



November 2015

## Growth without Human Development: Pakistan's experience over the past three decades, 1980-2010

**Abstract:** *Over the past three decades, economic growth has been robust in Pakistan. However, the gains of economic growth have not been channeled towards enhancing people's living conditions sufficiently. Pakistan's GDP has increased by 5.1 per cent annually between 1980 and 2010, with positive growth in all the sub-sectors of economy. Yet, employment opportunities tend to be limited, while poverty and hunger continue to prevail at high levels. There are several issues in the growth process, like persistent fiscal and trade deficit, rising debt burden, and growing inequality especially between rural and urban areas and amongst provinces. It is essential for Pakistan to improve the character of growth to sustain the growth momentum and to ensure that the benefits of growth improve the lives of people.*

### Key Points

a) Between 1980-2010 Pakistan's economy grew through liberalisation, globalisation and market reforms.

b) While Pakistan has done well in terms of economic growth, there are several issues in the growth process, like persistent fiscal and trade deficit, rising debt burden, and growing inequality.

c) Pakistan's performance with regards to human development has been a mixed bag. Some improvements have taken place, yet in almost all the indicators progress has been slow in comparison with developing - country averages.

The critical difference between the economic growth model and human development model is that the first focuses exclusively on the expansion of income while the second embraces enhancement of all human choices- economic, social, political and cultural.

The Report on Human Development in South Asia 2015 shows that, between 1980-2010 Pakistan's economy grew through liberalisation, globalisation and market reforms. This modernised the society and lifted millions out of poverty, illiteracy and morbidity. Along with other South Asian countries, the gross domestic product (GDP) growth in Pakistan grew more rapidly since the 1980s than any other region except East Asia and the Pacific. For example,

- Between 1980 and 2010, the economy of Pakistan progressed at an annual rate of 5.1 per cent. In absolute terms, Pakistan's real GDP increased by more than four times during this duration, from PKR2 trillion to PKR8.9 trillion. Real per capita GDP also doubled, from PKR25 thousand to PKR51 thousand.
- The growth rate of all the sub-sectors; agriculture, industry and services remained positive. The share of agriculture and industry decreased by 7.6 and 3.8 percentage points respectively. While the share of the service sector increased by 11.3 percentage points.
- Recent economic successes include:

controlled inflation, increased worker remittances, significant increase in foreign exchange reserves, strengthening of Pakistani Rupee and vibrant stock market.

- This growth is supported by high rates of investments. Total investments are around Rs. 3554 billion, private sector being the principal driver of growth with three-fourth share in total investments. There has been a significant increase in private investments as a percentage of GDP from 7.5 per cent to 10.5 per cent. Remittances have been a major source of foreign exchange earnings.
- Over the past three decades, Pakistan's economy has integrated into the global financial and capital markets. Merchandise trade increased more than seven times from US\$7.1 billion to US\$54.0 billion.

### Issues and challenges

While Pakistan has done well in terms of economic growth since the 1980s, there have been several issues in the growth process. Statistics reveal that this was a period of growing deficits and rising foreign debt. While the services sector has been a key driver of economic growth, agriculture and industry have failed to create sufficient jobs or adequate food for the unemployed and the hungry. Fiscal policies were unable to generate adequate resources to increase public spending. While the total volume of trade increased, imports exceeded exports, resulting in a persistent trade deficit. Pakistan experienced limited diversification, exporting primary products to a handful of markets. Growth has been unevenly distributed between the agr-

ricultural and non-agricultural sectors, creating a considerable rural-urban divide. Similarly, economic growth has been uneven across provinces, regions and states, increasing inequality. These disparities in economic growth make the growth process unequal and unsustainable.

- The economy has been subjected to external and internal shocks including, political instability, poor law and order situation, energy crisis and natural calamities like droughts, floods and earthquakes. The economic growth has been volatile. Economic growth was fastest in 1980s, growing at an average annual rate of 6.3 per cent.
- The structure of the economy is also not conducive for long term sustainable growth. Growth in agriculture, industry and services has been volatile. Agriculture sector that used to be the mainstay of economic activity, employing majority of labour force and providing sustenance and contributing towards food security is facing constraints in form of low yield and productivity, climate change, water shortage, high costs of energy and fertilizer, limited credit availability and lack of R&D in improving technology and seed quality etc. Similarly, industrial sector the main source of employment generation is suffering from inefficiency, high cost of production, energy shortages and poor law and order situation. The growth of service sector is substantial, highlighting improvement in standards of living. However, its employment generation impact is low compared to industry and agriculture; it requires more educated labour force than what the market offers.
- Economic growth remains tied to foreign direct investment (FDI). In periods when FDI is high economic growth increases, while in years when FDI declines economic growth stalls. Thus the international perception about Pakistan's economic and political structure and local law and order condition significantly influences economic performance.
- Fiscal indicators—especially government revenue and budget deficit has deteriorated since the 1990s. While the economy was growing, tax collection as a percentage of GDP declined from 13.9 per cent in 1980 to 9.9 per cent in 2010. This is despite several phases of tax reforms. Taxation

system still suffers from narrow tax base (only 2 million registered tax payers out of 58 million workforce as of 2013), weak enforcement of taxation rules (tax evasion estimated to 4 per cent of GDP), tax exemptions and preferential treatment to selected sectors (amounting to 800 billion), and poor capacity of provincial governments to collect taxes after 18<sup>th</sup> amendment.

- The failure to raise sufficient revenue is accompanied by the government's inability to reduce its expenditure, resulting in high levels of fiscal deficit, currently at 6.2 per cent.
- Pakistan remains a highly indebted country. Total debt as a percentage of GDP increased from 55.6 per cent to 68.0 per cent between 1980 and 2010. Public debt is around Rs. 15,534 billion. As a result a major proportion of Pakistan's budget is spent on debt servicing.
- The structure of debt also changed. Unlike 1980s and 1990s, fiscal deficit in 2000s was financed through domestic borrowing, resulting in increased share of domestic debt and decline in the proportion of external debt and liabilities. This has implications for economic growth, as the funds that were supposed to be available for private sector, especially small and medium enterprises, are now being used by the government.
- Current expenditures including debt servicing, defence, subsidies and cost of civil administration account for a major share of government expenditure, in comparison to low development expenditure.
- While both exports and imports increased, trade deficit has widened - from US\$2.3 billion in 1980 to US\$15.4 billion in 2010. Trade remains limited in a few products and limited destinations.
- Economic growth is severely hampered by infrastructural deficiencies, especially the energy shortages. Inadequate investment in physical infrastructure, poor planning with regards to sources of energy, high transmission and distribution losses have led to load shedding and unreliable supply especially to industrial sector.
- Growth is not equally distributed. Although Balochistan is the largest province in terms of total area of Pakistan (44 per cent), it is the smallest province in terms of its share in the country's GDP (8 per cent). Between 1973 and 2005, while national GDP increased at an annual rate of 5.1 per cent, GDP increased by 5.2 per cent in Punjab, 4.9 per cent in Sindh and KPK, and 4.2 per cent in Balochistan. Uneven distribution of growth leads to a sense of deprivations and cause social unrest.

#### About Mahbub ul Haq Human Development Centre

Under the umbrella of Foundation for Human Development in Pakistan, Mahbub ul Haq Human Development Centre was set up in November 1995 in Islamabad, Pakistan by the late Dr. Mahbub ul Haq, founder and chief architect of UNDP Human Development Reports. With a special focus on South Asia, the Centre is a policy research institute and think tank, committed to the promotion of the human development paradigm as a powerful tool for informing people-centred development policy, nationally and regionally.

## Human development profile

Pakistan's performance with regards to human development has been a mixed bag. Some improvements have taken place. For example, life expectancy at birth improved from 58 to 66 years, adult literacy increased from 26 per cent to 55 per cent, female literacy improved from 15 per cent to 42 per cent, infant mortality rate decreased from 122 per 1000 live births to 73, yet in almost all these indicators progress has been slow in comparison with developing - country averages. Only one half of the country's population is literate. Net enrolment rate and primary school completion rate are far below those achieved by other countries of the region. Infant mortality at 73 is highest in the region, only behind Afghanistan. In addition, considerable disparities exist across different regions, and along lines of wealth, gender and ethnicity. Unfortunately, government financial capacity to improve these indicators is constrained or there has not been much effort. Public spending on education stands well below South Asian average and amongst the lowest in South Asia. Similarly, Pakistan also stands at the bottom in terms of public expenditure on health — 1.0 per cent of GDP.

Table: Human Development Indicators

Indicator	Year	Pakistan	South Asia (weighted average)	Developing countries
Life expectancy at birth	1980	58	55	60
	2010	66	66	68
Adult literacy (% aged above 15 years and above)	1980	26	39	68
	2010	55	61	80
Female literacy (% aged above 15 years and above)	1980	15	25	60
	2010	42	50	75
Infant mortality rate (per 1,000 live births)	1980	122	117	89
	2010	73	48	41
Public expenditure on education (% of GDP)	1980	2.1	1.6	---
	2010	2.3	3.1	---
Public expenditure on health (% of GDP)	1980	0.9	1.1	---
	2010	1.0	1.1	---
Human Development Index (HDI)	1980	0.356	0.365	---
	2010	0.526	0.562	---

## Policy framework

Planning commission of Pakistan has launched a policy document 'Vision 2025' regarding the future direction of economic progress. It provides a framework, set aspiration goals for the revival of sustainable and inclusive growth. It addresses major constraints facing Pakistan and set future targets. For example, to address the lack of focus on human development, vision 2025 sets it a high priority. It realizes energy as a major constraint and sets out to address it. It envisions private sector led growth and limits government role to institutional reforms for improved governance.

While the government has hailed Vision 2025 as a blueprint for economic transformation it is not much different from earlier visions and framework for growth. In the last 16 years Pakistan has produced Vision 2010, Vision 2030 and framework for Economic Growth; all these laid down similar aspirations without achieving much success.

While it sets targets, it lacks implementation mechanism to achieve it. This is the basic reason why earlier visions have not been successfully implemented.

*This policy brief is based on the findings of Human Development in South Asia 2015: The Economy and the People. Umer Akhlaq Malik, senior research fellow prepared the brief.*

## Themes of the Report of Human Development in South Asia

1997	The Challenge of Human Development
1998	The Education Challenge
1999	The Crisis of Governance
2000	The Gender Question
2001	Globalization and human Development
2002	Agriculture and Rural Development
2003	The Employment Challenge
2004	The Health Challenge
2005	Human Security in South Asia
2006	Poverty in South Asia: Challenges and Responses
2007	A Ten-Year Review
2008	Technology and Human Development in South Asia
2009	Trade and Human Development
2010/11	Food Security in South Asia
2012	Governance for People's Empowerment
2013	Water for Human Development
2014	Urbanization: Challenges and Opportunities
2015	The Economy and the People

## Other Books on Human Development

1995	Reflections on Human Development by Mahbub ul Haq
2002	The South Asian Challenge by Khadija Haq (editor)
2003	Readings in Human Development by Sakiko Fukuda-Parr and A. K. Shiva Kumar (editors)
2008	Pioneering the Human Development Revolution: An Intellectual Biography of Mahbub ul Haq by Khadija Haq and Richard Ponzio (editors)

### Mahbub ul Haq Centre

Lahore University of Management Sciences, Academic Block, Ground Floor, DHA, Opposite sector U Lahore Cantt, 54792 Pakistan.  
Tel: 042-35608000 ext. 2156  
Fax: 042-35748713  
Email: [hdc@comsats.net.pk](mailto:hdc@comsats.net.pk)  
Website: [www.mhhdc.org](http://www.mhhdc.org)