

Lahore School of Economics

The 11th Annual Conference on Management of the Pakistan Economy – 25 & 26 March 2015

Pakistan as a Regional Manufacturing Hub – Prospects and Challenges

The next Lahore School conference on management of the Pakistan economy, 25 – 26 March, 2015, will address the subject of desirability, feasibility and prospects of turning Pakistan into a regional manufacturing hub and will seek to identify steps needed towards that goal.

This conference will be the third in a series that has explored from different angles how Pakistan's economic performance could be improved and the country join the group of rapidly growing economies in Asia and elsewhere. The 2012 conference examined how Pakistan economy might achieve accelerated growth while maintaining macroeconomic stability. The 2014 conference explored how the country's export performance might be improved, which is necessary for sustaining higher economic growth.

The choice of this year's topic rests on two premises: (a) the generally mediocre performance of manufacturing activity is the clearest manifestation of Pakistan's enduring economic malaise; and (b) Pakistan can take advantage of its geo-strategic importance – which is universally acknowledged – by becoming a major producer and supplier of manufactures in the region and the world market more generally. Agriculture and services are doubtless important, but it is manufacturing that would ultimately drive the transformation of Pakistan into a growing, high productivity, modern economy.

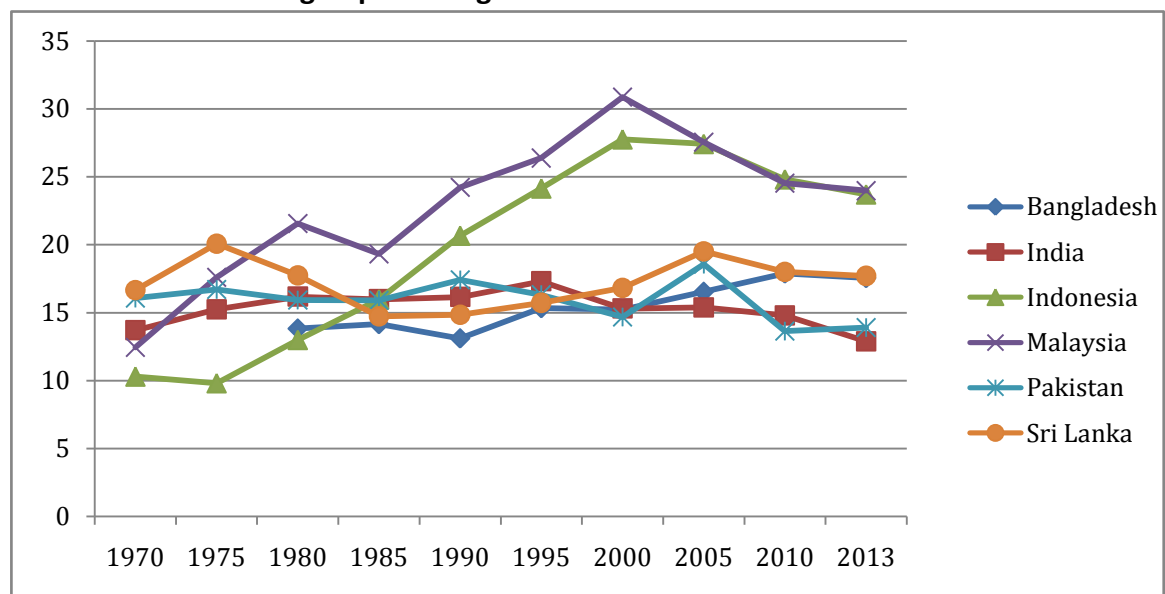
Pakistan, as other developing countries, focused on rapid industrialisation in its early phase of economic development. During the 1950s and 1960s, Pakistan's manufacturing activity grew rapidly. Starting from a base of only rudimentary industry at the time of the country's birth in 1947, the following two decades saw the emergence of a large and thriving textiles industry, but also chemicals and light machinery gained in prominence. Although experts continue to debate whether Pakistan's approach to and pattern of industrialisation was optimal, the fact remains that today's industrial base was pretty much laid in the earlier period and there has been since little diversification in industrial production or exports. The pace of industrialisation over the past four decades has been at best lackadaisical, with the share of manufacturing hovering around 15 per cent of the national output.

However, Pakistan's overall performance in manufacturing has been more or less in line with the other major South Asian economies, viz., India, Bangladesh and Sri Lanka. (See Chart 1) Only Sri Lanka's manufacturing touched

the mark of 20 per cent of GDP in the mid-1970s and again in 2005, but overall it just about kept pace with overall economic growth. Only Bangladesh, in this group of countries, experienced a slowly rising trend in manufacturing. India's performance is remarkable in that its relatively rapid economic growth over the past two decades did not rely on rapid manufacturing growth; in fact, the share of manufacturing in GDP showed a decline over the past two decades, and was only 13 per cent in 2013, the lowest in the region. By contrast, economic growth in Malaysia and Indonesia was driven by rapid industrialisation, and the share of manufacturing in 2000 reached the peak of 30 per cent in Malaysia and 28 per cent in Indonesia. One-quarter of the domestic output still comes from manufacturing in the two countries.

The observed difference in the growth experience gives rise to the question whether there is something unique about the South Asian economies or is it that they too must follow the East Asian example and give greater attention to promoting manufacturing growth. For Pakistan getting the right answer to this question is crucially important from the standpoint of sustainable long-term economic growth.

Chart 1: Manufacturing as percentage of GDP in South Asia



Development of manufacturing industry has been at the core of discussion of policies for stimulating economic growth. But the subject has remained controversial not just in the context of developing countries seeking to industrialise but also advanced countries, where the issue arose because of the deindustrialisation caused by the rise of nascent, low-cost producers in the newly industrialising countries. For the neoliberal orthodoxy, it has been virtually an article of faith that deliberate measures to promote industry represent import substitution, which violates a country's comparative advantage.

The controversy centres on basically the question whether there is a certain natural order to economic specialisation dictated by a country's given comparative advantage or whether structural transformation from agriculture to

manufacturing could or should be promoted through active government involvement. Economic orthodoxy does not look with favour on government intervention to promote the transition of developing economies from agricultural to industrial or arrest the deindustrialisation in the advanced countries.

Pakistan too has been afflicted by this controversy not just among academics but also policymakers in different government departments, notably, between the Planning Commission and the Ministry of Industries and Production in recent years. Some experts question whether manufacturing really matters, giving India's example where services have driven economic growth in recent time. The advocates of manufacturing industry make their case on grounds of externalities and scale economies, as it creates employment, promotes exports and generates foreign exchange, helps to build up technological capabilities, promotes regional development, and, not least, introduces modern management practices that are critical for competing in the world market. It is difficult to envisage Pakistan managing to achieve growth comparable to that of rapidly growing economies (i.e., a rate > 7 per cent) without a robust growth in manufacturing. Services or agriculture cannot be expected to pull up the overall growth rate on a sustained basis.

The conference will provide a forum where the future of Pakistan's manufacturing industry would be the focus of discussion. In reviewing past successes and failures and constraints on manufacturing growth, the goal would be to draw lessons and guidance on how the sector could be revitalised and made to contribute to accelerating economic growth in Pakistan. The scholars and experts who agree to participate and contribute to the conference are expected to keep that as the goal in preparing their presentations.