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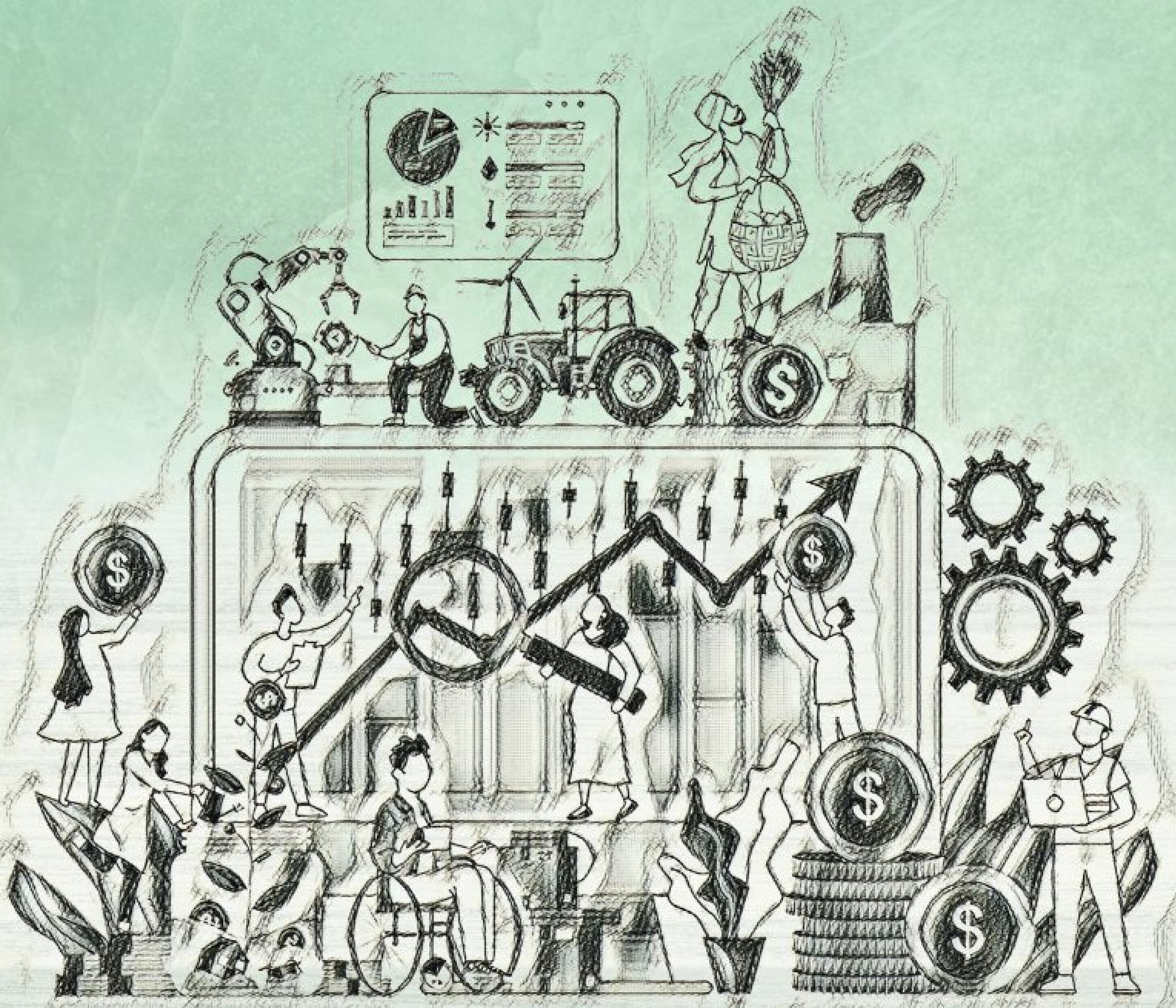
UNDP

Inclusive Growth in Times of Uncertainty



Investing in Future-Ready Human Capital

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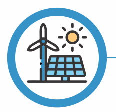
The good news is that, as per the national accounts committee's numbers, the provisional GDP growth rate for the current fiscal year (2021-22) is 5.97 percent. The bad news is that despite this healthy growth amidst the 3C's (Covid-19, Climate Change, and Conflict[1]), Pakistan is once again facing the menace of a twin deficit, i.e., dollars deficit (current account deficit-CAD) and rupees deficit (fiscal deficit). Some argue that economic growth of five-plus percentage points for a few years always ends up overheating Pakistan's economy, where its CAD turns unsustainable. This argument is supported by the vast gap between the country's productive capacity and aggregate demand, particularly when per capita incomes rise. To me, the fiscal deficit, the public debt, the CAD, etc., are not the 'reasons for lower growth'; they are the 'outcome of poor quality/structure of economic growth'.

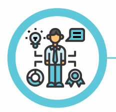
Let us explore the structure of Pakistan's economic growth. First, 95 percent of Pakistan's growth is consumption-led, resulting in low savings and a low investment to GDP ratio. Most importantly, 86 percent of consumption comes from households, making them highly vulnerable to any shock or reduced supply of resources. Second, more than 90 percent of Pakistan's growth is imports based, increasing its CAD. Third, the productivity of the three pillars of growth, i.e., agriculture, industry and manufacturing, and services, is below the optimal level of its peer economies. And finally, there is a mismatch between Pakistan's GDP contributing sectors and the available human resources.

Priority Areas

Decrease the mismatch in demand and supply between the services sector and agriculture sector.



Move towards investment-based export-led growth powered by renewable energy.



Investment in human capital with skill sets of the future, with focus on youth and women.

Inclusive growth through mitigating disparities within and across regions.

The agriculture sector can absorb all sorts of workforce; skilled-semiskilled-unskilled, literate-semi-literate, as well as those with no formal education. Industry and manufacturing require a workforce with some skill set and/or literacy.

1. Ukraine conflict

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Whereas the services sector requires a highly skilled and/or highly qualified workforce. For decades, Pakistan was considered an agro-based economy. It took a quantum leap and, bypassing the industry and manufacturing, became a services-based economy. However, this evolution from agriculture to services was without a transformation in its human capital. Resultantly in Pakistan, the services sector contributes more than half of the GDP, whereas the agriculture sector employs more than half of the workforce. This mismatch results in huge income inequalities (between highly skilled/highly qualified, and those not that skilled/qualified), low efficiency, and low productivity, thereby haunting Pakistan's vision of achieving inclusive growth.

Pakistan must change the quality and structure of its economic growth if it wants to be one of the top ten economies by the year 2047 (centenary of its foundation). It must move towards investment-based export-led growth powered by renewable energy. Such growth needs to be supplanted by a high productivity services sector and a flourishing agriculture sector, that may help import substitution of essential food items.

This would only be possible through investment in human capital. An investment that may transform the youthful labour force into a trained, stable, skilled workforce with greater emphasis on female participation. While investing in human capital, the government also needs to consider the 'future of jobs', which is rapidly transforming due to technological adoption after COVID-19. The World Economic Forum (WEF) foresees that by 2025, the time spent on current tasks at work by humans and machines, will be equal.

While investing in Pakistan's human capital, attention should be given to imparting the workforce with skill sets in demand five years from now. According to the WEF, critical thinking and analysis, problem-solving and self-management skills such as active learning, resilience, stress tolerance, and flexibility will be the most sought-after skills in the near future.

Finally, Pakistan cannot achieve inclusive and sustainable growth until it overcomes existing inequalities both within and across regions. To be among the world's top economies by 2047, it must ensure that no one within its geographical boundaries is left behind. It should take a proactive approach to mitigate existing disparities in marginalized districts, areas most vulnerable to climate change, and among the marginalized segments of communities, especially religious minorities, women and girl children, transgender people, people with disabilities, and elderlies throughout the country.

Improving revenues by expanding the tax base, reducing non-productive expenditures, and investing in strong social safety nets, technical know-how, infrastructure and connectivity, and financial resources to mitigate the existing disparities, would lead Pakistan onto a sustainable, inclusive growth pathway.

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