



# PAKISTAN - GROWTH DIAGNOSTICS REPORT

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## A story of uncertainty

As we compile this report, Pakistan is going through a political crisis. The former Prime Minister, Imran Khan, was arrested two days ago on corruption and terrorism charges. This led to protests around the country that weren't particularly peaceful. Buildings and vehicles were set on fire and broadcast services were suspended by the Pakistan Telecommunication Authority (PTA). Schools and colleges were also closed on account of protests. Military cars were seen on the main roads of Lahore.

Unfortunately, political crises such as this one isn't new for Pakistanis. Rather, such crises have been a recurrent theme in the past two decades. While the overall intensity of such chaotic situations might have decreased overtime, their effects have lingered.

*Nonetheless, we're here to tell you a story of a fairly young economy.*

It is a story of resilience and success that has been barred with challenges and a story of constraints that have prevented growth and expansion. It might also be a story of an economy that, despite immense growth potential, is slowly closing itself.

It is definitely a story of a country that enjoys a strategic position on the world map and is a story of people who are friendly, humble, passionate and intelligent. Lastly, it is certainly a story of a land of splendor, with snow-covered mountains in the north and a deep blue sea in the south, with delicious foods and culturally rich hand-made goods that are admired around the globe.



## The land of many splendors

### History and Geography

Pakistan has created a name globally in its 76 years of existence. With snow-covered mountains in the north and the Arabian sea in the south, Pakistan is the world's fifth-most populous country, with a population of almost 232 million people (in 2023), and is home to the world's second-largest Muslim population. It is located in South Asia and is bordered by four countries, namely Iran, Afghanistan, China, and India. The country's vibrant history dates back to the Indus Valley Civilization, approximately 5,000 years ago, when the first urban culture in South Asia came into being. In the following centuries, the land, which is now called Pakistan, was invaded repeatedly by many empires and civilizations (mostly from the West), such as the Persians, the Greeks (Alexander the Great), the Arabs, and the Ottoman Empire. From 1857, the British ruled over the Indian subcontinent until the independence of India and Pakistan in 1947, when the United Kingdom agreed to the partitioning of India, thus leading to the creation of Pakistan (East Pakistan later became Bangladesh).

The country's capital is Islamabad, a beautiful planned city, with green hills overlooking the grand Faisal Mosque, while the largest city, situated on the coast is Karachi, also known as the city of lights, which holds the country's financial center. A multi-ethnic country, Pakistan has six major ethnic groups, including Punjabi, Pashtun, Sindhi, Saraiki, Muhajir, and Balochi. Majority of the Pakistanis are Muslim (97%), with the remaining consisting of small groups of Hindus, Christians, Sikhs, and other faiths. It is interesting to note that while the green part of the flag represents Muslim majority, the



white stripe epitomizes religious minorities, hence reflecting the country's core belief of being a nation that is accepting and tolerant of all religions. While Urdu is the national language, the Punjabi language is the widely spoken and understood in the country.

The country encompasses a wide variety of landscapes, starting in the northwest with some of the world's highest mountain ranges, valleys, plateaus, down to the deserts and Indus plains. The climate varies depending on the area of the country but it is generally temperate with the four main seasons, including the monsoon period during summer<sup>1</sup>.

#### **DID YOU KNOW?**

Around 70 percent of the world's soccer balls are made in Sialkot, a small city in Pakistan. Sialkot also produced soccer balls for the 2022 World Cup!



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<sup>1</sup> <https://www.cia.gov/the-world-factbook/countries/pakistan/#introduction>



## Regional Economic Partners

Pakistan's biggest regional economic partners include China, United Arab Emirates, Indonesia, and Saudi Arabia. China continues to be Pakistan's largest trading partner, with Pakistan mostly importing electrical, electronic equipment (i.e., broadcasting equipment, electrical transformers, and semiconductor devices), while the country's main exports to China include non-retail pure cotton yarn, refined copper, and rice<sup>2</sup>. It is also important to note the China-Pakistan Economic Corridor (CPEC), a massive bilateral project established in 2015 in order to improve infrastructure within Pakistan, integration amongst the regional countries, and trade with China<sup>3</sup>.

Pakistan also participates in the South Asian Free Trade Agreement (SAFTA) with Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, and Sri Lanka. Pakistan's largest exports consist of consumer goods and intermediate goods, such as semi-milled or wholly milled rice and men's/boys' ensembles of cotton. The country's largest imports include petroleum oil and natural gas<sup>4</sup>.

## Geopolitical Relations

Regionally and geopolitically, Pakistan's close proximity along its border with Afghanistan has caused strained relations between the two, especially after the Taliban took over Afghanistan, as well as other sovereignty concerns, security interests, and conflicts between the United States and Afghanistan. India and Pakistan have also been facing tense relations since their separation in 1947, more recently due to cross-border

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<sup>2</sup> <https://oec.world/en/profile/bilateral-country/chn/partner/pak>


<sup>3</sup> <https://www.usip.org/publications/2017/10/china-pakistan-economic-corridor>

<sup>4</sup> <https://wits.worldbank.org/CountrySnapshot/en/PAK>

terrorism, territorial disputes like the Kashmir region, and ceasefire violations<sup>5</sup>. Pakistan also faces challenges with the two global powers, the United States and China, two countries that are among the country's largest trading partners. Pakistan and China have created a long-standing partnership, especially with the China Pakistan Economic Corridor (CPEC). At the same time, the standoff between the United States and China leaves Pakistan in a difficult position to amend ties with the United States. With the U.S. military's withdrawal from Afghanistan and strategic partnership with India to contain China, Pakistan will have to navigate this foreign policy challenge.

### Recent Economic and Political Events

In 2022, Pakistan faced a number of issues in terms of political turmoil, an economic crisis, and devastating floods. Politically, the instability and polarization within the country have only increased since the removal of the Prime Minister Imran Khan from office in April. After losing to a no-confidence motion in the



**What do you know about the Mughals?**

The Mughals loved art and architecture. If you take a walk in Lahore, Pakistan, you will come across beautiful cultural sites, portraying the Mughal era that ruled over the sub-continent (what is now Pakistan and India) in the 16th and 17th centuries.

parliament, protests from his supporters broke out on the streets and the crisis further intensified when Khan was shot and suffered an injury during a protest in November. Pakistan's new, temporary Prime Minister, Muhammad Shahbaz Sharif, was previously one of the leaders of the opposition party but no general election date has been set yet. The catastrophic floods have also caused billions in damage, affecting its agriculture and health sectors, as well as making the country more troubled in governance and economic stability. The country's economic crisis has been exacerbated by skyrocketing inflation,

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<sup>5</sup> <https://www.usip.org/publications/2022/08/india-and-pakistan-75-prospects-future>

increasing trade deficit, depreciating value of rupees, and low foreign reserves. Pakistan is also drowning in a severe debt crisis, as they are running out of reserves and getting closer to the risk of defaulting<sup>6</sup>. Over the last ten years, the country borrowed well beyond its capacity from other countries like China, as well as the International Monetary Fund (IMF), to escape potential default. Pakistan owes more than \$20 billion in repayments during the current fiscal year but only has approximately \$3 billion left in the bank<sup>7</sup>. The

**The junction of three mountain ranges**

If you go up the mountainous north of Pakistan, you will come across a point where the three famous and mighty mountain ranges, the Himalayas, the Karakorum and the Hindukush, meet. The view is gorgeous.



country recently placed large tax hikes in order to secure funds from the IMF, presenting a bill to raise 170 billion rupees (\$636 million) in taxes.

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<sup>6</sup> <https://www.ft.com/content/e6eee49f-7b13-4a39-8613-4dff7bd506cd>

<sup>7</sup> <https://www.telegraph.co.uk/global-health/terror-and-security/pakistan-edges-closer-debt-default-inflation-political-turmoil/>

## Benchmarking

The decisions on which countries to include in the basket of comparators for this diagnostic exercise are based on a mix of geographic proximity, the relative strength of trade & economic relationships, historical and cultural ties, as well as geopolitical considerations. For instance, India has been Pakistan's most important neighbor for a long time. Bordering the country to the East, the two countries only became separate nation-states in 1947. Although trade between the two countries has been strained by destructive political competition, India is still an important but not major trade partner for Pakistan, with volumes estimated at about 508 Million USD as of 2021. Overall, their deep historical similarities, and India's rise onto the global stage as one of the most populous and emerging economic powerhouses of the next century, makes this neighbor a useful benchmark for Pakistan. Although Nepal does not share a border with Pakistan, Nepal was chosen as a comparator for its geographical proximity as a South Asian country and because they are closely linked to India. Nepal's economic progress over the last decade has mirrored that of India, though Nepal's economy is significantly smaller than that of Pakistan. Bangladesh, is one the best performing South Asian countries, delivering steady growth averaging 6% over the last decade, overtaking Pakistan to become the second largest economy in South Asia (GDP PP 2022 - 1.36 trillion USD). It shares key similarities with Pakistan is as far as it is a majority Muslim country (91%) and has a very high population, in excess of 165 Million. It was also a part of Pakistan until only recently in 1971, which guarantees that there is significant overlap with respect to social, cultural and economic structures. Kyrgyzstan was chosen as a comparator country because of its similar GDP per capita (PPP current international USD) at 5289.7 relative to Pakistan's GDP per capita PPP at USD 5748, though it is in Central Asia.

## Graphical analysis

Pakistan's growth in GDP per capita has fluctuated considerably since the 1990s, with periods of booms, with positive and increase growth rates, and sudden periods of busts, with zero or negative growth rates. It is interesting to note that the volatile changes are consistent with the political scenario and structural reforms that took place in the country. To paint a holistic picture, it can be stated that Pakistan's GDP per capita, in PPP and growth terms, is low as compared to comparator countries and the world average. While GDP per capita is following a rising time path, GDP per capita's growth rate is very volatile. The country has low rates of investment (among the lowest in all comparator countries, accompanied by low and gradually falling rates of savings. Furthermore, in the education sector, the average years of schooling (total), primary and secondary, are growing very slowly. The country is stuck in a vicious circle of a learning poverty rate, with its learning poverty rate being one of the worst in the world. In terms of health, Pakistan still has to fight against diseases such as diarrhea, tuberculosis, (TB), malaria

### **Home to one of the oldest civilizations**

Mohenjo Daro, an ancient civilization, was built on the banks of Indus River (in what is now Pakistan), around 2400 BC, making it one of the earliest cities discovered so far.



as well as neonatal illnesses. However, not all is lost; women's participation in the labor force is on the rise, along with falling fertility rates, which gives hopes in terms of curbing the high rates of population growth.

## GDP per capita, PPP (current international \$)

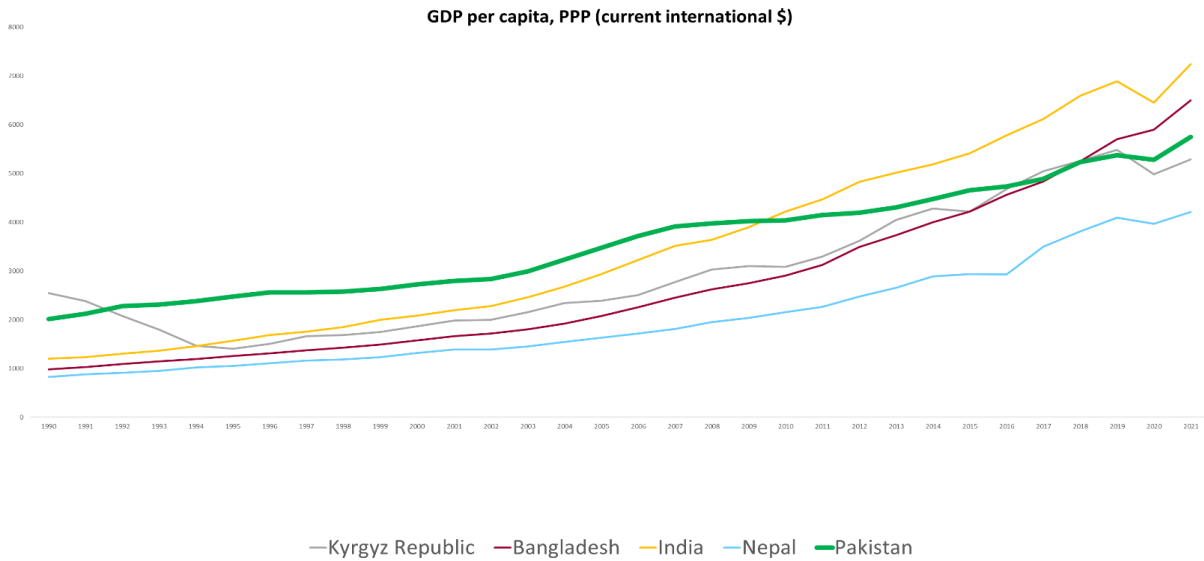


Figure 1. Source: World Development Indicators. Pakistan started off with a higher GDP per capita, PPP, but then, lagged behind comparator countries.

## GDP per capita growth (annual percentage) from 1990 to 2021

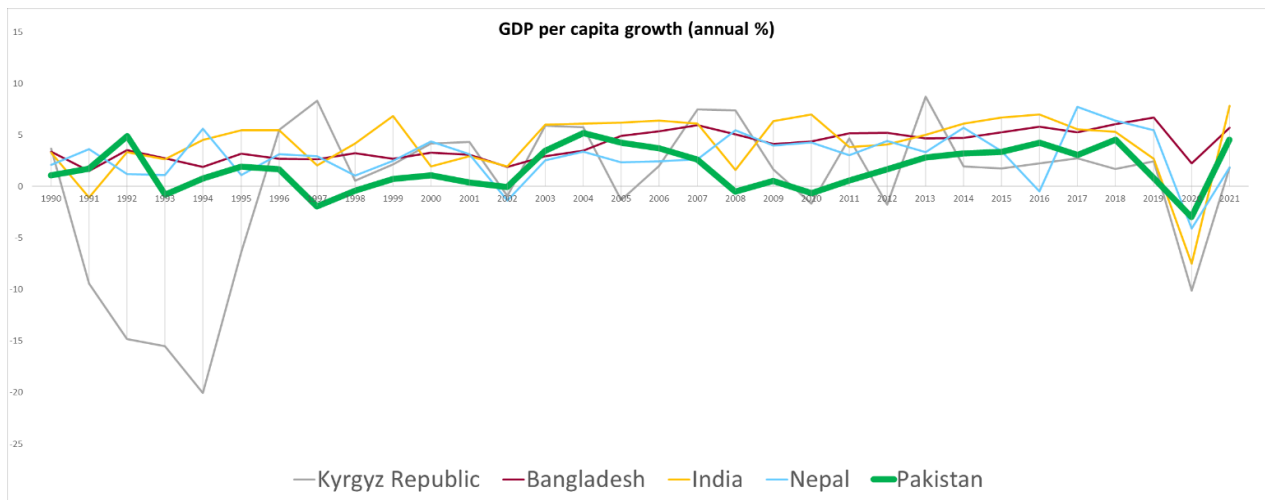


Figure 2. World Development Indicators. This graph shows the fluctuations in GDP per capita growth rate (%)



## Gross capital formation (% of GDP)

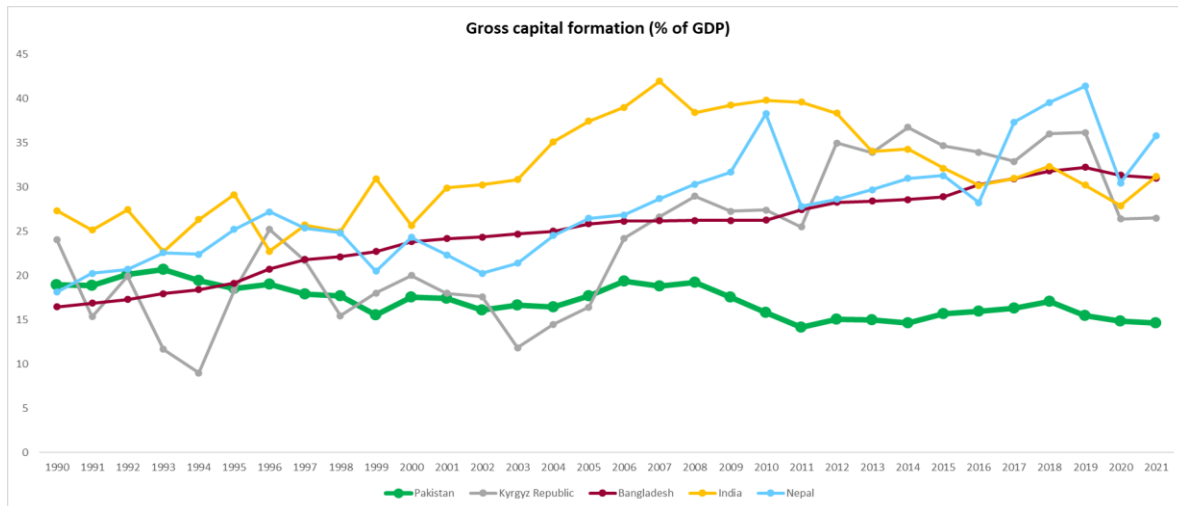


Figure 3. Source; World Development Indicators. The data shows that Pakistan's investment is considerably lower as compared to comparator countries and the world average.

## Gross Fixed Capital Formation (% of GDP)

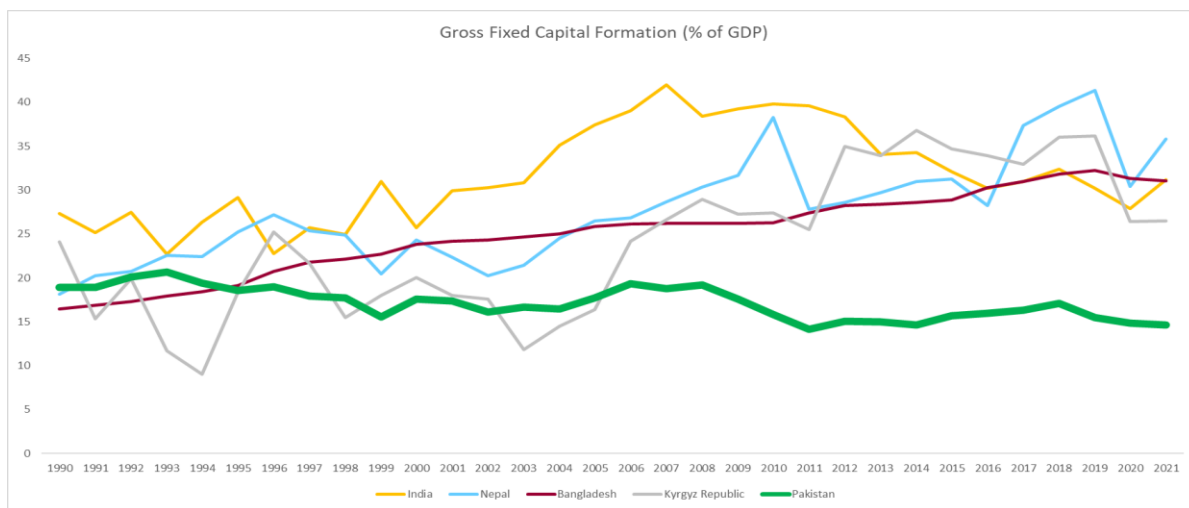


Figure 4. Source: World Bank. For the period 1990-2021, we generally observe an upward trend in Gross Fixed Capital Formation as a % of GDP across most countries. Pakistan is relatively steady at around 15-20% and the lowest among its peers since 2005, while both

## Gross Domestic Savings (% of GDP)

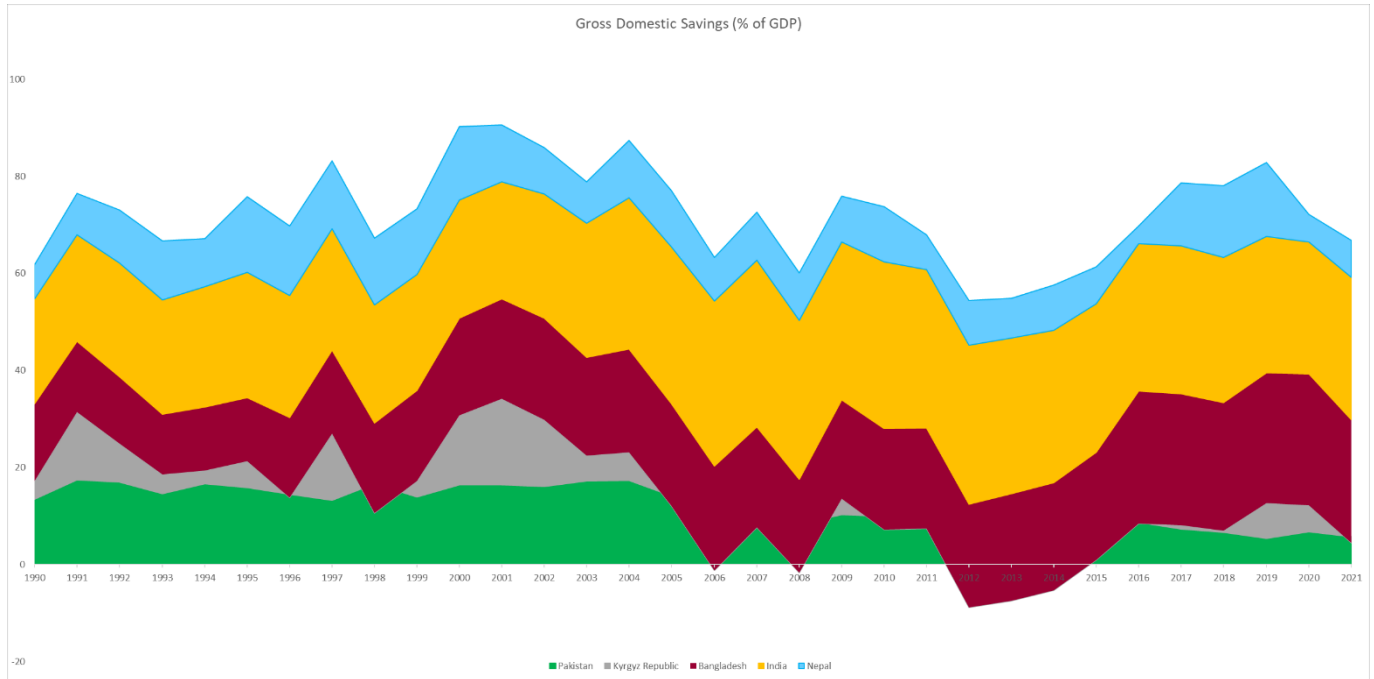


Figure 5. World Development Indicators. The stacked graph shows that the savings rate in Pakistan has been following a declining path since 2004

## Fertility rate, total (births per woman)

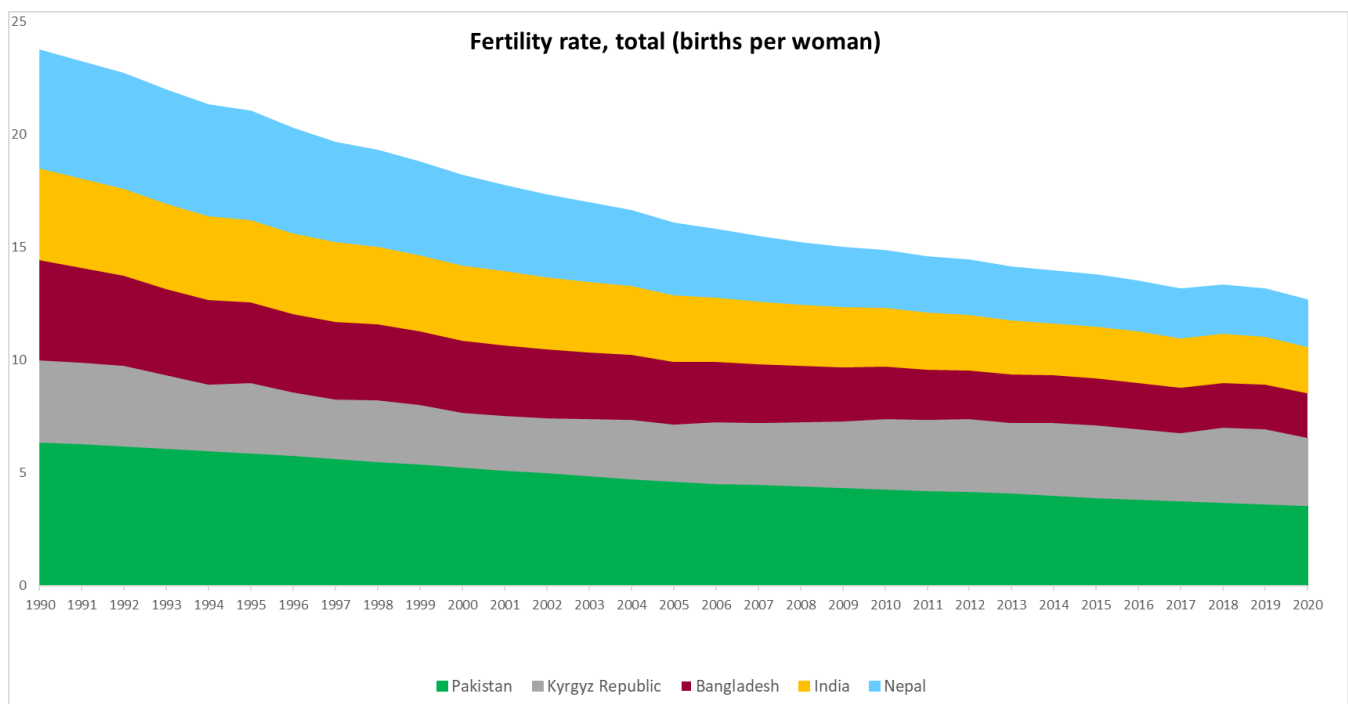


Figure 6. Source: World Development Indicators. Fertility across the countries, and the world average, has a declining trend. However, the slope for Pakistan is flatter than other countries which shows that while falling, fertility in Pakistan is still high

## Mortality rate, infant (per 1,000 live births)

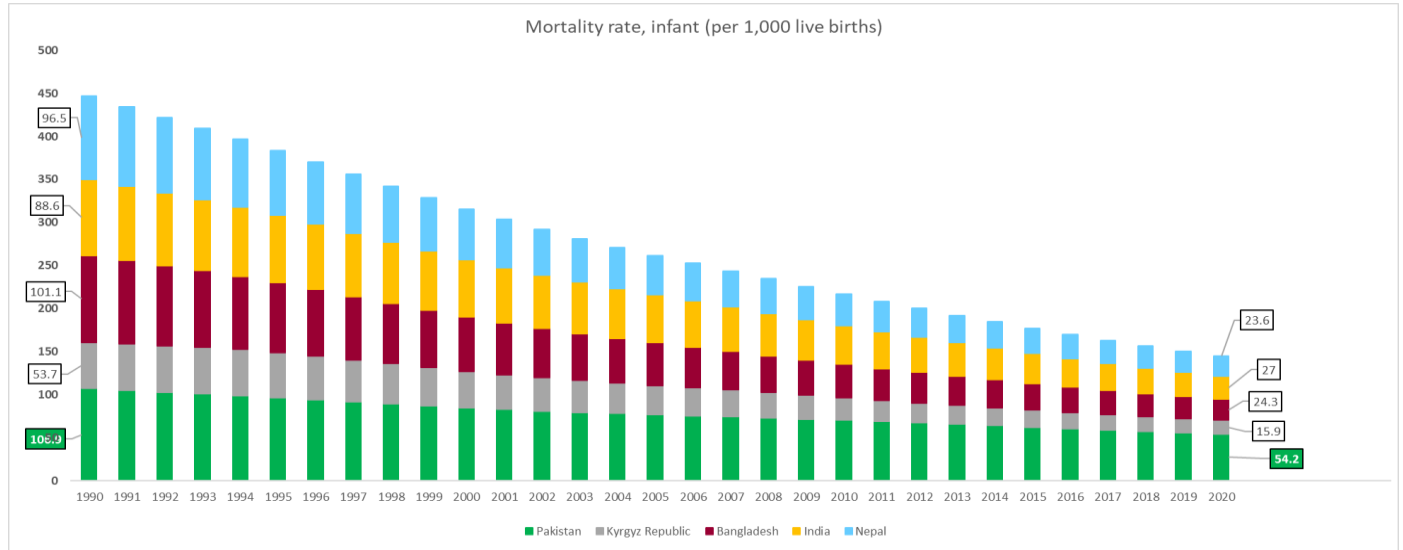


Figure 7. Source: World Development Indicators. The graph shows that the mortality rate of Pakistan has reduced by almost 50% since 1990 but as compared to other countries, and the world average, this change is still quite low

## Female Labor Force Participation (% of total labor force)

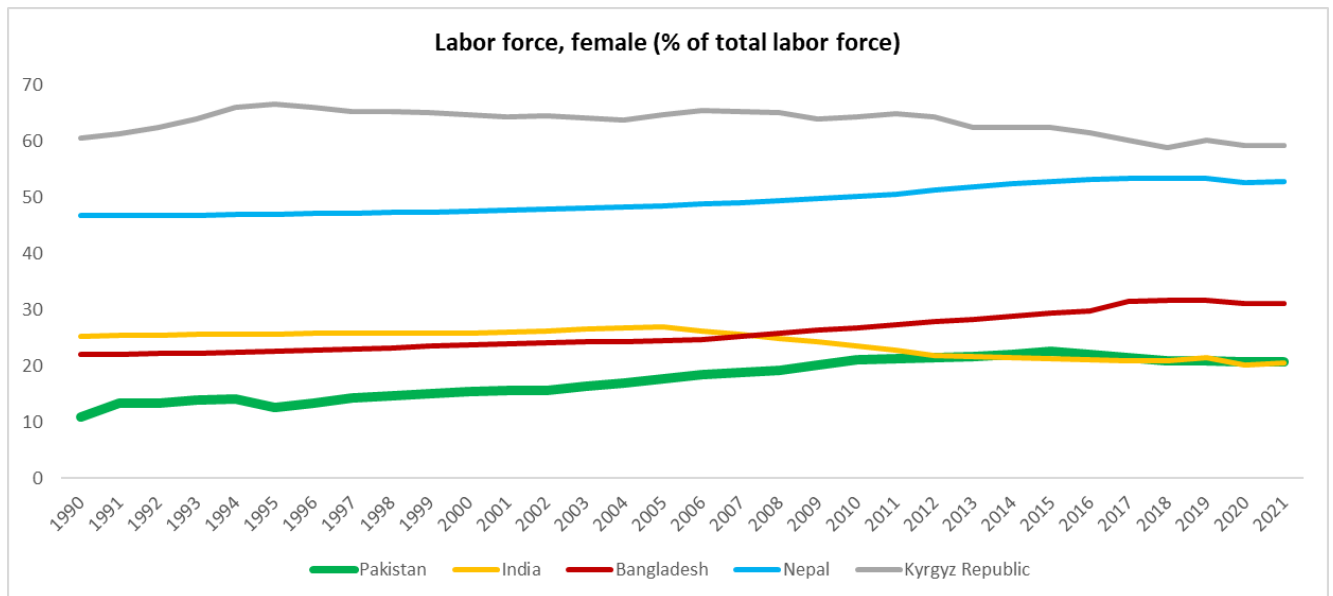


Figure 8. Source: World Development Indicators. This graph has been included to explain the falling fertility rates. Female labor force participation in Pakistan is on the rise.

## Age Dependency Ratio (% of working-age population)

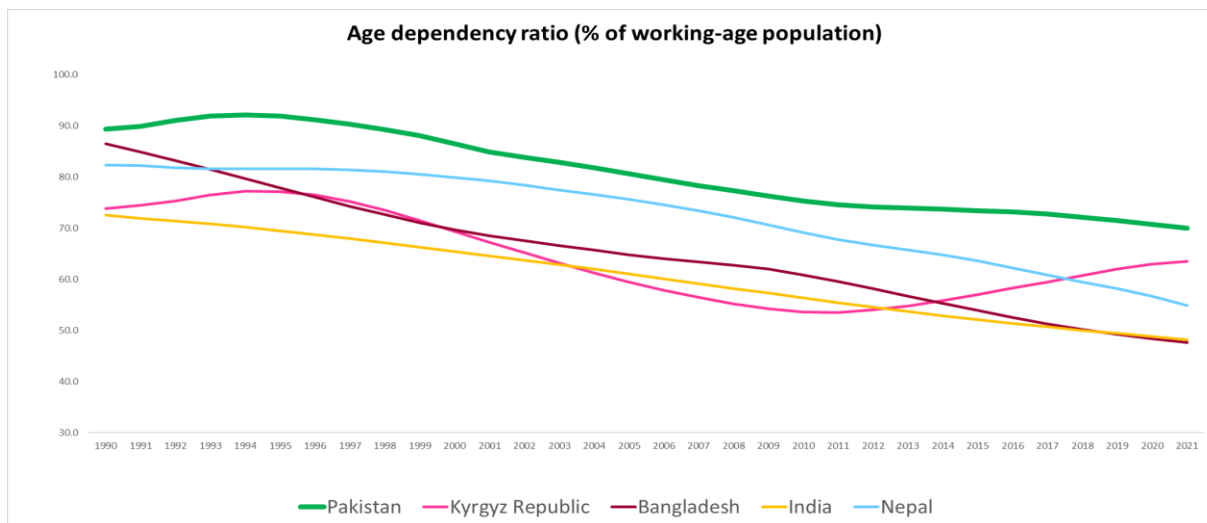


Figure 9. Source: World Development Indicators. Age-dependency ratio in Pakistan was very high in 1990s but it is now on a falling trend. However, as compared to other countries, Pakistan still has a long way to go.

## Net Migration

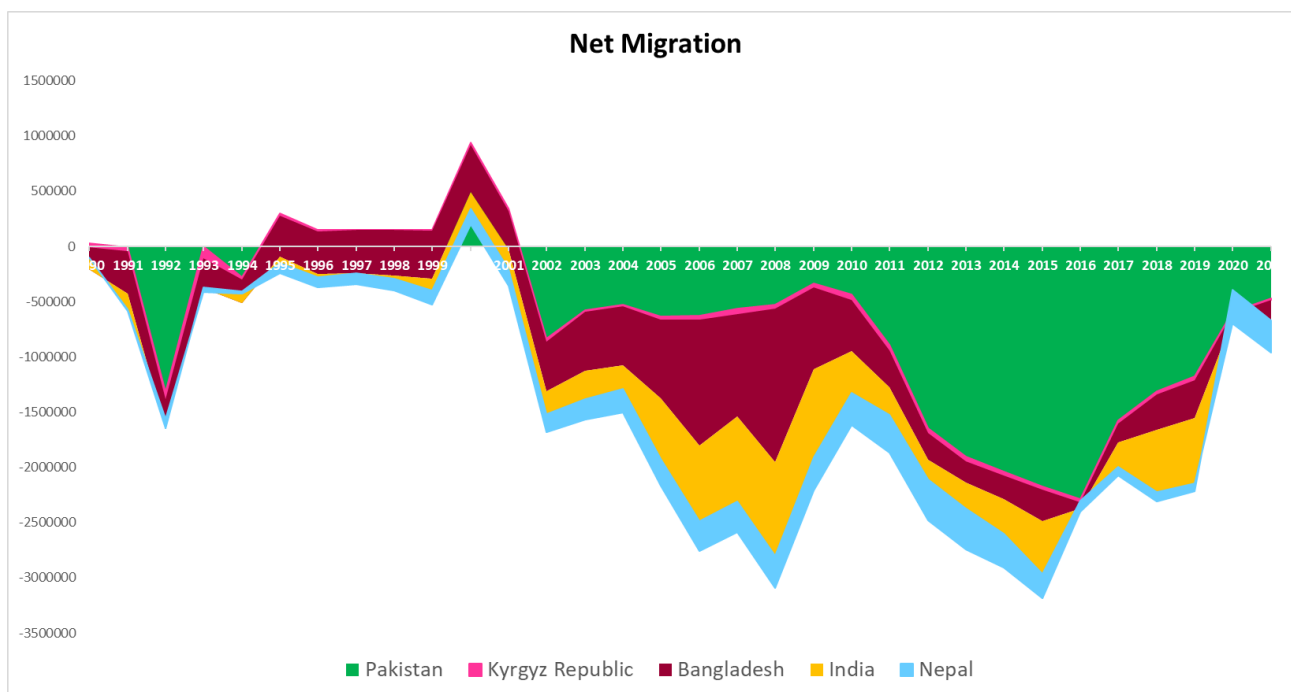
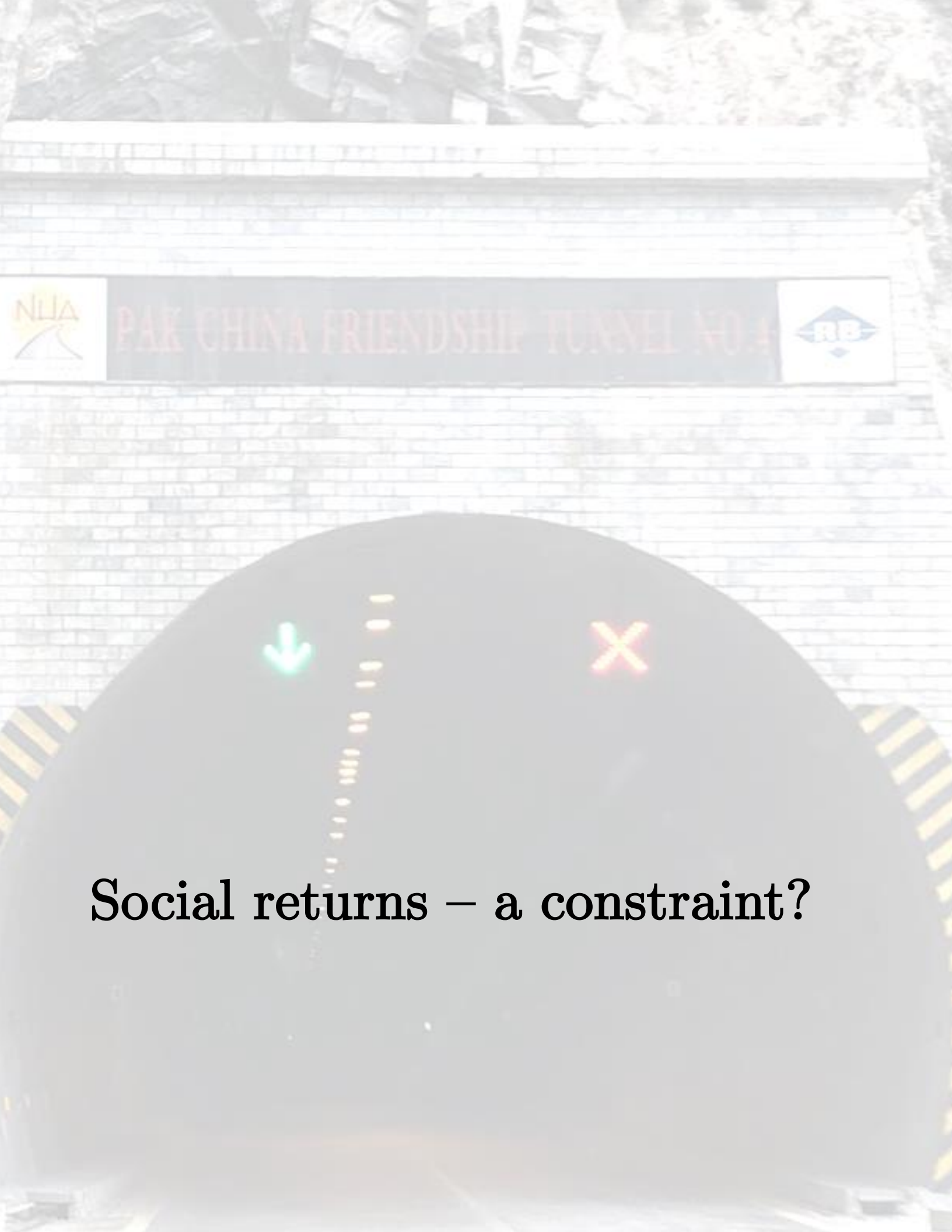


Figure 10. Source: World Development Indicators. Net migration is high in Pakistan as well as the comparator countries. However, more people are leaving Nepal and India, on average, than in Pakistan



**Social returns – a constraint?**

## Social returns

In this section, we will have a look at the social returns for Pakistan, in terms of human capital, geography and infrastructure.

### Human Capital

Pakistan's human capital appears to be weak and has further weakened over the years. Whether education is a priority of the government of Pakistan is a serious question that needs to be asked immediately. With almost 22.8 million children out of school, human capital is likely to only deteriorate in the coming years if a strict action is not taken. A look into the Human Capital Index (Figure 11) shows that as compared to the comparator countries, Pakistan's Human Capital index of 1.8 is very low as compared to other countries. Bangladesh has an index of 2.0, India's index is 2.1, Nepal's index is 1.8 and Kyrgyz Republic stands at 3.5.

### Index of Human Capital per person

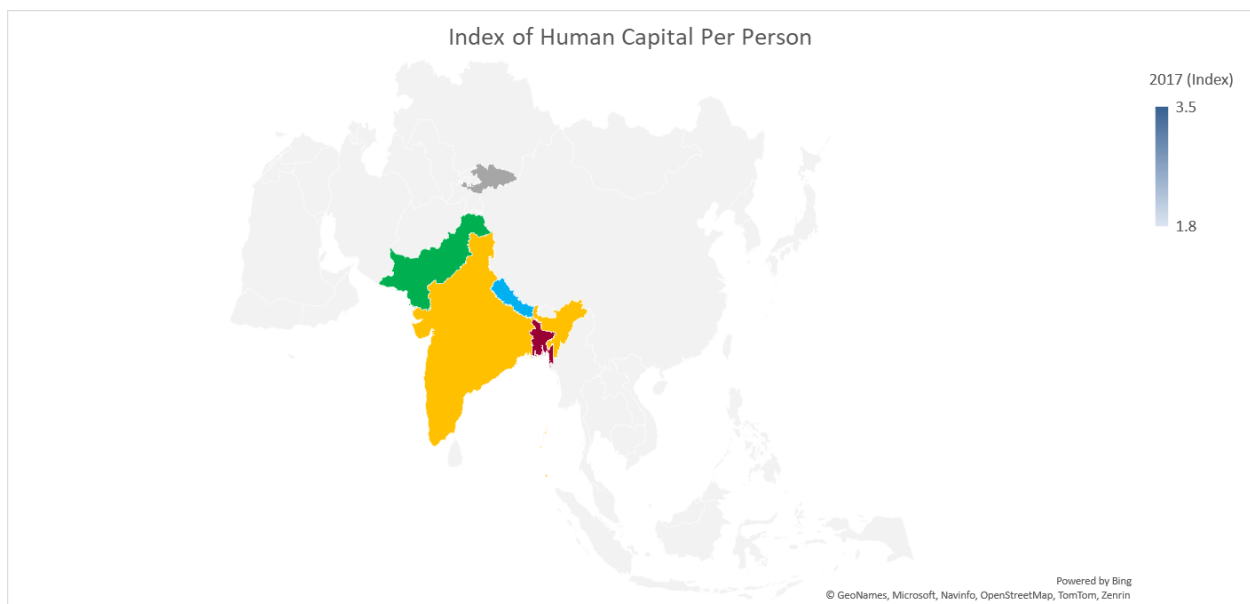


Figure 11. Source: Penn World Table 9.1. On a scale of 1 to 4, Pakistan's Human Capital per person index is 1.8, which is lower in general as compared to other South Asian countries.

## Average years of total schooling

Average years of total, primary and secondary schooling presents a steady growth; not much as improved since 2004 in terms of total schooling.

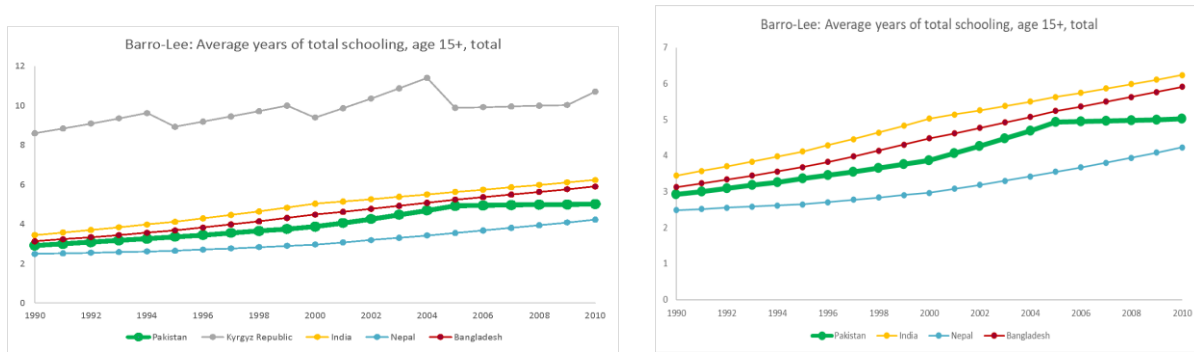


Figure 12. Source: World Development Indicators. The graph shows that the trend in average years of schooling is increasing but has recently slowed down. In the second graph, even when Kyrgyz Republic is removed, the trend for Pakistan appears to have flattened

## Average years of primary schooling

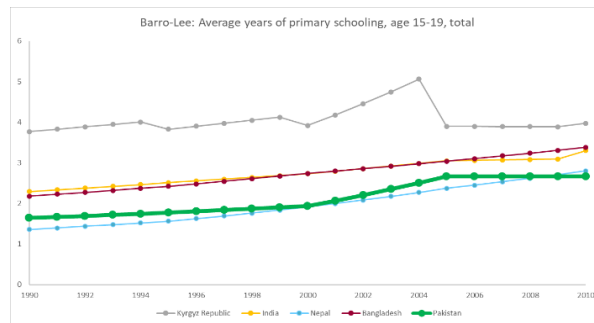


Figure 13. Source: World Development Indicators. While primary years of schooling have increased slowly, the trend is too unpredictable, and low, as compared to other countries

## Average years of secondary schooling

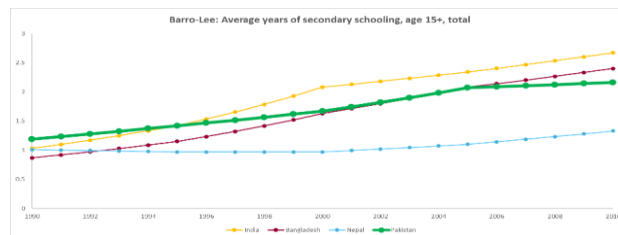


Figure 14. Source: World Development Indicators. Average years of secondary schooling is following a very gradual but increasing trend

## Returns to schooling

Returns to schooling presents a strange image; compared to comparator countries, primary education and secondary education seem to have a higher return than tertiary. This means that increase in schooling leads to higher earning at a lower level as compared to higher level. This perhaps indicates that schooling is not a priority and might also make one think of child labour. Children, who complete primary school might not continue with school as their parents usually benefit financially if their children are a part of the workforce. This also appears to be true for secondary education. Higher education, unfortunately is associated with lower returns as compared to comparator countries.

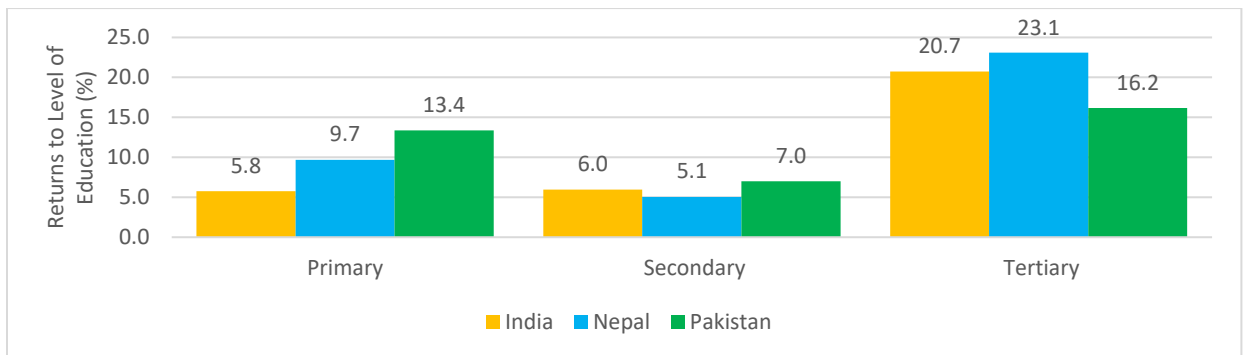
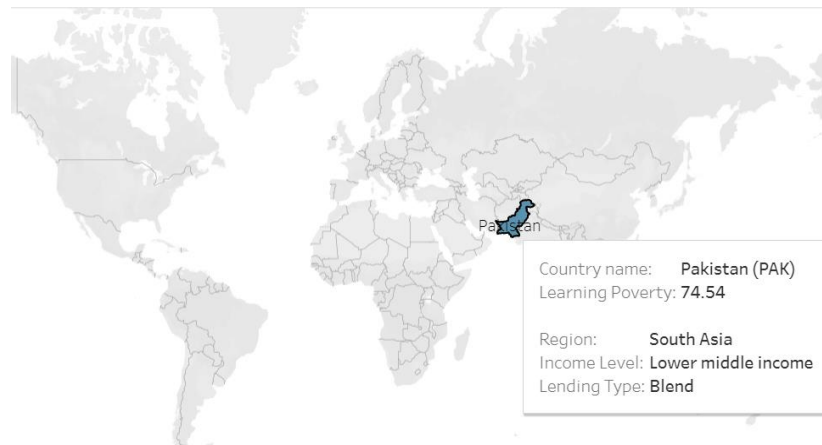


Figure 15. Despite being higher for primary and secondary schooling, returns to schooling appear to be lower in tertiary, hence showing that while human capital might be a constraint, it is not a binding one

## Learning Poverty Map

Pakistan's learning poverty is alarmingly high at 74.54 as compared to India's poverty gap of 54.75, and Bangladesh's learning poverty of 57.18. This is again an outcome of perhaps low investment and interest in education at the government level.





*Figure 16. Source: World Bank. While average schooling years are gradually increasing, Pakistan's learning poverty is 74.54, which is very high and means that learning in schools is of extremely poor quality. Compared to many other countries, this is a high figure*

### **Should we consider human capital to be a constraint?**

It might be a constraint but we are not considering it to be binding in nature. There are many ways in which education can be improved and we consider it to be a low hanging fruit that can derive good results in a few years. Here, the government needs to immediately pay attention to areas that might be constraining education such as fertility rate, mortality rate, female education, female labor force participation, etc. We have also looked into the disability adjusted life years or DALYS for Pakistan to see what diseases are more likely to be prevalent. Neonatal diseases are highly common. Moreover, diseases such as diarrhea are also common which can hinder education performance. For instance, if children are unable to go to school because of being sick frequently or mothers are unable to focus on their children's education because of their own health constraints, education can be in jeopardy and might emerge as a binding constraint if not enough attention is paid in the next few years. Similarly, the more people are sick, the more human capital will suffer and as a result, human capital index will remain low.

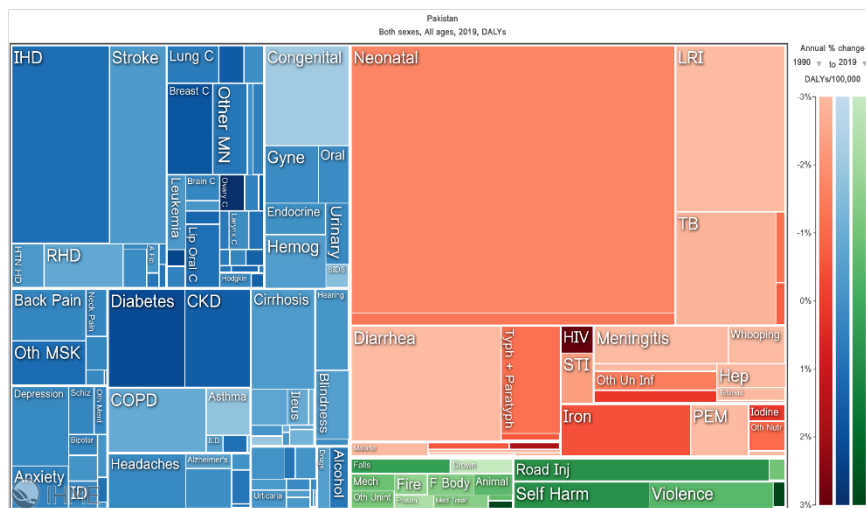


Figure 17. Source: Institute for Health Metrics and Evaluation (IHME), 2019 - Global Burden of Disease (GBD). Looking at the burden of disease in Pakistan, it can be seen that neonatal diseases are commonly prevalent, which, if studied closely with human capital, can affect it largely

## What about geography and infrastructure?

### Let's have a look at infrastructure.

In this section of Social Returns, we show data from the World Bank on Pakistan, and its comparator countries' infrastructure outlook. The data looks at the level of mobile and broadband subscriptions and the percentage of people using internet while assessing the quality of trade and transport infrastructure. A general analysis shows that for Pakistan, growth remains slow in each area. While the country started off at the same time as the comparator countries, other countries grew much faster and at more or less consistent rate while Pakistan's growth either dwindled or remained the same, especially in terms of quality of trade and transport index where it is the only country whose index fell.

Our analysis, through Table 1 shows that electricity is a major constraint. To assess whether it is binding or not, we look at the percentage of electricity outages in the country and compare it with the global average and the south Asian average. This percentage is

very high. With such a high dependency on generators and with electricity fluctuations being several and unpredictable, infrastructure is a binding constraint as if relieved, firms can benefit tremendously in terms of higher profits (low costs of substitutes for electricity) and higher productivity. Moreover, it is a binding constraint because it also tells a story of uncertainty.

In 2022, back home, citizens grappled with power outages for two days in the August heat. The country depends on hydropower and there was a major technical issue which led to the country being without electricity in major areas. Industries got impacted and normal life was disrupted. This issue was not predicted beforehand and hence increased uncertainty and the perception of an uncertain environment can bind an economy's growth.

We also look into the country's connectivity and find that it is very weak. Figures 29-31 show that Pakistan has poor mobile subscriptions and broadband connections. Are we perhaps looking at an economy that is not only weak in infrastructure but also dangerously close to being disconnected from the rest of the world? Considering these scenarios, we consider infrastructure (particularly the shortage of electricity for a burgeoning population) as a binding constraint.

### **What about geography?**

Pakistan enjoys a strategic position on the global map. With China to the North and the Arabian sea to the south, the country can use its position. However, in terms of geography, it is more prone to natural disasters which further weakens its infrastructure. The recent floods of 2022 upturned entire villages, washed away livestock, bridges, houses and resulted in a massive loss of life and businesses.

## Mobile subscriptions (per 100 capita)

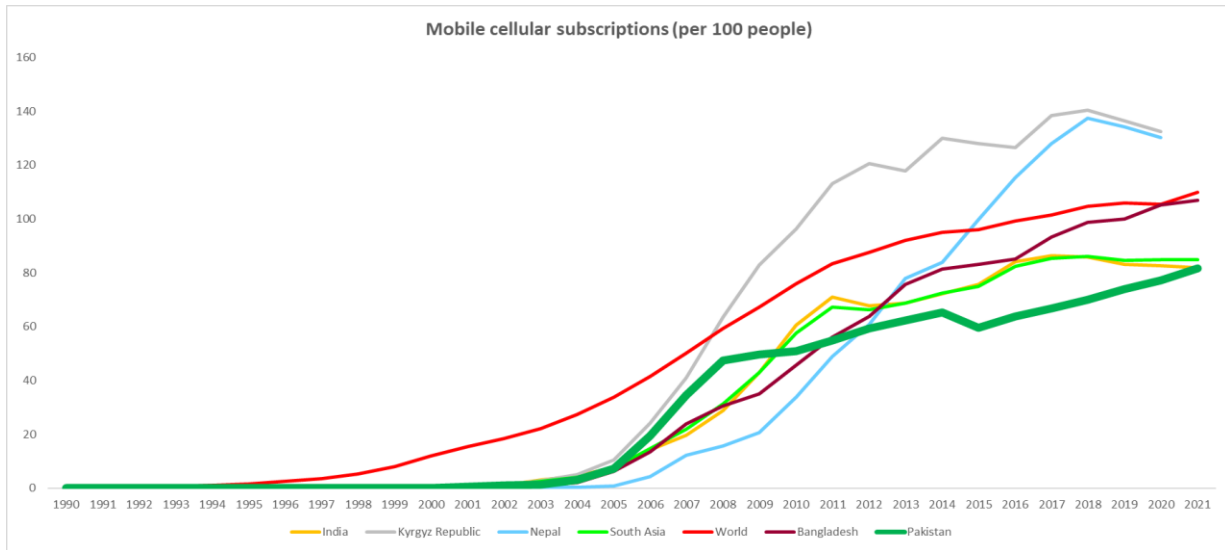


Figure 18. Source: World Bank. The graph shows that while Pakistan and comparator countries started at the same point (around 2003-4), the rate of subscriptions in Pakistan, per 100 people, is growing slowly as compared to its fellow countries. There was certainly a sharp increase till 2008 after which the level of subscriptions dwindles, growing slowly at some instances while falling at others. In 2021, its mobile subscription level is almost the same as that of India and Nepal

## Broadband subscriptions (per 100 capita)

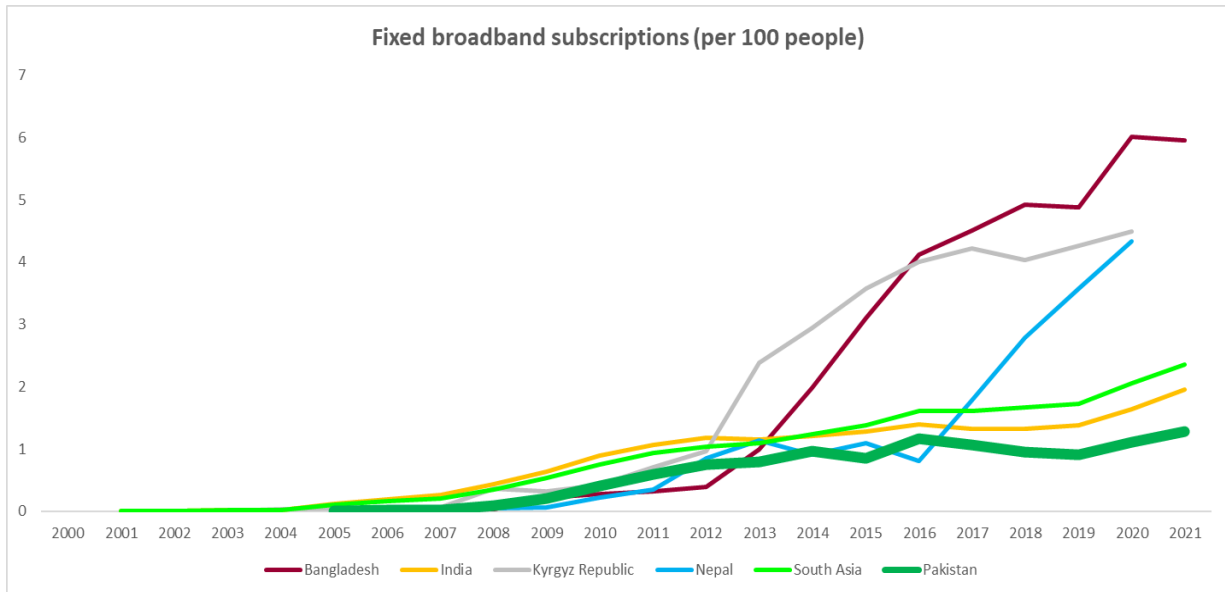


Figure 19. Countries like Bangladesh and Nepal, who were far behind Pakistan up till 2012, showed tremendous increase in broadband subscriptions by 2021. For Pakistan, the growth has been slow

## Share of population using internet

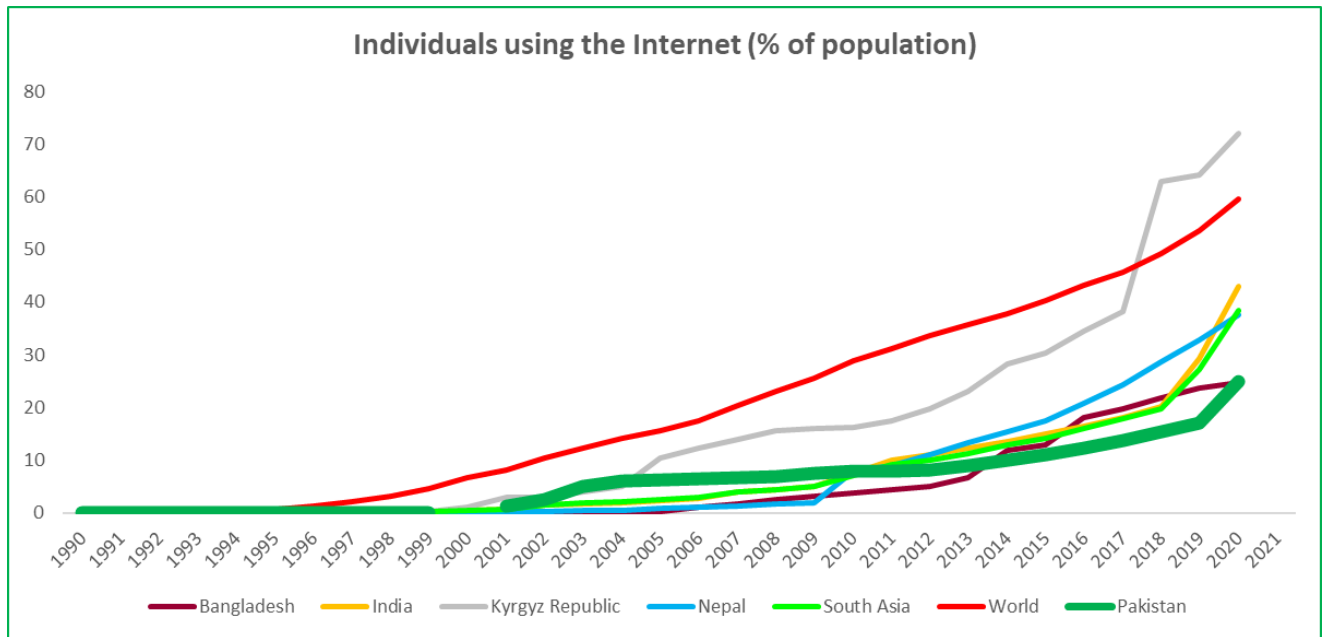


Figure 20. Source: World Bank. In terms of percentage of population using internet, Pakistan was doing better than Nepal, Bangladesh, India and even the South Asian average till 2010, when its growth slowed down while other countries surpassed it. However, after 2019, Pakistan's trendline shows a sudden rise and is expected to grow faster.

## LPI: Quality of Trade and Transport (TT) Index

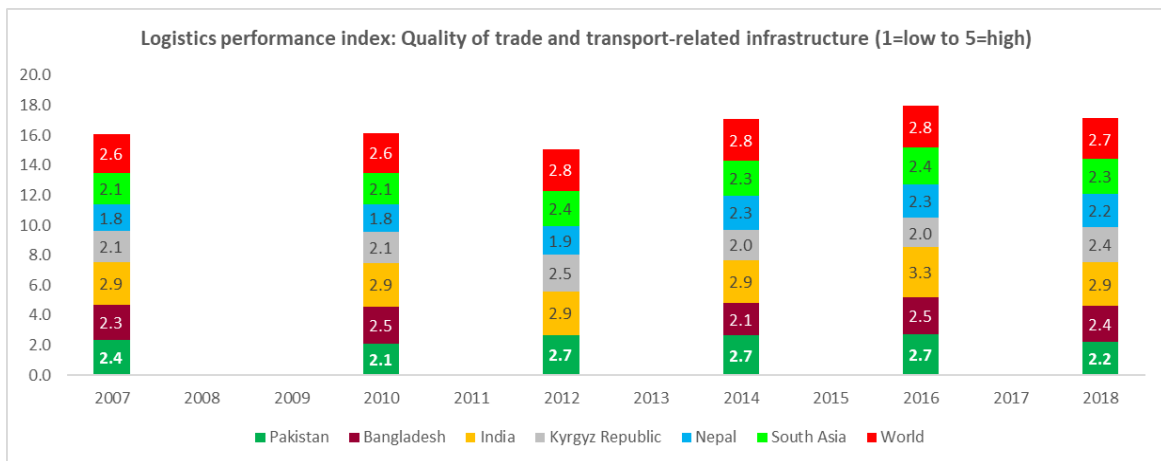


Figure 21. Source: World Bank. Assessing Pakistan and comparator countries, in terms of their respective transport related infrastructure (e.g., ports, railroads, roads, information technology), on a scale of 1 to 5, Pakistan's performance has clearly deteriorated even if only slightly, from a TT index of 2.4 in 2007 to 2.2 in 2018. Comparator countries have improved to some extent.

## Social Returns (Geography and Infrastructure) using Scatterplots for Pakistan

Correlation of GDP per capita (level) with LPI Quality of Trade and Transport (TT) Index

1-year lag in LPI TT Index

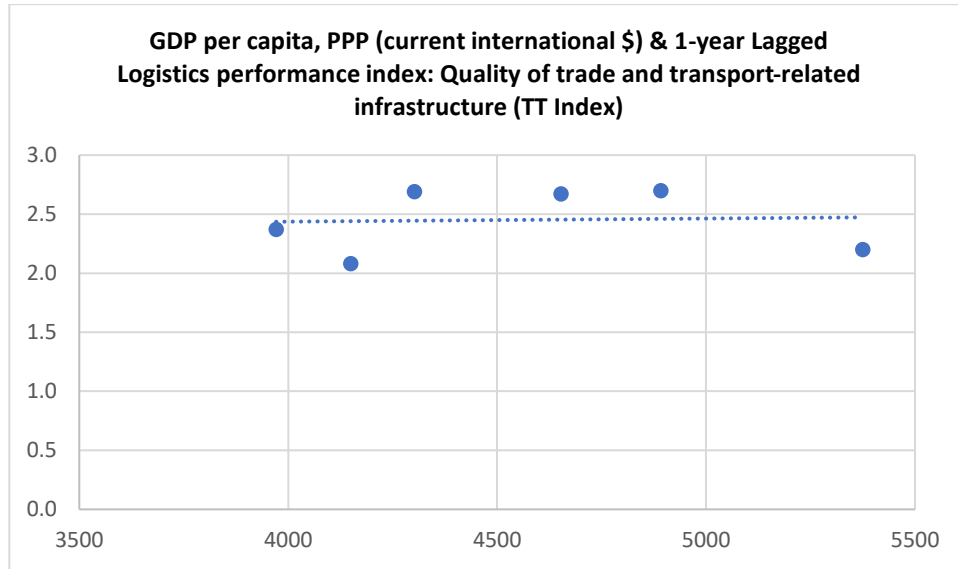


Figure 35. Source: World Bank. No correlation exists between GDP per capita, PPP and 1-year lagged TT index

2-year lag in LPI TT Index

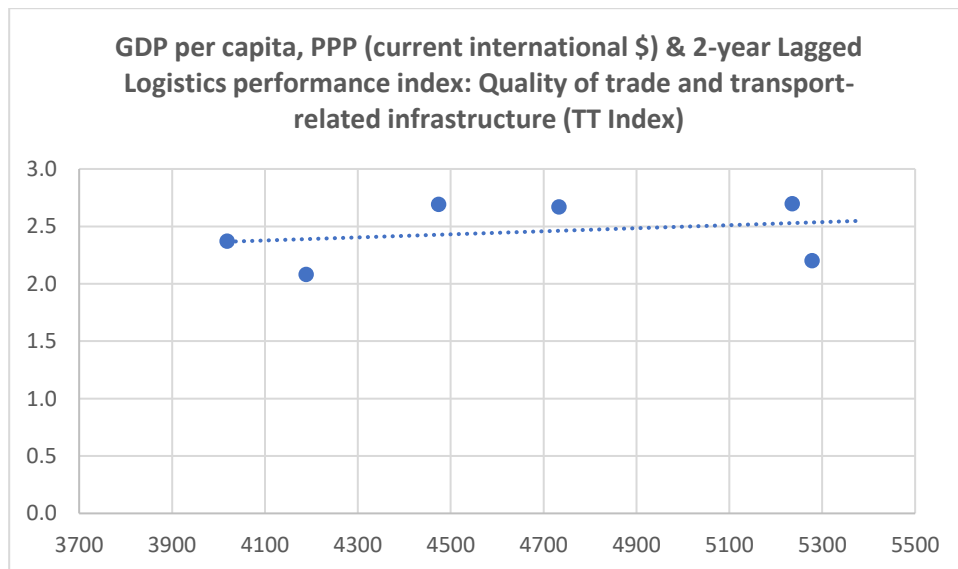


Figure 22. Source: World Bank. No correlation exists between GDP per capita, PPP and 2-year lagged TT index

5-year lag in LPI TT Index

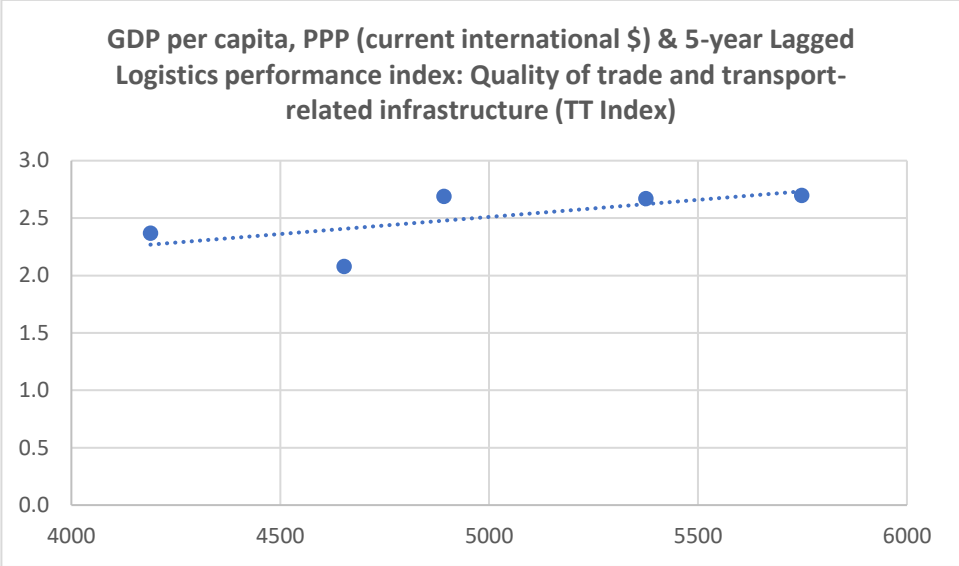


Figure 23. Source: World Bank. A weak correlation exists between GDP per capita, PPP and 5-year lagged TT index. This perhaps shows that as GDP per capita (level) grows, TT index but the trend is only slightly visible after a few years, not immediately

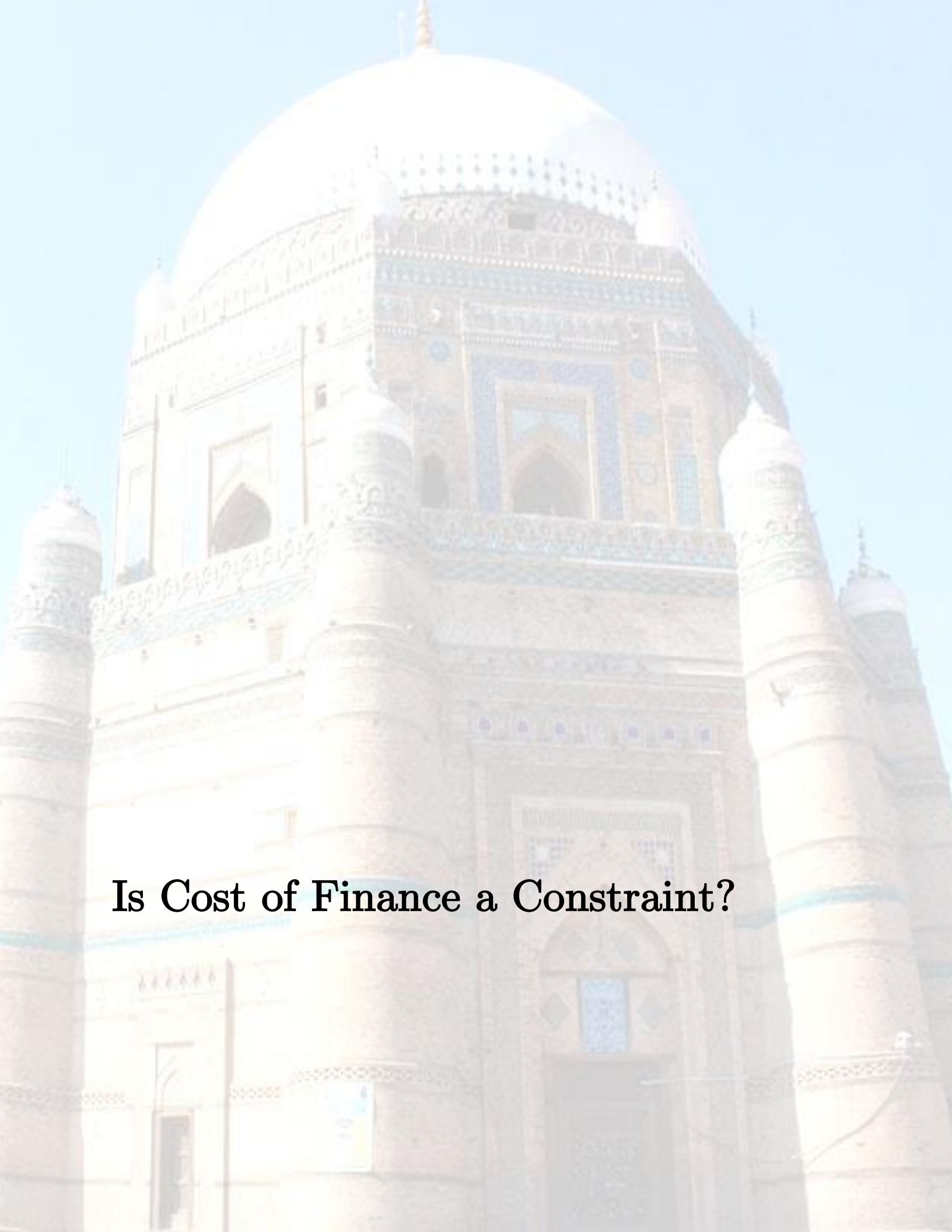
## Electricity outage and Generator Dependence

Table 1. Source: World Bank Enterprise Surveys.

Economy	Pakistan	All Countries	South Asia
Percent of firms experiencing electrical outages	81.1	50.1	58.3
Number of electrical outages in a typical month	75.2	4.9	20.5
If there were outages, average duration of a typical electrical outage (hours)	16.9	4.1	6.1
If there were outages, average losses due to electrical outages (% of annual sales)	33.8	4.2	12.8
Percent of firms owning or sharing a generator	65.4	32.2	37.2
If a generator is used, average proportion of electricity from a generator (%)	41.4	17.6	26.2
Days to obtain an electrical connection (upon application)	82.8	43.4	58.1
Percent of firms identifying electricity as a major constraint	75.3	31	40.6
Percent of firms experiencing water insufficiencies	10.5	11.7	10
Number of water insufficiencies in a typical month*	5.9	0.9	1.7
Proportion of products lost to breakage or spoilage during shipping to domestic markets (%)*	2.7	1.2	2.1
Percent of firms identifying transportation as a major constraint	25.5	18.5	21.6

The table shows that Pakistan, when compared to all countries and the South Asian average, is facing a major crisis when it comes to electricity where percentage of firms experiencing outages is a whopping 81.1 percent compared to the South Asian average of 58.3 percent. Hence, the use of generators is high. Around 65.4 percent of the firms own a generator which accounts for almost 40 percent of their electricity usage, while the percentage of firms using generator in other South Asian countries is 37.2 percent.





**Is Cost of Finance a Constraint?**

## Understanding Pakistan's cost of Finance

Pakistan's cost of finance tells a rather interesting story. We discover, through looking at the correlations between real interest rates (%) and gross capital formation as well as gross fixed capital formation (Figures 21 and 22) that there is only a very slight positive relation; this perhaps means that demand for investment is not a problem for Pakistan. Investors are willing to invest even when real interest rates are high. The weak positive correlation shows that investment is still increasing despite increase in real interest rate.

There are other factors at play that might result in low levels of investment. Cost of finance is not one of them. Hence, cost of finance is not a constraint because access is not limited and investors would still want to invest. However, whether they would be willing to invest in an economy where the heaviness of *uncertainty* settles in the early hours of the morning and remains till late night, is a question that we would like to explore further.

### Real Interest Rate

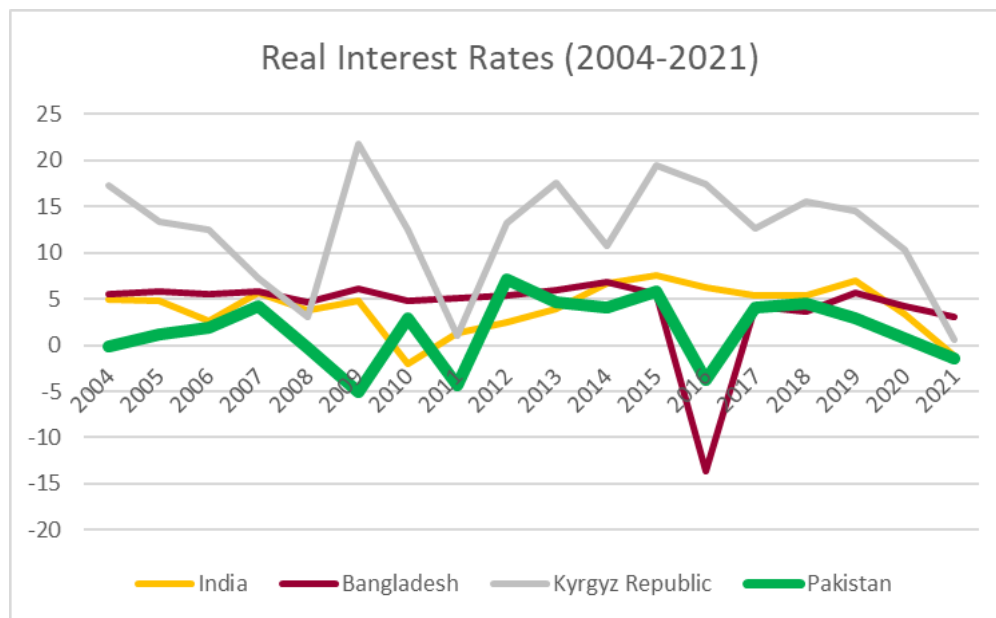


Figure 24. Source: World Bank: The only data available for real interest rates in Pakistan are from 2004-2021. As shown in the graph, there is a lot of volatility in the real interest rate, hitting its lowest at approximately -5.1% in 2009 (during the global financial crisis) and its peak in 2012 at 7.12%. Comparator countries have also experienced similar volatilities, with some countries like India following a more unpredictable path than others like Kyrgyz Republic. Pakistan has had relatively lower real interest rates compared to its peers. Data for Nepal is not available.

## Foreign Direct Investment (% of GDP)

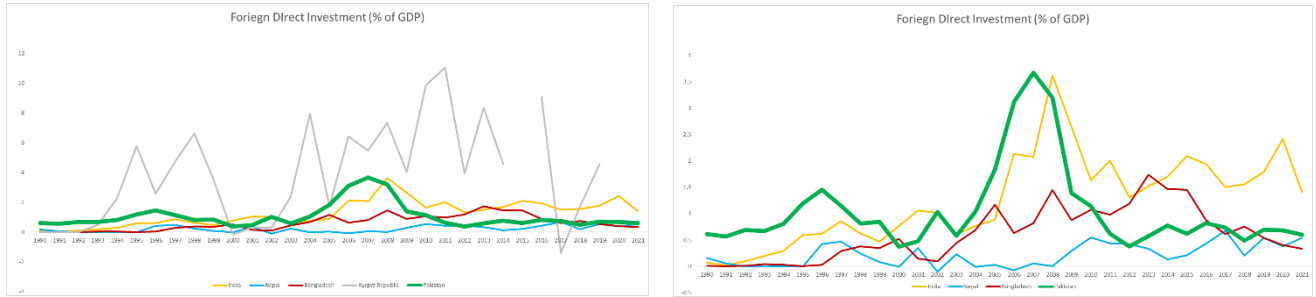


Figure 25. Source: World Bank. From 1990-2021, Pakistan has almost consistently had the highest foreign direct investments as % of GDP compared to its peer countries, though behind India after the 2008 global financial crisis. Pakistan experienced a peak in foreign direct investments in 2007 at approximately 3.7% and has declined significantly since then to 0.6% in 2021.

## Government Consumption Spending (% of GDP)

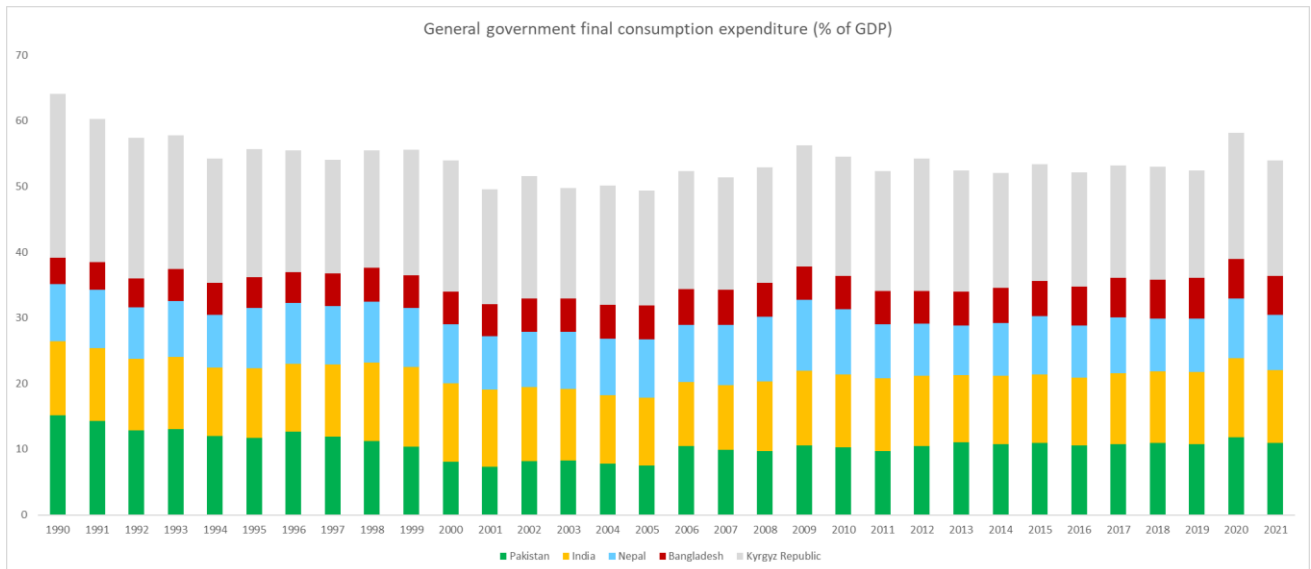


Figure 26. Source: World Bank. Over the last three decades, Pakistan does not have an inordinately large amount of government consumptive expenditure. This expenditure category has averaged 10% over the period, resembling observations from India, and close to both the world and South Asia averages over the same period. In the early 90s, Pakistan had relatively higher consumptive expenses between 12% - 15%. The expenditures reduced over time settling at around 10% in present day. This denotes either a reorientation of government spending in favor of investment goods and or improved efficiency in government operational expenditure.

## Scatterplots for Pakistan

### Real interest rate vs Gross Fixed Capital Formation (% of GDP)

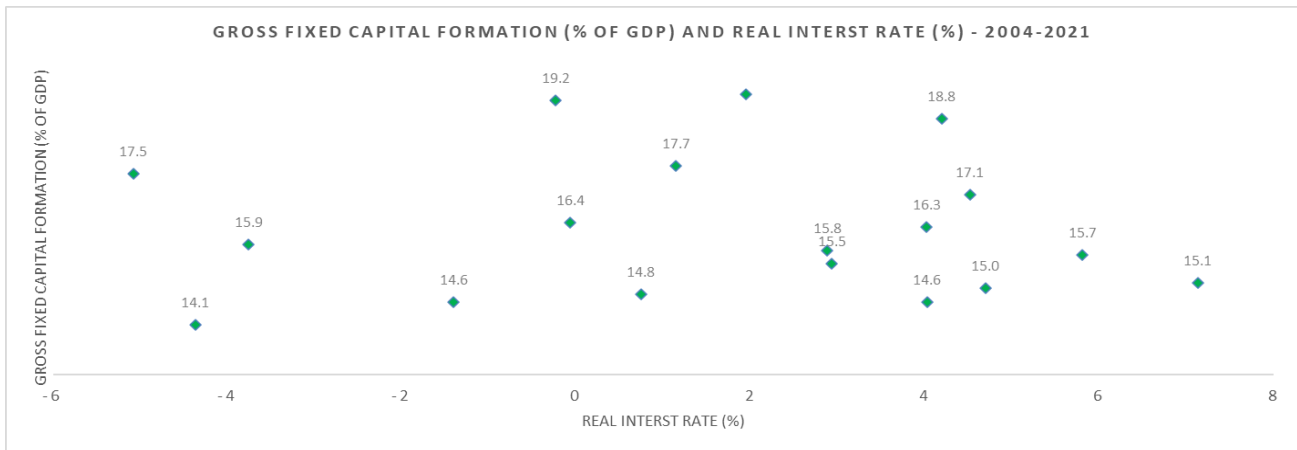


Figure 27. Source: World Bank. The relationship between the Real interest rate and the gross fixed capital formation (% of GDP) is characterized by a significant amount of heterogeneity. The highest rate of investment was seen at an interest rate close to 0%, but as the interest rate trends upward, there is no logical consistency in the rate of investment to represent an inverse relationship. To that extent, the conclusion should be that domestic investment is only marginally influenced by the real interest rate in Pakistan. It is worth noting that at interest rates exceeding 5%, domestic investment seems to fall more systematically. This may also point to a weak mechanism of credit intermediation in the Pakistan financial markets to convey cheap capital to the investors who require it.

### Real interest rate vs Gross Fixed Capital Formation (level)

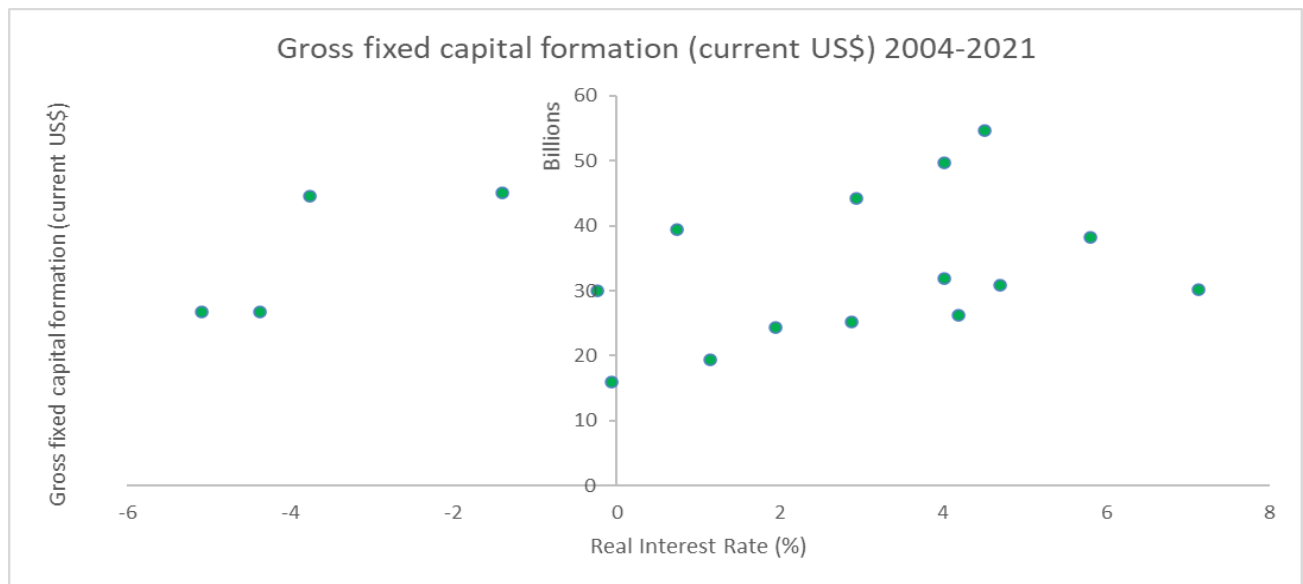


Figure 28. Source: World Bank. Interestingly, even with negative interest rates, the level of investment does not increase markedly. The level of investment rises steadily as the interest rate moves between 0-4%. Beyond that point, the level of investment starts to fall. It is plausible to argue that there exists an optimal range between 0 -4 % that is conducive to investment.

## Real interest rate vs GDP per capita

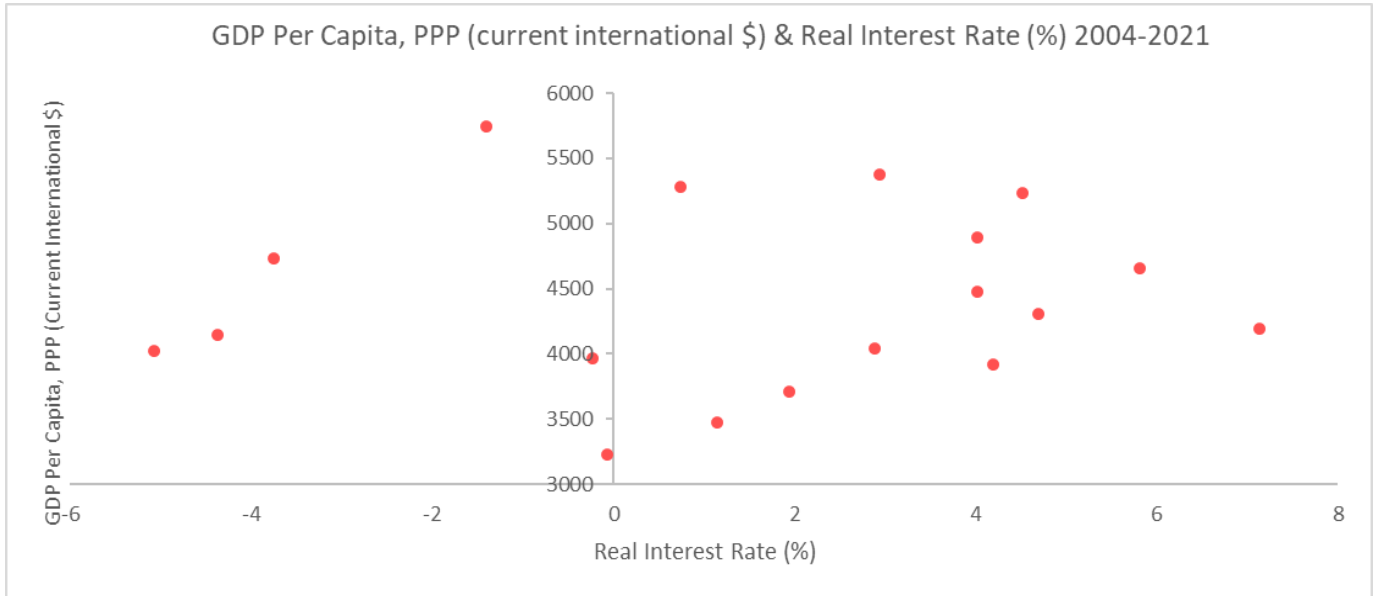


Figure 29. Source: World Bank. The relationship between GDP per capita and the real interest rate is remarkably similar to that of real interest rate and the level of domestic investment. However, there is an evident degree of heterogeneity so it is difficult to infer any logical trend or relationship between the two variables. It does however appear that GDP per capita continues to grow in the range of 0-4%, was at its highest at -2%, and falls more clearly beyond an interest rate of 4%.

## Lagged real interest rate vs GDP per capita, PPP (current international \$)

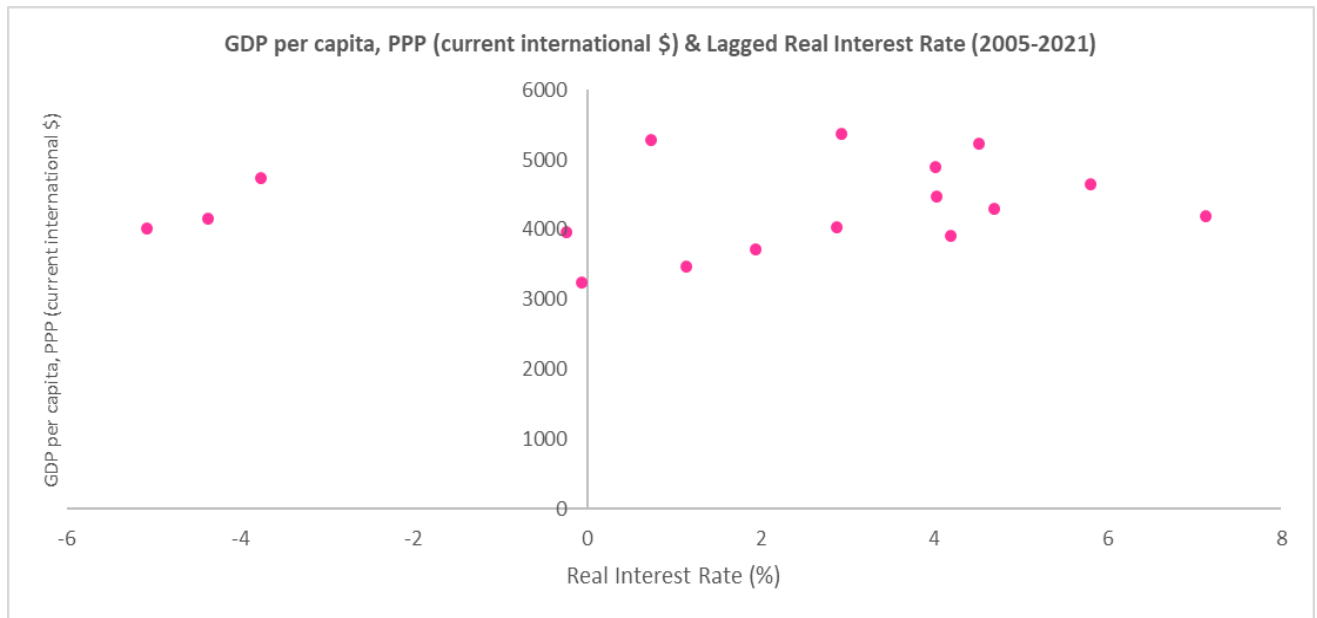


Figure 30. Source: World Bank. When lagged, the relationship between real interest rate and GDP per capita (PPP, current international \$) shows slightly upward sloping trend which shows that as real interest rate increases, GDP per capita also goes up. However, the trend is not strong and to understand this volatile relationship, it is essential to dive deeper into the relationship to assess other factors at play. There is a chance that other factors are affecting GDP per capita (PPP) more than real interest rates.

## Lagged real interest rate vs GDP per capita growth (annual %)

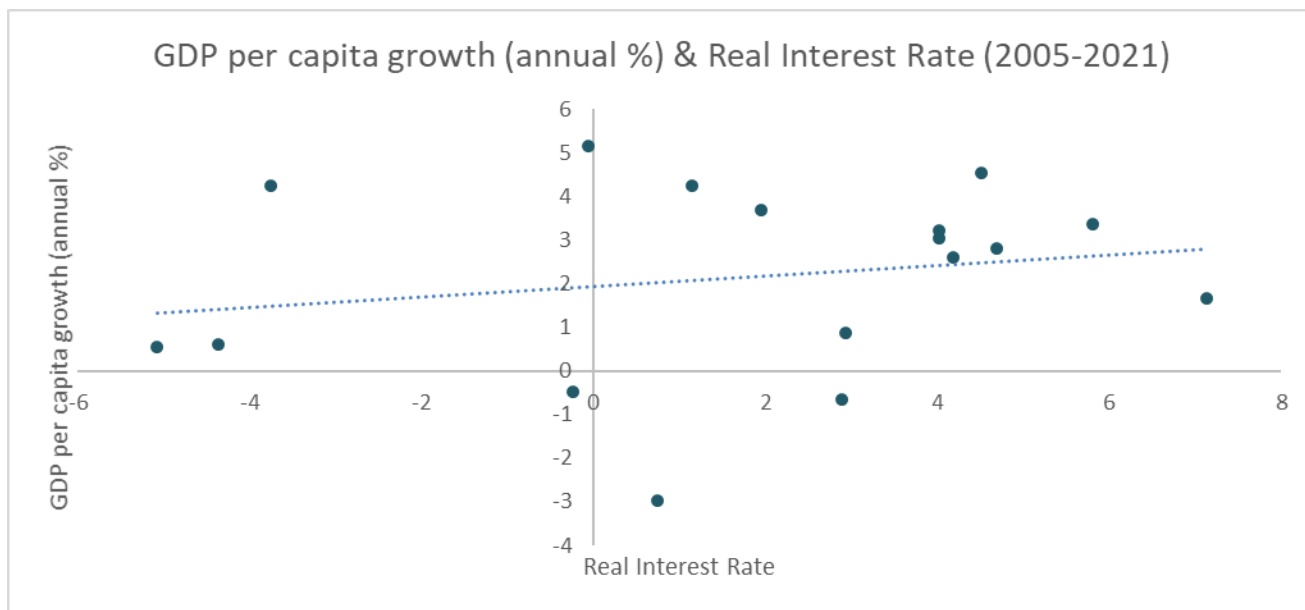


Figure 26. Source: World Bank. Lagged real interest rate and GDP per capita growth rate (annual %) has no trend or relationship as per the data from 2005 till 2021. The volatility again suggests that there are other factors at play that are affecting the GDP per capita growth rate.

# Growth accounting

Growth accounting from 1990 till 2019 shows a holistic view of 30 years. For Pakistan the negative Total Factor Productivity (TFP) might be due to low social returns. Furthermore, we are of the view that factor accumulation is also low because of low investment.

## 1990-2019 – A holistic view of 30 years

To observe the role of growth rate of output, physical capital and human capital, we have assessed the growth accounting calculations for Pakistan and the comparator countries, from 1990 till 2019 (30 years). It can be seen that 54.71 percent of the cross-country variation in output growth experience over 30 years is due to variance in the productivity growth with the countries being examined. This shows that the other half is then explained by factor accumulation.

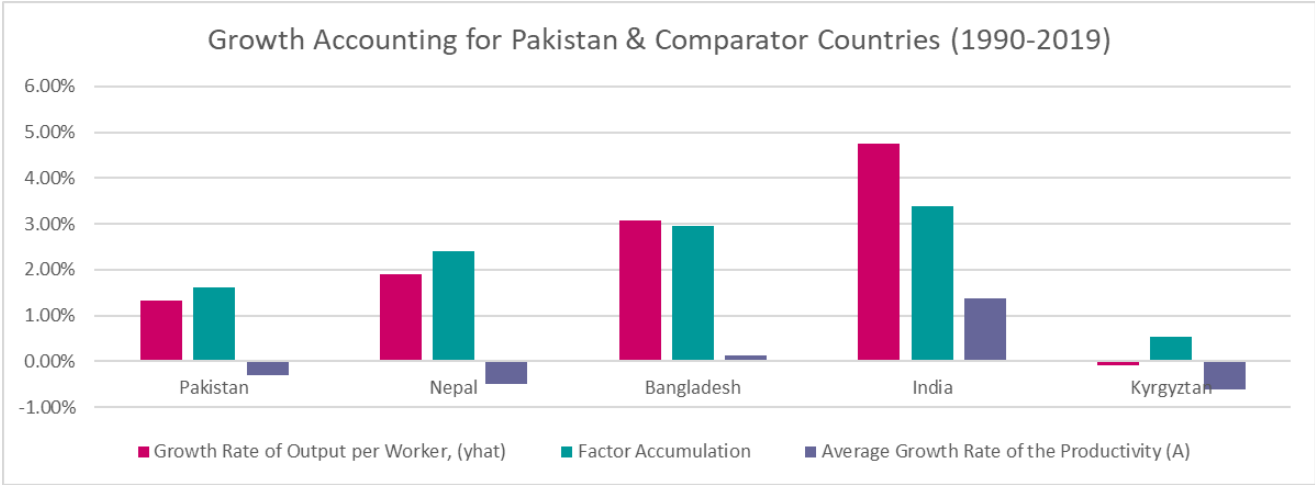


Figure 31. Growth Accounting (1990-2019)

## 1990 – 1999

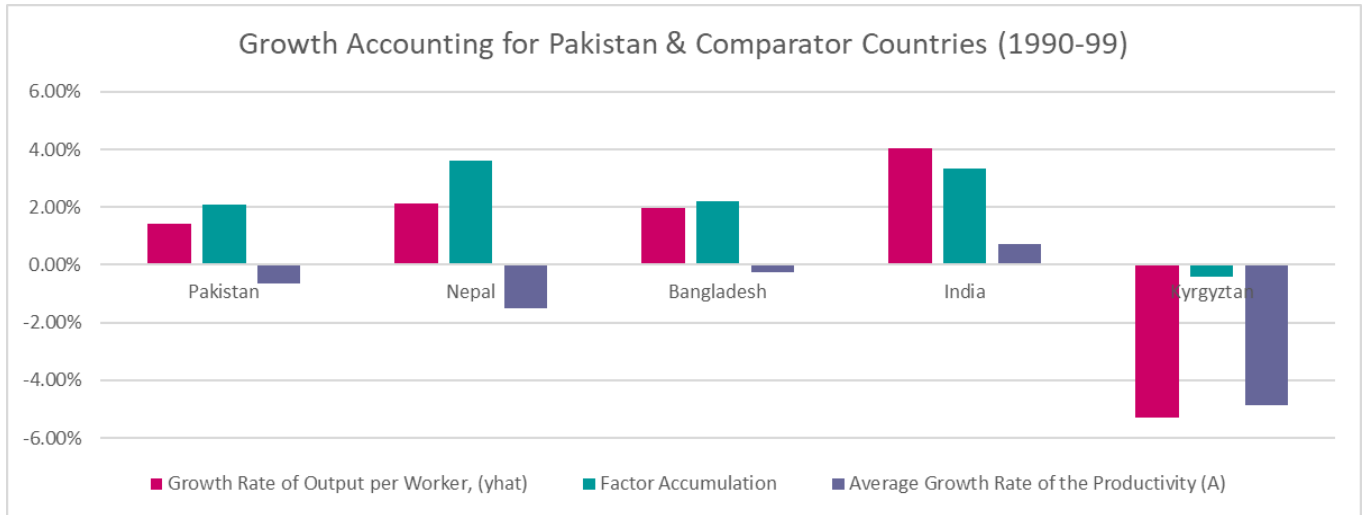


Figure 32. Growth Accounting (1990-99)

## 2000-2009

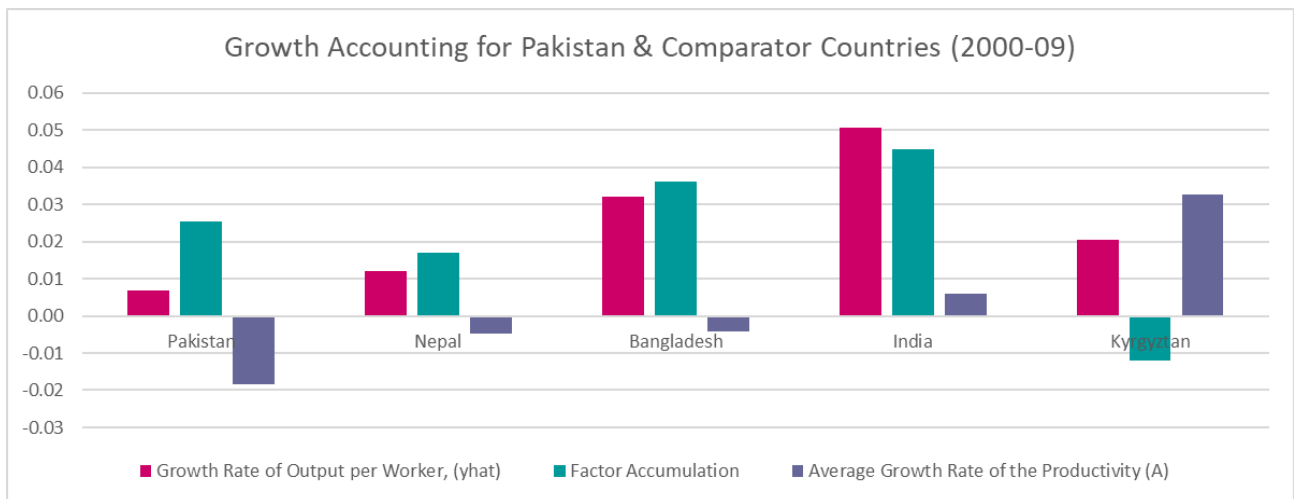


Figure 33. Growth Accounting (2000-09)



2010 – 2019

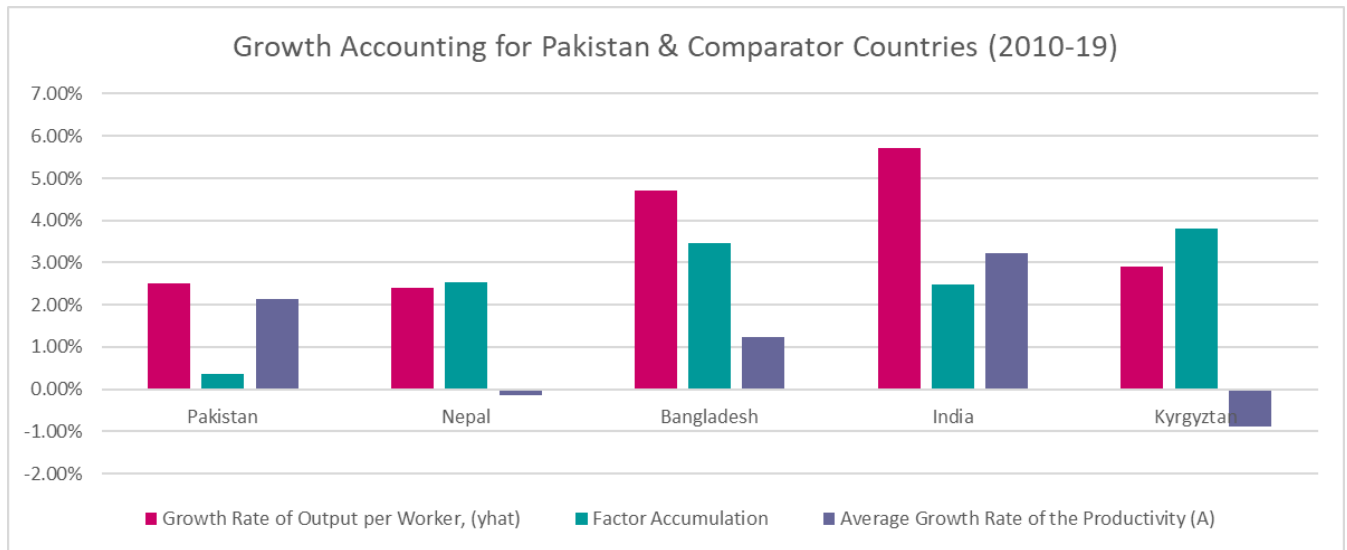


Figure 34. Growth Accounting (2010-19)

A world map with a light gray background and thin gray outlines of continents and countries. The country of Pakistan is highlighted in a solid red color. The text "How is Pakistan doing with Micro Risks?" is centered over the map.

## How is Pakistan doing with Micro Risks?

## **Micro risks**

This section will look into the micro-risks in terms of governance and tax and regulations for Pakistan and its comparator countries. Governance will cover themes including Rule of Law, Control of Corruption, Regulatory Quality and Political Stability. Under tax and regulation, we will examine taxes on income, exports and international trade while addressing the correlation between tax and corruption.

## **Governance**

Taking data from World Bank's Worldwide Governance Indicators and Enterprise Survey, we explore the ranks and estimates of the following governance indicators:

Rule of Law

Control of Corruption

Regulatory Quality

Political Stability

## **Rank**

The rank of each of these indicators show the percentile ranging from 0 (lowest) to 100 (highest) with 100 being the highest rank for a country out of a pool of countries.

## **Estimates**

The estimates of governance show a range to determine governance performance for each of the indicators, starting from -2.5 (weak) to 2.5 (strong) governance performance.

This section sheds light on a number of topics. However, a closer look will give a clear indication of one of the main reasons for why this maybe a story of uncertainty; political stability is going downhill. Not only is Pakistan one of the worst performers, as compared to other comparator countries, its trend has only deteriorated overtime. People perceive political political instability to be considerably worse for the country. Is this a constraint?

We consider this to be a constraint that is a binding one. One, that is hindering growth and is preventing the country from achieving its potential. This constraint is also the reason why, despite having a better economic outlook in the early 1990s, Pakistan's performance dwindled greatly.

Other areas, such as rule of law, control of corruption and regulatory quality are also poor but Pakistan is in the same boat as other countries. This shows that these micro risks might not be problematic. However, it raises a question for us; other countries such as Bangladesh are not doing well in terms of their micro indicators but that has still not limited their growth. Why is Pakistan then not doing well? This is a question that we seek to answer and all arrows, at this level, point towards political instability. Table 2, 3 and 4 give clear insights into the problem at hand. Crime is a major hindrance; electricity outages is one of the biggest obstacle and theft is a challenge. While political instability does not appear to be an obstacle here, we noted that the data was outdated (2013 figures) and hence, does not clearly represent the current scenario.

## Rule of Law – what are we doing wrong?

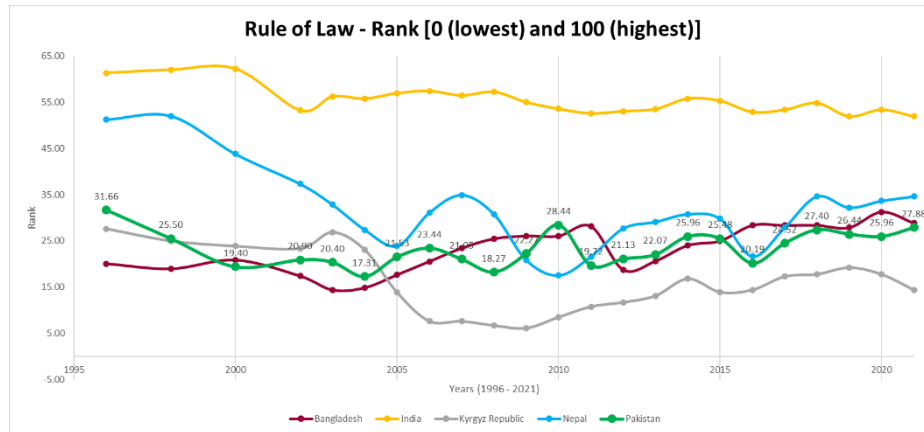


Figure 35. Source: World Bank Enterprise Surveys.

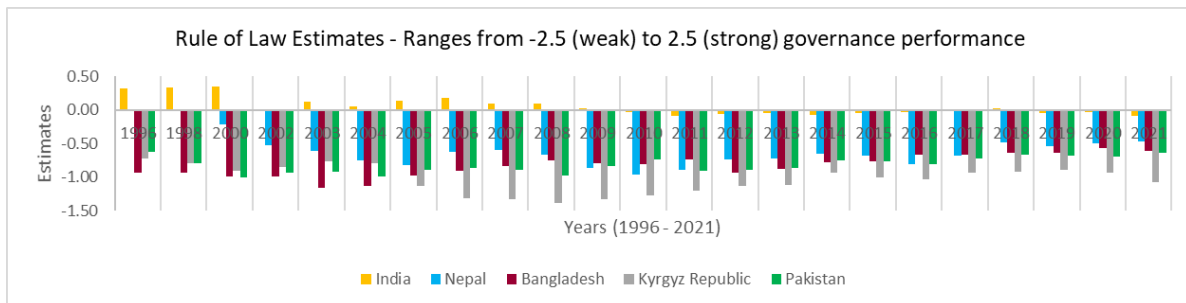


Figure 36. Rule of Law Estimates

It looks like Pakistanis aren't particularly confident when it comes to Rule of Law in the country. Rule of Law shows the confidence that people have on their courts, police, property rights and the contract enforcement.

For Pakistan and its comparator countries, it is clear from Figure 38 that no country has a rank more than 65 (out of 100). In the selected pool of countries, India seems to be an outlier with the highest ranking between 55 and 66 between the time period (1996-2020).

For Pakistan, on the other hand, the Rule of Law ranking seems to have fallen since 1996, where it was 31.66 to 27.88 in 2020.

There is volatility in the ranking but Pakistan is not the worst performer. Nepal and Kyrgyz Republic both saw a drastic fall in the rule of law ranking while Bangladesh remained more or less consistent.

With regards to estimates, Figure 39 shows that almost all countries have a weak governance estimate being less than 0. India and Nepal started off with positive estimates but eventually also joined the weaker countries. Bangladesh, Kyrgyz Republic and Pakistan all seem to be doing the same when it comes to Rule of Law and while Pakistan's performance is weak, it is more or less the same of its comparator countries.

### Control of Corruption – it's not a pretty picture

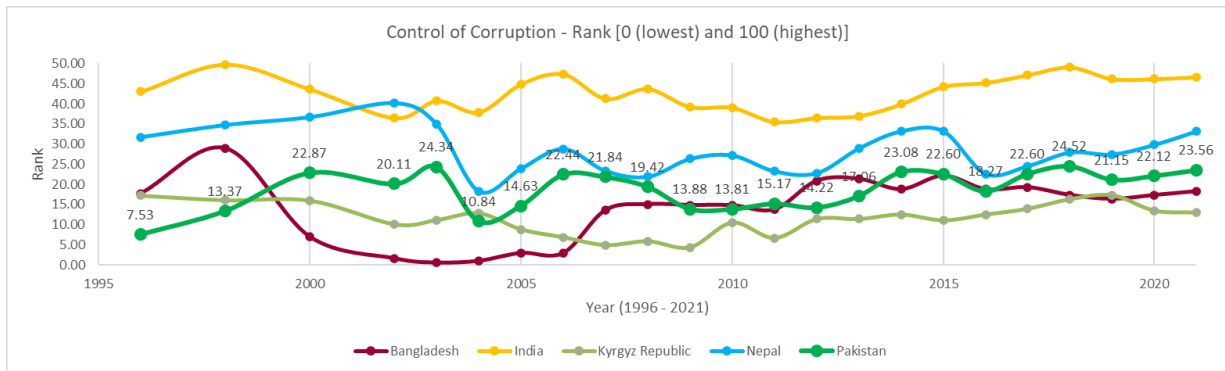


Figure 37. Control of Corruption ranking

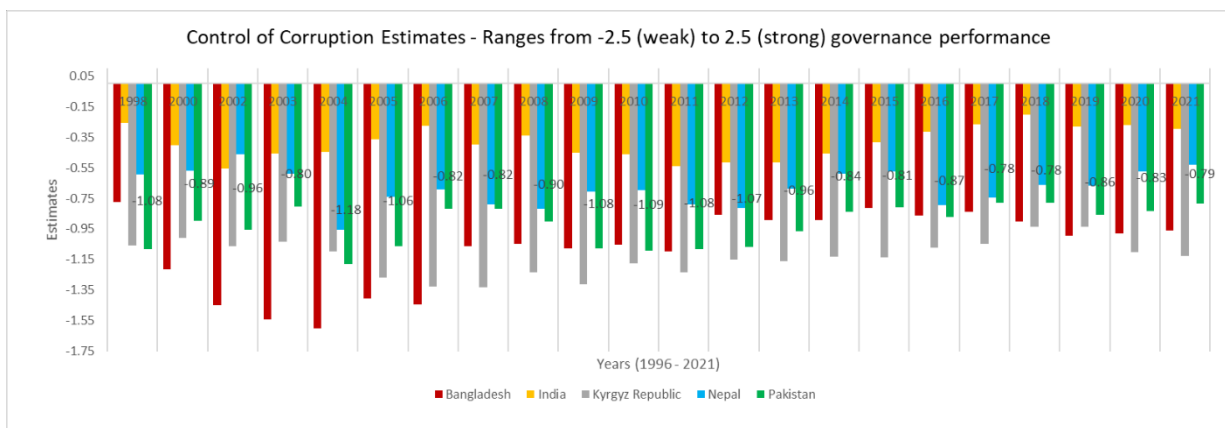


Figure 38. Control of Corruption Estimates

Control of Corruption captures perceptions of the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as "capture" of the state by elites and private interests.

### Regulatory quality – are things looking up for private sector development?

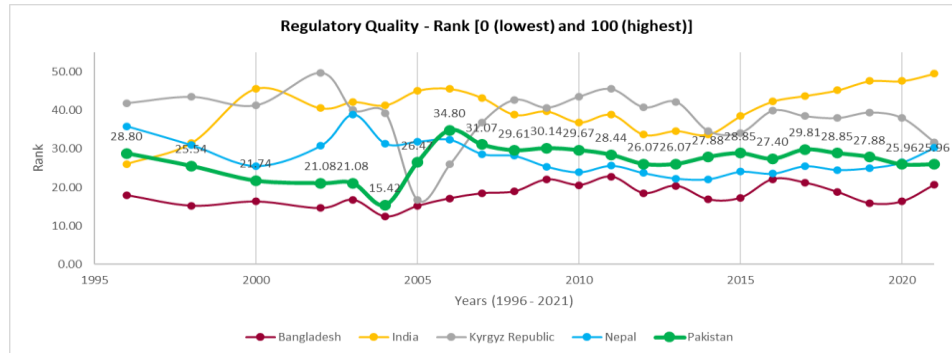


Figure 39. Regulatory quality ranking

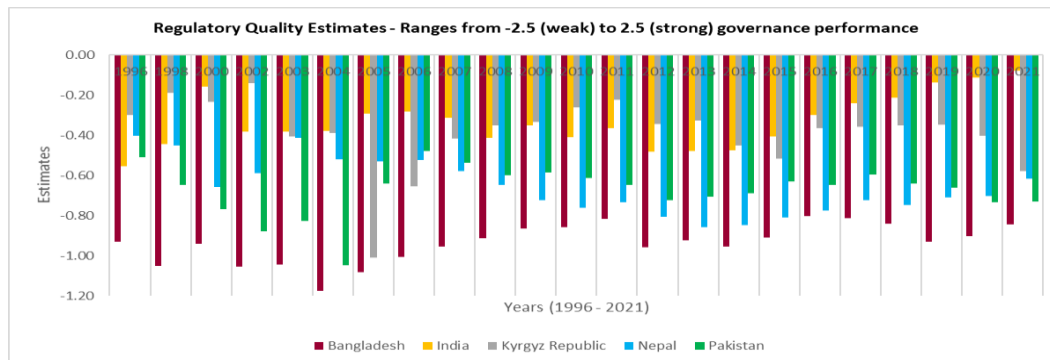


Figure 40. Regulatory quality estimates

Regulatory authority, as an indicator, shows how policies and regulations are shaped to allow and promotion private sector development. Even though the rank has fallen over time for Pakistan, it looks like the perception with regards to promotion of private sector development is slightly looking up for Pakistan, especially after 2004. On the other hand, Nepal and Bangladesh need more work. This might also show that there is a brighter side to things and in all the chaos, there is still hope. The estimates are showing weak governance performance for all countries.

## Political stability – going downhill, are we?

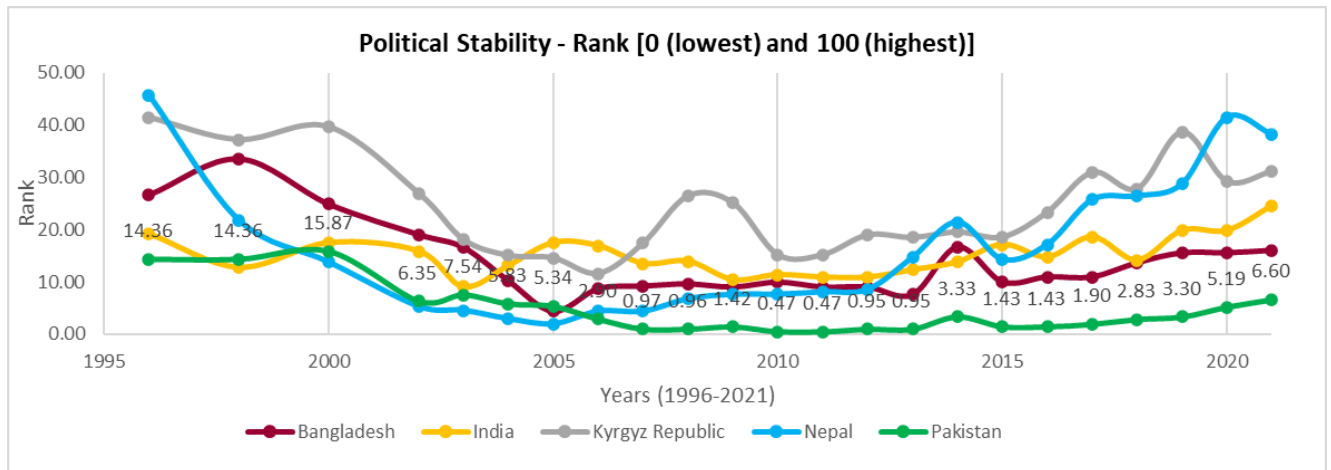


Figure 41. Political Stability ranking

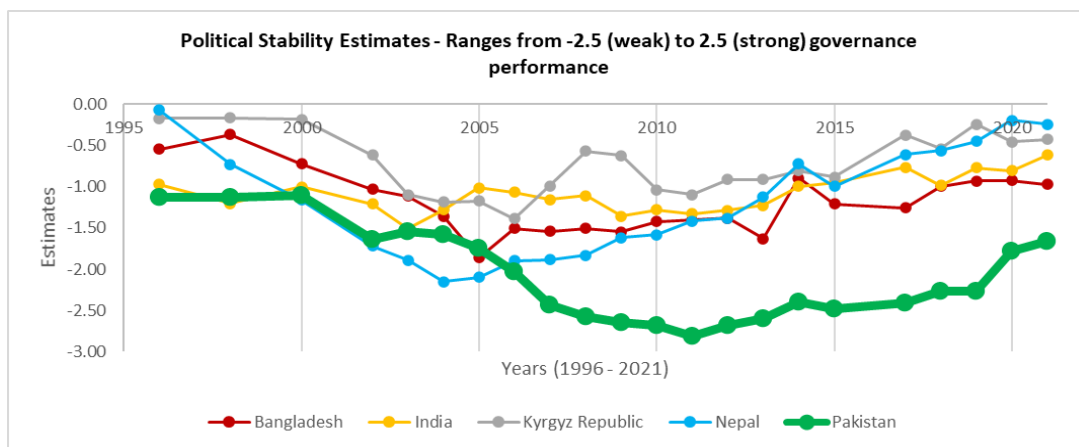


Figure 42. Political stability estimates

Pakistan’s rank of political stability is been consistently low, which reflects the perceptions of people with regards to politically-motivated violence and terrorism. The rank has gone down since 1995, only slightly improving after 2015 but the change is too low to be considered an improvement. The political stability estimates are beyond weak which shows that people’s perception of political instability is high.

This indicator does not necessarily depend on which government is in power but it generally reflects how people perceive political stability to be like, regardless of which



political party is in power. This makes sense because Pakistan has faced instability in political power but at the same time has also experienced political instability, terrorist attacks and violence.

## Correlation between GDPPC and 2-year lags of Rule of Law, Control of Corruption, Regulatory Quality, Political Stability

### Rule of Law

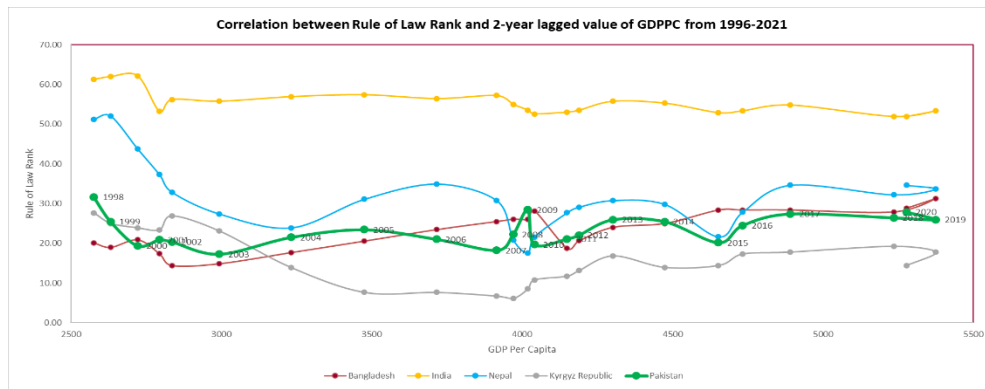


Figure 43. Correlation between GDPPC and 2-year lags of Rule of Law

### Control of Corruption

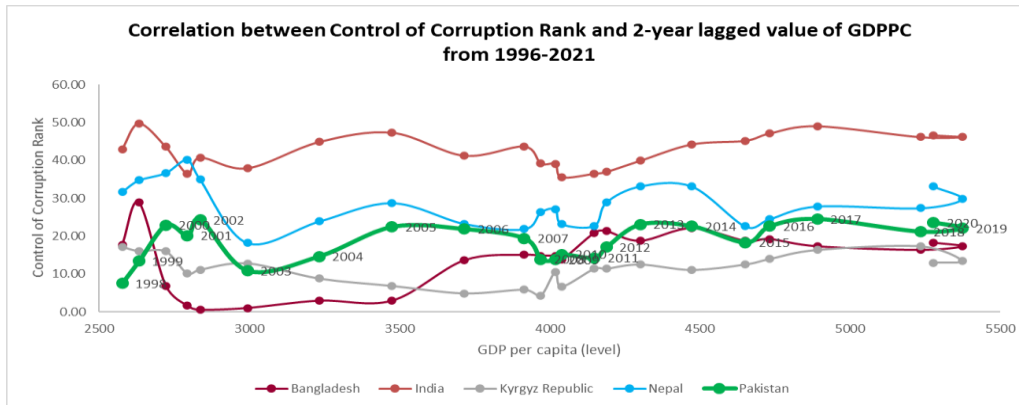


Figure 44. Correlation between GDPPC and 2-year lags of Control of Corruption

## Regulatory Quality

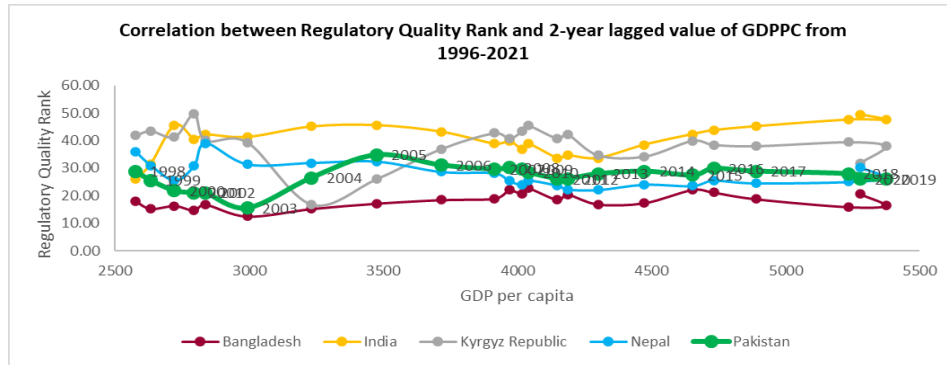


Figure 45. Correlation between GDPPC and 2-year lags of Rule of Law, Control of Corruption, Regulatory Quality

## Political Stability

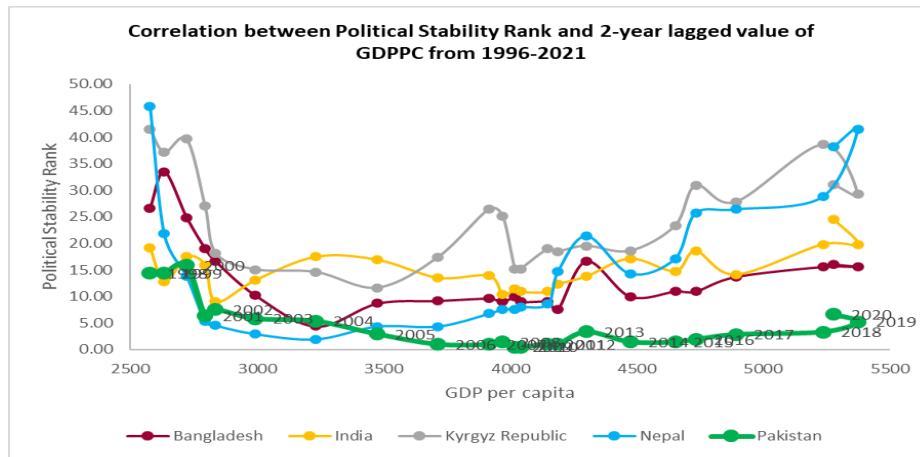


Figure 46. Correlation between GDPPC and 2-year lags of Political Stability

## What's the talk on corruption?

Percentage (%) of firms complaining about corruption , bribery, courts, etc.

Table 2. Source: WBES, percentage (%) of firms complaining about corruption

Indicator	Pakistan	South Asia	All Countries
Bribery incidence (percent of firms experiencing at least one bribe payment request)	30.8	23.9	15.3
Bribery depth (% of public transactions where a gift or informal payment was requested)	28.5	20.1	12.1
Percent of firms expected to give gifts in meetings with tax officials	28.8	20.7	11.9
Percent of firms expected to give gifts to secure government contract	88.2	47.9	21.2
Value of gift expected to secure a government contract (% of contract value)	8.2	3.5	1.2
Percent of firms expected to give gifts to get an operating license	31	23	12
Percent of firms expected to give gifts to get an import license	6	29.7	11.7
Percent of firms expected to give gifts to get a construction permit	28.7	31.6	20
Percent of firms expected to give gifts to get an electrical connection	57.8	30.4	14.4
Percent of firms expected to give gifts to get a water connection	30.9	31	12.3
Percent of firms expected to give gifts to public officials "to get things done"	45.8	28.2	19.1
Percent of firms identifying corruption as a major constraint	68.3	34.5	29.8
Percent of firms identifying the courts system as a major constraint	34.6	17.8	15.1

## Biggest obstacle

Table 3. Source: WBES; percentage (%) of firms complaining about the biggest obstacle in Pakistan

Indicator	Pakistan	South Asia	All Countries
Percent of firms choosing access to finance as their biggest obstacle	2.7	14.3	14.5
Percent of firms choosing access to land as their biggest obstacle	0.6	5	3
Percent of firms choosing business licensing and permits as their biggest obstacle	0.2	2.2	2.7
Percent of firms choosing corruption as their biggest obstacle	17.3	9.5	6.6
Percent of firms choosing courts as their biggest obstacle	0.2	0.3	0.9
Percent of firms choosing crime, theft and disorder as their biggest obstacle	6.2	2.8	2.9
Percent of firms choosing customs and trade regulations as their biggest obstacle	2.4	3.7	3.5
Percent of firms choosing electricity as their biggest obstacle	45.3	18.5	8.3
Percent of firms choosing inadequately educated workforce as their biggest obstacle	3.1	3.7	10.3
Percent of firms choosing labor regulations as their biggest obstacle	0.5	4.5	3.5
Percent of firms choosing political instability as their biggest obstacle	8.7	14.9	11.4
Percent of firms choosing practices of the informal sector as their biggest obstacle	0.6	5.8	11.5
Percent of firms choosing tax administration as their biggest obstacle	6.8	2.5	3.9
Percent of firms choosing tax rates as their biggest obstacle	3.6	7.8	13.2
Percent of firms choosing transportation as their biggest obstacle	1.7	4.6	3.8

## Crime

Table 4. Source: WBES; percentage (%) of firms complaining about crime in Pakistan

Indicator	Pakistan	South Asia	All Countries
Percent of firms paying for security	51.7	39.5	56.3
If the establishment pays for security, average security costs (% of annual sales)	6.5	4	3.3
Percent of firms experiencing losses due to theft and vandalism	9.5	10.3	16.2
If there were losses, average losses due to theft and vandalism (% of annual sales)	6.5	10.4	4.9
Products shipped to supply domestic markets that were lost due to theft (% of product value)*	1.1	0.9	0.8
Percent of firms identifying crime, theft and disorder as a major constraint	34.1	19.6	16.8

An aerial photograph of the Faisal Mosque in Islamabad, Pakistan. The mosque is a large, white, modern structure with a prominent central dome and four tall, slender minarets. It is situated on a hillside, with a road leading through a dense forest of green trees towards the building. In the background, there are more hills and a clear blue sky. The overall scene is bright and clear.

# **A story of Pakistan's Macro Risks**

## Macro Risks

Graphs 48 to 53 below show that macro risks are an issue. The debt is exuberant, there is rising inflation and the exchange rate is only worsening, making the Pakistani rupee weaker. These macro risks might be the outcome of political instability for the country. It appears that due to political instability, the country is unable to commit to a certain set of policies to ensure macro stability. There are distorted incentives and the political tug-of-war is closing the economy and weakening its economic outlook even further. There is no commitment for political leaders to follow through a certain set of policies. What one government plans and implements goes down the drain when the next government comes to power; no policy sustains.

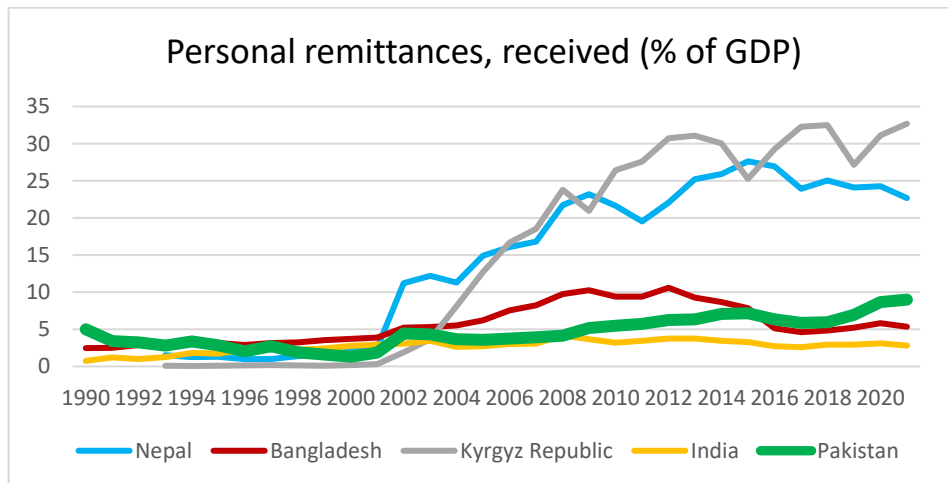


Figure 47. Personal remittances, received (% of GDP)

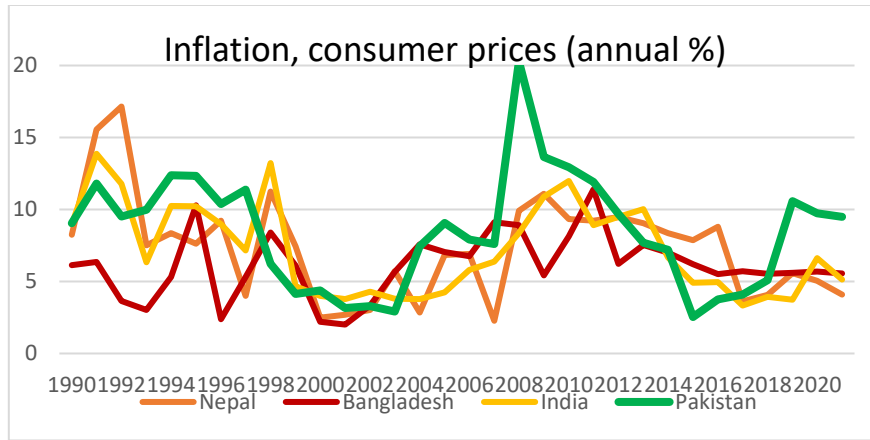


Figure 48. Inflation, consumer prices (annual %)

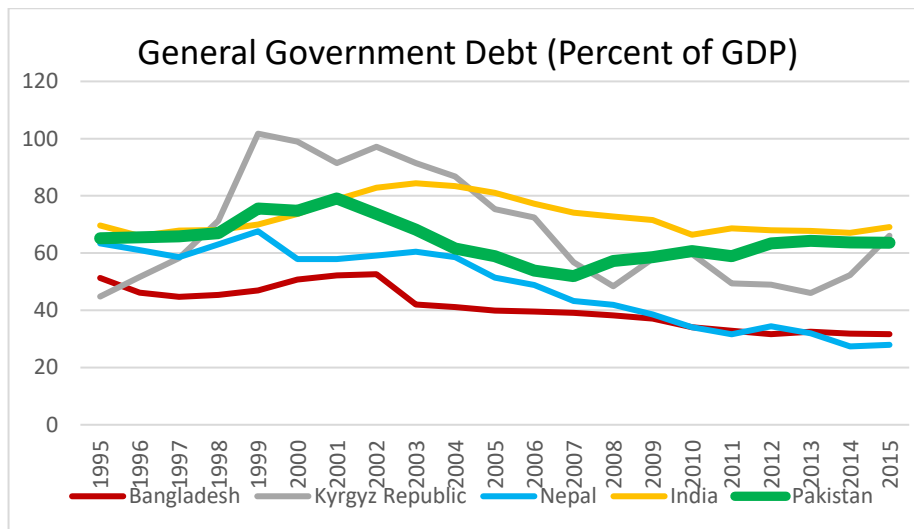


Figure 49. General Government Debt (Percent of GDP)

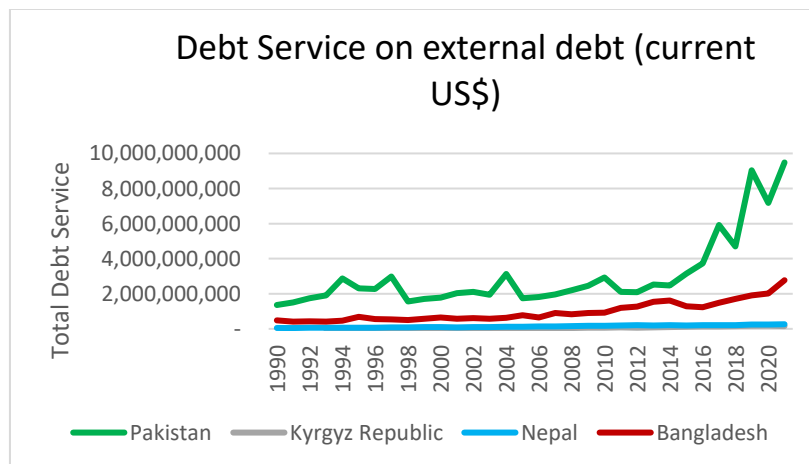


Figure 50. Debt Service on external debt (current US\$)



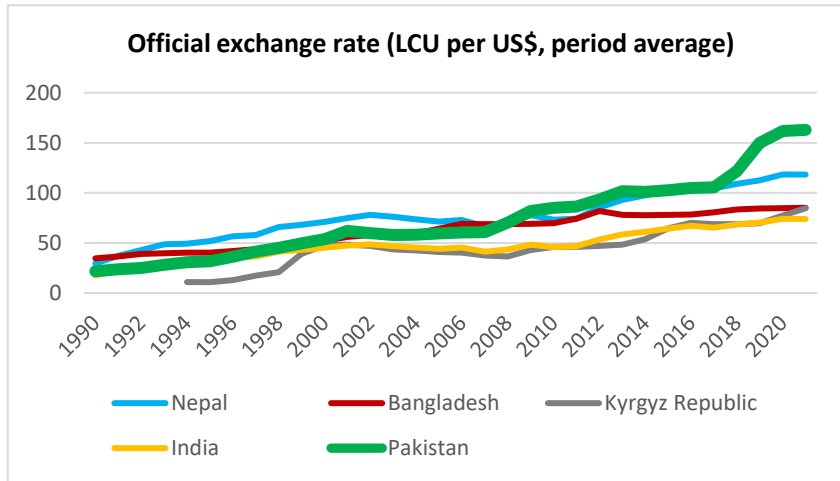


Figure 51. Pakistan Real effective exchange rate index (2010 = 100)

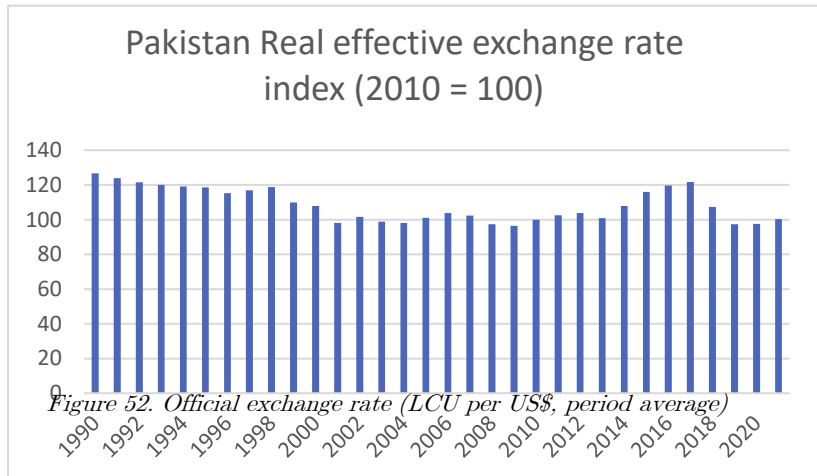


Figure 52. Official exchange rate (LCU per US\$, period average)

## Taxes and Regulations

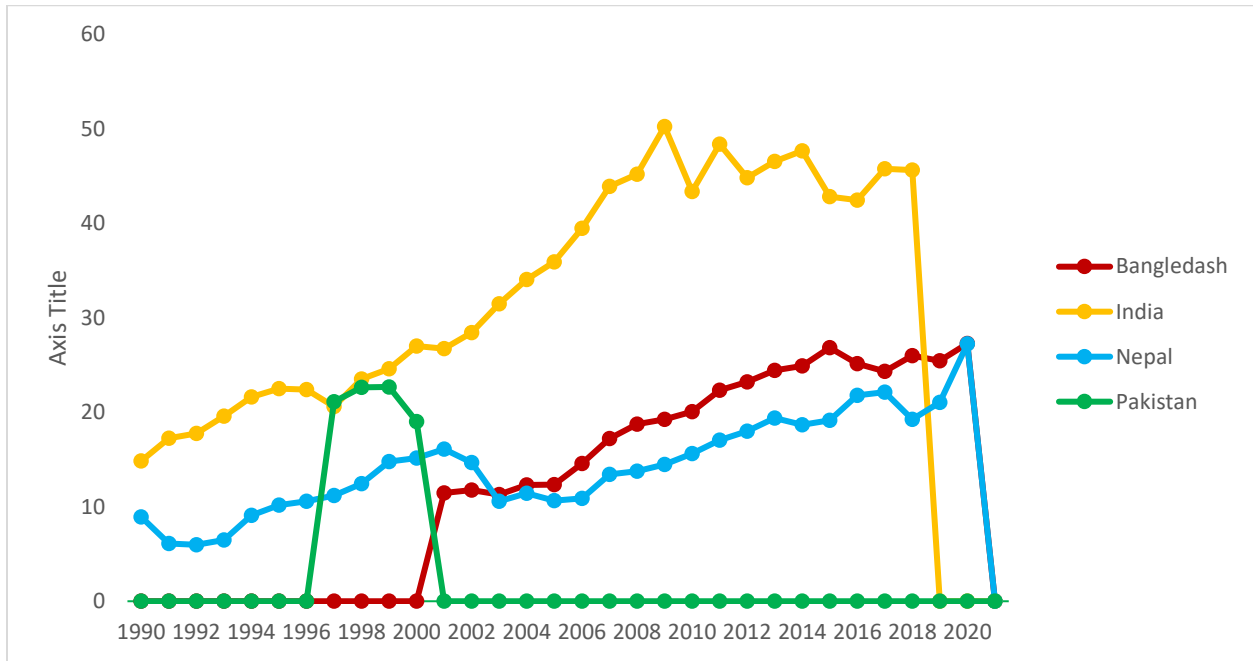
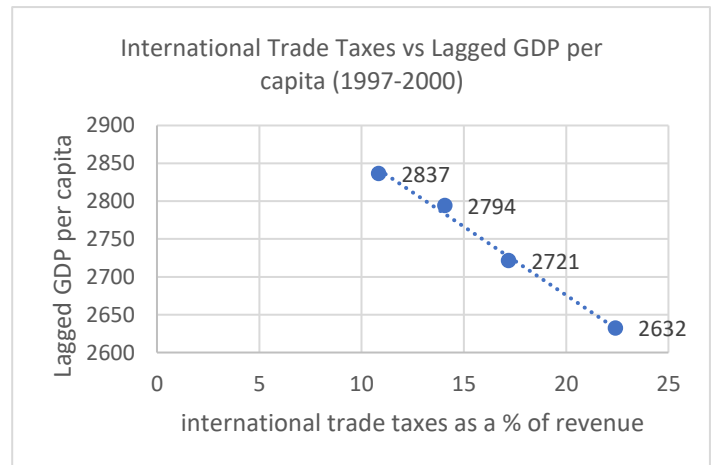
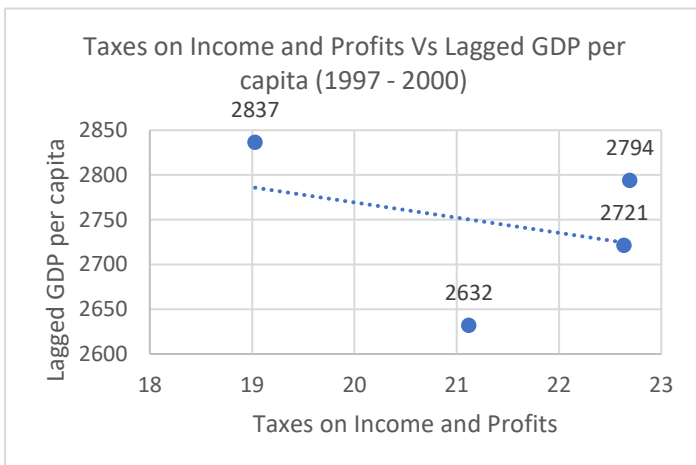
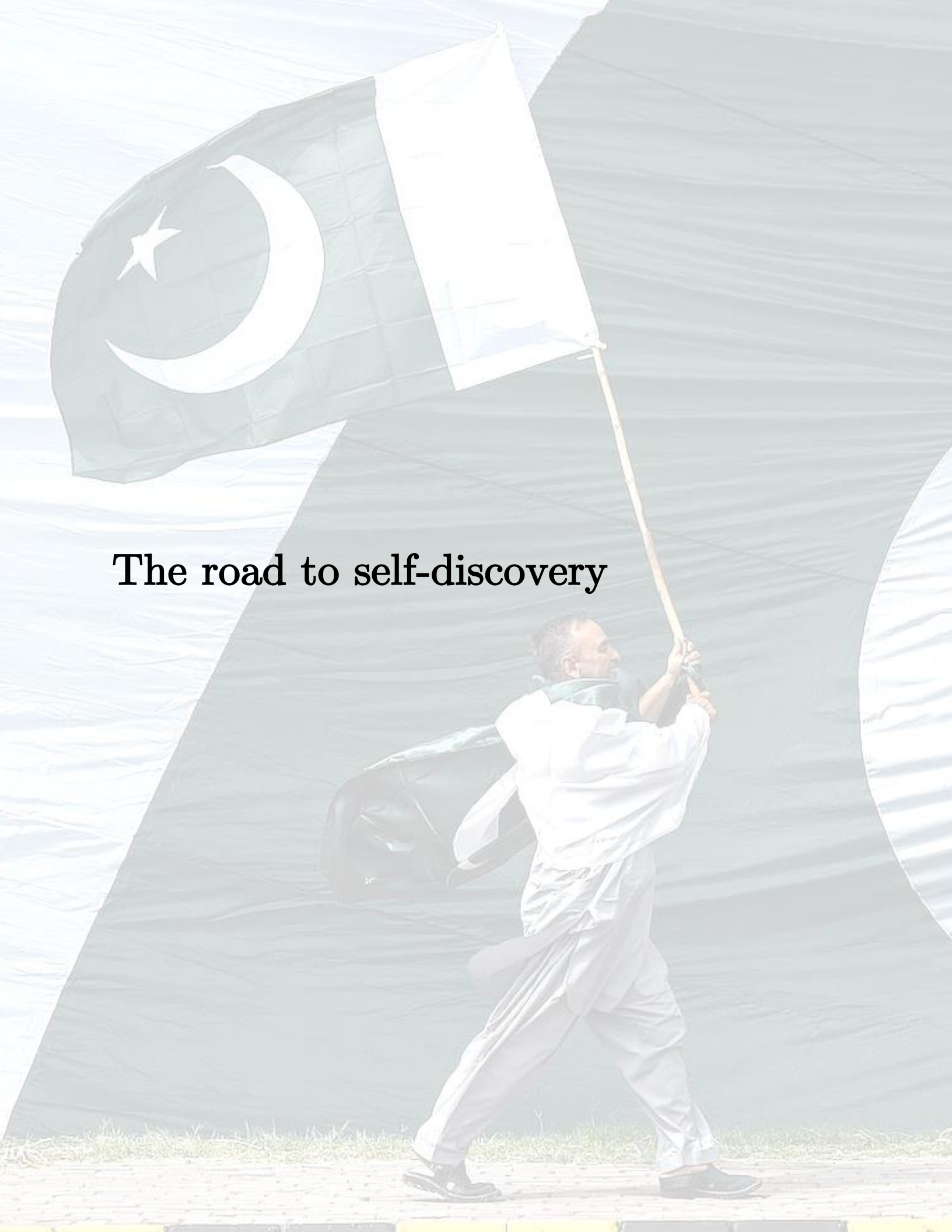


Figure 53. Taxes on income, profits and capital gains (% of revenues); data on tax on exports and international tax is not available

## Examining lagged correlation between GDP per capita and taxes



A man in a white uniform is walking on a paved path, carrying a large Pakistani flag on his shoulder and holding a wooden staff. The background is a large, draped fabric with the Pakistani flag's colors and symbols. The text "The road to self-discovery" is overlaid on the image.

**The road to self-discovery**

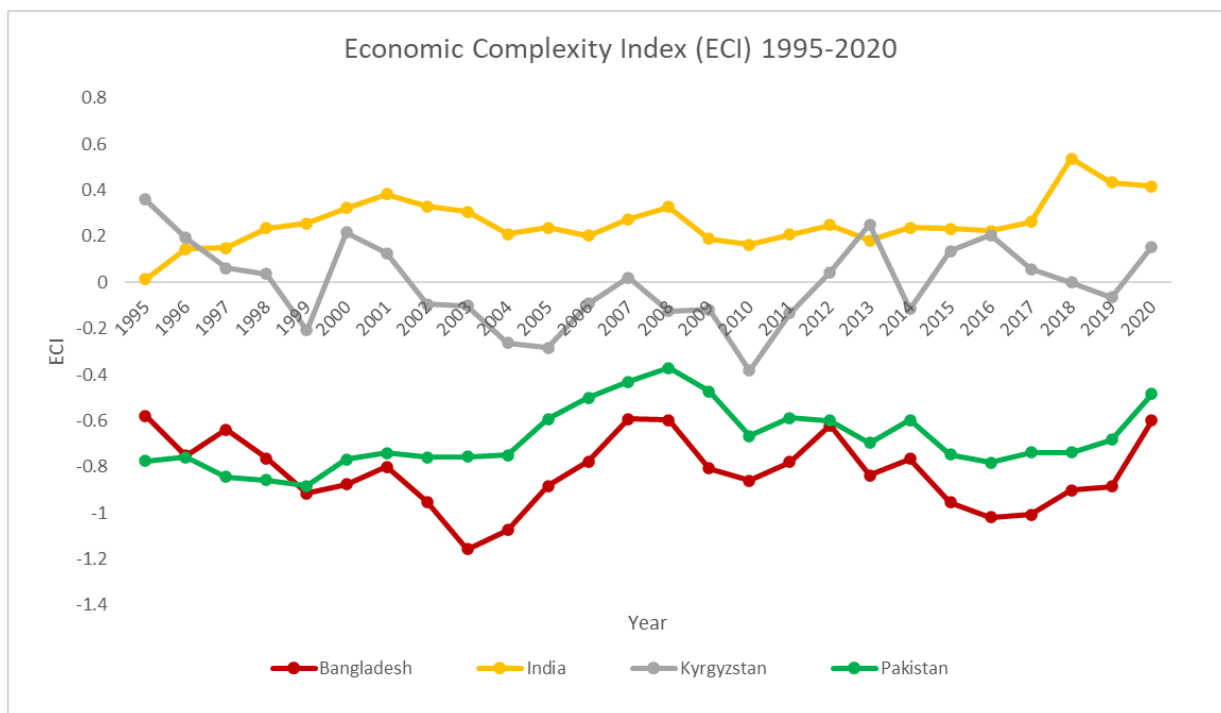
## The road to self-discovery

In an ideal situation, if Pakistan produces complex products, it will have a better opportunity to increase growth and development. However, a look at the Economic Complexity Index (ECI), which takes into account the knowledge that the economy has to produce high-quality, complex products that have a higher market value and that allows countries to diversify through specialization, Pakistan is a weak performer. Not only can we observe a low ECI growth from 1995 till 2020, there are massive fluctuations that give an indication that some forces are at play that are preventing improved ECI. Pakistan, in 1995, started off at a low ECI index. However, early 2000s showed improvement (till 2008) after which the country's ECI index fell again.

### Is the complexity of Pakistan's export basket a binding constraint?

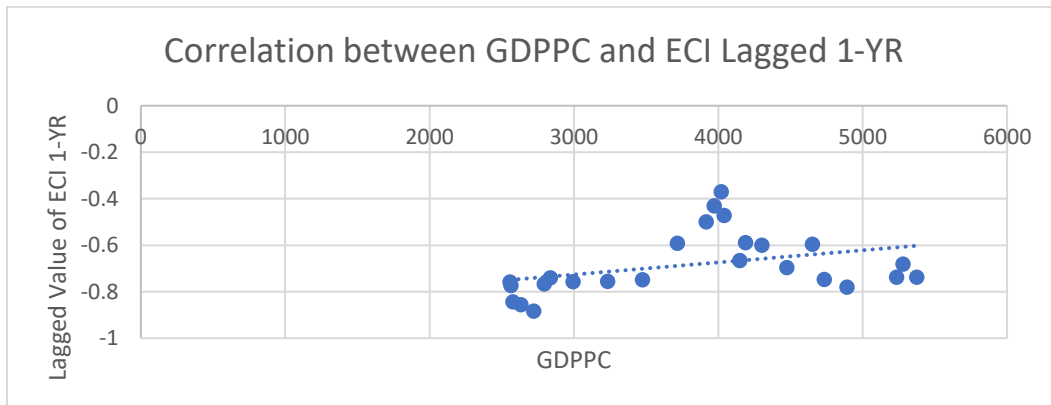
We are assessing the Economic Complexity Index (ECI) of Pakistan in this section, along with its export's basket and its growth opportunities. Here, we aim to observe whether Pakistan can improve in terms of the products that it produces and exports.

### Economic Complexity Index



## Correlation across years between GDPPC and lagged values of ECI

The lagged values of ECI with GDPPC also show a faint but positive correlation. However, there is a lot of noise in the data that prevents us from clearly defining the relation between ECI index and GDPPC.



## Time series of Composition of export basket for Pakistan (1995-2020)

A closer look at the graph on ECI also shows that Pakistan's ECI path has been similar to the ECI index of Bangladesh. With both countries mirroring each other's performance, we looked the export baskets for Pakistan (as well as Bangladesh for comparison).

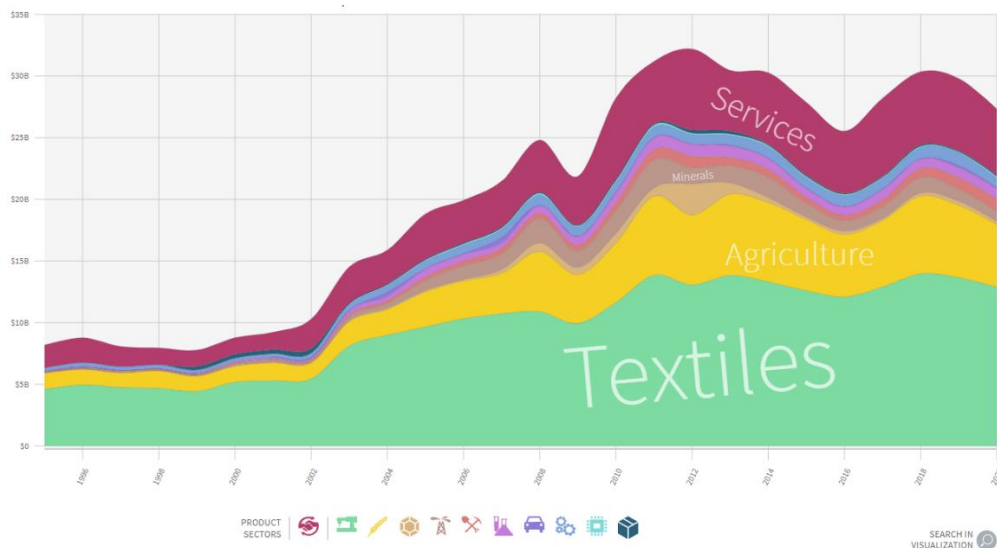


Figure 54: Export basket of Pakistan

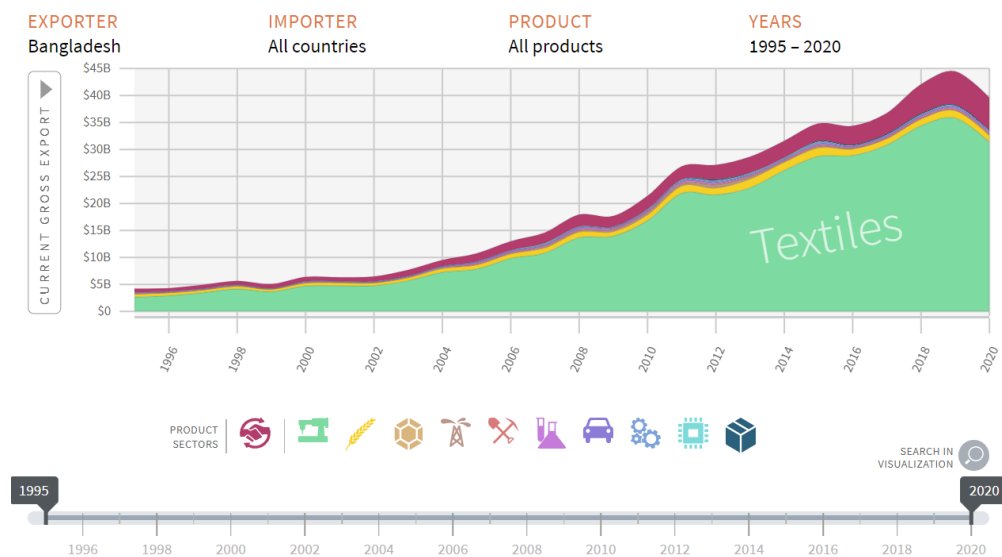


Figure 55: Export basket of Bangladesh

A comparison shows that Pakistan and Bangladesh are both heavily dependent on textiles. A closer look shows that the nature of the textiles produced is not technical but the focus is on fast fashion. This, in a way, shows why ECI index is low for both countries. However, it also shows that Pakistan and Bangladesh need to focus more on technical textiles as a way forward.

### Pakistan's position in the product space at 5-year intervals (2000-2020)

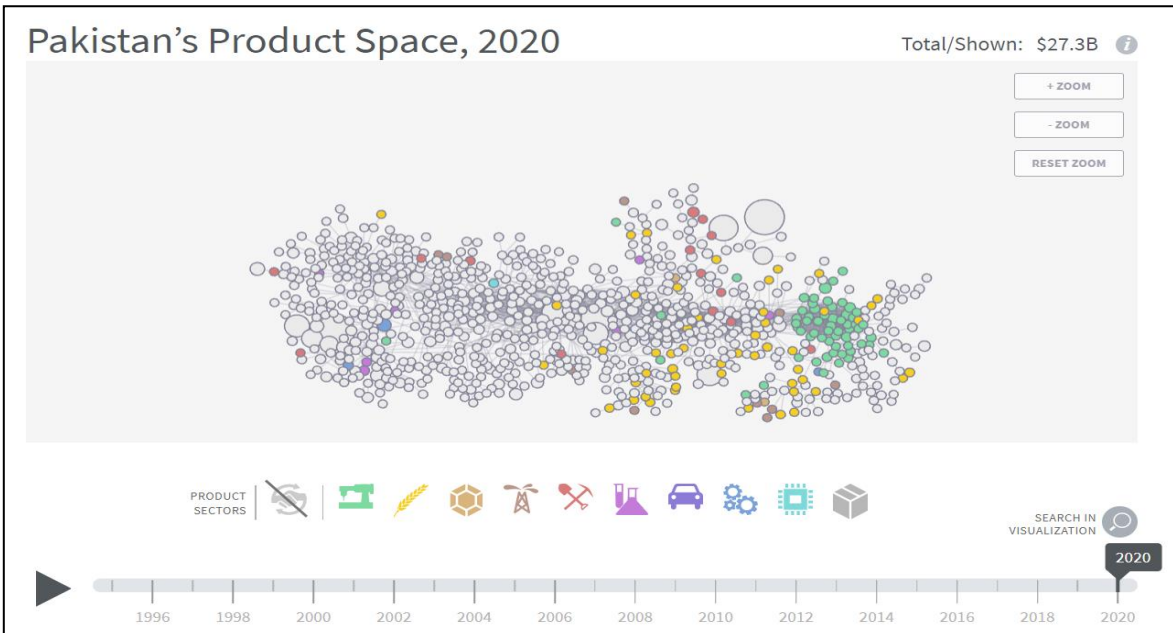
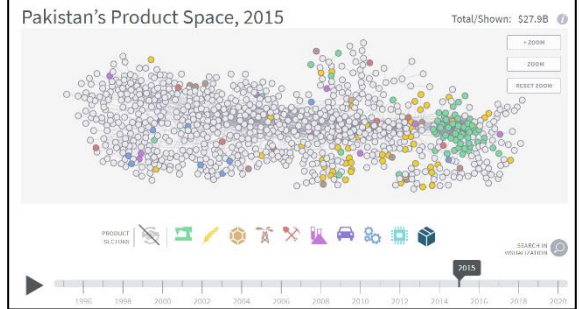
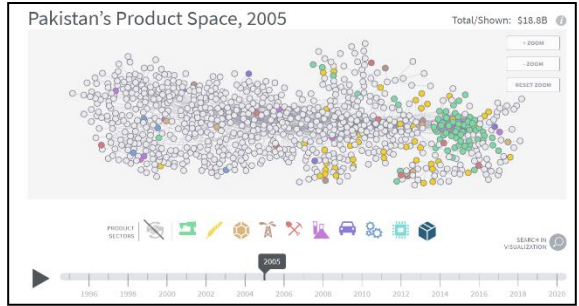
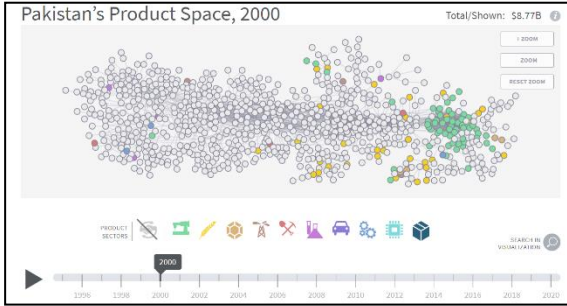
We observed the product space of Pakistan (since 2000, at a 5-year interval). The graphs show that the products are clustered around the green area.

Let's suppose that the product space is like a forest. The dense green area represents textiles and the other, white and grey areas represents fewer trees that are further apart. Let's suppose that a lot of monkeys live in the forest, and for them, the green trees are valuable as they provide resources for their well-being. However, the returns from the green cluster are limited and the density decreases as they move away from the green

cluster i.e., they can only jump from one tree to the next within the dense green cluster. Jumping outside is not an option because the trees are too far apart.

Interestingly, the monkeys know that if these trees (that are far apart) spread more and grow more fruit, the monkeys will be able to jump farther and eat better food.

For Pakistan, the firms are closely clustered around the dense green cluster, too and hence, cannot move away to more technical areas that are represented by the grey area around the green cluster.

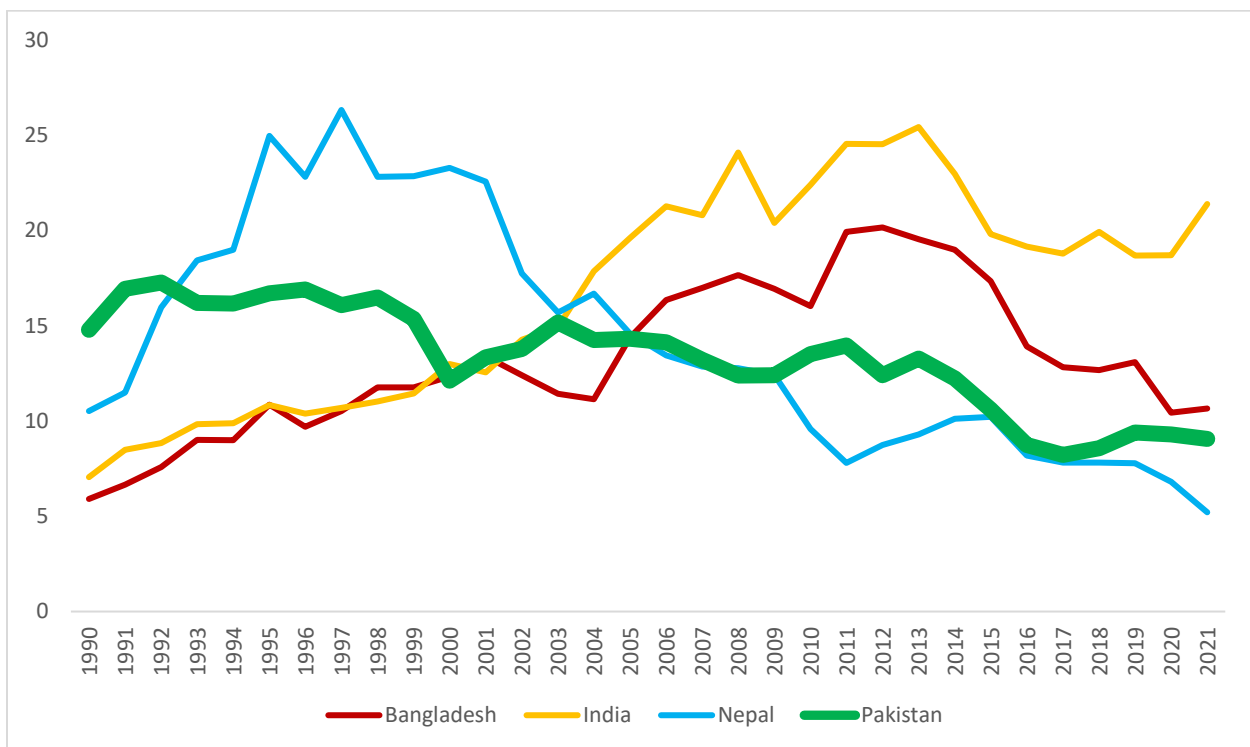




### Exports of goods and services (% of GDP)

Pakistan's dwindling exports trend is not good news. In the early 1990s, the country started off with its exports above India, Bangladesh, and Nepal but while Nepal took off immediately, Pakistan's initial glory died down pretty quickly as its exports fell, particularly in the late 1990s. The downward trend remained consistent till 2021.

This shows that Pakistan's exports are not doing well in the international market. With textiles a big cluster in Pakistan, and with countries such as Bangladesh coming forward as competitors, there is an urgent need to improve exports basket and enhance exports.



## Investigating Pakistan's growth opportunities in terms of 'nearby' products with the highest complexities and opportunity gains

### Assessing complexity

The graphs below show that, keeping in mind the country's ECI, there are certain products that it can move towards to achieve improved growth.

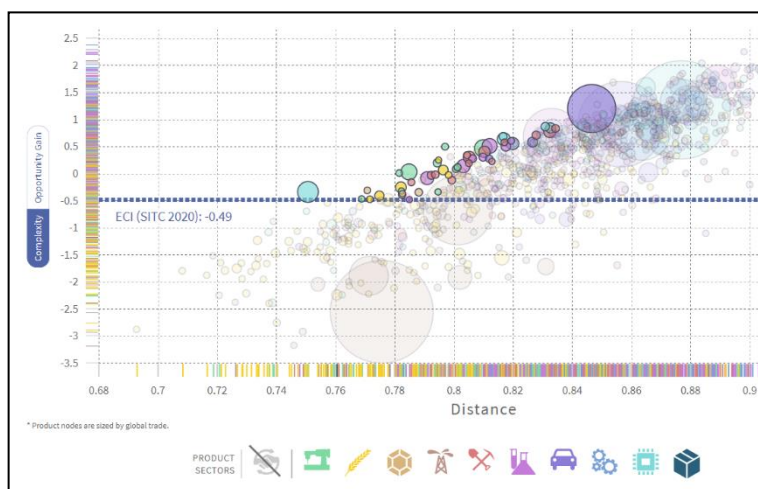


Figure 56: Low hanging fruits in terms of potential growth opportunities

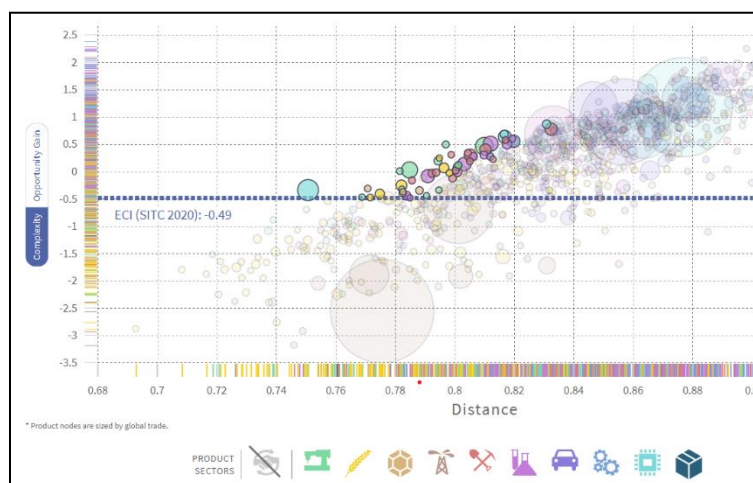


Figure 57: Balanced portfolio (recommended products)

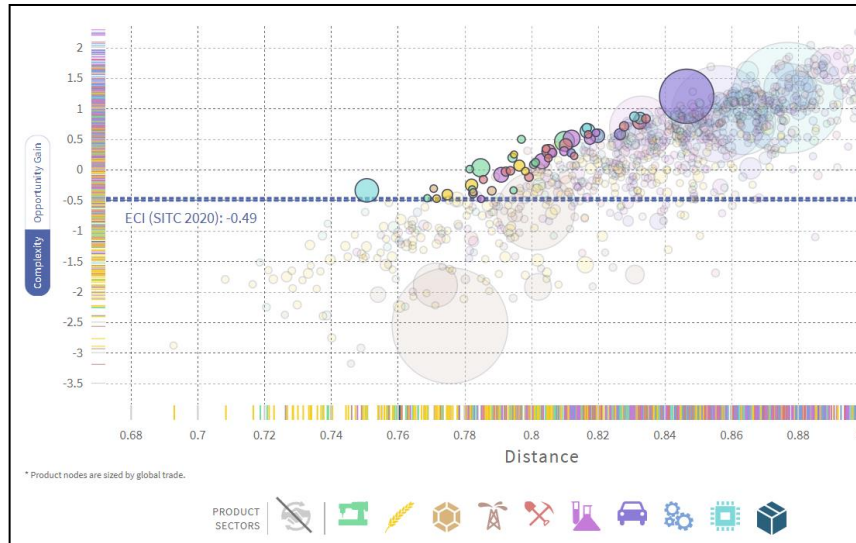


Figure 58 Jumping ahead

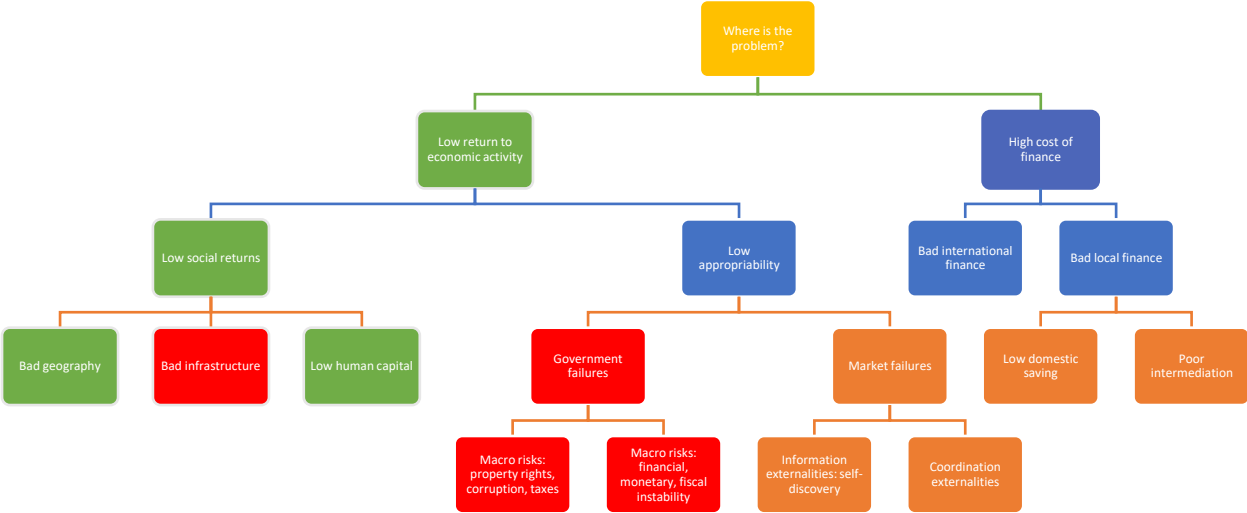
### What does the (counterfactual) future look like?

The figure below shows

Low hanging fruits	Balanced Portfolio (recommended products)	Jumping ahead
Closest to farthest: <ul style="list-style-type: none"> <li>• Insulated electric wire</li> <li>• Soap</li> <li>• Tissue</li> <li>• Nets</li> <li>• Plastic household articles</li> <li>• Cardboard packing containers</li> <li>• Goldsmith and silversmith ware</li> <li>• Yarn of artificial staple fibers</li> <li>• Stoves and similar non-electric appliances</li> <li>• Narrow woven fibers</li> </ul>	Closest to farthest: <ul style="list-style-type: none"> <li>• Insulated electric wire</li> <li>• Tissue</li> <li>• Nets</li> <li>• Hypochlorite</li> <li>• Plastic household articles</li> <li>• Cardboard packing containers</li> <li>• Goldsmith and silversmith ware</li> <li>• Yarn of artificial staple fibers</li> <li>• Stoves and similar non-electric appliances</li> <li>• Narrow woven fibers</li> </ul>	Closest to farthest: <ul style="list-style-type: none"> <li>• Parts of motor vehicle</li> <li>• Electrical insulators</li> <li>• Parts for use with electric generators</li> <li>• Screws or similar articles of iron and steel</li> <li>• Railway track fixtures</li> <li>• Bath, sinks</li> <li>• Rubberized textile fabrics</li> </ul>

A look at the diagnostic tree to understand the holistic picture on binding constraints

The areas in red appear to be the binding constraints.



## What's the talk on corruption?

Percentage (%) of firms complaining about corruption , bribery, courts, etc.

Indicator	Pakistan	South Asia	All Countries
Bribery incidence (percent of firms experiencing at least one bribe payment request)	30.8	23.9	15.3
Bribery depth (% of public transactions where a gift or informal payment was requested)	28.5	20.1	12.1
Percent of firms expected to give gifts in meetings with tax officials	28.8	20.7	11.9
Percent of firms expected to give gifts to secure government contract	88.2	47.9	21.2
Value of gift expected to secure a government contract (% of contract value)	8.2	3.5	1.2
Percent of firms expected to give gifts to get an operating license	31	23	12
Percent of firms expected to give gifts to get an import license	6	29.7	11.7
Percent of firms expected to give gifts to get a construction permit	28.7	31.6	20
Percent of firms expected to give gifts to get an electrical connection	57.8	30.4	14.4
Percent of firms expected to give gifts to get a water connection	30.9	31	12.3
Percent of firms expected to give gifts to public officials "to get things done"	45.8	28.2	19.1
Percent of firms identifying corruption as a major constraint	68.3	34.5	29.8
Percent of firms identifying the courts system as a major constraint	34.6	17.8	15.1

Let's talk about the "biggest" obstacle

What about crime?

Indicator	Pakistan	South Asia	All Countries
Percent of firms paying for security	51.7	39.5	56.3
If the establishment pays for security, average security costs (% of annual sales)	6.5	4	3.3
Percent of firms experiencing losses due to theft and vandalism	9.5	10.3	16.2
If there were losses, average losses due to theft and vandalism (% of annual sales)	6.5	10.4	4.9
Products shipped to supply domestic markets that were lost due to theft (% of product value)*	1.1	0.9	0.8
Percent of firms identifying crime, theft and disorder as a major constraint	34.1	19.6	16.8

## Policy Recommendations

The following table provides a summary of the report so far:

*Table 5: Summary of challenges*

Area	Challenge	Is it a binding constraint?
<b>Social returns</b>	Human capital is low, infrastructure is very weak and geography can be an important factor but is currently a hindrance due to frequent natural disasters	Infrastructure, particularly electricity supply, is a binding constraint
<b>Growth accounting</b>	TFP is low because of low social returns Factor accumulation is low because of low investment	Not a constraint
<b>Cost of finance</b>	High level of interest rate is not a factor that is leading to low investment.	Not a constraint
<b>Micro risks</b>	Weak performance in terms of rule of law, control of corruption, regulatory quality and political instability	Political instability is a binding constraint leading to high level of uncertainty in the country
<b>Macro risks</b>	High inflation, exchange rate depreciation, high levels of debt	Not a constraint but an outcome of other constraints
<b>Self-discovery</b>	Economic complexity is weak; exports are low; product space is clustered around basic textiles only and export basket is comprised of products with low value addition and low complexity	A binding constraint

### Diagnosis

It appears that Pakistan has the right set of ingredients that are required to grow and achieve economic development. However, the use of these resources (or misuse) is what needs to change.

In the following table, we provide a prescription. Some of these proposed items require long-term doses in order to see a result. However, as per our understanding, this list provides the tools that are required to use the ingredients more effectively:

Table 6: Diagnosis

Infrastructure/ industrial policies	Macroeconomic conditions	Leveraging diplomatic relations	Jump to technical products
Develop functional industrial zones Privatization Management of zones to should be privately managed Minimize government intervention Limit government's input to traditional policies like education, family planning and put it at ease through taxation from industrial zones	Debt ceilings to manage fiscal policy (turnover in government is putting a country to a huge risk) Central bank independence	Improve relations with USA Leverage relations with China Pakistan should better leverage its international political position Build political capital and partnerships with the "Western" nations of the East	Some of the sectors with high potential for new diversification in Pakistan are: Industrial Machinery and Electrical machinery and equipment Use relations with South Korea, Japan, USA (friendly developed nations)

We propose the following:

1. **Developing industrial zones in the country that are not politically affiliated (or controlled by the government in anyway) is the way forward.** Government intervention in the development and running of these industrial zones should be minimum and private entities should solely run the industrial zones. Due to



political instability and frequent turnover, this proposal will not sustain if government intervention is high as the next government might not wish to continue working on the industrial zones of the previous government

2. **Infrastructure improvement is urgent** – the issue of electricity outages is a major one that hinders productivity of the industries. Improvement of infrastructure will lead to better resources and access to opportunities for more people.
3. **Developing strong bilateral relations within South Asia is essential** – Pakistan’s performance, in terms of Nepal and Bangladesh, has dwindled. Its exports have fallen and its micro and macro-economic outlook has suffered. Pakistan needs to develop strong relations with other surrounding countries to develop an improved supply of input that it can export to countries like China and India.
4. **Leveraging the strategic geographical position to the country’s benefit:** China, through the China Pakistan Economic Corridor (CPEC), seeks to trade more through north of Pakistan and via the Arabian Sea in the south. Other countries, particularly landlocked countries like Uzbekistan, might also show interest in Pakistan to find trade routes. Pakistan can use this as an opportunity to develop its infrastructure, too.
5. **Exploring technical products to improve the product space and export more complex products.** This is one of the ways in which the country can jump to new avenues in its product space too. For instance, the electricity problem has given Pakistan the opportunity to use substitutes like generators. This has developed a local market in the country where generators are being traded, installed, and repaired. Moreover, spare parts for the generators are a separate market on its own. Developing this informal market in a formal manner and connecting it

internationally can provide avenues for local businessmen to grow and expand their businesses

- 6. Improving human capital is a quick-win measure:** Improving demographics, that can lead to improved human capital is not a challenging pathway for the country. The government needs to focus more on the traditional policies, such as promoting basic education, particularly for girls, improving access to resources for young girls and mothers leading to reduced fertility and mortality rates and providing health services for the people. This will ultimately lead to improved human capital and will increase the tools (in terms of knowledge and technology) to enhance growth for the country.

**Are the proposed solutions attainable?** The feasibility and achievability of these goals is a long-term task in many aspects and requires resources and commitment. Political instability is a major concern due to which an environment of uncertainty prevails in the country. Directly saying that the way forward is to attain political stability, however, might not be feasible, even though, that is the ultimate goal to remove a binding constraint. Hence, policies that either improve stability or reduces its effect on the outcome will work wonders for the country (such as the ones mentioned here).

## **A story of resilience**

We aim to end this report on a happy note. Pakistan, despite its challenges, is a country with a resilient population that has the motivation and dedication to bring a change for everyone.

Hence, this is a story of resilience that can eventually eliminate uncertainty and all the hurdles that currently prevent it from growing.

This is a story of persistence and faith.

**Pakistan Zindabad!**