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## Chapter 10

# Introduction to the Economy of Pakistan

Sofia Anwar, Qasir Abbas and Muhammad Ashfaq\*

### Abstract

An economy is a complex structure of consumers and producers which have beneficial role for each other. Pakistan economy is mixed type of economy which has three major sectors i.e. agriculture, industry and services. The contribution of these sectors into the economy is given as agriculture contributing 21% of the GDP; industrial share is 20.9% while services sector share is 57.7% of the GDP. The trade account remained in deficit during most of the years in history and is still in the same condition due to more dependence on imports. The excessive dependence on imports has also disturbed our foreign exchange reserves. The continuous devaluation of Pakistani rupee was also result of these economic problems. Public debt, to manage the economy, is rising sharply as it reached more than 60% of GDP. It is evident from the above discussion that Pakistan's economy has a lot of problems, so an integrated economic, social and political framework is needed to bring Pakistan out of this imbroglio. If we look at the historical performance of the Pakistan economy, then it is observed that after the 1980s Pakistan economic growth has been continuously decreasing except in the era of General Pervaiz Musharaf. All sectors growth has declined after the 1980s but there was slightly improvement in the 2000s decade. Abundance of natural resources, human capital, excellent geographical location and hardworking masses are the strengths of Pakistan economy. Low literacy rate and ignorance, shortage of capital, no regard for rule of law and institutions, inefficient and ritual – ridden social system and corrupt political

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environment, dominated by non-progressive elements of tribal sardars, feudal and religious advisors are some weaknesses of Pakistan economic system.

## 10.1 What is Economy?

An economy is complex structure of interdependent producers and consumers having beneficial role for each other. A weak and flawed economy may result into the subjugation of individual and societal freedom. Different types of economies work globally with their pros and cons. Recessions and disorders in every type of economy leaves no one perfect. Free market, command and mixed are the three types of economies discussed in literature.

### 10.1.1 Types of Economies

- Free Market Economy
- Command Economy
- Free and Command Economy (Mixed Economy)

#### *Free-Market Economies*

In such economies, which are mostly capitalist economies, firms and individuals decide about their own economic interests in a better way. Exchange of goods occurs in a competitive environment which brings a fair price in market for goods and services. In this type of economy individuals and businesses make their own economic decisions and they usually seen in democratic states. Such economies lead toward more economic development and growth as is evident in the case of Europe, North America and Tiger nations.

#### *Command Economies*

Such economies are controlled by central hand (government) of the state, so these are planned, controlled and managed centrally. The production and consumption activities are controlled to achieve certain economic and security objectives, like sometime to save the nascent industries and sometime to maintain a monopoly within or outside the boundaries of the country. In these types of economies all major decisions are taken by the central government. Usually these economies exist in communist or authoritarian states. The examples of such economies are Russia and China which have their own success and failure stories.

Many economists believe the disintegration of USSR just because of unjust distribution in the society due to central planning of the state. China has also felt the need to shift from command economy to somewhat different and partial independent system. This need is felt in China because the system was ignoring and violating some of the basic economic laws and forces.

#### *Free and Command Economy*

This type of economy keeps the character of the both above types. It blends the elements of both and presents a better way to cope with new emerging economic and

social problems. Now a day, even in the free market economies, state does play a restrictive role in correcting the economic problems i.e. like monetary and fiscal policy. Other interventions are like fixation of prices, subsidies and tariff policies. Due to these factors, most of the economies are now mixed economies.

### **10.1.2 Comparison of different types of Economies**

There is no absolute consensus about which type of economy is the best. One can easily find the best one by comparing the economic performance of different systems in the past. Since the industrial revolution, the world economies with free and command markets have witnessed many peaks and troughs. The peak existed till the start of 20<sup>th</sup> century in the form of rapid economic growth coupled with economic development. But the subsequent depressions of 1930's and the later ones in the same century and in 21<sup>st</sup> century have posed questions on the validity of both systems i.e. Command and Free Market. The integration of capitalist economies through International Financial institutions has turned the bad into worse. John Perkins also stated the negative role of these financial institutions in his book "The Story of Economic Hitman". Beside this, the under development of resource rich African and Asian nations also present a clear narrative of failure of these systems. The disintegration of USSR, which was an emblem of success of command economy till 20<sup>th</sup> century, also proves the command system as inefficient and faulty. Thus, it is clear that only a blend of both of these systems may prove better for economies, which is evident from the success of different states in the world (Perkins 2006).

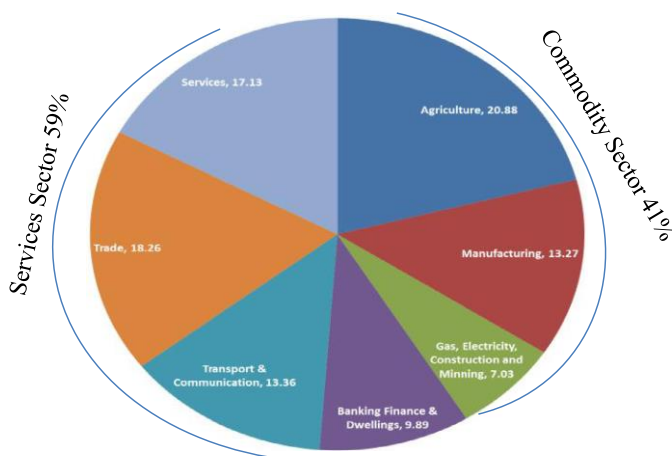
## **10.2 Economy of Pakistan**

At the time of independence Pakistan's economy, which was having nothing to survive, has made his way in the line of developing country through many experiments in political and economic history. The economy had witnessed relatively free market system at one time (mostly in democratic government periods like 1988 to 1999 and 2008 to on till now) and command at the time of 1971 to 1977 and all dictatorship eras. For this reason, the economic history of Pakistan becomes more interesting. Despite having so much turbulent time, Pakistan has witnessed the time of fastest growth in South Asia region. But the inconsistent policies and narratives of every government failed this state many times. These variable policies are still freezing the Pakistan to live among the developing world. The capitalists and landlords, who emerged because of different economic follies, have hijacked the economic development of country. This elite joined hands with military and bureaucratic muscle of the country and remained a key player in ousting different democratic governments. Beside this, the linkage with international monetary institutions during 80's also started to engulf the economic independence of the country and has trapped this country in to debt trap.

Pakistan is rich in every type of resources, but the situation is getting worse with every passing day. Despite of having vast reserves of coal, oil, gold, gas and many other valuable minerals, Pakistan is depending on international aid for its economic and social revival. Pakistan has vast fertile land which led it to self-sufficiency in

food. The share of different sectors in the economy has been changed much since independence. Pakistan has also a large pool of human resource which can be turned into productive one by adopting a wise policy.

Now the agriculture is sharing almost 21% in GDP which was more than 50% at the time of creation of this state in 1947. Whereas, the industrial and services sectors have gained in their share in GDP up to 20.9% and 57.7% respectively from 8.03% and 39.3% in 1947. The trade account remained in deficit during most of the years in history and is still in the same condition due to more dependence on imports. The excessive dependence on imports and shortage in energy sector has also disturbed our foreign exchange reserves. The continuous devaluation of Pakistani rupee was also result of these economic problems. Public debt, to manage the economy, is rising sharply as it reached more than 60% of GDP. It is evident from the above discussion that Pakistan's economy has a lot of problems, so an integrated economic, social and political framework is needed to bring Pakistan out of this imbroglio. A brief introduction of Pakistan's economic structure is discussed below.



**Fig. 10.1** Share of various sectors in GDP (%)

Source: GOP (2014)

### ***Major Sectors of Pakistan Economy***

The major sectors of the Pakistan economy are:

- Agriculture
- Industry
- Services

#### **10.2.1 Agriculture Sector**

Agriculture sector is the only largest sector of our economy, contributing 21% of gross domestic product, employing 44% of total labor force, sharing 65% of exports

and supporting expansion of industries by supplying raw materials. No policy for increasing national income and raising living standard of people can be successful unless agriculture is given top priority. Agriculture holds such a pivotal position in our economy that if in some years agricultural output falls, everybody feels the pinch. In rural areas about two-third of population lives and their livelihood turns around allied activities and agriculture. poverty in Pakistan is generally a country marvel; in this manner, improvement of agribusiness will be a main means for reducing neediness.

### ***Structure and Sub-Sectors***

Agriculture has many sub sectors. Their relative share in agriculture production in 2014-15 is given below:

**Table 10.1** Value Addition of all major sectors in GDP of Pakistan.

Sub-sector	Value added
A. Crops	34.91%
Major crops	2.06%
Minor crops	58.55%
B. Forestry	2.17%
C. Livestock	2.31%
D. Fisheries	
E. Others	
Total value added	100.0

Source: GOP (2016)

Total area of Pakistan is 80 million hectares. Out of this cultivable area is 23 million hectares. Due to variety of soil and climate every type of crops and fruits are grown.

**Major Crops:** cotton, wheat, rice, sugarcane, maize.

**Minor crops:** pulses, oilseeds, jawar, bajra, gram, barley, onions, potatoes, tobacco, etc.

**Fruits:** apple, mango, kinnow, banana, guava, etc.

Agriculture sector of Pakistan economy is stagnant, and its growth rate is slow. It is unable to meet the requirements of a fast expanding industry and rapidly multiplying population. The sector has a drawback that it has a volatile nature. It is affected by the vagaries of Mother Nature, floods, pest attacks, drought etc. The special character of agriculture causes instability of income of farmers. The most important problem of agriculture sector is low productivity per acre and per worker.

## **10.2.2 Industrial Sector**

The most distinctive feature of a modern developed country is its strong industrial base. If a country lags in industrial growth, it cannot hope to make progress in other fields such as agriculture, transport, energy or education. It is the manufacturing sector, which can provide employment opportunities to rising population. Manufacturing is the second largest sector of Pakistan economy, with 21% share in

GDP. It employs 14% of total labor force. Rate of growth of this sector during 2014-15 was very low at 3.62%.

It is divided into two parts

- Large scale manufacturing
- Small scale manufacturing (Small and Medium Enterprises, SMEs)

During the past half century, Pakistan made good progress in textiles, sugar, fertilizer, cigarettes, cement, engineering goods, plastics, electrical goods, paper, beverages, etc. However, this growth was slow so it failed to ensure higher incomes for the rising population.

Some Important Industries

- |   |                      |
|---|----------------------|
| ○ Cables and electrical goods, Cement     | ○ Iron and steel     |
| ○ Chemicals and pharmaceutical, Paints    | ○ Paper and board    |
| ○ Cosmetics                               | ○ Plastic and rubber |
| ○ Engineering Auto and Allied             | ○ Sports             |
| ○ Fertilizer                              | ○ Sugar and Allied   |
| ○ Food and Allied, beverages, cooking oil | ○ Surgical           |
| ○ Fuel and energy                         | ○ Textiles           |
| ○ Glass and Ceramics                      | ○ Wood and furniture |

**Textiles related industries** are the most important part of the industrial sector. This sub-sector employs large number of labor and is the mainstay of exports.

**Privatization:** During past two decades the government has privatized many industries so private sector has become dominant in industrial sector.

**SMEDA:** The government has established a Small and Medium Enterprises Development Authority (SMEDA) to help and solve the problems of SMEs.

**Major Problems** of industrial sector are:

- |                    |                           |
|--------------------|---------------------------|
| • Low Productivity | Poor quality products     |
| • Limited Capacity | Shortage of Capital       |
| • Energy Shortage  | Lack of Advanced Know-how |

### 10.2.3 Services Sector

Services sector of Pakistan economy is quite a large sector as it contributes to the extent of 58% in the GDP. It has many sub-sectors like transportation, communication and storage, retail and wholesale trade, insurance and finance, housing services (ownership & dwelling), general government services (Public administration & defense) and many other private services.

All these sub-sectors have vital role in the economy of Pakistan. Generally, without services sector economy of any country cannot run. This sector absorbs the major labor force of the country. Other sectors of the economy are strongly related with the services sectors: it provides necessary inputs to agricultural and services sectors. It

also creates the linkages with other countries. Due to the movement of agriculture sector from services sector of employment share of services sector is increasing. This sector is also a major source of revenue as almost 26% of revenues are collected from this sector. There are great opportunities in services sector for unemployed persons. It not only reduces the poverty, but it also improves the quality of life. By increasing investment and trade, this sector leads to the economic growth and competition (Zaidi 2005).

### **10.3 Historical over view of Pakistan Economy**

The over-time review of the economy is divided into various phases and discussed below.

#### **10.3.1 Fifties Era: 1947 to 1958**

The era marked the government of Liaqat Ali Khan and initiation of first Five years plan. There was currency war between Pakistan and India that was the highlight of this era in 1949. In 1950 the relations were restored, and trade resumed. In 1953 the plan collapsed altogether due to lack of funds. Flood in 1951-52 and 1952-53 hinder the progress of the nation. In 1955 revived the plan and published in 1956.

##### ***Political and Economic situation***

Early years of Pakistan's independence were the years of battle for economic and political survival. Economic fragility and political hangover was putting a question mark on its survival. On the political side, different multidimensional crises found home in Pakistan and became worse with every passing year. Political rift in different provinces was also posing even bigger challenges to the leadership of the country. The migrant's problems, who were coming to Pakistan and who were leaving for India, was posing a big challenge on both sides of the government. The riots that broke out between the Sikhs, Hindus and Muslims left thousands dead. The dead bodies remained in the refugee camps for many days, which caused many severe health issues. All of the economic challenges and the needed policies were put aside to tackle with the problem of a large number of refugees because it was a difficult task to provide them the basic necessities.

At the time of independence, Pakistan was predominantly an agrarian economy because it was contributing more than 50% to GDP and the industry was almost absent except few units. Besides, absence of needed infrastructure was also challenging the economic sovereignty of Pakistan. Shortage of industry moved the government to make policies for its development. Thus, agriculture was ignored during the initial years. The growth pattern clearly depicts that agriculture growth rate was half of the population growth rate. The reasons of this slow growth rate was because of the effects of the shortage of water and effects of partition, due to water dispute with India and fluctuating rainfall and floods during 50s. During 1947-1952 Pakistan's average GDP growth was 3% but in 1952 when Korean War broke out, Pakistan benefitted from the rise in demand of goods which boosted the GDP up to 9%. After Korean War a worldwide recession jumped into global economy but being



the single exporter of Jute at that time, Pakistan's situation didn't get bad. The high growth-rate of industrialized sector throughout this period was achieved by intentionally pursuing a set of policies which encouraged investment of private industries and brought enormous inflow of foreign aid. Import-substitution and excessive-protectionism also played a vital role in keeping the high rate of growth in this sector.

### **10.3.2 Growth Era: 1958 to 1969**

#### ***Political and Economic situation***

The second decade of Pakistan's history remained under the dictatorial regime of Field Marshal Ayub Khan. General Ayub also gave Pakistan its second constitution in 1962. His broad-mindedness and liberalism were manifested clearly in the official religious policy. Traditional clerics opposed this Ayub's policy of modernization. Ayub's government also emphasized on some of the key social institutions like he set up an Ulema Academy in Lahore to modernize the thoughts, allocation of funds for family planning to check the inordinate growth in population and longterm programs of national reconstruction etc.

The decade of 1960's stands out as the decade with the robust presentation. The Second Five Year Plan (1960-1965) had initially set an objective of GDP development of 20% more than five years contrasted and the modest objective of 15% in the First Five Year Plan. The Third Plan (1965-1970) detailing was embraced in a state of mind of incredible confidence and the yearly development target was set at 6.5% for every annum. Early years of this decade witnessed high growth rate in large scale manufacturing with the average for the period 1960-1965 rising to a phenomenal 16.9%. In the second half of 1960's the GDP fell to 3.1% because of war with India. Be afterwards, a short time later it kept on developing and came to up to 9.8% in 1970. Pakistan experienced relative value steadiness during the 1960s. By and large, costs ascended at a normal rate of 3% for every annum. All through 60's Pakistan kept up the normal GDP development rate of just about 7%. Political security, liberalization of speculation controls and abundant accessibility of remote trade during this time were key variables affecting a proclaimed quickening in the pace of private project. All out water and power interests in West Pakistan amid the 1960's surpassed US \$2.5 billion and represented more than half of aggregate open area spending. During the second decade, it became crystal clear that consistent growth in the economy strongly depends on the integrated growth of industrial and agriculture sector. The government of Pakistan brought the agriculture sector under consideration. So, the agriculture sector became remarkable as it grew on an average at 5%. Many factors contributed in this high growth in agriculture sector. Results became more evident in the latter half of this decade when the effects of green revolution became more widespread. This change in financial execution contrasted with the earlier decade was the consequence of both gigantic increments in venture, mechanical achievements in farming, and better and more coordinated economic policies. Though the economic progress remained unremarkable, but the fruits of this progress were not distributed fairly in the Pakistani society. Upper class emerged from these policies which later ruled in Pakistan and influenced the political and

economic system in their favor. The economic and political differences in the east and west became clearer in this decade. The regional disparity widened to the extent that in 1970, West Pakistan's per capita GDP was at least 60 % higher than that of East Pakistan.

During the martial law period, President Muhammad Ayub Khan focused mainly on eliminating antisocial practices like against women, hoarding, black marketing, child labor and smuggling. He introduced a law, known as Elected Bodies Disqualification Act, for disqualification of any elected person who was found guilty of any misdeed. The first land reforms were also introduced by President Muhammad Ayub Khan, which later gave rise to another class known as middle class. The impact of these land reforms was very limited in West Pakistan due to strong elites in society. President Muhammad Ayub Khan also set up a commission for suggestions regarding family and marriage laws and issued Family Law Ordinance, 1961. It gave women equal rights in affairs of marriage and divorce. President Muhammad Ayub Khan also brought reforms regarding labor rights. He made it mandatory for the industry owners to recognize labor unions and to consider their opinion in matters related to labor. Social Security benefits were provided to laborers and a law was also passed regarding minimum daily wages for laborers.

### **10.3.3 Nationalization and Command Economy Era: 1971 to 1977**

#### ***Political and Economic conditions***

This era in the earlier years is marked by the autocratic era of President Yahya Khan, who assumed the charge of President and Chief Martial Law Administrator of Pakistan. President Yahya Khan also issued the Legal Framework Order (LFO), which was intended to serve as a guide for future power structure of the country. He organized general elections in 1970 and two parties emerged in East and West Pakistan i.e. Pakistan People's Party and Awami League. Leaders of both sides didn't think of national integration and their stubbornness divided the country into two separate states i.e. Pakistan and Bangladesh. This is remembered as fall of Dhaka in history and this fall brought an end to the era of President Yahya Khan. Afterwards, Zulfikar Ali Bhutto came to scene in new Pakistan and assumed the charge of Chief Martial Law Administrator and President of Pakistan as well. In 1972, Mr. Bhutto lifted the Martial law after having an accord with the opposition parties and gave an interim constitution. National Assembly appointed a committee to frame a constitution for the country which was finally approved in 1973 and is still working in Pakistan.

Z.A Bhutto started many socialist economic reforms, soon after assuming the office, to improve the growth of Pakistan's economy. The main step in bringing these reforms was the initiation of nationalism process. Firstly, the nationalization policy was introduced over large firms and afterwards all private banks, small manufacturing units and colleges were nationalized within two years and no compensation was paid to the people who owned them. Though this policy was aimed at uplifting the poor ones but soon these reforms turned unfruitful. The inefficiency and inability of nationalized institutes in coming years proved the fact that

nationalization was not a good policy in national interest. The other main areas of reforms were the Labor, Land, Banking system and Finance corporations. Bhutto made some ineffective land reforms to eliminate the inequalities and to curb feudalism. These reforms failed due to several inherent weaknesses like no criteria to ban family transfer which kept feudalism there intact.

The fall of Dhaka posed a great threat to Pakistan's economy as trade deficit and Arab-Israel conflict threatened in the form of high inflation. Pakistan's most of the exports were from the East Pakistan. Thus, after separation trade balance was distorted. Arab-Israel conflict raised the oil prices. Thus, inflation became inevitable during the war period. Bhutto's policy of currency devaluation delayed the shocks of separation and war for almost 2 years but afterward in 1974 inflation rose to the level of 20%.

Bhutto introduced land reforms to uplift the social and economic status of the rural people because more than 80% of the rural people were directly attached with it. The aims of these reforms were to increase the agricultural productivity, to achieve self-sufficiency in food and to provide farmers better returns. Beside this, Bhutto also announced Labor Policy in February 1972. The main features of this policy were to give respectability to labor, to provide a mechanism and right to strike, to encourage labor and employer adjudication in labor court and to provide labor more material benefits. This increase in wage and welfare provided some relief to this class due to increase in minimum wage, compensation for injury during work, old age benefits and free education and medical facilities.

### **10.3.4 The Revivalist Eighties: 1978 to 1988**

#### ***Political and Economic situation***

During the second half of the 1977, military government again entered in the politics and Army Chief General Muhammad Zia-ul-Haq took over the administration of Pakistan. This action was completed after few hours, when Z.A Bhutto addressed a press conference to open talks with all opposition parties. All the political leaders of main parties were detained in protective custody. National and provincial assemblies were dissolved. This time constitution was not abrogated but some of its part was held in abeyance. Supreme Court of Pakistan rejected the petition against martial law by announcing it the necessity in on-going political problems. Z.A. Bhutto was trialed in court against a murder case and was hanged in April 4, 1979. Zia-ul-Haq took the oath as the 6th President of Pakistan on September 16, 1978. He announced many a times about election but postponed them every time. Zia changed the course of somewhat liberal government into Islamic type by introducing many Islamic laws through legislations.

At the end of first term of Zia, he was sworn in for another term and announced the appointment of Mr. Muhammad Khan Junejo as Prime Minister of Pakistan. All the voices of political actors became one and demanded for the end of martial law. Thus it ended in December, 1985 when Zia announced it in the Parliament.

During Zia-ul-Haq's period, the economic growth rate averaged at 6.6% per annum. The remittances increased substantially but were not translated into high rate of

saving and investment. Agricultural growth rate increased in comparison to previous years but remained low during Zia's period. The manufacturing sector grew at a faster pace than the previous period as it grew at an impressive rate of 9% at an average. The main reasons for this high growth were the large public sector investment which started in Bhutto's era, introduction of flexible exchange rate policy for the exporters by increasing rebate on custom duty and guarantees provided against future nationalization. Special industrial zones were established to attract private investment. The regular adjustment policy of currency brought a positive impact on the trade of Pakistan. Beside these positive impacts, the debt burden rose sharply as the interest payment increased from 1.9% of GDP in 1976 to 4.9% of GDP in 1987. This happened because of high cost domestic borrowing. As part of Islamization policy, Zia announced a plan for introduction of Islamic economic system. The establishment of zakat institution and introduction of interest free banking system were the main reforms. But these reforms did not offer much advantage to the economy.

### **10.3.5 The Muddling Nineties: 1988 to 1999**

After the death of General Zia in 1988, the democratic regime returned in Pakistan. During next 10 years, Pakistan had four general elections. Benazir Bhutto, daughter of Z.A Bhutto, and Nawaz Sharif both came to power twice after one and other. None of these completed their full elected tenure. That's why more than one "caretaker" government came to run the state affairs. This period is marked as the return toward democracy after about ten years of dictatorship. The role of international actors in Pakistan's politics and economy became evident in this era. The economy of Pakistan has remained under the clutches of IMF and World Bank since 1988. All the economic policies like economic liberalization, stabilization and structural adjustment were prepared in Washington and imposed over hundred countries round the globe including Pakistan. Each and every decision was adopted under the directions of IMF and World Bank. In real sense this was the loss of economic sovereignty of Pakistan and the people of Pakistan.

In this epoch, the main focus was on curtailing the fiscal deficit. On the instructions of IMF the government of Pakistan reduced its fiscal deficit to 4% of GDP. In 1994-07 additional taxes of Rs.140 billion were levied on the people. The tax burden increased on the consumers in the form of sales taxes and other indirect taxes. The public expenditure decreased from 9.3% in 1981 to 3% in 2000. In 1996-07 the developmental expenditure decreased from Rs.105 billion to only Rs.85 billion. Tariff rates reduced from 125% in 1992 to just 25% at the end of this era. Due to this reduction, the government raised the administered prices of utilities like electricity, gas and petroleum products gradually. Privatization was also initiated and devaluation was witnessed of Pakistani rupee in that period. Due to these policies, the economic development was badly influenced at macro level during 1990s.

The causes of high inflation in that era were the high level of taxation, growth in administered prices and devaluation of Pakistani rupee. The industry was badly influenced by opening the economy internationally without any protective measures which increased unemployment rate in Pakistan in 1990s. Pakistani people were very

much affected by IMF and World Bank policies, which resulted in high prices, low wage rate, cut in developmental funds, fewer schools, less health facilities, and other facilities of public sector in 1990s. The Pakistani rupee was devalued by 17% just in 1996 and by this the imported goods were really affected. This increased the poverty in Pakistan.

This era of structural adjustment is marked by the absence of any consistent macroeconomic policies. The absence of integrated economic and political framework took the country into the hands of more and more international actors. The time and again agreements with the international monetary institutions threw the Pakistan in the abyss of debt and snatched the economic sovereignty. Every successive government relied on the borrowing from the domestic and international sources without considering the magnitude of loss and difficulties in the economy.

### **10.3.6 The Reforming Era: 1999 to 2007**

#### ***Political and Economic Dimensions***

General Pervaiz Musharraf got into power after suspending the constitution of 1973 and ousted Nawaz Sharif government on 12 October 1999 and nominated himself as Chief Executive of the country. The main reasons for this take over were economic bankruptcy, international isolation, the status of failed state, political instability and vendetta. During the previous decade, opposition never left room for better policies but tried to derail the process of institutional building. During Musharraf's era, the performance of the economy is regarded as having mixed results. The success was largely due to the high inflow of foreign assistance. This take over by a military dictator was applauded almost all over the country as people of Pakistan were not happy with the performance of the political parties. This era is also marked by many political crises which were the result of many critical decisions taken by Musharraf. This era is also marked by the independence of media and political socialization of the general public as well.

Some analysts support Musharraf for his liberal policies and some criticize him for his flawed and short-sighted economic policies. Musharraf era's economic growth was robust like the previous autocratic rules. The average rate of GDP growth during this era was 5.3%. Musharraf's liberal economic policies attracted many international investors to invest in Pakistan. His policies re-established the investors' confidence in Pakistan economy and FDI increased to incredible levels. This investment showed a fair growth in different sectors of Pakistan economy. Musharraf's policy of import led growth created economic bubble in the Pakistan's economy. The massive inflow of imports in telecommunication sector and auto sector put strain on the supply side of the economy. As the supply of electricity was not increased with the pace of change in demand for energy, it created the energy crisis which is, in its worst form, hitting the economy even in the present. The provision of electricity to remote areas also aggravated the crisis as supply was fixed and consumers increased many times. The energy crisis started inflation in the country which became high in the subsequent years. This inflation thus consumed the economic growth and people's purchasing power. These flawed economic policies busted the economic bubble and started to deteriorate the economy soon after their implementation.

Beside these fall outs, there are many policies of Musharraf which are applauded highly in economic and political circles till now. The top amongst those was the educational reforms and development to build up a productive human resource in a country which is deficit in it. Many public and private sector universities were established with more autonomous and effective Higher Education Commission. This policy improved the literacy rate in Pakistan. Secondly, the boost in industrial sector also lowered the unemployment level to a certain extent and increased the exports. The establishment of different industrial and tax free zones were also aimed at boosting the manufacturing sector. Infrastructure was also given much importance and many roads were constructed for the better transport facilities. The poverty also dropped according to some surveys but this claim was challenged by some organizations. Foreign reserves showed positive trend which improved Pakistan's international standing. Stock market also touched new heights of 1300 points from 700 points (Aslam 2001).

Hence, it is clear that the policies of this era showed positive results and negative as well and no one can declare it as absolute success or failure.

### **10.3.7 Privatization Era: 2008 to 2013**

#### ***Political and Economic situation***

The PPP's tenure under Asif Ali Zardari was very critical in the sense that a military dictator has just left the chief executive's office. The rebirth of democracy and to complete tenure was a big challenge in the face of multidimensional social, economic and political problems existing in Pakistan. However, President Zardari kept the democracy intact for five years and completed the first democratic era in Pakistan's history. This was a great achievement as it never happened in the past. Beside all of this, Zardari also cleansed many impurities caused by martial law regime. Zardari's coalition with opposition parties provided the room for the betterment of the country in true political sense. Firstly, he gave the presidential powers to the parliament. Then he amended the constitution and the biggest achievement was 18th amendment along with 19th and 20th amendments. The 18th amendment gave the provinces the political and economic autonomy which rests in the base of a true democracy. Though the fruits of this amendment are not absolute but one can say that it is a building block towards the true spirit of democracy. Opposition played a role which was positive but only to some extent. Though having mixed results of this era, Zardari kept the newly emerging democracy safe from nefarious designs to harm it. Many other amendments were also made to strengthen country's political system. In short, it was a successful era in political sense.

In this era, Pakistan's economy saw many positive swings and negative as well. During PPP government, the country was facing severe economic problems. The economic situation called for difficult decision at micro and macro level. As a result of bold decisions, the stock markets reached to newer heights.

Macroeconomic stabilization programme was also launched in consultation with IMF in this era. During the era of Zardari, tight monetary policy was adopted in order to address the problem of inflation and many other measures were taken to curtail

the fiscal deficit problem in Pakistan. As a result of all these far-sighted policies, inflation decreased to almost half in 2009, fiscal deficit was brought down to 4.3% of GDP, current account balance declined to 5.3% of GDP and foreign exchange reserves have crossed \$13 billion. The decrease in fiscal deficit was mainly due to cut in oil subsidies and developmental spending.

Revenue collection remained low during Zardari's era. The targets of FBR were revised every year and this was because of delay in taxation measures that were needed for better fiscal discipline. The sudden decrease in GDP growth rate in subsequent years turned the situation into worse. The lowest tax to GDP ratio in the region was also posing an alarming situation to the future growth rate. The rising public debt was putting strain on the revenue as the interest payments were increasing at a faster pace. The energy crisis harmed severely our production capacity which in turn lowered our exports and resulted in low foreign earnings. In short, every economic activity was threatening our survival. Thus, certain economic and financial reforms were adopted which were successful to a certain extent. These policies include austerity measures, optimization in utilization of available resources, restructuring of public sector enterprises and reforms in power sector. Through a Presidential ordinance, government introduced temporary tax policy measures to generate additional funds of Rs.53 billion during the end of fiscal year 2010-11. Following were the measures taken:

- Sales tax discharge was withdrawn on agriculture inputs like tractors, pesticides, and fertilizer. Before these were subjected to 17% GST.
- Rates of special excise duty were increased from 1% to 2.5% on non-essential items.
- The gross and net accumulation of direct duties has enlisted development of 31.3% and 22.6% individually during the initial ten months of 2011-12. This ascent in income was for the most part because of withholding expense, willful installments and gathering on interest. during July-April 2011-12, the gross and net gathering of backhanded duties has seen a development of 23.1% and 24.9% separately. It has represented 62.9% of the aggregate FBR charge incomes.

On the other hand, the share of agriculture sector in the GDP was fluctuating throughout the period as 21.3% in fiscal year 2008, 21.8% in 2009, and 21.4% in 2012. In 2010-11 the National savings of Pakistan were 13.2 and the next year showed a decrease in its magnitude to 10.7%. Public investment as a% of GDP increased to 3.0% in 2011-12 against 2.9% last year.

## **10.4 Overview of Five Year Plans of Pakistan**

### **10.4.1 First five year plan (1955-60)**

The first five years plan which was to be completed by 1<sup>st</sup> April but could not be completed in time and postponed till 1<sup>st</sup> April 1955. The delay was due to the problems of lack of professional staff, absence of statistical data and resentment of

other ministries and departments. The size of the plan was Rs.11500 million, which was later revised by NEC to Rs.10800 million. The main objective and targets of the plan was to increase the national income by 15%, to create 2 million new jobs, to expand exports by 15%, to build food grain generation by 9%, to accomplish extension in the creation of business yields, to cover around one-fourth of the country populace by sorted out Village Agricultural and modern advancement territories, to increase mechanical yield by 60%, to give new watering system offices to 1.6 million sections of land, to increase introduced power limit by 570 megawatts, to restore railroad track and moving stock, to make 250000 building plots, to put 1 million youngsters in grade schools and 14400 kids in auxiliary schools, to expand the yearly yield of specialists by 100, to expand the rate of residential reserve funds and to rapidly increase the rate of development of east Pakistan.

Planners concern was to create the physical, social and institutional infrastructure required for development. The plan put emphasis on the economic development of the less developed parts of the country. To reduce the burden of foreign aid, it was decided to promote internal savings. The highest priority was assigned to the industrial sector, fuel and minerals sectors. Second priority was given to the water and power sectors. It did not assign any definite weight to these objectives which were certain to clash at times. The plan claimed to have given the highest priority to agriculture, though it allocated only 11% of the total investment funds to agriculture as against 28% to industry. The plan succeeded in building up some infrastructure and industrial growth but failed to make such an impression on the more basic problems of Pakistan in the fields of agriculture, education and housing.

#### **10.4.2 Second five year plan (1960-65)**

The first five year plan had failed to command wide political or public support. The second five year plan was approved in June 1960. The revised plan was published in November 1961. The size of the plan was Rs.19 billion. In April 1961, the plan was revised and extended to Rs.23 billion. 52% of the total expenditure was to be financed through internal resources. The main objectives of this plan were to increase national income by 24%. It was decided that 2.5 million people would be given jobs and to increase agriculture production by 21%, foreign exchange earnings would increase by 3% per annum, it was decided to invest more in East Pakistan. The fundamental objective of the plan was to increase GNP by 24%. The plan projected an annual increase of slightly over 1% in per capita consumption. Some other targets was to expand education, health and social welfare facilities, to develop 300000 new residential plots, to increase the output of jute, cotton, tea and forest products, to increase the farm acreage, to increase the installed power capacity by 508 MWs, to set up 1300 new post offices and to establish 30 projects for rehabilitation.

The strategy of this plan was growth oriented. It was decided to increase employment level, to invest in agriculture sector in order to increase the productivity. Small industries were given more importance and to lessen dependence on foreign aid, certain measures were suggested to raise domestic savings. Highest priority was given to the agriculture sector. Second priority was given to the industrial sector and third priority was given to the telephone and communication sector. In spite of the



success of plan in many important fields, there was great discontent amongst the masses resulting from income inequalities generated by the development strategy of the plan. This discontent was one of the important causes for the removal of President Muhammad Ayub Khan in late sixties.

### **10.4.3 Third five year plan (1965-70)**

The preparation for the third five year plan was started before the completion of the second five years plan. It was approved by the NEC in May 1965 and was revised in 1966 because in 1965 Pakistan went to war with India. A development program of Rs.52000 million was proposed for this plan. The development program for the public sector was proposed to be Rs.30000 million and that of the private sector contribution was Rs.22000 million. The principal objectives for the third plan were to accomplish quick growth of the national economy, to decrease the level of inter provincial and intra-regional, to give no less than 5.5 million new openings for work, to fortify the balance of payment by expanding remote trade profit at a rate faster than the GNP, to create fundamental businesses for the assembling of maker products, to quicken change in agribusiness, to give better lodging and more wellbeing administration and to gain generous ground towards accomplishing certain particular social objectives.

The strategy of the plan was that growth rate was to be accelerated to 6.5% as compared to 5.7% in second plan. The third plan projected an annual increase of 5.0% in agriculture, 10% in industry and 7.1 in the other sectors. The main aim of the BOP strategy in the plan was to prepare the economy for a gradual reduction in the need for foreign assistance. The disparity in regional per capita incomes was to be removed over the perspective plan period. It would not only absorb the additional labor force but cut the backlog of unemployment by about 17%. Of the total allocation as much as 26% was provided for industry and nearly two-thirds of that would be spent on capital goods industries. In this plan external aid was expected to finance 45% of the plan expectation. The planners should have examined the increasing dependence of the country on foreign assistance.

### **10.4.4 Fourth five year plan (1970-75)**

By the end of the third plan, Pakistan had completed two decades of development. This development phase had its limitations as well. The population growth rate rose substantially. The essential requirements of the social sectors like education, health and housing were badly neglected. At this crucial stage Pakistan's fourth five year plan was formulated. It was decided to finance a total development expenditure of Rs.75000 million during the fourth plan. The principal objectives of the plan were to maintain the tempo of development in the country, to reduce intra-regional and inter-regional disparity in per capita income, to make the economy increasingly self-reliant and to direct the forced economic and social changes towards the establishment of a just society.

The targets that was proposed for the fourth plan was to attain an annual growth rate of at least 6.5% in the GNP, to reduce disparity in per capita income, to increase the per capita consumption of food-grains from 15.5 to 16.8 ounces per day, to reduce

the extent of unemployment and underemployment in the country, to develop an income and price policy, to increase exports at an annual rate of at least 8.5%, to reduce Pakistan's dependence on foreign assistance, to increase the power generation capacity by 1740 MW, and to launch an Urban works program to improve the environmental conditions in big cities. In this plan water and power sector was given highest priority. Second priority given to transport and communication sectors while the third priority was given to agriculture sector by allocating 11.22% of investment. Due to political disturbance during 1970-71 the implementation of the plan became virtually impossible, so the plan was abandoned after the separation of East Pakistan in 1971 reducing Pakistan to what was previously West Pakistan. This plan was later officially scrapped.

#### **10.4.5 Fifth five year plan (1978-83)**

Since December 1971, Pakistan's economy had been operating without five year plans. The martial law government in 1977 decided to formulate the fifth plan which was launched in a period of serious economic difficulties. The main objectives of this plan were the development of rural areas which would receive priority. Easting of Urban problems would continue to receive due attention. Development of backward regions would be stressed. Meeting of the basic needs of the population and promotion of equity would be served by the objective of the plan.

The targets of the plan were to increase the national income by 7.2%, it was decided that 3.8 million people will get jobs inside and 0.4 million outside the country. This plan targets imply some sectoral shifts in the composition of GDP. National savings as a% of GNP was expected to increase from 12.6% in 1977-78 to 10.6% in 1982-83. US\$ 22 billion was the export earnings target. The main focus of the plan was the rapid development of agriculture based on an efficient utilization of the considerable potential of the nation. Per capita income was projected to increase at a rate of 4.2% per annum. A report on the fifth plan showed that over 40% of the plan targets were achieved instead of extra ordinary exterior difficulties. Regardless of the most profound world subsidence in the most recent couple of years and indecisive economies in the creating scene amid this period, it ought to involve some fulfillment that strategies of monetary train and better financial administration presented amid the most recent five years. There were two circles in which the execution was fairly frustrating amid the fifth arrangement. Firstly, add up to venture decreases as a rate of GNP. Also, there was lacking long haul venture either in the physical foundation or in human asset advancement.

#### **10.4.6 Sixth five year plan (1983-88)**

Before the end of fifth plan readiness of 6th arrangement was finished. The NEC affirmed the plan well in time and executed it as indicated by its calendar. The arrangement went for a monetary expense of Rs.495 billion which was more than two fold the measure of the fifth arrangement. The principle objective of this plan were to make generation area of the economy capable and stable, to quicken the rate of financial advancement, to expand farming creation by utilizing more composts, better seeds and present day innovation, to make the nation independent in oil, to

create steel-based building merchandise and materials, to give most extreme social administrations to build the rate of education and to give water offices and to make agreement among various divisions of the economy.

The targets of this plan were to increase GDP by 6.5% per annum. To increase family income by Rs.900 per annum, to increase agriculture production by 5%, to increase industrial production by 9%, to provide jobs to 4 million people, to provide electricity to 88% of the village population, to increase exports from US\$2.43 billion to US\$4.91 billion, to construct 15000 kms new roads, to increase the efficiency of private sector and to make 3 million acres of land fit for cultivation. High growth momentum was the first strategy of this plan and the others were rural transformation, employment and income policies, decentralization, backward regions and self-reliance. The agriculture and manufacturing sector could not play their roles effectively; the plan seemed helpless in achieving its targets and objectives. The targets of achieving expected increase in investment rate and savings could not be achieved in this plan. The sixth plan was a mixed success. Though it fulfilled most of its targets, there were some failures. Overall it was a good plan.

#### **10.4.7 Seventh five year plan (1988-93)**

The seventh five years plan was prepared within a broad-based socio-economic framework of a 15 years perspective (1988-2003). Of the point of view arrangement all out incremental focuses around 23.6% of GDP, around 22% of venture, 23.8% of fares, 26.2% of imports and 21% of income were conceived to be accomplished during the plan. In total terms more than 74% of the incremental yield targets were achieved. During the plan the employments will be given to 6 million individuals and instructive unemployment will be expelled. Individuals will be given better offices with respect to nourishment, lodging, instruction, transport and other open utilities. HR will be produced by giving more accentuation on instruction and preparing. The

The strategy of this plan was to introduce HYV seeds, to increase yield per hector through more efficient use of fertilizer. The first priority of this plan was to given the energy sector, second given to education sector and third to population planning. The tempo of growth was affected by unforeseen events on domestic and international fronts including economic contraction of Eastern Europe and the former Soviet Union, recession in Pakistan's export markets, the Gulf War, the delay in the settlement of the Afghan issue, frequent changes of government, civil disturbances in 1989-90 and floods of 1988-89 and 1992-93.

However, the overall performance has been satisfactory. The process of deregulation and privatization was expected to be consolidate in the eights five year plan.

#### **10.4.8 Eighth five year plan (1993-98)**

The eighth five year plan was released by the government of Pakistan in June 1994. The targets of this plan was to increase GDP by 7%, increase agriculture by 4.9%, manufacturing by 9.9% and services by 6.7% on 1992-93 prices, the size of the plan was Rs.1701 billion while its size goes to Rs.2092 billion on 1993-94 prices. The Eighth Plan aims to achieve the following five basic balances: Balance between

planning for the public and private sectors. Inter and intra-sectoral balances, balance between new investment and use of existing capital stock, balance between project preparation and implementation, balance between committed and available resources. The strategy of the plan was focus on guaranteeing and stimulating individual activities and business sector instrument. Proficiency will be criterion on all speculation, vocation will be advanced, destitution easing and salary appropriation will be tended to, open divisions will likewise secure and bolster poor people, financial order and money related solidness will be guaranteed to support more elevated amount of funds and venture and nearby advances improvement would be energized. The formal endorsement of the eighth arrangement was one year late. The financial development in the primary year arrangement was just 4%. Because of continuous harm to the cotton edit and diminished wheat generation, and most noticeably bad political conditions in the nation, the accomplishment of 7% GDP development in the following four years gets to be troublesome (Saeed, 2004)

#### **10.4.9 Ten year perspective development plan (2001-11) and three year development program, (2001-04)**

To present a direction to the economy while maintaining flexibility essential in present time, the first Ten Year Perspective Development Plan 2001-11 of the country operation lied through Three Year Development Program was released by the Planning Commission on 6-9-2001. The Plan was being actualized from monetary year 2001-02. This is a model for different nations. The Sectoral Strategies were produced after protracted discourses at Federal and Provincial levels. Before finishing the Plan, Presentations to Chief Executive were made a few times in which Federal Ministers and Secretaries, Governors and Provincial Ministers were taken an interest.

The key objectivess of the Perspective Development Plan were: Accelerating GDP development, lessen unemployment and reduce destitution, Financing development progressively by Pakistan's own particular assets, Government to enhance its pay use arrangement to contain household getting, Private Sector to change a bigger extent of its sparing into remote trade through fares. This is to contain outer getting, Improvement in intensity by advancing profitability, productivity, and quality; Build human capital base for long haul speculation, confident development.

Its allocations had been planned tightly: priorities have been worked out for the ten-year allocation of Rs.2540 billion; Rs.460 billion were proposed for the first three-year period 2001-04 to initiate, accelerate and complete the priority projects and programs. A higher budgetary provision of Rs.130 billion further raised to 140 billion had made for the first year, 2001-02. Rs.134 billion was earmarked under PSDP for the second year 2002-03 of the Ten Year Perspective Development Plan. Inflation rate had been assumed to be between 4 to 5.5% per annum during the Perspective Plan period. Nevertheless, most of the projections in the Perspective Plan had been made in real terms. The Monetary expansion was likely to range between 10 to 11% per annum.

**Table10.2** Sectoral Value Added and GDP Growth Rate of Last Six Decades

	1950s	1960s	1970s	1980s	1990s	2000s	2010	2011-2014 (Average Annual Growth rates)
Agriculture	1.7	5.1	2.7	4.4	4.2	3.4	2.0	3.0
Industry	5.4	9.9	6.6	8.2	4.7	6.1	4.7	2.8
Services	3.5	6.7	6.4	6.8	4.5		3.9	4.7
GDP	3.1	6.8	4.8	6.9	4.3	5.2	3.8	3.9

**Source:** GOP (Economic Surveys - various issues), 50 Years of Pakistan Statistics: Vol (1947-1997), SBP (2014).

The above table tells the historical performance of all sectors of the economy. From the independence of Pakistan industrial was growing at 5.4%, on the other hand agricultural sector growth was very low due to water problem and settlement of migrants of sub-continent. Overall GDP was growing at 3% in the foundation decade of the economy. In 1960s all sectors were performing at their highest, especially the industrial sector was at its peak along with services and agricultural sectors. The overall growth of the economy in this era was remarkable. After this era, there was a great slump in the agricultural sector and industrial sector also. In this period, there was a great loss of East Pakistan. Some policies (nationalization, devaluation of rupee) and natural disasters (floods and pest attack) harmed the agricultural and industrial growth. All these reasons put the economy performance down.

The era of 1980s was the development decade for Pakistan as economy was revived and all sectors were performing at their best. The overall growth of the economy was the highest in history of Pakistan till now.

The decade of 90s was the democratic era for Pakistan and two political parties came into power twice. In this period, again economy was not performing well. Performance of the two major sectors i.e. industrial and services sectors came to the half of the previous decade. The growth rates of this decade were the lowest in the 20<sup>th</sup> century history of Pakistan. In the start of next century Pakistan's economy again came into revival under the military ruler ship. There was some boom in industrial sector but agriculture sector was neglected in this era. At the end of this decade there were lot of problems in the country like terrorism and energy crisis. These issues lead the economy towards its worst situation. All sectors of the economy were performing at their worst level in the last year of the decade.

In the start of the second decade of this century Pakistan agriculture sector was clearly dumped and industrial sector growth was at the lowest in the history. But services sector improved its performance up to some extent as compared to the last year. The decline in the agricultural and industrial sector was due to the energy crisis and law and order situation.

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