

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 percent today (World Bank, 2023), yet this demographic shift has not translated into productivity gains historically associated with urbanization. Cities have grown physically without deepening economically — absorbing labour into low-productivity informal services rather than export-oriented manufacturing. Over 72 percent of non-agricultural urban employment remains informal, constraining fiscal capacity and technological upgrading (PBS LFS, 2025). Manufacturing's GDP contribution has stagnated at 11.80 percent (FY2024-25), well below the 20–25 percent typical of successfully industrializing economies (PBS Table 7a, 2025). This brief identifies three structural gaps — fragmented industrial geography, governance fragmentation, and labour absorption without skill deepening — 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
Urban population share	~38%	World Bank (2023)
Non-agricultural informal employment	72.1%	PBS (2025a)
Manufacturing GDP share	11.80% (FY2024-25)	PBS (2025b)
Exports as % of GDP	~10%	World Bank (2023)
Employment-to-population ratio	43.0% (19th ICLS)	PBS LFS (2025)
Merchandise imports (FY2024-25)	USD 59.1 billion	SBP (2025)

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 percent today¹, 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 — increasingly function as consumption hubs rather than production engines. Construction, retail trade, transport services, and low-end personal services dominate urban employment. These sectors absorb labour but generate limited productivity spill overs. Informality remains pervasive: 72.1 percent of non-agricultural employment operates outside formal structures (Pakistan Bureau of Statistics, 2025a), constraining tax mobilization, firm scaling, and technological diffusion.

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 regional average (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.

The structural implication is profound. Without a manufacturing-led urban transition, Pakistan risks entrenching a consumption-led growth model that perpetuates import dependency, constrains fiscal revenues, and forecloses the productivity convergence that drove East and Southeast Asian economic transformation. The window to redirect urbanization toward productive ends is narrowing as urban infrastructure investments lock in current spatial patterns.

02 | STRUCTURAL FAILURES: Three Converging Deficits

Three distinct structural failures have converged to transform demographic urbanization into an economic liability. Understanding each failure — its mechanism, evidence base, and interaction with others — is essential for designing effective policy responses.

The first is **fragmented industrial geography**. Successful urban transformation depends on firms co-locating to share infrastructure, supply chains, labour pools, and knowledge spill overs (Duranton & Puga, 2004). Pakistan's industrial estates often suffer from infrastructure deficits, regulatory uncertainty, and weak municipal coordination (Asian Development Bank, 2024). Firms respond by dispersing or remaining small, limiting productivity gains. Land markets in major cities incentivize speculative real estate investment over industrial use. Rising urban land values crowd out manufacturing, pushing industry toward peri-urban areas lacking connectivity and services (Haque, 2015). This dynamic erodes the agglomeration economies that historically drive urban productivity growth.

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, 2024). This fragmentation undermines coordinated land-use planning, transport integration, and industrial zoning — all prerequisites for productive cities. Without a unified metropolitan authority capable of making binding spatial decisions, investment signals remain ambiguous and infrastructure coordination costs remain prohibitive.

¹ Even the GIS and functional definitions show the urbanization rate much higher, e.g., a recent World Bank study (Cabanilla (2025)) estimate it above 80 percent in Pakistan

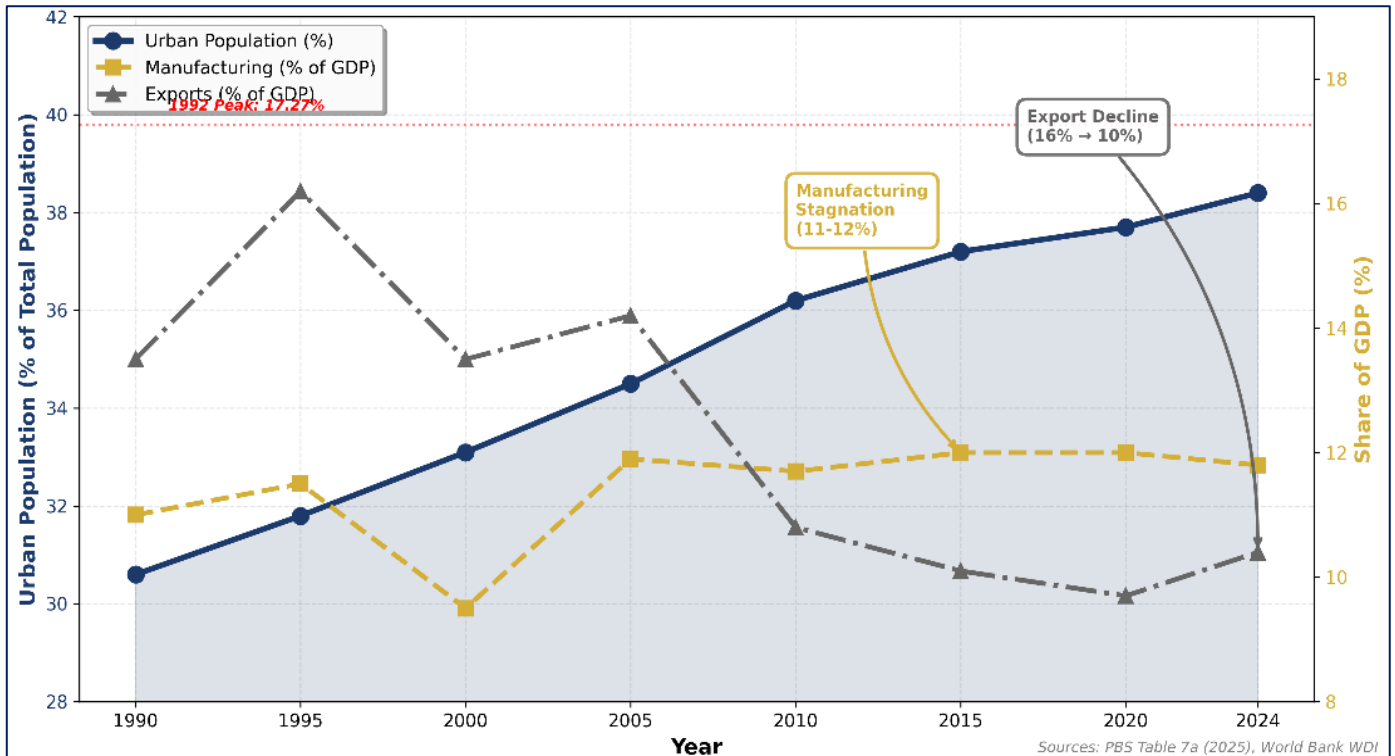


Figure 1 — Urban Growth vs. Manufacturing Output & Export Performance, 2000–2024

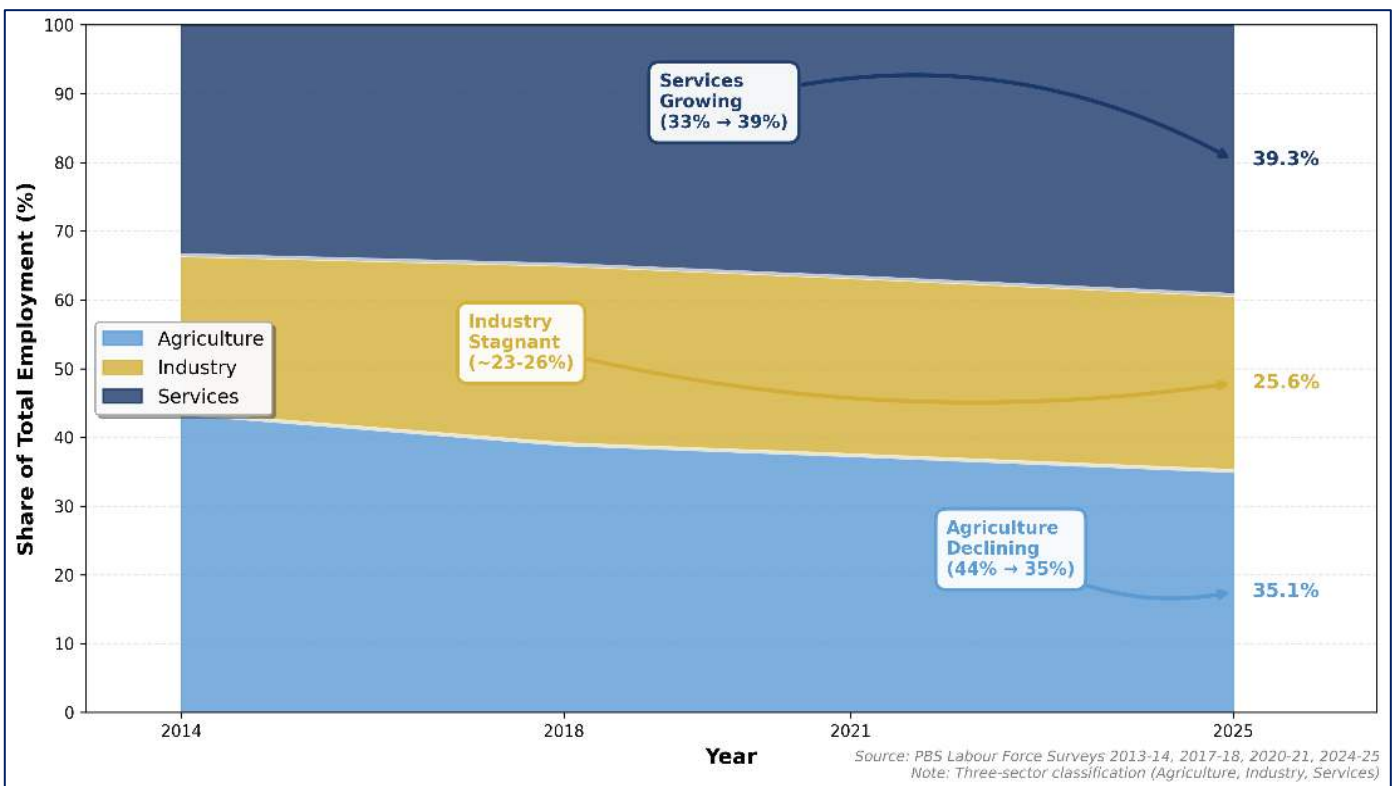


Figure 2 — Sectoral Composition of Urban Employment: Services vs. Manufacturing

The third is **labour absorption without skill deepening**. Urban migration continues to be driven by rural push factors — agrarian stress, mechanization, and climate variability — rather than strong urban pull factors

rooted in industrial employment. Migrants often enter informal construction, transport, or petty trade. These sectors provide livelihoods but do not facilitate skill upgrading or wage convergence with global benchmarks (International Labour Organization, 2023). The result is a labour force urbanizing without acquiring the productive capabilities that export-oriented manufacturing requires.

TABLE 1 — Structural Deficit Analysis Matrix

Deficit Type	Diagnosis	Economic Consequence	Priority
Fragmented Industrial Geography	Dispersed industrial estates; speculative land markets crowd out production	Low firm productivity; limited technology spill overs; export stagnation	Critical
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 services 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 fatalism 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 Penalize 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 (Yong, 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, 2024).

International Precedent: London's Greater London Authority (OECD, 2015)

4

Link Urban Skill Development to Export Industry Demand

The Technical Education and Vocational Training Authority (TEVTA) and provincial skill development bodies should align training programs 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 prioritize sectors with documented skill shortages in tradable goods production (International Labour Organization, 2018).

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

5

Prioritize 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 Cities Development (ADB, 2018)

TABLE 2 — Implementation Roadmap

Reform	Lead Institution	Int'l Precedent (APA)	Horizon
Metropolitan Industrial Clustering Zones	Ministry of Industries + Provincial Governments	Zeng (2010)	Medium-term (1–3 years)
Urban Land Market Reform	FBR + Provincial Revenue Authorities	Haque (2015)	Near-term (6–18 months)
Integrated Metropolitan Governance	Provincial Governments	ADB (2024)	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 Governments	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.

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. The five reforms advanced in this brief target the specific institutional and spatial failures that have prevented Pakistan's cities from fulfilling their economic potential.

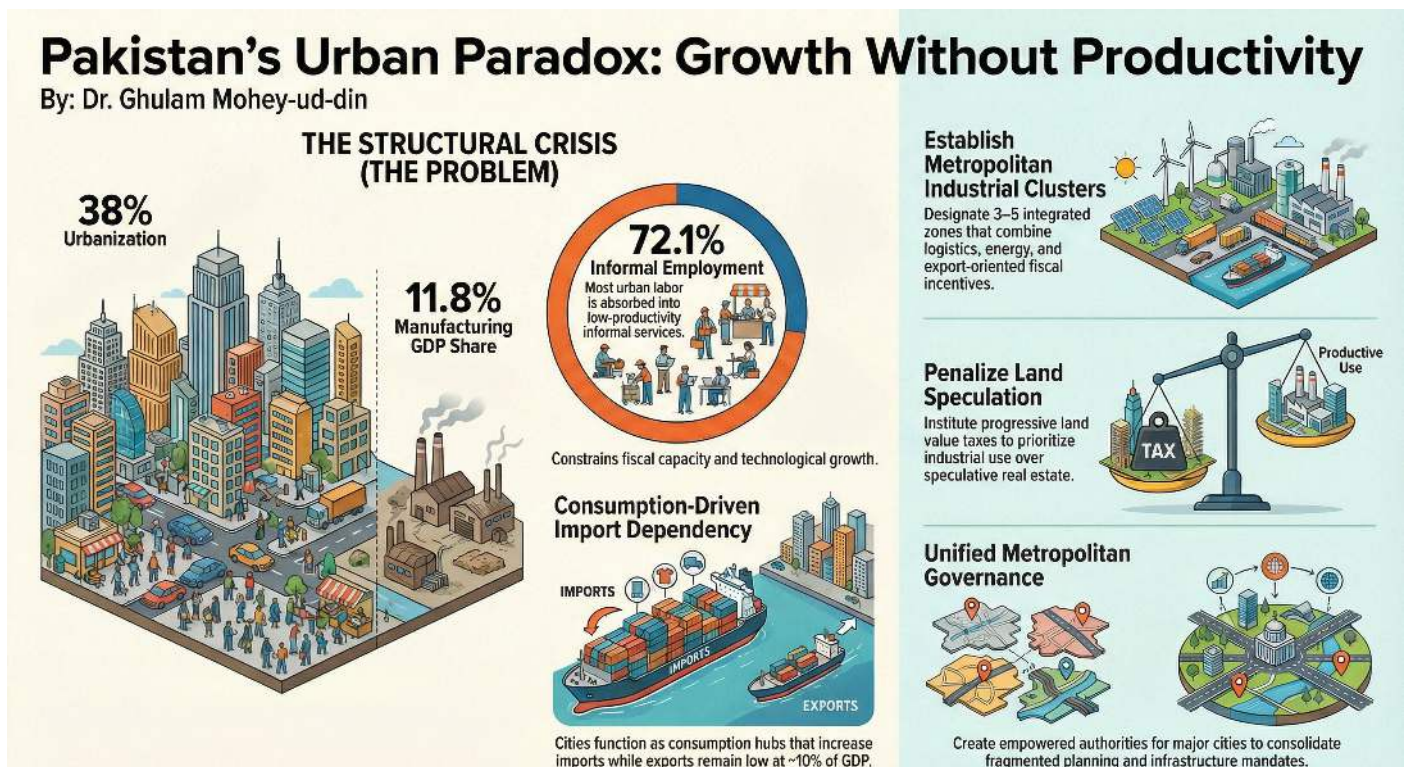
In development history, cities have been engines of transformation when they produce more than they consume. Pakistan's challenge is precisely this: to convert expanding urban landscapes into productive ecosystems that generate exports, innovation, and upward mobility. Each reform advanced in this brief 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 Senior 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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GRAPHICAL ABSTRACT: Visual Summary



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