing. As a lead industrial competitiveness agency, the National Productivity Council has been set up under the Minister of Industries, with National Productivity Organization functioning as its professional secretariat. Benchmarking is critical to encourage and monitor productivity growth. National Productivity Organization has started this process from cotton spinning. The concept of setting up a textile city near Karachi port is also a step in the direction of promoting and establishing best-practice.

However, as already pointed out, there are limits to raising the level of sophistication of exports by concentrating on the traditional textile industries. The country would be competing only to protect its share in a shrinking market. Board of Investment, Export Promotion Bureau, National Accreditation Council and National Productivity Organization have to coordinate better to find

a technological niche for exporting to fiercely competitive but rapidly growing sectors of the world market.

Table 1
Competitive Industrial Performance Index, 1998 and 1985

	Rank		Index Value	
Economy	1998	1985	1998	1985
Singapore	1	6	0.883	0.587
South Korea	18	22	0.370	0.247
Malaysia	22	30	0.278	0.116
Philippines	25	45	0.241	0.044
Hong Kong	30	18	0.204	0.320
Thailand	32	43	0.172	0.058
China	37	61	0.126	0.021
Indonesia	49	65	0.054	0.012
India	50	50	0.054	0.034
Pakistan	60	55	0.031	0.028
Sri Lanka	69	71	0.017	0.008
Bangladesh	73	74	0.011	0.008
Nepal	79	79	0.006	0.001

Source: UNIDO (2000)

Table 2
Drivers of Industrial Performance, Ranking 1998 and 1985

Harbison-Myers Index of Skills[a]			Tertiary Enrolments in Technical Subjects[b]			Financed Research and Development		
Econo-my	1998	1985	Econo-my	1998	1985	Economy	1998	1985
South Korea	10	6	South Korea	1	1	South Korea	13	23
Singap-ore	29	37	Philipp-ines	26	28	Singapore	14	19
Philipp-ines	32	23	Hong Kong	31	24	Malaysia	34	38
Hong Kong	39	39	Singap-ore	33	4	Hong Kong	40	46
Thaila-nd	45	48	Indones-ia	51	63	China	44	46
Malays-ia	55	51	Thailand	54	49	Indonesia	45	41
Indone-sia	56	57	Malay-ia	59	62	India	46	36
Sri Lanka	58	53	India	62	51	Thailand	48	39
China	59	67	China	66	64	Philippi-nes	57	40
India	69	60	Sri Lanka	68	61	Sri Lanka	60	0
Nepal	71	66	Bangla-desh	69	58	Banglades h	61	0
Bangla desh	76	72	Nepal	70	66	Nepal	61	0
Pakist-an	77	69	Pakistan	75	69	Pakistan	61	0

Source UNIDO (2002).

[a]The Harbison-Myers Index is the average of the percentage of the relevant age groups enrolled in secondary and tertiary education, with tertiary enrolments given a weight of five. [b] Ranking is based on tertiary enrolment as percentage of the population. Technical

subjects include pure science, mathematics and computing and engineering.

Table 3
Drivers of Industrial Performance, Ranking 1998 and 1985

Per Capita Foreign Direct Investment			**Royalty & License Payments Per Capita Abroad**			**No. of Telephone Mainlines per 1,000 People**		
Econo-my	1998	1985	Economy	1998	1985	Econo-my	1998	1985
Singap-ore	1	1	Singapore	2	1	Singap-ore	10	16
Hong Kong	5	8	Hong Kong	4	2	Hong Kong	11	17
Malays-ia	19	11	Malaysia	6	33	South Korea	23	26
Thaila-nd	45	42	South Korea	19	20	Malays-ia	37	41
South Korea	48	49	Thailand	28	37	Thailand	51	62
China	49	65	Indonesia	42	34	China	55	77
Philipp-ines	52	62	Philippin-es	46	45	Philipp-ines	64	66
Indone-sia	53	59	China	57	64	Sri Lanka	67	70
Sri Lanka	64	53	India	60	58	Indones-ia	68	73
Pakist-an	72	64	Pakistan	61	54	India	69	72
India	77	71	Bangladesh	65	63	Pakistan	70	71
Nepal	81	75	Nepal	65	-	Nepal	76	86
Bangl-adesh	85	76	Sir Lanka	65	-	Bangla-desh	83	85

Source: UNIDO (2002)

Table 4

Sources of Growth

	Benchmark	Projections	
	2000-01	**2003-04**	**2010-11**
Total Growth	2.6	5.0	6.3
From Factor Accumulation	2.6	4.7	5.8
From Non-Factor Sources	-	0.3	0.5

Source: Planning Commission (2001)

Table 5

Overall Investment Trends
(% of GDP)

Year	Total	Fixed	Private	Public	PSDP
1991-92	20.1	18.5	9.8	8.7	7.6
1992-93	20.7	19.1	10.0	9.1	5.7
1993-94	19.4	17.9	9.6	8.3	4.6
1994-95	18.4	16.9	8.7	8.2	4.4
1995-96	18.8	17.2	9.0	8.2	4.4
1996-97	17.7	16.2	9.4	6.8	3.5
1997-98	17.3	14.7	9.6	5.2	3.9
1998-99	15.6	13.9	7.9	6.1	3.4
1999-00	16.0	14.4	8.4	6.0	2.6
2000-01	15.5	13.9	8.4	5.5	2.1
2001-02	14.7	13.1	8.4	4.8	3.5
2002-03	15.5	13.1	8.6	4.5	3.3

Source: FBS, Planning Commission

Table 6

Private Investment in Manufacturing
(% of GDP)

Year	Large Scale	Small Scale	Total
1995-96	2.20	0.54	2.74
1996-97	2.13	0.55	2.68
1997-98	1.86	0.57	2.43
1998-99	1.43	0.61	2.04

1999-00	1.90	0.57	2.47
2000-01	1.96	0.58	2.54
2001-02	2.56	0.59	3.15
2002-03	2.64	0.58	3.22

Source: FBS, Planning Commission

Table 7

Ten Year Perspective Development Plan 2001-11
Macroeconomic Framework
(Value in Current Prices)

	Benchmark	**Projections**	
	2000-01	**2003-04**	**2010-11**
Real GDP Growth (%)	**2.6**	**5.0**	**6.3**
Agriculture	-2.5	3.5	4.2
Large Scale Manufacturing	7.8	7.5	8.3
Inflation Rates (%)	5.0	5.0	4.0
Total Unemployment Rate (%)	10.4	9.4	6.1
As % of GDP Total Investment	14.7	16.5	20.6
Fixed Investment: - General Government - Private Plus Public Corporations	13.0 2.17 10.87	14.9 2.54 12.41	19.0 3.23 15.78
National Savings	**13.1**	**15.4**	**20.0**
External Resources	1.6	1.1	0.6
Consumption (as % of GNP)	88.9	84.4	79.8
Memo Items GDP mp (Rs. Billion) Per Capita Income (Rs.) Marginal Rate of Savings (%)	 3,472 24,188	 4,611 30,476 30.2	 9,259 54,107 29.2

Source: Planning Commission (2001)

Bibliography

1. Asian Development Outlook 2003. New York, Oxford University Press/ADB.
2. Federal Bureau of Statistics. 2003, National Accounts. http://www.statpak.gov.pk.
3. Finance Division, Government of Pakistan. Economic Survey 2002-03., Islamabad: Printing Corporation of Pakistan.
4. Kemal, A. R. 2003. "Analysis of Productivity Indicators". Productivity Journal. April-September. Islamabad, National Productivity Organization.
5. Lall, Sanjaya. 2001. Competitiveness, Technology and Skill., Northampton, Mass.: Edward Elgar.
6. Lall, Sanjaya and John Weiss. 2003. Industrial Competitiveness: The Challenge for Pakistan. Draft. Asian Development Bank Institute.
7. Planning Commission, Government of Pakistan. 2001. Ten Year Perspective Development Plan 2001-11, Islamabad: Printing Corporation of Pakistan.
8. State Bank of Pakistan: Annual Report 2002-03, Karachi.
9. Tahir, Pervez. 2003. Poverty Reduction Through Skill Development, Lahore: Skill Development Council.
10. UNCTAD – 2002, World Investment Report 2002, Transnational Corporations and Export Competitiveness. Geneva: United Nations.
11. UNIDO – 2002, Industrial Development Report 2002-03, Competing Through Innovation and Learning. Vienna. UNIDO.
12. World Economic Forum – 2001, The Global Competitiveness Report 2001-02, New York: Oxford University Press.

Author

Dr. Pervez Tahir is the Chief Economist of Planning Commission. Since his entry into Government Service in June 1974, Dr. Tahir has served in various capacities in Ministry of Finance, Planning and Developments Division, and Economics Affairs Division. He was the first Federal SAP Coordinator in 1992-93. He holds a Ph. D degree in Economics from Cambridge University and Master's Degree in Economics from the University of Colorado. He is also a graduate of National Defence College, Islamabad.

He has been a Lecturer in Economics at Government College Lahore and visiting faculty member at the Quaid-i-Azam University Islamabad. He is author of numerous articles on economics and human development and has two books to his credit.