

# ECONOMY OF PAKISTAN

## PAKISTAN'S ECONOMY IN HISTORICAL PERSPECTIVE

Economic aspect is the most important facet of the human activity because man's progress and happiness in all other fields depends on his sound and stable economic position. Since state is a great human organization, meant for the happy life of the individual, the economic aspect, therefore, cannot be separated from state's activity. Hence a stable economy plays a vital role in any nation's collective prosperity and development.

When Pakistan emerged on the world's map as a sovereign and independent state, it mostly consisted of those areas which were backward and under-developed. These areas were mostly the producers of raw material which could not be utilized locally because related processing industries were located elsewhere. Throughout the economic history of Pakistan, there have been phases both of growth and stagnation. One of the most important reason for the ailing Pakistan economy is the non-continuity of economic policies and acutely wobbling political system.

Pakistan in present shape started with less than 35 million population. It had natural resources in abundance which were not fully exploited and developed. It had a per capita income of 100 dollars a year in 1947. The areas of present Pakistan and Bangladesh were the backward areas of South Asia. While India had almost all the basic manufacturing industries, Pakistan possessed very limited manufacturing units to meet the demands of the population. To make the things worse, very small electricity was available which was much below the requirements of the industry as well as domestic needs.

There were only two important cash crops, cotton in present Pakistan and Jute in

Bangladesh. The yields of these two crops had to be sent to India for processing and manufacturing of textiles and jute goods. There were a few sugar and cement factories which could not meet country's development requirements.

There was a vast difference between India's and Pakistan's economic potential. Pakistan's economy, at the time of partition, had only one positive aspect that she was self-sufficient in food and the surplus foodgrain produced in West Pakistan was enough to meet the requirements of the former East Pakistan. The infra-structure facilities in both wings of the country were in shabby and depleted conditions. Pakistan had to take a start from the scratch to develop infra-structure and manufacturing industries.

In addition to the inherent backwardness of the economy, the influx of refugees from India and other parts of the sub-continent, thwarted the country's march towards progress and economic prosperity. Pakistan had to spend huge amounts out of its thin and meagre national resources for the rehabilitation and resettlement of the refugees.

Political stability is the basic requirement for economic development. Political instability severely jolts the economic growth as the behaviour of the government plays an important role in stimulating or discouraging economic activity of a country.

Unfortunately Pakistan, immediately after the partition, fell a prey to acute political instability. Political issues and bickering which peeped out with the emergence of Pakistan, adversely affected the economic growth in Pakistan. Most significantly the Kashmir problem became a constant source of friction between India and Pakistan. The squabble over Kashmir consumed a considerable size

Although the revenue collection target was not achieved, despite efforts made by the government, the government was able to boost the revenues from a slightly more than Rs. 300 billion in 1998-99 to nearly Rs. 400 billion, in a short period of two and a half years. At the same time, government controlled its expenditure, which helped in bringing down the fiscal deficit to the required level.

### UNACCOMPLISHED BUSINESS

However, there are certain areas of the economy, which did not so far respond to the government's efforts. First and foremost is the GDP growth, which has remained less than 4 per cent so far, during the rule of the present government. The critics have often argued that even during the 1990's which is considered a bad decade for the economy, the GDP growth rate remained higher than 4 per cent. Well, this may be true but the present government was thwarted in its efforts to boost the GDP growth rate by a multitude of adverse factors such as global slow-down resulting from the economic downturn in the United States, worst drought in Pakistan's history which pulled down the growth of the agriculture sector last year, role of a frontline state which hit manufacturing and exports at least temporarily, political instability resulting from the government's decision to join the US-led coalition against terrorism and, last but not the least, a hostile neighbour because of whom the government's money and energy are diverted from the work of national reconstruction to the defence of the mother-land.

Due to stagnation of economic growth, the government's revenues remains stuck-up and it becomes difficult to significantly increase budget allocations for economic development, education, health, job creation and poverty alleviation etc. This is why the government has not so far been able to make a dent in the unemployment and poverty problems, in spite of its microcredit, Khushhal Pakistan, food stamps and revamping of zakat programme. To be able to push on the above-mentioned fronts, the government

must accelerate the GDP growth rate and revenue collection, in the first instance.

On the other hand, investment (both local and foreign) is not picking up inter-alia due to lack of physical infrastructure, lack of educated and trained manpower, political instability, disturbed law and order situation and tension on the Indo-Pak border, etc. The lower level of investment has, also, been responsible for lack of economic activity, lack of employment opportunities and higher level of poverty.

Nevertheless, it may not be true to say that unemployment and poverty situation remain as bad as they used to be a year or two before. Although GDP growth and investment have remained sluggish, bumper wheat and cotton crops during the last three years, together with a 100 per cent increase in home remittances during the current fiscal year, must have favourably influenced the employment and poverty situation. The economists in the Economic Adviser's Wing of the Ministry of Finance, who will be busy at the moment in giving finishing touches to the Economic Survey, 2001-02, should be able to calculate the impact of the aforesaid factors (together with other poverty reduction measures taken by the government) on the level of employment and poverty, during the current fiscal year.

### IMF AND WORLD BANK PRESCRIPTION

The IMF and World Bank seem to have rightly suggested that the government should make a relentless effort to significantly increase revenue collection by bringing about improvements in the tax collection machinery and administration. The international and regional situation are not in the control of the government, but the government can at least put its own house in order. With increase in revenue collection, government should ensure that its development budget increase gradually. The objectives of greater employment opportunities and lower poverty level can be achieved only through better revenue generation and increased development spending by the government.