

CAN PAKISTAN REAP ITS DEMOGRAPHIC DIVIDEND?

The Debate

The debate on demographic dividend and economic growth contends that a country's long term development and prosperity, rises and falls with the fertility rate of the family.

Demographic transition is finally taking place in Pakistan and there is much talk about reaping benefits of the "demographic dividend". There is, however, a need to realize that benefits of the dividend will only happen if appropriate policies and mechanisms are in place for education, development of human capital, free markets that promote employment, old age security and savings.

This policy brief seeks to highlight why Pakistan is currently not well positioned to maximize the benefits of an upcoming demographic dividend and what are some of the issues that should be addressed in terms of labor supply, development of human capital, and enabling savings and investments.

How Demographic Dividends Promote Economic Growth

Demographic dividend leads to growth opportunities in output per capita in two principal ways: 1) by increasing proportion of workers among total population it increases the ratio of producers to consumers. In addition, reduced fertility also relieves women from their childbearing responsibilities and enables them to enter the labor market (thus further increasing producers), and 2) an increasing proportion of working-age individuals enhances the overall "productivity" and slowly improves the skill levels. On a broader level, aggregate savings and consumption increase. Increase in savings increases availability of relatively cheaper capital.

Social scientists, mainly economists and demographers, have long debated whether population growth encourages, discourages or is independent of

DEMOGRAPHIC TRANSITION: refers to the transition from high birth and death rates to low birth and death rates as a country develops from pre-industrial to an industrial economic system (Demographic transition model by Warren Thompson 1929).

DEMOGRAPHIC DIVIDEND: is defined as a period of rapid economic growth due to a high working-age population and low dependency ratio – increasing output per capita.

DEPENDENCY RATIO: is an age-population ratio of those typically not in the labor force (the dependent part) and those typically in the labor force (the productive part). It is used to measure the demands on the productive part by the very young and the elderly.

economic growth and development¹. For many years this debate did not take into account the impact of

SALIENT POINTS AND RECOMMENDATIONS

- **Demographic Dividend Must be Earned** The demographic dividend is not inevitable but has to be earned and is a time limited period (1990-2045) of which nearly 15 years have already gone by.
- **Government Role in Institution Building** - Full benefits offered by the demographic dividend cannot be realized unless the Government clearly accepts its role and that of the markets. Without Government's facilitation (and freedom) in developing institutions that aid economic growth and social development – improvements in education, economic activity and public health cannot really take place.
- **Productivity of Labor Force** - Labor force participation rates need to be improved. This requires integrating quality education and vocational trainings with the existing market demands, and generating employment through expansion of newer industries in manufacturing and services and capitalizing on worldwide agricultural advances that can readily absorb the large number of workers entering the labor force.
- **Inclusion of Girls and Women** - Strategies to engage girls and women to avail the economic opportunities as means of improving their lives and that of their families is critical to reap the full benefit of the demographic dividend. This would require influencing social and structural constraints that discriminate against women.
- **Education and Training** – are vital to developing and improving the productivity of human resources. This cannot be gained by merely increasing school enrollment. Interventions are needed to revisit the educational priorities, develop skills to meet demands of global and local markets, and measuring quality.
- **Savings Matter** – local savings increases innovation and local growth by providing liquidity to the domestic banking system that further helps attract bigger investments/foreign investors and pushes productivity growth. In Pakistan, the flight of capital and informal savings, mainly in real estate, are not conducive to growth.

age structure dynamics. For example, sustained high fertility and falling mortality increased national and household burdens by increasing populations of the very young and the very old that are dependent on working age adults, thereby increasing dependency rates. These in turn, lowered tax revenues and household savings².

¹ The three schools of thought are: 1) **The pessimists** who believe that population growth restricts economic growth, 2) **The optimists** who think that population growth can promote economic growth and that the lack thereof is more to inappropriate policies and institutions,

and 3) **The neutralists** who propose that population growth has no relation with economic growth if you control for factors like educational attainment, openness to trade and civil institutions.

² Coale and Hoover 1958

Demographic transitions taking place in many developing countries have reignited the interest in the relationship between population change and economic growth. As the relative populations of the young and the old change, the respective impact of economic behavior and consumption associated with different ages becomes more obvious³ and closely intertwined to the country's economy. This often presents an opportunity, but can become a threat, depending on how the country is positioned in terms of policies, institutions and markets⁴.

Background

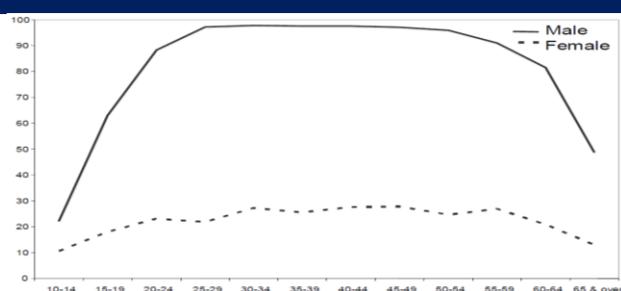
Since the 1960's, the global composition of population has been changing; some developed countries are facing the problem of ageing populations while in most of the developing countries, share of working age population is increasing. This process of "demographic transition" worldwide has opened a window of opportunity for potential demographic dividend in many developing countries, including Pakistan.

Pakistan has the world's sixth largest population, seventh largest diaspora and ninth largest labor force⁵. Nearly 63% of Pakistan's population is below the age of 24 years i.e there are 113 million youth. Youth constitutes a major share of our working age population and this type of composition of population presents both potential risks and benefits. On one hand, young people are more energetic, mobile and flexible while, on the other hand, these young people can present a great threat⁶ to the society if proper economic opportunities are not available to them.

Labor Supply and Youth

Youth in Pakistan face number of challenges on their way to work - early start to work, failing to enter the labor market and difficulties in moving across jobs. Besides, lack of education, formal skills and experience are some of major issues that hold youth from maximizing economic opportunities in the labor markets. About 52% of young people are not part of the labor force and even amongst those who are in the labor force there are significant difficulties in changing jobs; their unemployment rate is 9% vs 5.6% for adults.

FIGURE 1: AGE-SEX SPECIFIC LABOR FORCE PARTICIPATION RATES 2005-6



Source: Labor Force Survey 2005-6, Economic Survey 2005-6

³ The Life Cycle consumption model (Bloom et al 2001)

⁴ Demographic Dividend or Demographic Threat in Pakistan (Durr-e-Nayab) The Pakistan Development Review 47 : 1 (Spring 2008) pp. 1-26

⁵ World Bank Fact Book 2011

⁶ Most of the suicide attacks have been carried out by young people between the age of 15-24 years (Cutler et al 2001, Rakhra et al 2008)

TABLE 1: SUMMARY STATISTICS OF YOUTH IN PAKISTAN

Variable	%
Labor force participation rate (LFPR)	47.6
Unemployment rate	21.7
Inactive (neither employed nor in school)	30.4
Enrolled as a student	27
Combined work with school	1.2
Have formal training	0.8
Unpaid family helpers	38.5%

The age specific labor force participation rates (LFPR) for the year 2005-06 shows a typical inverted U-shape, with LFPR peaking between 25-50 years. Female participation has remained persistently low in the last decades and throughout their lifespan. Benefits of the demographic dividend cannot be reaped if less than 15% of females in the working age are availing the economic opportunity that changing demography is offering to Pakistan. Interestingly, we see that despite less than full participation of working age population especially females, the unemployment rate in the last 15 years have trended upwards. This trend is particularly worrying in the light of that increasing numbers of "workers" are expected to enter the working age and would the labor market be able to provide gainful employment to all those that are willing to work?

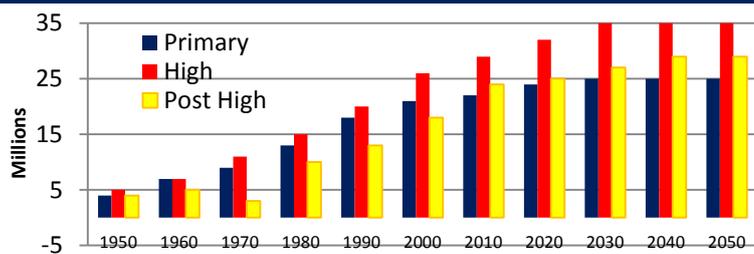
Human Capital Formation

The demographic transition encourages a premium on education level (i.e. parents see greater benefits and have capacity to invest more in their children's educational attainment and human capital development). As a consequence, the labor force becomes more productive, skilled, earns higher wages and standard of living improve⁷. By lowering the number of "children" the burden on the basic education system is reduced and countries can better focus on improving the quality of education and investing in higher education. With half of the population still illiterate, and less than 30 percent children completing secondary school and only 2.6 percent being educated up to graduate level, the predominant issue facing Pakistan right now is to have all its children complete at least primary education. To make things worse, it is not just a matter of poor quantity but the quality of education being currently provided and its contribution to ultimately developing the human capital is questionable. Figure 2 shows that Pakistan faces huge numbers in the coming decades to educate. As these numbers expand, the ability of the state to provide either the quantity or the quality of educate youth to become productive members of a 21st century society will diminish.

Improved human capital requires the science based knowledge and information skills to meet the changing needs from traditional agricultural and manufactured goods to more technologically driven services, agricultural and manufactured products. The emerging labor force will only have an edge (compared to other developing countries) if it equipped with skills and knowledge to adapt to the rapidly changing local and global market conditions. **Just by having school going populations in the "right" proportions does not automatically bring demographic benefits.** In the absence of quality and well planned strategies it will result in large segments of the population that are frustrated, unskilled and ill equipped despite the "educational qualifications" to

⁷ Bloom et al 2001

FIGURE 2: POPULATION AT DIFFERENT EDUCATIONAL LEVELS: PAKISTAN, 1950–2050



Source: Based on the Medium Variant present in World Population Prospects: the 2005 Revision

meet the changing world conditions, at both the micro and macro level.

Investment and Savings

Lifecycle variations in productivity (i.e. income) lead individuals to vary their savings over their lifetime in order to meet their consumption⁸. Demographic transition thus encourages savings by lowering the dependency ratio and allowing individuals to invest and save, thus fueling personal well being and economic growth⁹

On the whole, while Pakistan’s economic performance (1952-2012) has averaged 5 percent per annum; however the savings per capita rate continues to remain well below its regional neighbors at less than 10 percent. And compared to the East Asian countries there has been a steady divergence in Pakistan between low savings and investments along with high consumption spending in the last three decades¹⁰. Empirical studies have shown that savings are influenced by a host of economic and demographic factors – security of the banking system, higher interest rates, diverse investment options, increase in income per capita, lower inflation rates, transitory income, remittances, and lower dependency ratio. Investments on the other hand require provision of good infrastructure, creation of a favorable investment climate by adopting stable macroeconomic policies and by providing stability, secure property rights and good industrial relations have been important factors for raising rate of investment¹¹. Law and order situation, feasible and favorable investment opportunities and the economic credibility among the world economies leads to a positive impact on the total investment in a county.

It is also worth emphasizing that aging of the population is the inevitable end of the demographic transition, and Pakistan is slowly moving towards that. In the absence of any old age security system and the current low saving rates, the demographic dividend can become a demographic nightmare for majority of the elderly if they do not increase their savings and assets accumulation during their prime working age. An enabling environment that allows household savings will not only secure an elderly as an individual but also

provide potential for a “second dividend” to the economy.

Conclusions

Despite a concerning picture Pakistan still has a golden opportunity to capitalize on the demographic dividend but it needs to promptly formulate effective policies and seriously implement them now. Foremost, increasing numbers of young people entering working-age can rapidly backfire - if they do not enter the labor force thereby - defying the very assumption of the demographic dividend. However, if they do become economically active the country must be positioned to provide them gainful employment opportunities. In its current state this is a challenge without having in place sound economic and educational policies to bring out educated and skilled workers. With its archaic and poor quality educational system, training and educating the ever increasing population for today’s technology-based economic scenario is a daunting challenge that the country’s policy makers must first acknowledge and then address. Innovative global approaches to education, vocational training, knowledge building and social entrepreneurship must be undertaken both during and after the dividend period to overcome the social-structural constraints that are holding Pakistan back.

Secondly, the importance of enacting economic policies that enable savings cannot be over-emphasized. People tend to save only if savings are secure and profitable, and so that they will benefit tomorrow from sacrifices of today. In the absence of any state planned social security system, a growing and aging population that is uneducated, untrained and with little savings to rely on could become a tremendous burden on society.

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“Demographic Dividend or Demographic Threat in Pakistan” by Durr-e-Nayab, The Pakistan Development Review 47:1 (2008) pp 1-26 and

“Youth Population And The Labor Market Of Pakistan: A Micro Level Study” by Rizwan Ahmad & Parvez Azim, Pakistan Economic and Social Review 2010, 48 (2) 183-208

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⁸ Lee, Mason and Miller 2000

⁹ Leff et al 1969

¹⁰ Nasir and Khalid et al Saving-Investment Beha
Pakistan – An Empirical Investigation

¹¹ World Bank 1993 – Requisites for increasing investments

