

Is Pakistan facing Premature De-industrialization? Causes and Policy response

by

Khadija Haider Asif

Thesis submitted to the Lahore School of Economics

In partial fulfillment of the requirements for the degree of

[MPhil. Development
Studies]

[2018]

Supervised by: Dr. Rashid Amjad

ABSTRACT

Some Developing economies are moving towards service economies without having undergone “a proper experience of industrialization”. i.e. they have not experienced technological progress and high productivity growth as the Advanced economies and the East Asian economies have. The current slowdown of the industrial sector in Pakistan may be indicative of a similar trend.

This thesis examines whether Pakistan is going through a phase of de-industrialization, indicated by declining shares of manufacturing output and employment, without having experienced the level of productivity growth and technological sophistication as experienced by the Advanced and the East Asian economies when they deindustrialized.

We analyse trends in Share of Manufacturing Value Added (MVA) and in Share of Manufacturing Employment in Total Employment for Pakistan’s Manufacturing Sector for time period 1980-2016; we also calculate Total Factor Productivity Growth using Growth Accounting Framework and the Cobb Douglas Production function; furthermore we briefly analyse growth trends of broad product groups within the manufacturing sector in recent years. We conclude that the manufacturing sector is experiencing sharply declining labour productivity growth, which is a key indicator for premature deindustrialisation. This decline can be attributed to extremely low Total Factor Productivity growth in the period under study. There is no clear evidence to suggest, however, that the relative size of the manufacturing sector is on a decline. Furthermore, annual growth trends of broad product groups within the sector in recent years indicate potential of the sector to transition to higher value added production.

The thesis further includes multiple regression analysis to help identify impediments and factors that enable growth of the Share of manufacturing sector in Pakistan.