ECONOMIC RELEASE

EFP Economic Council

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EFP Economic Council Pushes Hard for Industrialization on War Footing

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The long term survival of Pakistan, is contingent on not only reactivating the dormant sectors of economy, but also on full scale industrialization. Before we embark on the arduous tirade of speculating the critical need for industrialization in the present state of Pakistan, let's travel back in time and take a brief glance at how Pakistan's economy evolved, over the past six and half decades.

While quoting history, at the time of independence, Pakistan left behind all major steel, shipping, and automobile industries in our south-east nuclear armed neighbor. The 30 million populated economy was only able to acquire less than 4 percent of the subcontinent's industries, as well as one port namely, Karachi Port. Pakistan was an underdeveloped agrarian economy with agriculture contributing to almost 55 percent of the GDP.

The main exporting partner of Pakistan was India, with whom Pakistan shared a trade surplus of $125 million. During 1948-49, this trade with India, represented 55.8 percent of export If one starts to counts, then the total debt is hovering under $26 billion after taking into account the bailout assistance offered to the PTI government by UAE and China; the doing business ranking stands at a low 136th position (Doing Business 2018); 33.5 percent people in Pakistan are living in multi-dimensional poverty (Global Competitiveness Index 4.0); global perception of terrorism in Pakistan is the worst (0 ranking in Terrorism index); routine power outages, and shortage of water and gas have wreaked havoc on the functionality of industries; the Air Quality Index in major cities of Karachi and Lahore has risen to an alarming 155 score (WHO), the population of 202,695,718 consumer base, is fast growing but their demand for food, and shelter has gotten expensive.

Aside from these social indicators, there is a host of macroeconomic problems, such as value of Rupee losing to the US Dollar by almost 35% (2017-18); the balance of trade deficit hovering just under $31 billion; money worth $2 billion laundered every year (2007-18), and then there is corruption, weak state institutions, inflationary pressure, as well as dwindling foreign reserves worth $8.6 billion (Monetary Policy Statement, 2018). What all of this means, is that the general public is miserably suffering, and if we

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add a high 57 percent literacy rate, 6 percent (and growing) unemployment rate, school life expectancy of only 8.6 years (as compared to Sri Lanka's 13.9), and mean schooling years of 5.2 to the equation, then one can truly visualize the abject state of horror that Pakistan, faces today.

Even though Pakistan is no longer an agrarian country like it was at the time of independence, the highest percentage contribution towards GDP still comes from the agricultural sector, which also employs 40% of the labor force (mostly unskilled). Moreover, the country has long pursued protectionism and import substitution policies to support infant industries, and hence not remained very open to international trade. The untargeted and untimed subsidies, coupled with a crippling circular debt of around $8 billion have not only eroded competition but also confined us to produce lower value-added goods. Impact? The US has excluded the import of textile goods from our GSP agreement with them! Whereas, Bangladesh and India have taken a $4 billion lead in exports of textile goods, by being able to sell garments at lower price and higher value! This poor production efficiency prevalent in the Pakistani industrial sector, can be attributed to the low human capital index (measured on access to education and health), which is evident from its low ranking of 125 by GCI 4.0.

In fact, according to a Sri Lanka based think-tank, some 69 percent of the population do not know what internet is which is also clearly reflected on the 127th ICT ranking – revealing the countrymen are not ready to embrace any new technology. Robert Solow, in the infamous Solow Swan model (Swan, 1956), stated that the long run growth in income per capita of any country, is associated with growth in total factor of productivity; and hence, enjoys a positive correlation with innovation.

The World Economic Forum's report says that Pakistan spends only 0.2 percentage of GDP towards R&D, and hence lags in the race of inventions. Furthermore, as the high incidences of corruption, rent seeking, and bribery have largely diverted precious FDI away from human capital development, a simple but important question arises, "what needs to be done?" The answer to this question is two-fold. One, the government must realize that trade policies of the past have failed due to no cost and benefit analysis prior to any preferential or free trade signing, and in order to promote exports commercial trade officers abroad need to be tapped along with ensuring a transparent facilitation of bilateral trade.

Hence, it has become imperative to boost exports. There is an exorbitant potential of investment in the resource rich province of Baluchistan. Therefore,, the benefits of the $61 billion CPEC project, which comes at a time when country is prone to economic failure and can integrate Pakistan with various

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landlocked regions of Central Asia, through railways, energy supply pipelines, and metaled roads, should be fully availed.

While at it, the state institutions need to be strengthened to eliminate the parasitic stench of money laundering and the deep-rooted corruption, as well as, policies designed in such a way that the new industries are able to make maximum contribution towards the country economic development. Two, and perhaps, the most important one is to upgrade the skills of workers, which can simply be done by setting up vocational training institutes, establishing research councils to enhance industrial-academia linkages, and providing health cards to the general public so that the over 42 percent stunted growth among men and women is brought down. The solution is put very simply, but its success demands a gigantic inner will on part of the government, business community, social workers, and ordinary man. Then only a Naya (new) Pakistan can truly be actualized.

As the newly elected democratic government strives hard to mitigate each of the aforementioned problems, we, as a nation should stand united to back it up. The idea is not only to obey traffic rules, and respect fellow citizens, but also to regularly keep the government in check.

Today, the country is standing on cross-roads with fourth industrial revolution, which the developed world is all set to embrace, and so time has come for the incumbent Prime Minister, Imran Khan, to declare full-fledged jihad towards “industrialization on war footing!”

The EFP Economic Council and the entire 900 organizations that make up its stakeholders' body, stand together, to put Pakistan, first.

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