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Short Term versus Long Term Economic Planning in Pakistan: The Dilemma

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Abstract. For long term and sustainable economic development, countries have to start from somewhere. Thus there is a distinction between short term planning and long term gaols setting. However countries like Pakistan have mostly fell into the trap of economic plans that focus on year to year goals setting or in other words macroeconomic stabilisation and usually fail to link policies with long term plans. The paper presents data that supports the hypothesis that it is the initiative of governments and not the donors to link long term economic progress with short term policies. China is a good example in this regards.
Keywords. Economic Planning, Dilemma.
JEL O20, O21, O24.

1. Introduction

Economic growth and development depend upon the short term and long term planning and strategies. However, the later one is used to get sustainable and consistent economic growth in this competitive world. To some extent, both economic planning have their own merits and demerits. As far as developing economies are concerned, solution for their economic disparities is to invest in long term economic projects. Nevertheless, it is not an easy task to plan and invest scarce resources in long-term planning specially for developing and under-developed economies. As a result, it is a dilemma for developing economies to go for short-term planning and projects to meet the current account deficit or even run the economy. There is no doubt that financial constraints is one of the major factors for the developing economies to go for short-term planning rather to develop or build a structure to support the economy in the long-run. In other words, in order to run the economy, developing economies have to use their scarce financial resources on short-term projects to run the economy.

Globalisation has changed the behaviour of international trading and business outlook. Now, every country strives to accomplish its competitive advantage over others especially in their traded sectors to strengthen their economic position in the international market (Buckley & Ghauri 2004). Here, it is very important to note that, short-term planning and strategy is not an unfavourable option for the under developed or developing economies. Instead, they have to make structural and technological change in quest of having consistent and sustainable economic growth in this competitive world.

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It is also a fact that short-term projects do not benefit the economies especially developing and under-developed in the long run. Sustainable economic growth is undermined by focusing on short-term planning and investment. It is also very important to note that short-term planning in developing economies is indirectly in the favour of developed economies. Importation of technology strengthen the industry at developed economies. As most of the developed economies are industrial based and one step ahead in technological advancement. In this way, developed economies find this favourable when developing economies make short-term planning and become a customer of their technological products.

In case of Pakistan, social, economic, financial and security barriers have diverted the attention of the policy makers to use the resources in short-term planning rather than long-term. Another major aspect in this chaos is that the short term planning in Pakistan indirectly favours the developed economies rather than itself. As a result, international donors instruct the Pakistan's government to focus on short term planning to meet their own goals.

2. Case Study of Pakistan

Pakistan is facing political disputes, social constraints, international and national security pressure, economic inconsistency and submission to donors in finalising economic policies for more than a decade. These issues never let the government to take measures for long-term and sustainable economic growth. Developing economies like Pakistan need to make planning and strategies to get economic growth and development for long-term (Khan *et al.* 2005). But, the dilemma for this state is that its current economic, political and security issues never let the government to utilise its scarce resources for sustainable development projects and programs. Therefore, short term planning is made to run the economy at its slow pace (Zaidi, 2005).

Pakistan's government is focusing on short-term projects to deal with current economic challenges. This option can never be in favour of long-term and sustainable growth. Apart of financial constraints, this economy is going through various other issues i.e. poverty, slow economic growth, unemployment, energy crisis, inflation, illiteracy, foreign debt burden and strict policies of IMF and other donors. Pakistan is going through various economic issues which are hindering its pace towards economic development and growth.

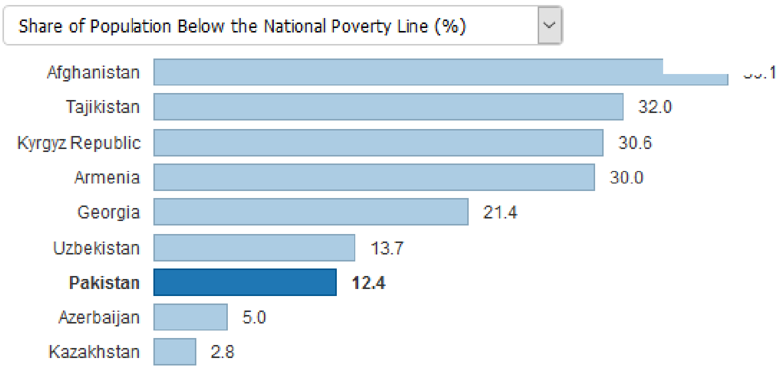
2.1. Inconsistent Economic Growth

GDP growth rate shows the output of the economic activities of any economy. Below diagram shows the annual GDP growth rate of the Pakistan since 2001. It is evident that after the financial crisis of 2007, Pakistan's economy disturbed adversely. However, it is on recovery since 2010 but with a slow pace. Until now, the annual growth has never been more than five percent. Its current fiscal and monetary challenges have hindered its economic progress. Its economic planning and strategies are not suitable for getting long term economic sustainability and growth.

Source: [Retrieved from].

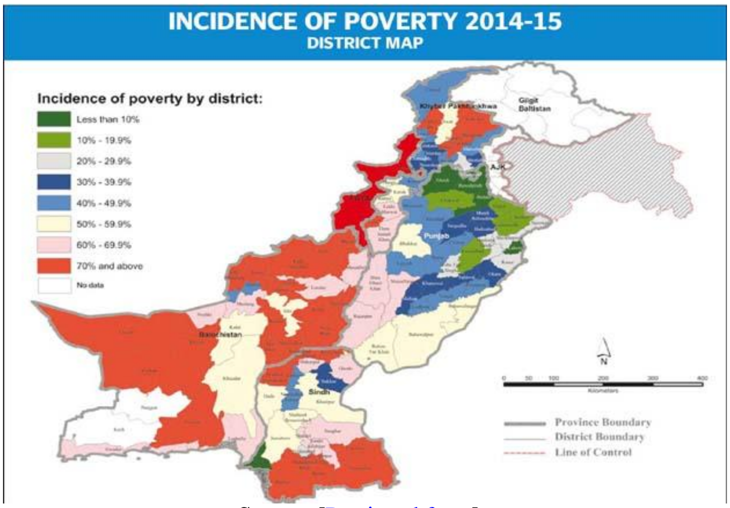
2.2. Increasing Poverty

Pakistan is one of those country who have high poverty rate. According to Asian Development Bank (2016), more than 12 percent of the population live below the national poverty line (Anon, 2014). Furthermore, according to Human Development Report (2016), as per Multidimensional Poverty Index (MPI), 40 percent of the Pakistanis live in poverty (Rana, 2016). This shows the adverse ecconomic performance and activity of this economy where human capital cannot be utilised effectively.



Source: [Retrieved from].

Below diagram shows the region wise poverty in all over the Pakistan. This shows that major portion of the population in Baluchistan lives in poverty. This also depicts how government is ignoring different regions of the country which creates discrimination among provinces. Inability of implementing sensible and long-term policies in the country shows such discouraging results in the economy.



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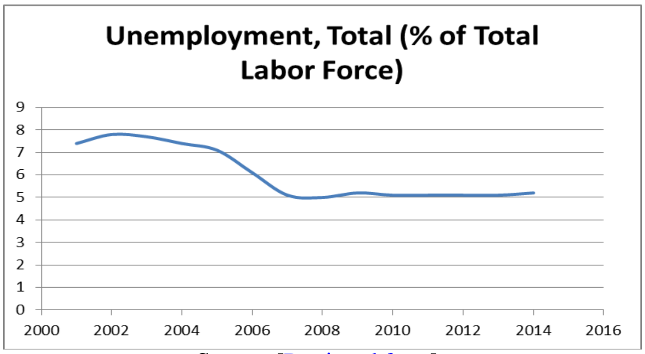
2.3. Unemployement

More than 5 percent of the labour force is unemployed in the Pakistan. Although situation has been improved since 2008 but it is still a very high as compared to its other neighbour countries. This issue also shows that Pakistan's economy is facing a tough situation for more than a decade. Unless effective economic strategies are formulated and implemented, government cannot properly utilise its human resource properly and efficiently.



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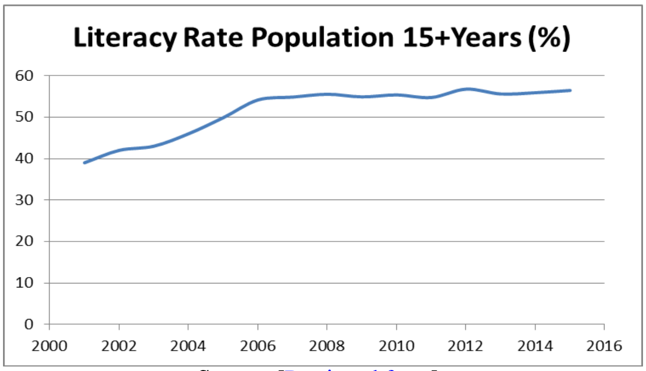
2.4. Low Literacy Rate

Iliteracy and unskilled labour are another major issue in Pakistan which are still ignored in the economic planning and strategy. More than 40 percent of the adult population are illiterate even in 2015. On the other hand, its neighbout country like China and India are having 96.35% and 72.2% literacy rates respectively. This unable it to compete well in the internaitonal market. In the below diagram, it is clear that the situation is improving gradually in the last few years, but still it is far behind than its neihbour countries.



Source: [Retrieved from].

2.5. Inefficient Short Term Planning to Meet Long Term Goals

Short term planning and strategies are another shortcoming of this developing economy to survive in this competitive world. rather than investing in long term projects, goveernment is interested to invest in short term projects to stabalise the economy which is not an effective approach for long term growth. For instance, government gives subsidy and rebate to its industrial sectors especially textile to increase its exports. This is not a result-oriented approach of the government to support a traded sector. As, textile industry consists of outdated machinery and unskilled labour which, by any means, cannot compete well with the products of China, Bangladesh and India in the international market. As a result, economy is losing its market share in the international textile industry. Another short-term planning is to invest in improving internal security structure which can never be effective unless security at the borders is increased to cult human trafficking and smuggling. Another drawback in Pakistan's short term planning is to invest huge budget on developing infrastructure rather to invest in human capital.

3. Literature Review

The consequences of economic policies and programs are reflected on the lives of the people after a time-period. This time period may vary from economy to economy depending on the social, economic, cultural and political structure of the country. Sometimes, short term development or improvement in the macroeconomic indicators may stabilise the economy but appears to be adverse in the long run. Short term economic planning is a dilemma for developing economies to go for in quest of long term economic growth. However, various studies have been conducted to link the short term economic planning with the long term economic growth. Developing economies may gain sustainable and consistent economic growth by using effective short term economic planning and strategies.

Economic growth and economic sustainability are two different concepts. According to Higgins (2013), economic development and growth is linked with the nature of economic planning and strategies. Short term planning, sometimes, gives aggressive economic growth rate at the beginning but lack in economic sustainability and consistency in the long run. On the other hand, sometimes, long term planning gives a slow or negative economic growth rate at the beginning, but ensures the consistent and sustainable economic development and growth in the long run. Furthermore, sometimes, short term planning may adversely impact the other core macroeconomic parameters of the economy which disturbs its consistency and sustainability.

There is also a misconception that economic growth is linked with the sustainability of the economic activity. However, this may or may not be true especially in case of developing economies. Economic planning and growth are two of the major problems faced by the developing countries. In case of developing economies, deteriorating macroeconomic indicators influence the policy makers to choose the short term planning over long term to run the economy. This approach, sometimes, disguises the economic growth by showing favourable growth rate in few sectors on the cost of other core indicators. Kerschner & O'Neil (2015) explained that in developing economies, this approach is either enforced or preferred by the economists to better deal with the current economic issues or problems.

Classical macroeconomists named Ward *et al.* (1972) studied that there is a very strong relationship between short term economic planning and long term growth. It is evident that if short term planning is wisely formulated, it can be linked with the long term economic development and growth. In case of developing economies, WB, IMF and ADB are few of those international financial institutes which cooperate with the developing and under developed economies to have sustainable and consistent economic growth by focusing on those short term projects which directly or indirectly link with the long term economic growth and development. According to the research works and studies of Bauer (2013), it has been highlighted that poverty, illiteracy, unemployment, technological backwardness, inefficient utilisation of resources and political instability are few of the major problems and issues faced by the developing and under-developed economies. All of these problems, somehow, tackled by those short term projects which are directly or indirectly linked with the sustainable development. Pearce *et al.* (2013) explained that in case of developing economies, sustainability and consistency of the economy for long run are major issues. Harting (2015) studied that after the financial crisis of 2008, stabilisation policies have become the priority of the countries to alleviate the effects of economic downturns and direct it to regain the growth and development. Therefore, economies, both developed and developing, are using short term economic planning to direct the economy towards sustainability and development in the long run.

According to Martin & Rogers (2000), there is no significant impact of short term shocks on the long run economic growth or development given that economic policies and strategies are well formulated and managed. From a theoretical point of view, the relation between short-term economic instability and long-run growth can be positive or negative, depending on the mechanism or nature of the economic growth. This relationship can be explained by determining the relation whether economic growth and productivity generates growth in productivity is a complement or a substitute to production. In the case where they are substitutes, since the opportunity cost of productivity improving activities falls in recessions, a larger amplitude and frequency of economic activities may have a positive effect on long-run productivity and growth. In the case of complementarity, positive shock will have a positive long-term impact on productivity and vice versa. It is concluded that if economics' core problems are being addressed in the economic policies, short term economic challenges and hurdles may not impact the economy in the long run.

According to OECD Economic Outlook Report (2011), long-term planning is not an easy task to manage especially for developing economies which have economic crisis, particularly because of emergence of fiscal imbalances, poverty and unemployment. These economic issues have adversely affected the long-term growth and made the economic activities uncertain. Denton *et al.* (1997) explained that increasing population and labour force requires long term economic planning and development. As the population is increasing in the world, the economic structure should be stable, sustainable and strong to absorb the changing requirements of the population. However, same is not an easy task for the policy makers.

There are various emerging economies in this South Asian region which have developed sustainable and consistent economic growth and expansion. China, Bangladesh, Indonesia, and Uzbekistan are some of those developing economies which have invested in the long-term projects to gain consistent and secure economic growth (Wright *et al.* 2005). Their encouraging figures of literacy rate, inflow of FDI, exports share in GDP, HDI and trade agreements with other economies have directed the economy towards sustainable and long-run growth.

Wong *et al.* (2005) explained that after the industrial revolution in the West, structure and origin of economic growth and activity have changed significantly. As per Scherer (1986) , a great economist named Schumpeter founded the base of innovation economies to transform the economic approach from traditional to innovation and creativity. His theory linked the creativity and innovation with long term economic development and growth. He explained that investments on innovation and research return the economy in the long run rather than short run. Therefore, today's developed economies invested in research and development to become innovative economies. Bilbao-Osorio & Rodríguez-Pose (2004) explained that this economic approach bestowed the sustainability and consistency of the economic activities for the long run. For these developed economies, long term economic growth and development have become the core objective.

There is no doubt that economic development is linked with the structural, technological and physical changes in all segments of the economy. When we look into the economic planning of these developed economies, it is evident that these have developed strong infrastructure and invested in long-term projects to develop sustainable and consistent economy. Financial crisis of 2008 never let these economies to ignore the importance of long-term projects.

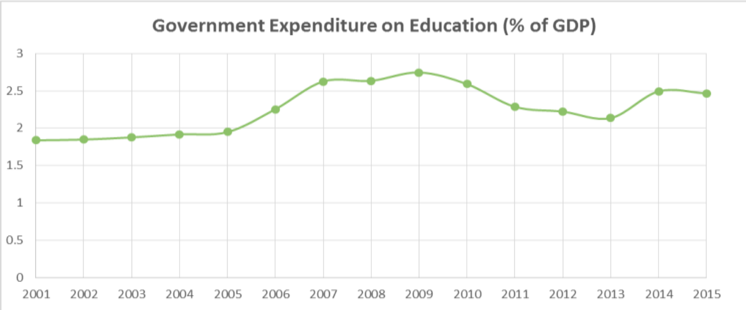
4. Data Description and Analysis

4.1. Pakistan's Short-term Projects and Impacts

Pakistan is focusing on short term planning and projects in quest of achieving long-term and sustainable economic development and growth. Here, we are discussing three of its short term projects and their impact on the economy in the long-run.

4.1.1. Importance to Education

Education is one of the most powerful parameters for eradicating the poverty, inequality and to build the foundation of sustainable economic development and growth. Pakistan's government is giving less importance to education and research and development. Government invests in higher education by ignoring primary and secondary education. Low women empowerment is also an issue which undermine the economic growth in this country. As a result, its competent and bright scholars leave this country in quest of getting higher living standard in developed economies (Memon, 2007; Malik & Courtney, 2011). For the last decade, when globalisation has fastened the pace of technology and advancement, the government's expenditure on education has never been more than three percent of the GDP. See below graph which shows the government's preference to invest in education.



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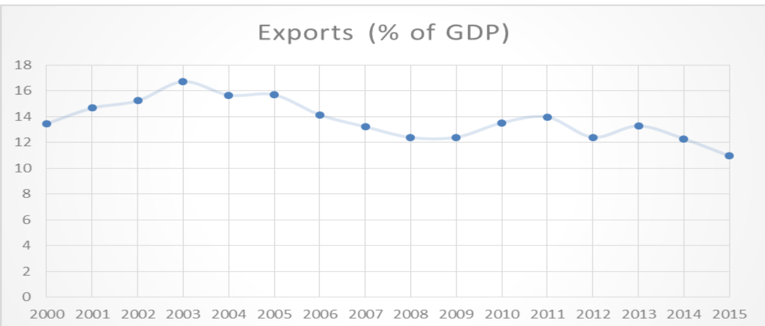
Expenditure on Primary and Secondary education was made 57.81% of the total allocated budget in 2013 which increased to just 68.51% in 2014 given that the population is growing more than 2 present annually. The fact of the matter is total government expenditure on education is very low which cannot give the sustainable economic development in the long run. Literacy rate in 2015 was just 56 percent as compared to 61.5% in Bangladesh, 72.2% in India, and 93.35% in China. Without making human resource competitive, no economy can ever compete in this globalised world where competition never let the weak economies to survive.

4.1.2. Tax Exemption & Rebating the Tradable Sectors

Again it's a short term policy to rebate or give tax exemption to the tradable sectors like textile, dairy & livestock, cotton, rice and other agricultural products. Some of the schemes proposed by SBP to support these sectors are: Refinancing Facility for Modernization for SMEs, Export Financing Scheme, Financing Facility for Storage of Agricultural Produce and Long Term Financing Facility for Plant & Machinery. Although, these schemes have supported the agricultural and textile sector, but these schemes are not enabling the local businesses to compete well in the international markets. There are various barriers and deficiencies in these sectors which have undermined the productivity and efficiency of the human and capital resources. From the last few years, these sectors have badly affected by the out-dated machinery and processes and country's energy crisis. Government is facilitating the local businesses to rebate on importation of raw material and machineries to strengthen these tradable sectors. But, the fact of the matter is, these sectors are no longer competitive and their volume of exports is decreasing for the last few years. Below shows the decreasing exports of the country. Even though, government is paying attention to support its tradable sectors, but overall negative trend shows the failure of their efforts.



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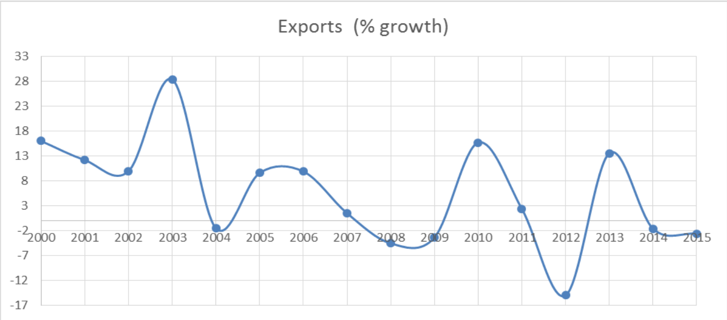
Below diagram shows the percentage growth in the exports of the country. Negative trend strengthen our argument of inefficient policies of the government to support those sectors that need restructuring or re-engineering.



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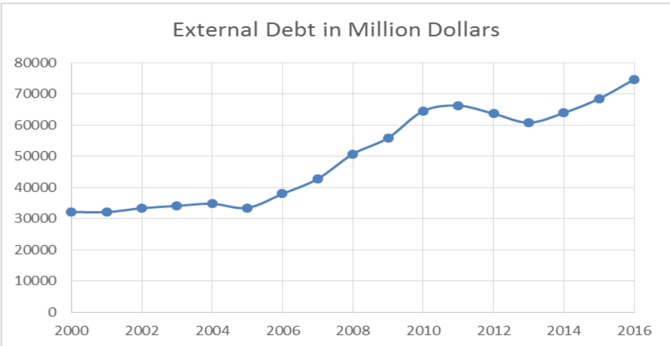
Secondly, it invests in those sectors of the country which are not its core competencies. As a result, those sectors may have ignored which can help the economy to gain foreign exchange. For instance, Pakistan is an agricultural land but government focuses more on industrial and services sectors which require huge funds. As a result, its agricultural sector affected a lot in the last few years. More than 60 percent of the labour class belongs directly or indirectly to this sector. This has affected adversely to the working class of the country.

4.1.3. Foreign Debt to Run the Economy

Current account and trade deficit is one of the major reasons behind taking loans from international financial institutions i.e. IMF, World Bank and Asian Development Bank etc. According to SBP, foreign debt has been increased 75 percent in the last nine years. Pakistan government go for foreign debt to meet its foreign reserve demand rather than to increase the exports to support the economy. Below diagram shows the increasing trend of external debt of the country.



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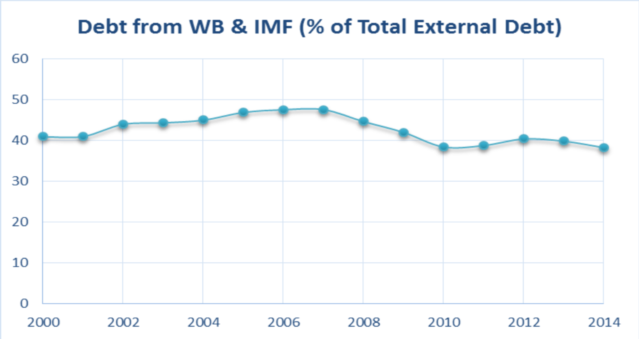
This is a short-term planning adopted by the government to take foreign loan rather to add new sources of earning foreign exchange. This option has increased the burden of interest payment on the economy. Economists are of the view that foreign debt will have adversely impact on the economy in the long run. Ideally, foreign financial assistance must be invested in developing infrastructure, education and other long-term projects to stabilise the economic growth. However, multilateral debts are given to developing economies for short-term projects which deteriorate the economic outlook in the long-run. In 2014, our multilateral debt consists of over 38 percent of our overall external debt (as shown in below diagram). As a result, IMF and WB dictates us to invest in short-term projects to run the economy. In other words, Tough terms and conditions of IMF, WB and ADB (donors) have adversely affected the economy and government sovereignty.



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High debt to GDP ratio increases the inflation rate, tightens the monetary policy and creates high debt burden on the economy which destabilises the economic growth of the Pakistan. BOP or current account deficit cannot be met without focusing on those sectors which can earn foreign exchange. Pakistan is ignoring the deficiencies of its internal industrial and agriculture sectors which consist of major portion of its exports. Structural and infrastructural changes are inevitable for these sectors to perform well in today's competitive international markets. In case of Pakistan, foreign loans are utilised for importation of new technologies to develop these tradable sectors. In other words, imports further increases in the economy. For this, long-term planning is very important to strengthen the economic development and pace.

4.2. How Short-term Projects in Pakistan Favours Developed Economies

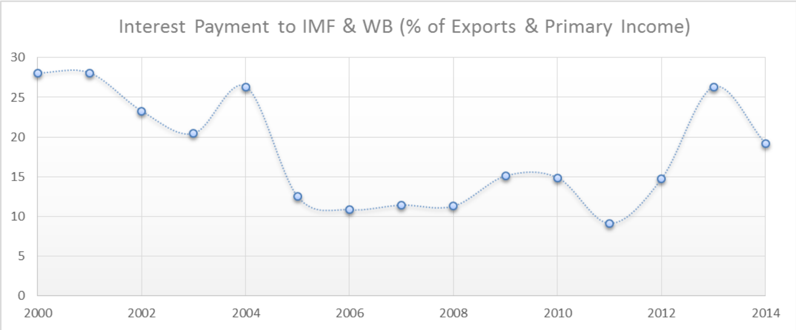
After the financial crisis of 2008, global long term planning and investment has been collapsed in especially developed economies. This let them to import assets from developing and under developed economies rather to develop their own. Same thing is happening with the case of Pakistan.

4.2.1 Brain Drain to Developed Economies

Developed economies have adopted rigorous immigration rules and regulations after financial recession, but determined to attract the best human resources from all over the world especially from developing economies. According to HEC report 2015, only six percent of our population enters in universities. 5,536 PhD degrees have been awarded in the last five years. According to Ministry of overseas Pakistanis and Human Resources Development, more than seven million Pakistanis are working abroad. Out of which, 48 percent are working in Middle East, 28 percent in Europe and 19 percent in USA. This exodus includes highly skilled human resource. Only in 2015, 220,411 skilled Pakistanis proceeded abroad for employment. This is an alarming situation for Pakistan to lose the skilled human capital to developed economies. Government of Pakistan is spending huge budget on Higher Education but ignoring to build international research development centres to provide employment opportunities and utilise these scholars. Research and Development is being ignored as a result, these skilled human resource left this country and work for other developed economies.

4.2.2. Huge Interest Payment to Donors

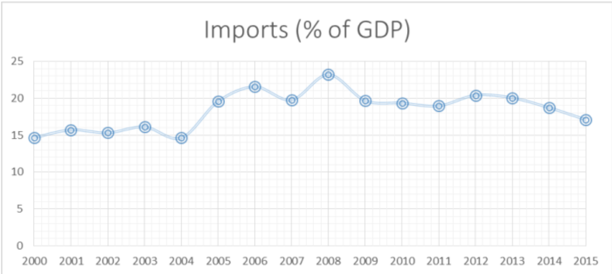
Foreign debt indirectly in favour of developed economies and international financial institutes. It has been proved that developing economies need long term planning and strategies. In case of Pakistan, IMF, WB and ADB issue loans to Pakistan for short-term projects. These funds are disbursed with highly strict terms and conditions that suppress the sovereignty of the government. Huge interest repayments never let the Pakistan to grow its economy in the long-run. By these funds, Pakistan meets its trade and current account deficit and strives to run the economy. These funds are further used in repaying the interest of the loan and importation of goods to fulfil the needs of the country. Indirectly, these funds indirectly support the economy of developed economies. This vicious cycle never let this economy to have a stable and consistent economic growth in the long-run. Below diagram shows the interest payment to only IMF and WB in the last ten years. In 2014, over 18 percent of our exports and primary income went to IMF and WB in terms of interest payment.



Source: [Retrieved from].

4.2.3. Ignoring Reverse or Re-engineering

Rebating, financial assistance or tax exemption to tradable sectors are not going to help the Pakistan economy to increase its exports. These are the short term measures to run the economy. In fact, these things increase the imports of the economy (See below diagram).



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Unless re-engineering or reverse engineering is introduced in these sectors, we cannot direct towards increasing the exports. With the wrong or short term policies of the government, textile and agricultural units are spending more funds on imports from the developed economies than to export. Furthermore, our products in the international markets are losing their competitive position. Unless these sectors adopt the strategies of reverse or re-engineering, we will remain the customers of developed economies one way or the other.

4. Conclusion

Pakistan is a developing economy with major issue of political economic uncertainty. Short term economic planning is its need to run the economy. Short term planning does not ensure long term economic growth and stability unless it is planned and implemented to achieve long term objectives. Pakistan needs to reformulate its economic policies to achieve sustainability and long term economic growth. For instance, rather to go for external loan, it needs to arrange funds from its local markets in shape of sukuk, bonds and other financial instruments to collect money for investing in long-term projects. Rather to invest in developing new industries, it needs to increase the efficiency and competencies of those sectors which are highly labour-intensive or employed a high portion of its human capital like Agriculture. Innovation and creativity at the university levels must be encouraged related to this sector to increase the labour productivity. In this way it will be able to regain its market position in the international market and increase foreign reserve. Another possible solution is to bring technological advancement in the inefficient and tradable sectors. In this way, it will increase its exports. Last but not least, Pakistan needs to formulate balanced economic policies and planning to deal with current issues and long term objectives. Both short term planning and long term sustainability are core components of the developing economies.

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