

Attempting takeoff: An Analysis of Pakistan’s Economic Performance through Rostow's Stages of Growth

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Abstract

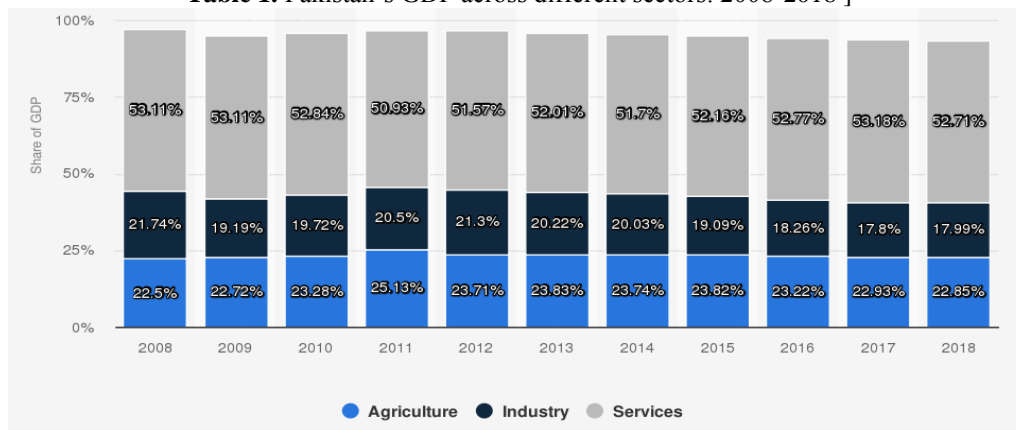
Rostow’s stages of Economic Growth (RSG) presents a set of conditions for economic growth and development, including social uplift and economic transition that are useful in modelling economic development. Using RSG as an analytic model, The study presents a descriptive analysis of Pakistan’s economic growth and development patterns from independence in 1947 to the post 9/11 period. Pakistan’s economic performance in terms of RSG has remained mixed since independence in 1947. There have been periods, where the country performed well economically, with a growth and industrialization emphasis. However, sustaining the positive trends has proven to be difficult in a politically diverse country like Pakistan, where most institutions remain weak, and the society retains dualistic features in terms of urban-rural divides. This paper carries out an analysis of the RSG in relation to how developed and developing countries have carried out progressions to the Take-off stage. This paper identifies different periods where Pakistan affected Take-off and analyses the conditions which induced progression to Take-off and consequent reversion to the preconditions stage. Moreover, it identifies areas of strength and weaknesses in establishing the necessary conditions such as political, social and institutional frameworks and promoting investments through an investor-friendly class, something which Rostow strongly emphasizes in the RSG.

Introduction

Situational Analysis of Pakistan’s Economic Growth and Development

Since independence, during the last seven decades, Pakistan’s economy has transformed from agriculture towards a service (sector)based economy (Zaidi, 2014). Between 2008 and 2018, on average the contribution of Agriculture sector amounted to around 22% of the Gross Domestic Product (GDP), whereas the share of the services sector has remained around 53% of the GDP (refer to Table 1) (World Bank, 2019). During the same period, the share of industrial sector dwindled to 17.99% from 21.7%.

Table 1. Pakistan’s GDP across different sectors: 2008-2018]



Source: World Development Indicators, World Bank, 2019

Having a large population of around 220 Million and lying across the vast and fertile Indo-Gangetic plain, Pakistan retains an agrarian economy, where the agriculture sector makes a vital contribution to the national economy in terms of employment and as a provider of raw materials to the industrial sector (Zaidi, 2014). Pakistan’s national GNP per capita is estimated to be around 1420 USD (Bureau of Statistics, 2005; Chaudhary et al., 2002). Since independence in 1947, Pakistan’s Economy has produced mixed results in terms of economic growth and development. Particularly, during the last few years, since 2017 onwards, the economy has exhibited

mixed trends. The GDP has been estimated at around 310 Billion USD during the period 2018 and 2020, with a decreasing trend (World Bank, 2019). Moreover, in 2019, Pakistan's economy experienced severe inflation and devaluation of the Pakistani Rupee, which lost around a third of its value against the Dollar between 2018 and 2019 hitting an all-time high of 164 in June 2019 (TheNews 2019). Furthermore, the GDP growth rate has decreased from 5.8% in 2018 to -1.5% as of April 2020 (IMF, 2020).

This paper examines Rostow's stages of growth and development concerning Pakistan's economic development. Rostow's stages of growth is a flexible economic development model, which outlines a set of general economic growth and societal transformation conditions, which a country experiences as it seeks to transform from an elementary to a developed economy (Khan and Marinaro, 2017). This paper carries out a descriptive analysis of the available literature and data concerning Pakistan's economic growth and development patterns. Moreover, it compares Pakistan's performance concerning Rostow's stages of growth and compares this with other developing and developed countries. And assessing Pakistan's economic growth and development concerning

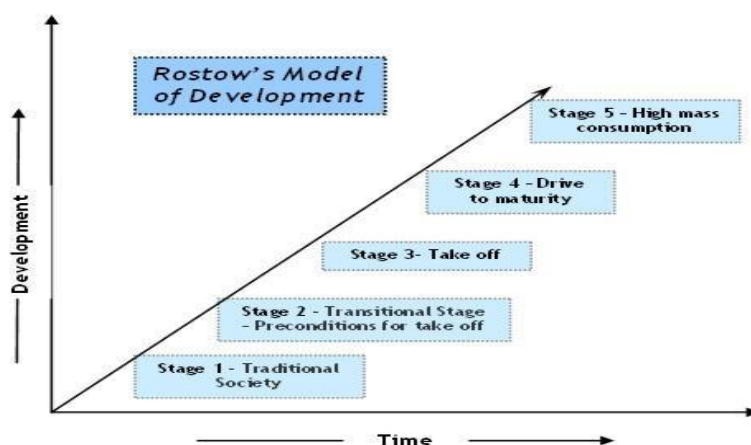


Figure 1: Rostow's Model of Development.

2. Rostow's Stages of Growth (RSG) and its significance as a model for Economic Growth and

Development

Ever since its inception, Rostow's stages of growth is regarded as a significant model that highlights the transitions, from a traditional to a highly developed economy (Kesgingöz & Dilek, 2016; Khan & Marinaro, 2017). The model is simple and easy to follow and entails key goals in terms of its different stages, which are helpful to policymakers as they (seek to) embark on economic growth and development. The RSG is based on a capitalistic economy and the five stages it identifies include; Traditional Society (Stage 1), the pre-conditions to take-off (Stage 2), the take-off stage (Stage 3), the Drive to maturity (Stage 4) and finally the age of high mass consumption (Stage 5) (Refer to Figure 1 for Rostow's Model). During the stage of high mass consumption (the final stage), an economy and its corresponding society are deemed to have reached the Apex stage in terms of transforming into a highly developed and welfare society.

Before the Take-off stage is the pre-conditions to the Take-off stage, where the economy is transitioning from a traditional economy (Rostow, 1956). The pre-conditions to Take-off are characterized by acceleration of capital accumulation, industrialization and development of agriculture, and undertaking necessary infrastructural Development on which an economy bases a vibrant industrial sector. Along with the development of manufacturing industry, the stage requires that the country develops and establishes foundations for promoting international trade.

The most important amongst Rostow's stages is the Take-off stage (stage 3). Rostow, in his model, as well as his subsequent writings, mainly emphasizes the take-off stage as an entry point for the economy into sustained growth and development. He posits that, when the economy and society transform productively for a period of two to three decades, the take-off is presumed to have started. Furthermore, Rostow emphasizes that during the Take-off phase, the rate of investment in the economy increases leading to changes in production techniques as well as increased per-capita output (Rostow, 1956). Moreover, Rostow emphasizes that societal changes are essential for the take-off, and as such a leading group or authority needs to facilitate and push sustainable growth and perpetuate economic growth and development through active societal participation (Rostow, 1956). Furthermore, Rostow emphasizes that avenues for productive enterprise, which society attains during sustained growth, must be accompanied by appropriate political, social and institutional changes. Rostow (1956) outlines three main conditions for the take-off, which includes raising productive investments, leading to the development of at least one leading industrial sector, which creates further secondary expansion within the economy. Lastly, Rostow outlines that appropriate political, social and institutional changes need to accompany these events which will ensure the development of a modern economy with strong foundations.

Following the take-off stage is the Drive to maturity, where the industrial sector diversifies and national infrastructure and quality of life is improved over extended periods of time. The Drive to maturity requires that the conditions of the take-off stage continue for lasting growth and development. The investment ratio must be between 10% to 20% of the national economy. There has to be favorable population growth, and it needs to be sustained for 60 years (Rostow, 1991). The take-off stage is included in this period. Economic diversification needs to take place, which implies that the economy can produce most of the goods it needs.

Following the Drive to maturity, the final stage onsets, i.e. the age of high mass consumption, where the society transforms into a highly developed economy – undertaking mass production of good and services as well as exports catering to consumer demand. The stage of high mass consumption is the final stage wherein a country transforms into a welfare state. The population of a country has access to consumption and goods way beyond their basic needs and requirements (Rostow, 1991). It also requires that a country is capable of charting an independent foreign policy and applying military capability. All the conditions that Rostow outlines are not supposed to be met in every stage. However, the general patterns are supposed to be followed, the period of the stages and the lengths, in turn, may vary from country to country and region to region (Khan & Marinaro, 2017).

3. Analyzing Take-Offs of Developed and Contemporary Developing Countries

Since Pakistan is widely believed to have only come close to the Take-off stage, we, therefore, analyze economies of selected developed and contemporary developing countries till their take-off stage. According to Rostow (1956), as described in section 2 above, three conditions have to be achieved before the onset of the Take-Off stage, which are the rise in the rate of productive economic investments to 5% to 10% of GDP, Development of at least one primary manufacturing sector and the existence of political, social and institutional frameworks facilitating economic expansion and take-offs. Rostow (1956) further emphasizes that, to achieve the take-off stage, countries have taken two different paths. Either they have undertaken significant changes in their traditional political and social structures, or they undertook significant economic expansion by increasing productivity and exploiting their vast land and natural resources, for which he cites the United States and Sweden as examples.

Table 2. Tentative Take-off dates for Developed and Developing Countries

Country	Take-off
Britain	1783
United States	1843
France	1830
Sweden	1868
China	1977
India	1988
Pakistan	2002

Source: Rostow (1956) & Pakrashi and Frijters (2017)

Furthermore, Rostow emphasizes that this process of a take-off stage must be accompanied by developing an in-country elite that facilitates increased investments in the economy, enabling increased industrial outputs. Rostow gives the example of France, where a 5% sustained investment rate yielded substantial growth in real output per capita because France's lower population growth rate allowed it to reach the Take-Off stage by 1830 (Table 2).

Moreover, the onset of take-off is characterized by a sharp stimulus which can be a form of a revolution or a sharp innovation that positively affects the balance of social power, the character of economic institutions, patterns and distribution of incomes and investment (Rostow, 1956). For the United States, the 1840s is characterized as a period where the Eastern region carried out significant expansion in railways and manufacturing. In comparison, the Western region undertook expansion in terms of agricultural production during the 1850s, which was also marked by a massive inflow of foreign capital by the US Mid-West (Rostow, 1956).

Britain, according to Rostow, undertook decisive transformations concerning meeting the conditions for Take-off between 1783 to 1802 (refer to Table 2), while industrialization entirely took hold and matured in Britain between 1815 and 1850. To sum it up, after analyzing different country cases, Rostow (1960) concluded that take-offs are a particular period when the scale of production in terms of economic activity reaches a critical level leading to a massive and progressive structural transformation in economies and societies.

Concerning the contemporary developed and developing economies Pakrashi and Frijters (2017) emphasize that take-offs and landings are the results of spontaneous and discontinuous change. In China's case, the country is regarded to have initiated take-off by 1977 and India by 1988. Pakrashi and Frijters (2017), use a slightly different measure where they assume that if the level of GDP growth of a country remains more than 3% for five years within ten years, it is assumed to have initiated the take-off stage. In China's case, the GDP growth rate

averaged 6.88% between 1977 to 2010. While the Indian economy grew 4.9% on average between 1988 to 2010. Similarly, Pakistan initiated its take-off in 2002.

4. Comparative Analysis of Pakistan's Growth and Development to Rostow's Stages of Growth

According to Zaidi (2014), Pakistan's economic growth and development phases can be divided into five distinct periods, based on different Governments and Governance and Economic policies.

The Post-Partition period

The post-partition Pakistan was economically weak and administratively in disarray (Zaidi, 2014). The initial task of the policy and decision-makers was to build essential infrastructure for the new country. The first few years were dedicated to laying the foundations for a stable country. Thus, the state sector intervened in all aspects with the aim of creating an economic base. Right from the beginning, Pakistan got bogged down in conflict with India over Kashmir. This severely hampered economic growth and development, since resources had to be diverted towards the Indo-Pak conflict. Issues like constitutional making and distribution of resources between India and Pakistan also remained key concerns.

The Decade of Development (the 60's)

The post-partition phase was followed by the 'decade of development' that lasted from 1958 to 1969. In this period, the economy grew by a resounding 6.77% (Table 3), which is regarded as one of Pakistan's promising periods of significant and sustained economic growth (Zaidi, 2014: 5). During its first five years, the industrial sector grew by as much as 17%, while as a whole, large scale manufacturing grew by 10% (Zaidi, 2014). A sound industrial base was created in the country by setting up large number of industrial plants (Chaudhary *et al.*, 2002). Even though there was a relative period of sustained industrialization and economic growth, the real trickle-down effects to the poor and downtrodden remained controversial during this period (Zaidi, 2014: 4). During the '60s, Pakistan's economy was seen as promising, referred to as 'Asian tiger.'[†]

The Post-Dismemberment period (the 70's)

Pakistan faced dismemberment in 1971 when the eastern wing of the country was separated and became Bangladesh following the second Indo-Pak war of 1971.[‡] There was a downward economic turn for the leftover Pakistan, since the erstwhile western wing struggled economically and politically on the loss of its eastern wing, i.e. present-day Bangladesh. The Gross Domestic Product (GDP) came down to 4.84% during the 70s, whereas industrial sector growth was around 5%, which was twice less than the preceding decade (Zaidi, 2014: 6). Economic growth and development were affected by the onset of natural disasters, including floods and earthquakes.

The Era of Structural Adjustment (1980's and 1990's)

During the 1980s, the average growth rate remained 6.45 (Table 3). However, by the early 1990s, Pakistan's economy started showing dismal growth trends; GDP growth dropped to around 4.6% for the 1990s; with a high population growth rate, real GDP growth rate remained marginal. There was a sharp fall in growth in all sectors, including agriculture, manufacturing to the services sector (GOP Economic Survey, Various issues). The return to weak democratic rule characterizes this period, wherein four governments were replaced in a short span of nine years. The late 1980s and 1990s are referred to as the 'Era of Structural Adjustment' since during this period Pakistan initiated a series of IMF based lending programs called Structural Adjustment Programs - SAP's (Zaidi, 2014: 7; Singer, 1995). As a result of IMF's conditions, indirect taxes such as General Sales tax and Sales tax were levied for the first time in 1994. Additional indirect taxes worth Rs. 140 Billion PKR were levied in the period 1994-7 as part of conditions under the SAP's (Ibid).

These policies had to be complemented with higher taxes, escalation of administrative prices, which led to the free fall of Pakistani rupee (Zaidi, 2014:7; Singer, 1995). The conditions led to decreased government employment opportunities during the 1990s in Pakistan; this affected opportunities for the poor and destitute sections of the society (ibid). Thus, given that a major segment of the population in Pakistan depends on Government employment, these policies and conditions delivered a severe blow to the lower and middle-income groups (Anwar, 1996:914; Iqbal & Zahid, 1998).

The income-based poverty rate was 18 per cent in 1988, which meant that there had been a decrease of nearly 12 per cent concerning the 1970s. However, by 2002, poverty had resurfaced significantly with nearly a third of the population (34%) hit by income poverty (Zaidi, 2014: 8). By 1991, after the first SAP program had been implemented, poverty rate increased to 18% from 14% in 1988 (Anwar, 1996: 19; Singer, 1995). One of the most striking dimensions about re-incidence of poverty was the country's unflinching subservience of IMF's SAP, for the same periods (Zaidi, 2014: 8). The impact was staggering; poverty rose annually by one and a half per cent till 2002. IMF advocated continuous devaluation of the Pakistan Rupee. The Rupee lost as much as 17

* Flashpoints world conflicts, Kashmir-India vs Pakistan source: http://www.flashpoints.info/countries-conflicts/Kashmir-India_vs_Pakistan-web/Kashmir-India_vs_briefing.html

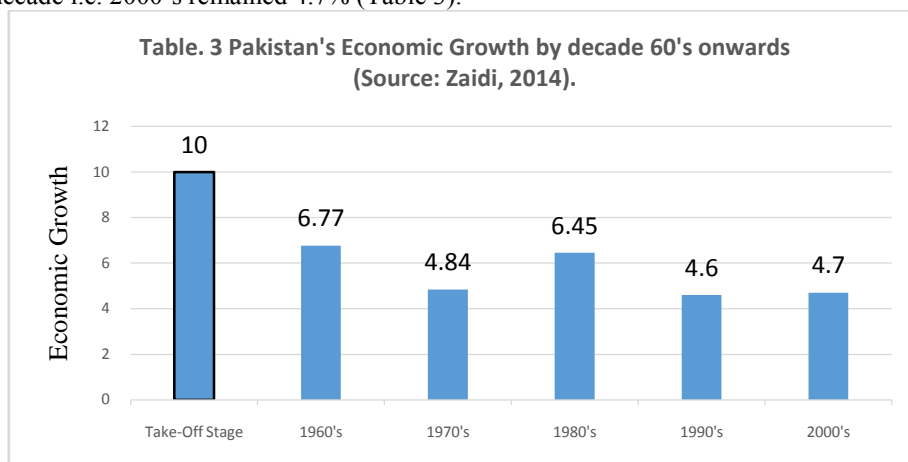
† Impact of Nationalization on Pakistan's Economic development source: <http://richpaki.tripod.com/impact.htm>

‡ Bangladesh War of Independence 1971, source: <http://www.onwar.com/aced/data/bravo/bangladesh1971.htm>

per cent in 1996 alone (Zaidi, 2014:7). Thus, according to some, the case of rising poverty accompanied by a loss in the standard of living, for ordinary Pakistani's characterizes the 1980's and 1990's, which was coupled with the implementation of IMF based SAP's in Pakistan (Anwar, 1996:23).

The Post 9/11 period

The economy registered impressive growth levels of around 6% to 7% between 2002 to 2006; these were comparable to India's growth rates during the same period (Pakistan Times, 2004). However, the overall average for the first decade i.e. 2000's remained 4.7% (Table 3).



Pakistan saw off IMF's lending facility in 2002, which allowed it to tailor strong economic and financial policies and poverty rates decreased marginally to 28% from 34% between 2002 and 2006. However, the onset of hostilities resulting from the war-on-terror had profound fallouts, which impacted the economy and by 2008 a large balance of payment crisis mounted and Pakistan had to approach the IMF again for bailouts (Gulf News, 2008). The economic outlook remained bleak between 2008 and 2012. As the economy reeled from the fallouts of the instabilities affecting Pakistan's western border, Pakistan faced a balance of payments crisis, and the IMF was approached for a bailout, which approved a \$7.6 billion aid package for Pakistan (IMF, 2019). Since 2013 the economy started reviving, and by 2018 the GDP growth had touched 5.8%. However, political instability again affected the economy, and the growth rate dropped to 2.4% by 2019 further plunging to -1.5% by May 2020 as a result of the COVID crisis (IMF, 2020).

Locating Pakistan's Economy through Rostow's Stages of Growth (RSG)

Concerning Rostow's first stage, i.e. Traditional society, Pakistan has exhibited traditional societal features, particularly - early post-independence. In particular, Pakistan's far-flung and remote regions have subsistence scale economies, where the means of production and technological progress is traditional. Another critical area where Pakistan's Economy has demonstrated weakness is its low level of savings, which at 12.5%, are one of the lowest in South Asia (Chaudhary *et al.*, 2002; Khilji & Mahmood, 1997). Moreover, around 50% of the labour force continues to be associated with the agriculture sector (Zaidi, 2014; Iqbal & Sattar, 2005). Pakistan's peripheral and remote areas still continue to exhibit traditional features. However, the urban centers have moved away from the traditional economy, big cities such as Karachi, Lahore, Faisalabad, Sialkot and Rawalpindi have experienced increased industrialization and increased per capita output and productivity. Pakistan, therefore, retains dualistic economy including modern and traditional features.

Concerning Rostow's stage two, i.e. the pre-conditions for take-off, since the 1960s, Pakistan's Economy has met most conditions associated with this stage. Pakistan retains features of a productive modern economy in urban regions and industrial hubs (Zaidi, 2014). Since the 1960s (refer to the section on the decade of development), Pakistan initiated a series of economic and industrial expansion programs, which resulted in considerable scale growth. Moreover, the Agriculture sector continued to increase productivity and output since the 1960s onwards when large scale irrigation networks were constructed over the Indus river system. Pakistan is by and large food secure and exports handsome amounts of agricultural commodities.

After a critical analysis, we conclude that, since the 1960s, Pakistan's Economy has remained transitional between Rostow stage 2 and stage 3. Since during different periods from the 1960's to the post 9/11 period, the other pre-conditions for take-off including development of a sound industrial base, acceleration of capital accumulation and creation and up-gradation of necessary transportation infrastructure have largely been met.

In relation to the Take-off stage, it is evident that Pakistan's economy has failed to grow consistently above 5 per cent or more, which, according to Rostow (1956) and Pakrashi and Frijters (2017), is a key requirement. Even more so is the case for countries with large population growth rates such as Pakistan, which needs to demonstrate real GDP growth over extended periods accompanied with an increased level of savings and investments in the economy. Pakistan has achieved more than 5% GDP growth on average between 1959 to 1989. However, this is

in perspective to its large population growth of over 3 %, while take-off in France in 1830 had a considerably low population growth (refer to section 3). Pakistan therefore has not been able to effect a successful take-off, which requires continuous growth over at least two or more decades. However, the country does meet certain conditions associated with the take-off, including raising productive investments and directing these into the productive economy, and development of a key manufacturing sector, i.e. textiles and linking it with the global economy and trade. In recent years, however, Pakistan's textiles sector has experienced a number of problems including reduced output utilization resulting from a crippling power crisis, which reduced the competitiveness of Pakistan's Textiles sector, ultimately leading to reduced productivity and relocation of certain units (Dawn, 2017). During the last decade, the textile industry has lost around 50% productivity and 40% of the units have relocated to Bangladesh alone (Ibid). Moreover, from 2006 onwards, Pakistan's Economy has borne the brunt of conflict-induced instabilities, particularly in the North-west and Baluchistan western border (Khan & Syed, 2008). Moreover, while analyzing Pakistan's social development and social indicators since independence, it is evident that there are significant weaknesses. For instance, since the late 1980s, Pakistan's social development indicators continued to slide, and it is presently ranked 152nd on HDI as of 2019, which is one of the lowest in the South Asian region (UNDP 2019).

Table 4. Rostow's Take-off conditionality's and Pakistan's Economy

Take-off Conditions	1960's	1970's	1980's	1990's	2000's
5% or more sustained Economic growth and increased savings and investments	√	X	√	X	√
Development off one or more key industries	√	√	√	√	X
Political, social and institutional changes	X	√	X	√	X
Establishment of dedicated business (investor) class	√	X	X	√	?

In evaluating Pakistan's economy, one can assume that Pakistan met a large number of take-off conditions during the 1960s. These included achieving the critical levels of economic productivity including savings and increased investments in industrial sectors, which led to setting up industrial plants and structural transformation of the economy. However, the expansion was not sustained during the '70s, '80s and '90s (refer to Table 4). In the post 9/11 period, there was a period of brief economic take-off between 2002 and 2007, where the economic growth indicators including growth remained positive, the rate of investments was high, but most of these including savings were used for non-productive sectors including consumer-driven goods. From 2007 onwards again the economic outlook became negative, which lasted till 2013-14. Between 2015 and 2018 there was a brief resurgence in terms of economic growth and productive investments in infrastructure and CPEC, but by in 2020 GDP growth is estimated to have dwindled to -1.5% from 5.8% in 2018.

Now considering Rostow's Take-off conditions, that includes development of a key industrial sector linked with global trade and economy. Necessary political, social and institutional changes that facilitate and sustain progression for strong Economic Growth and Development. Another key condition is creation of a group of businessmen or investors, who invest and promote significant economic expansion, leading to sustainable growth through industrialization and secondary expansion.

Throughout Pakistan's history, the government has directly or indirectly been influenced either by military or military-led dictatorships. During the 1960's General Ayub remained in charge, followed by Zia in the '80s and Musharraf from 1999-2008. While non-political forces have retained considerable influence during the 1970s, the 1990s as well as the recent political events in 2016 and onwards have shown that, there has been a consistent failure to create a stable social, political and institutional framework in Pakistan. This has affected the sustainability of economic growth and industrial expansion, even though the other requisite conditions have been sparingly met.

Moreover, the conditionality of developing a leading group of investors or businessmen, who support the national economy, in the long run, has been difficult to achieve; same is the case with foreign direct investments which have fallen as much as 55% between 2018 and 2019 (The Express Tribune, 2019). During the early 1960's because of rapid industrialization an investor elite was created, which facilitated economic and industrial expansion only to lose favor with Government authorities towards the late 1960s (Brecher & Abbas, 2005; Zaidi, 2014). This had significant consequences for industrial and economic expansion. Then later on during the '80s, '90s and post 9/11 during various short periods, investments picked up partly, and local investors started taking an interest. However, this process has been continuously checked and hampered and at present friendly business investment opportunities are getting scarce, which is evident from the large unemployed workforce and outward income-based migratory trends.

Conclusions and Policy Recommendations

It is clear from the evidence presented that Pakistan's economic growth and development patterns seem inconsistent with Rostow's stages of growth. The country has had mixed experiences with the Take-off stage coming close to the Take-off in the 1960s and again during the period 2004 onwards. However, recent events

particularly during the last couple of years have reduced the growth of Pakistan's economy, also affecting other enabling conditions of the Take-off including reduced investments, and political and institutional instability, which has hampered the creation of an enabling critical mass of expansion. Moreover, Pakistan's erstwhile star industrial sector – the textile industry – which had provided economic stability in terms of expansion and steady exports in the past, has been affected in terms of reduced capacity and relocation to neighboring countries. This will further affect Pakistan's efforts to achieve take-off, sustain economic growth and effect pro-poor policies.

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