

Pakistan's Crises: Ongoing and Brewing

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Part 2 of 2

Part 1 of this article argued that there is a lot that needs fixing in Pakistan. The Covid pandemic underscored the inadequacy of the public health system. To safeguard the public from future disease outbreaks and to improve the quality of human capital, its reform deserves to be prioritized along with the needed infusion of resources¹. But there are at least six other crises two of which have been on the radar for some time: (i) rising public indebtedness; the result of long running fiscal deficits; and (ii) sluggish growth caused by the declining share of the manufacturing sector and of exports in GDP and weakening productivity. These were discussed in Part 1, the first installment of this article. Four crises are of the slow burning more recalcitrant kind have received less attention, however, continued neglect could bring the nation to its knees within the next two decades. These are: (i) income inequality and socio-political polarization; (ii) inadequate state planning, policymaking, administrative, and mobilizational capabilities; (iii) high fertility and population growth; and (iv) the mounting threat from climate change. This second installment of the article (part 2) addresses the longer festering crises. These have been slowly worsening over time and their damaging consequences are becoming more apparent. Deferring policy action on these will only add to their severity.

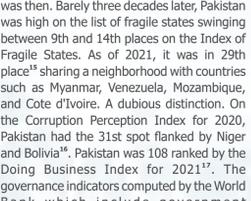
Inequality Crisis. There is accumulating evidence that growth is negatively correlated

with net income inequality². The level of inequality is correlated with mental and physical health, education, and economic security³. Rising inequality can also cause social instability, weaken trust in liberal democratic institutions, undermine the legitimacy of the state, lead to the emergence of deep political fissures, and entrench a plutocracy⁴. Ostry et al (2019; 2011) make the case that successful economies are ones that can both initiate a growth spurt but also sustain a high growth rate over several years if not decades. They maintain that the duration of growth spells is critical and income distribution is a primary determinant of duration, more important than trade openness, political institutions or FDI. This is because of high levels of income inequality results in vicious spirals identified by Sanchez-Ancochea (2020)⁵ (Figure 3).

Using the Gini coefficient as a yardstick, inequality in Pakistan is in the middling range – 31.6 percent (2018)⁶ – but this is because income earners in upper tail of the distribution underreport their incomes. Other attempts to measure inequality suggest that the divergence in incomes is much greater. Using both national income and tax data, Ahmed (2020)⁷ estimated that in 2015, the income share of the top 1% amounted to 30.2% with 13.4% accruing to the top 0.1% and 5.1% to the top 0.01%. The share of the bottom 50% was 11.6%. The share of the middle 40 percent was 30 percent however, more recent estimates indicate that the Pakistani middle

class is being squeezed by inflation and declining employment opportunities, much like its counterparts in the OECD countries⁸. Income inequality is paralleled by gender and health inequality and inevitably, social mobility is low – very few from the bottom quintile can transition to higher quintiles within a generation⁹. In other words, inequality in Pakistan is comparable to that in the Middle East, and some of the Latin American countries.

Figure 3: The economic cost of inequality



Although global inequality has diminished, inequality is trending upwards in many countries. Barack Obama identified income inequality as “the defining challenge of our time.” In the aftermath of the Covid pandemic, there is a risk that it could rise in Pakistan as well. As Piketty (2020) and Ostry et al (2019)¹⁰ maintain, inequality is a political choice. It is what societies choose based on the ideology of the dominant elites and not necessarily dictated by either technology or globalization. Inequality appears to be feeding the upsurge of right-wing populism, civil unrest and political polarization in Latin America, Europe, and the United States threatening democratic institutions and trust in government. It could also undercut growth potential and the capacity to garner widespread public support for needed reforms.

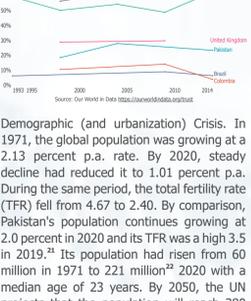
The challenge for Pakistan is how to introduce a spate of reforms affecting taxes, the financial sector, tariffs, participation in global supply chains, rule of law, the environment, and the incentive for entrepreneurs to make long term, productive investments, which would foster growth, while simultaneously improving the distribution of income¹¹. Some

of the reforms would be supported by Pakistan's moneyed elites; ones that ate into the rents they derive from current policies and institutions and redistributed income would be strenuously opposed. This opposition has stymied past efforts at achieving sustainable and inclusive growth. If it cannot be overcome, rising social turbulence could compound the threats from other sources. The World Bank's Pakistan at 100 report maintains that “to achieve its ambitious target of becoming one of the top 10 economies in the world by 2047, equity should be at the center of [Pakistan's] development process.” (Redaelli 2019)¹².

State Capacity Crisis. Developing countries that have achieved durable economic success over the past seventy years have all benefitted from state capacity. Strong states planned and orchestrated the growth process in the successful East Asian economies and in a few other nations which rapidly ascended the income ladder. Such states were not necessarily authoritarian states – though some were – they were both effective and their legitimacy was beyond question. A strong state does not guarantee economic success, but arguably state capacity of a high order is a necessary condition albeit not a sufficient one for attaining the government's objectives. Most developing countries had to build state capacity as they began modernizing their economies¹³. In many cases this occurred once nations gained independence. States needed to establish law and order, put in place a system for extracting revenue, take steps to supply the public goods that meet the basic needs of the population, begin fostering an environment supportive of investment and business activity, which included measures to secure property rights, and create legal, administrative, regulatory, and political institutions that ideally were viewed as accountable and enjoyed the trust of the majority of the public¹⁴. Acquiring such capacity was and is a struggle for many countries. Progress tends to be uneven and is often not linear. A slide backward after years of solid advance across the board, is not uncommon and frequently associated with changing political circumstances.

In the 1960s, Pakistan was in the front ranks of developing economies. It was viewed as having ambitious state capacity to set and to attain ambitious economic objectives. That was then. Barely three decades later, Pakistan was high on the list of fragile states swinging between 9th and 14th places on the Index of Fragile States. As of 2021, it was in 29th place¹⁵ sharing a neighborhood with countries such as Myanmar, Venezuela, Mozambique, and Cote d'Ivoire. A dubious distinction. On the Corruption Perception Index for 2020, Pakistan had the 31st spot flanked by Niger and Bolivia¹⁶. Pakistan was 108 ranked by the Doing Business Index for 2021¹⁷. The governance indicators computed by the World Bank which include government effectiveness, rule of law, regulatory quality, and absence of violence are all relatively low and show virtually no improvement between 1990 and 2020 (Figure 4).

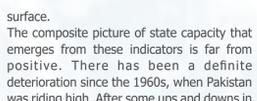
Figure 4: Pakistan Governance and Indicators



Mobilizing resources is central to the state's capacity. Hanson and Sigman (2019)¹⁸ are emphatic on this score. “Raising revenue is not only a critical function of the state, but it also encompasses a particular set of capacities that are foundational to state power. States must have the wherewithal to reach their populations, collect and manage information, possess trustworthy agents to manage the revenue, and ensure popular compliance with tax policy.”

The Pakistani state's capacity falls short on this score as noted earlier. Revenue collections have declined since the 1980s from an average of 17.3 percent of GDP in the 1980s to 14 percent of GDP in the 2010s. (Figure 5). This is well below the global average of 26.6 percent and 19.6 percent for

Figure 5: Pakistan Revenue Collection



middle income countries. An assessment of instability and violence in Pakistan relative to other Asian states by the Asia Foundation suggests that the country is struggling to hold the country together, instill a sense of nationhood, to provide security, contain terrorism¹⁹, and to protect property rights (Figure 6).

Although violence has subsided somewhat since 2019, the prevailing equilibrium is a precarious and turbulence licks beneath the

Figure 6: Pakistan: Socio-political Temperature



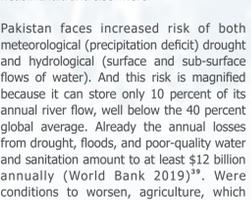
surface. The composite picture of state capacity that emerges from these indicators is far from positive. There has been a definite deterioration since the 1960s, when Pakistan was riding high. After some ups and downs in the interim, state capacity appears weak and not up to the political, economic, and environmental challenges the country faces. Moreover, the public's trust in the organs of the state and others outside their extended family or kin network is weak and has declined since 2005 (Figure 7). Trust, according to Fukuyama (2020), “is the single most important commodity that will determine the fate of a society ... Citizens have to believe that [those at the helm of affairs] know what they are doing.”²⁰ Absent sustained improvement in capacity the prognosis for Pakistan is dire.

Rebuilding state capacity and trust can be a slow process. It needs to be taken up in earnest as the hour is late.

Demographic (and urbanization) crisis. In 1971, the global population was growing at a 2.13 percent p.a. rate. By 2020, steady decline had reduced it to 1.01 percent p.a. During the same period, the total fertility rate (TFR) fell from 4.67 to 2.40. By comparison, Pakistan's population continues growing at 2.0 percent in 2020 and its TFR was high 3.5 in 2019.²¹ Its population had risen from 60 million in 1971 to 221 million²² 2020 with a median age of 23 years. By 2050, the UN projects that the population will reach 380 million²³. The current population is already straining the country's resources²⁴. Although Pakistan's land area is the world's fifth highest, the land area is only 0.59 percent of the global total and of this, about 40 percent is arable land down from 43 percent in 1982²⁵. Close to 60 percent of the population copes with food insecurity and this is one reason why 40 percent of young children are stunted, and 5 percent suffer from wasting²⁶.

Approximately 45 percent of Pakistan live in urban areas – or about 100 million people²⁷. Assuming that urbanization continues its steep ascent (Figure 8), as many as 75 percent of the population could be living in cities by 2050²⁸, which would be the norm for an upper middle-income country²⁹. If so, cities would need to absorb another 185 million people requiring massive investment in housing and infrastructure on top of what is needed to upgrade and render resilient the existing infrastructure.

Figure 8: Pakistan urbanizing



India, Bangladesh, and several of the Southeast Asian countries have managed to check population growth bringing it down to 1.0 percent per annum or less (Thailand 0.3; Bangladesh 1.0 in 2020). A fertility management should clearly be a priority to head off an increase in unemployment, ease the burden on public services, contain the outlay on urban infrastructure, and to prepare for climate change, which is the great brewing crisis of the century.

Climate change crisis. Pakistan is in the eye of the storm³⁰. It is the fifth most vulnerable country³¹. Within the next three to four decades the habitable niche³² will shrink because of rising temperatures, inundation of coastal areas, salinization of the groundwater, droughts of severe weather leading to floods³³, bouts and heat waves, and water scarcity, and it acutely in some areas could worsen and become more widespread by 2025³⁴. Already a city in Pakistan has (Jacobabad)

registered the highest temperatures experienced anywhere³⁵. Such temperatures could begin affecting larger areas of the country. Once wet bulb temperatures exceed 35°C, survival is a losing battle – the body cannot cool itself. Countries lying in the tropical belt and Pakistan in particular, could experience average temperatures that are higher than the global average with a 4.9°C increase above the 1986-2005 baseline within the realm of possibility by the end of the century³⁶. Figure 10 presents forecasts of how many people could be affected by unbearable heat in India and elsewhere.

Pakistan faces increased risk of both meteorological (precipitation deficit) drought and hydrological (surface and sub-surface flows of water). And this risk is magnified because it can store only 10 percent of its annual river flow, well below the 40 percent global average. Already the annual losses from drought, floods, and poor-quality water and sanitation amount to at least \$12 billion annually (World Bank 2019)³⁷. Were conditions to worsen, agriculture, which currently uses over 90 percent of fresh water – although it contributes just 23 percent of GDP - would be the hardest hit. Shortages would also adversely affect manufacturing, power generation, and urban consumers³⁸. When all key sectors are hit by water scarcity and assailed by severe weather events, potential GDP growth will be reduced further.

Figure 10: Numbers affected by high heat within 50 years

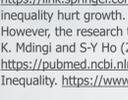


Better water management, investment in storage and greater use of measures to minimize evaporation, changing the mix of agriculture crops to reduce water consumption³⁹, effective use of pricing, recycling and reuse, attention to urban design, and upgrading the urban water infrastructure are some of the measures that could help survive the climate induced pressures to come⁴⁰. This is well trodden ground, but implementation has run into numerous obstacles and has languished like so many other policies.

The managed withdrawal of cities and concentration of populations to areas less exposed to severe climatic conditions will also become unavoidable. This will be an enormous challenge because as noted earlier, the urban population could be almost three times its current size. Greater use of energy frugal active and passive cooling technologies⁴¹ could make summer months less unbearable and Pakistan could join other nations in scaling back carbon emissions⁴². But COP 26 was a warning to countries like Pakistan⁴³: hope that leading emitters of GHGs will somehow live up to their promises and have emissions by 2030⁴⁴, but prepare for the worst.

Any one of the six crises discussed in the two installments of the article are cause for serious concern. Together they have the making of a perfect storm.

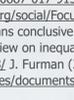
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Consortium for Development Policy Research

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¹⁵ <https://fragilestatesindex.org>

¹⁶ <https://www.transparency.org/en/cpi/2020/index/nz>

¹⁷ <https://www.doingbusiness.org/en/rankings>. This Index has now been discontinued.

¹⁸ https://calhoun.nps.edu/bitstream/handle/10945/64717/Hanson-Sigman_Leviathans_Latent%20Dimension.pdf?sequence=1&isAllowed=y

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²¹ <https://data.worldbank.org/indicator/SP.DYN.TFRT.IN>; <https://data.worldbank.org/indicator/SP.POP.GROW>

²² Possibly an underestimate. Numbers of 230 million and more have been aired. Refugees from Afghanistan, Bangladesh, and India number several million and the exodus from Afghanistan could add even more.

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