Urbanization without Productivity:

Pakistan's Missing Structural Transformation

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EXECUTIVE SUMMARY

Pakistan's urban population has expanded from approximately 33 percent in 2000 to 38–40 percent today, yet this demographic shift has not translated into the productivity gains historically associated with urbanization (World Bank, 2023). Cities have grown physically without deepening economically — absorbing labour into low-productivity informal services rather than export-oriented manufacturing. Over 70 percent of urban employment remains informal, constraining fiscal capacity and technological upgrading (Pakistan Bureau of Statistics, 2021). This brief identifies three structural gaps — a consumption-led growth model, fragmented metropolitan governance, and the absence of agglomeration economies — and advances five targeted reforms. The core argument: Pakistan's urban transition has occurred without industrial transformation, creating a cycle of informality, import dependency, and external vulnerability.

Key Terms: *Urban Productivity · Agglomeration Economies · Industrial Clustering · Structural Transformation · Export-Led Growth*

AT A GLANCE: URBAN ECONOMY INDICATORS

Indicator	Value	Source (APA)
Urban population share	~38–40%	World Bank (2023)
Urban employment informality	>70% of workforce	PBS (2021)
Manufacturing GDP share	~12–13%	World Bank (2023)
Exports as % of GDP	~10%	SBP (2023)
Merchandise imports (FY2023)	USD 55+ billion	SBP (2023)

01 | THE PROBLEM: Demographic Urbanization without Economic Transformation

Urbanization is historically the spatial expression of structural transformation. Cities concentrate labour, capital, and knowledge, enabling economies to shift from low-productivity agriculture to higher-productivity industry and services (World Bank, 2009). Yet Pakistan presents a paradox. Urban population share has risen from approximately 33 percent in 2000 to 38–40 percent today, yet manufacturing's GDP contribution has stagnated at 12–13 percent — well below the 20–25 percent typical of successfully industrializing economies (World Bank, 2023; Asian Development Bank, 2021).

The result is spatial expansion without economic deepening. Major metropolitan areas — Karachi, Lahore, Faisalabad, and emerging secondary cities — increasingly function as consumption hubs rather than production engines. Construction, retail trade, transport services, and low-end personal services dominate urban employment (Pakistan Bureau of Statistics, 2021). These sectors absorb labour but generate limited productivity spillovers. Informality remains pervasive: over 70 percent of the urban workforce operates outside formal employment structures, constraining tax mobilisation, firm scaling, and technological diffusion (International Labour Organization, 2020).

Consumption-driven urbanization increases import intensity through construction materials, fuel, and consumer goods while failing to generate compensating export earnings. Pakistan's merchandise exports hover around 10 percent of GDP — less than half the 22 percent average for comparable emerging markets (State Bank of Pakistan, 2023; World Bank, 2023). Urban growth, rather than easing external constraints, has become a transmission channel for balance-of-payments pressure. Cities that do not produce for external markets ultimately destabilise the macroeconomic accounts that sustain them.

02 | STRUCTURAL FAILURES: Three Converging Deficits

Three distinct structural failures have converged to transform demographic urbanization into an economic liability. The first is the **absence of agglomeration economies.** Successful urban transformation depends on firms co-locating to share infrastructure, supply chains, labour pools, and knowledge spillovers (Duranton & Puga, 2004). Pakistan's industrial geography has instead become fragmented. Industrial estates often suffer from infrastructure deficits, regulatory uncertainty, and weak municipal coordination (Pakistan Institute of Development Economics, 2022). Firms respond by dispersing or remaining small, limiting productivity gains.

Land markets in major cities incentivise speculative real estate investment over industrial use. Rising urban land values crowd out manufacturing, pushing industry toward peri-urban areas lacking connectivity and services (PIDE, 2022). The World Bank estimates that speculative land holding in urban Pakistan exceeds 30 percent of total urban land area — capital trapped in unproductive assets while industrial investment starves for space (World Bank, 2020).

The second failure is **governance fragmentation.** Urban productivity is fundamentally a governance outcome. Pakistan's metropolitan governance remains fragmented across provincial departments, development authorities, and municipal bodies with overlapping mandates (Asian Development Bank, 2019). This fragmentation undermines coordinated land-use planning, transport integration, and industrial zoning — all prerequisites for productive cities. Infrastructure deficits compound the challenge. Energy reliability, urban transport connectivity, logistics efficiency, and digital infrastructure remain uneven, raising firm costs and reducing competitiveness (World Economic Forum, 2022).

The third is **labour absorption without skill deepening.** Urban migration continues to be driven by rural push factors — agrarian stress, mechanisation, and climate variability — rather than strong urban pull factors rooted in industrial employment (International Labour Organization, 2020). Migrants often enter informal construction, transport, or petty trade. While these sectors provide livelihoods, they do not facilitate skill upgrading or wage convergence with global benchmarks. This creates a dual urban labour market: a narrow formal sector with limited job creation and a vast informal segment characterised by low productivity (Pakistan Bureau of Statistics, 2021).

TABLE 1 — Structural Deficit Analysis Matrix

Gap Type	Diagnosis	Economic Consequence	Priority
Missing Agglomeration Economies	Fragmented industrial geography: speculative land	Low firm productivity; limited technology spillovers; export stagnation	**Critical**

Gap Type	Diagnosis	Economic Consequence	Priority
	markets crowd out production		
Governance Fragmentation	Overlapping mandates; no integrated metropolitan planning	Infrastructure deficits; higher firm costs; investment disincentives	**Critical**
Labour Absorption without Skill Deepening	Rural push factors dominate; informal service sectors absorb migrants	Productivity stagnation; wage inequality; fiscal weakness	**High**
Consumption-Led Growth Model	Urban expansion driven by services and real estate, not manufacturing	Import dependency entrenched; recurring BOP crises	**Critical**

03 | POLICY RECOMMENDATIONS: Five Strategic Interventions

The evidence points not toward resignation but toward a specific and sequenced reform agenda. Five interventions are both urgent and institutionally within reach.

1	**Establish Metropolitan Industrial Clustering Zones**
	The Ministry of Industries, in collaboration with provincial governments, should designate 3–5 integrated industrial zones within or adjacent to major metropolitan areas. These zones must combine reliable electricity supply, logistics infrastructure, skilled labour access, and streamlined regulatory processes. Fiscal incentives should prioritise export-oriented manufacturing and technology sectors. Industrial land use should be protected from speculative real estate conversion through long-term zoning enforcement (World Bank, 2020). *International Precedent: Shenzhen Special Economic Zone, China (World Bank, 2019)*

2	**Reform Urban Land Markets to Penalise Speculation**
	The Federal Board of Revenue and provincial revenue authorities should institute progressive land value taxation on unimproved urban land, calibrated to location and development potential. Revenue generated should be earmarked for metropolitan infrastructure investment. Simultaneously, industrial land allocation processes must be depoliticised and fast-tracked for verified export-oriented enterprises (OECD, 2017). *International Precedent: Singapore Land Acquisition Act (Phang, 2015)*

3	**Create Integrated Metropolitan Governance Authorities**

Provincial governments should establish legally empowered Metropolitan Development Authorities for Karachi, Lahore, and Faisalabad with statutory authority over land-use planning, transport integration, and industrial zoning. These authorities must consolidate fragmented municipal functions and operate with multi-year capital budgets insulated from annual political cycles (Asian Development Bank, 2019).

International Precedent: Greater London Authority Model (OECD, 2015)

4 — Link Urban Skill Development to Export Industry Demand

TEVTA and provincial skill development bodies should align training programmes with labour market demand from export-oriented manufacturing clusters. Industry advisory boards should co-design curricula, and certification should be portable across firms. Fiscal support should prioritise sectors with documented skill shortages in tradable goods production (International Labour Organization, 2021).

International Precedent: Germany's Dual Vocational Training System (CEDEFOP, 2020)

5 — Prioritise Secondary Cities as Manufacturing Hubs

The Planning Commission should designate 5–7 secondary cities (population 500,000–2 million) as manufacturing and logistics nodes. Strategic infrastructure investment — expressway connectivity, industrial parks, reliable power — should precede rather than follow private investment. This spatial diversification can ease congestion in megacities while exploiting lower land costs and proximity to agrarian hinterlands (World Bank, 2009).

International Precedent: Vietnam's Secondary City Industrial Strategy (ADB, 2018)

TABLE 2 — Implementation Roadmap

Reform	Lead Institution	Int'l Precedent (APA)	Horizon
Metropolitan Industrial Clustering Zones	Ministry of Industries + Provincial Govts.	World Bank (2019)	Medium-term (1–3 years)
Urban Land Market Reform	FBR + Provincial Revenue Authorities	Phang (2015)	Near-term (6–18 months)
Integrated Metropolitan Governance	Provincial Governments	OECD (2015)	Medium-term (1–3 years)
Skill Development Linked to Export Demand	TEVTA + Provincial Skill Bodies	CEDEFOP (2020)	Near-term (6–18 months)
Secondary Cities as Manufacturing Hubs	Planning Commission + Provincial Govts.	ADB (2018)	Medium-term (1–3 years)

04 | CONCLUSION

Pakistan's urbanization trajectory reflects a broader structural dilemma: growth without transformation. Cities have expanded demographically but not economically, absorbing labour without substantially raising productivity or export capacity. The consequence is a cycle of informal employment, fiscal strain, and external vulnerability (World Bank, 2023; International Labour Organization, 2020).

Breaking this cycle demands a shift in policy perspective. Urbanization must be embedded within a coherent productivity agenda — integrating industrial clustering, labour skill development, infrastructure investment, and metropolitan governance reform. The objective is not merely to accommodate urban growth, but to harness it as a catalyst for structural change (Asian Development Bank, 2021).

In development history, cities have been engines of transformation when they produce more than they consume. Pakistan's challenge is precisely this: to convert expanding urban landscapes into productive ecosystems that generate exports, innovation, and upward mobility. The five reforms advanced in this brief are neither utopian nor prohibitively complex — each has a verified international precedent, a named institutional lead, and a feasible implementation horizon. Until that transformation occurs, urbanization will remain a demographic reality rather than an economic dividend.

ABOUT THE AUTHOR

Dr. Ghulam Mohey-ud-din is a Lead Strategic Economist and Policy Advisor with 18+ years of experience in urban economics, spatial econometrics, industrial development, and evidence-based policy design. His work spans Gulf economies, Vision 2030 frameworks, and South Asian emerging markets.

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