

Issues in Economy of Pakistan

Module 1

Structural transformation

Introduction:

Pakistan economy is the 25th largest economy of the world in terms of purchasing power parity and 42th largest economy in terms of nominal GDP. We are now having reasonable industrial base in the economy and we have reasonable level of infrastructure in the economy. But the situation was very different at the time of independence in 1947 Pakistan got independence and we were all the blessed with immense reservoirs of land resources and mineral resources etc. but the lack of financial resources and very negligible industrial base in the economy and lack of infrastructure in the economy and the major problem was the rehabilitation and settlement of millions of refugees and migrants from subcontinents. At the time of independence Pakistan per capita income is 100\$(US) and now it is around 1600\$(US). So this one indicator shows positive sign that Pakistan economy has continuous growth and development history. But if we compare it with other countries it remains volatile sometime it shows remarkable trend and the other point of time it become very disappointing. But the per capita income of Pakistan is very low as compared to China, Malaysia, India and even Bangladesh. South Korea and Pakistan has same developmental phase during 1960s time period but now South Korea's per capita income is 18th time greater than as compared to Pakistan this indicates that there must be some serious issues in the economy of Pakistan which need to be discussed in detail.

Pakistan economy consist/ comprise of seventy years. There are seven different eras which shows trend of growth and development of Pakistan.

These different eras are as under.

1. Laying the Foundation (1947-1958)
2. The Decade of Development (1958-1968)
3. The Bad Luck year (1971-1977)
4. The Second Military Regime (1977-1988)
5. Structural Adjustment Era (1988-1999)
6. New Military Regime (1999-2008)
7. Democratic Transition (2007-present)

The second decade is called Development decade that's why 1960s time period is called golden time period because at that time period Pakistan economy shines among other development economies and in that time period Pakistan economy is to be discussed as a role model.

The third decade is called Bad Luck because we lose East Pakistan during this decade.

Structural transformation Mean:

Reallocation of economic activity among three broader sectors of economy e.g. agricultural, manufacturing and services. It is also developmental theory which explain how a subsistence economy/agricultural economy is transformed to more diversified economy which is based on manufacturing or services sector.

In this module we discussed the Pakistan economy which is basically agrarian economy and major contributing sector was agricultural toward GDP or the national income of the economy. We have now more diversified production sector and other sectors also make contribution in the national income of the economy.

To evaluate the performance of our country over a period of about seven decades.

A brief overview to understand Pakistan economy's structural transformation.

Sectorial contribution to GDP at the time of independence:

In 1947 and in 1949 the agricultural contribution in Pakistan GDP was 53% and more than 65% labor force engaged in this sector and the manufacturing sector has negligible base and it has minimal contribution in GDP which is 7.8% only and trade was 11.9%.

But in 2017 now the agricultural sector contribute 19.5% in GDP and labor force has 42.3%, industrial sector has 20.88% and the major contributing sector toward national income is now service sector 59.59%.

The huge transformation in economic, social and hence political power from agricultural towards on urban and rural middle class. This is one of the key indicator highlighting the extraordinary structural transformation of Pakistan over the time period.

Pakistan today is less than half of the country as it was in 1947 with reference to its population. Since 55% of population lived in East Pakistan whereas West Pakistan is 6 time more than East Pakistan. In 1971 when we lost East Pakistan its contribution toward society/economy was huge.

In every economic era we will be discussed three thing,

1. Features

2. Policy success

3. Policy failure

1. Laying the foundation (1947-1958)

Features:

Pakistan is predominately agricultural country (70% population directly or indirectly involved in agricultural sector or more than 65%), so 53% share in GDP was agricultural. More than 90% of exports was agricultural in 1949. So Pakistan economy is predominantly agrarian so it was underdeveloped or newly independent economy, lack of infrastructure, lack of financial resources and very little industries and few services were available. Adverse international condition was that 7 million migrants come to Pakistan as compared to 4.6 million move from Pakistan to India. Pakistan had heavy pressure of migrants. So the attempt of bureaucracy to keep Pakistan on its feet.

In 1951 first Colombo Plan launch in Pakistan of (Rs.2600 million), the purpose was the provision of basic necessities (food, clothing and shelter etc.), and also building economic base by state sector.

Policy success:

Pakistan put ban on imports (1950 imports substitution) of cotton textile and luxury goods. So Pakistan put more emphasis on industrial growth which was very negligible at that time as a result manufacturing sector shows remarkable growth or pressure which was 34% (1952-1954)

Which was ever highest growth among all over the world. Korean War (1950-1953) there is increase in raw material world prices and Pakistan (both private and public) sector take the advantage of this boom. So the profit was translated into capital formation which later on prove to be industrialization.

Policy success:

Major failure of this policy was neglect ion of agricultural sector which shows negative growth or decline in agricultural growth (1951-1958) in first Economic Era and major external factors were floods in Punjab and Sindh in 1948. Secondly to fulfill to meet the requirement of exceeding expenditures over revenue. Pakistan adopted deficit financing throughout 1950s and it was translated into inflation.

2. The Decade of Development (1958-1968)

Features:

We will discussed the military takeover by General Aye Khan in October 1958. This time period is called Golden time period in the history of Pakistan because it has impressive facts and figures with regard to economic indicators in all the sectors of the economy that's why it is called the decade of development (1958-1968). Because Pakistan has considerable economic growth among all other countries. Pakistan (1947-1968) in first twenty years Pakistan had highest growth rate in South Asia.

Major focus of got is Economic policy making and it was considered Model Capitalist Economy, as it has highest growth rate in manufacturing sectors.

According to 2002 World Bank report Pakistan export more manufacturing as compared to Malayshia, Indoneshia, Philipine, Thialand and Turkey. Growth in agricultural sector is 5 % (p.a.) Because there is decline in agricultural sector growth. But in this time period Got had focused on agricultural sector as well and increase in exports due to

protection of domestic industry manufacturing sector grew and due to this betterment in agricultural sector exports increases.

Due to 1965s war Indus water treaty very important document because Pakistan and India had dispute over the water of rivers flowing to Pakistan. So in 1960 an important document had used to solve the problem. Huge investment were made in power and water sectors in decade of development in Pakistan.

And the 1965 war had disputed over the momentum of growth and development in Pakistan economy that's why economic and political tensions grew between the two wings (Pakistan and India).

Policy success:

Economic and social reforms are major agenda of the Govt. Massive increase in investment (three folds) and gross fixed investment increased by three fourth (3/4) in 10 years of Pakistan economy, 8% increase of GDP in 1958 and more than 14% increase in GDP in till 1968. Technological breakthrough in agriculture 5% (pea), significant investment was made on water resources than incentives to farmers increase the use of fertilizers, pesticides and increase in use of high yielding varieties of weed, as a result agricultural sector grow. As we remember that in first years agricultural sector was neglected and focus of govt was manufacturing and industrialization. Price stability is important feature of that time period and inflation remains in control in those 10 years.

Policy success:

This decade of development is also known as controversial decade although economic policy result out to be impressive and growth in all sectors of the economy. But the focus of govt was the concentration of the wealth among the highest class of the economy because the reason behind this policy is celebrate action was the assumption which is to save more. This saving would be utilized for further investment that result out to be more industrialization and development of all the other sectors. This concentration toward saving creates three types of disputes these were regional disparity, income inequality and functional inequality.

1. Regional disparity

Regional disparity in the sense feeling of utter neglect with the East Pakistan because the resources were not fairly distributed among East and West Pakistan. In the end there was demand of full economic autonomy by East Pakistan and as a result East Pakistan separated in 1971 and became Bangladesh.

2. Income inequality

Concentration of economic power (21 or 22 family), few families acquired most of the national wealth and the distribution of income is more toward rich with the intention is to save more although saving were increased but the result in income inequality, perpetuation of industrial and trade policies could not be maintained during 1950s.

3. Functional inequality

Functional inequality is the improvement of quality of life with the provision of basic facilities like education and health that was totally neglected. There is little increase in real wage rate, govt of that time period is very much committed to development, but the development momentum disrupted by 1965 war as a result inflow of foreign aid reduced and defense spending has to be increased and then investment was reduced, economic disparity has grown between these two regions.

Despite of all these problems it is the era with exceptionally successful period of economic management.

3. The Bad Luck Years (1971-1977)

Division of Pakistan into two states East Pakistan and West Pakistan and East Pakistan became Bangladesh.

Features:

In this time period the elected govt adopted the policy of social justice in the society which was major controversy of last time period because the fruits of development was not fairly distributed among the whole country so it creates the regional disparities. So the aim of upcoming govt is to bring about social justice in the country, that's why this era brought fundamental structural and institutional changes in social, economic and political sector. First of all the govt adopted the policy of nationalization (manufacturing industries, banking, insurance and education etc.). This time period also experience oil price shock 1973 which badly effect the whole world due to which balance of payment

worsened.

Got adopted the policy of devaluation of Pakistani rupees, so Pakistan had increased in foreign exchange earnings as compared to the previous time period. Due to worldwide recession the exports tend to be decline. The Got tenure also faces massive floods of 1973 and 1974, which badly affected the agricultural sector and social sector etc. As we know that agricultural sector output is the input of industrial sector and all other related sectors. Then this time period experience the worst inflation and also fiscal deficit widened further.

Policy Success:

Foreign exchange earnings increased due to devaluation of currency and got taken step to make investment in big industrial units and bring social justice land and labor reforms are also made.

Policy Failure:

Due to nationalization policy private sector investment decline for 20 years. The got make investment in mega projects so its take time for operationalization that's why this time lag creates worst inflation (15% pea). As a result of inflation real income of the people decline and GDP growth is also decline. In the last decade manufacturing growth increased 16%(pea) before 1965 war and the agricultural sector growth is 5%(pea) so it is declined 2.4%(pea) and manufacturing sector growth decline 5.5%(pea), that's why overall GDP growth decline. Increase in defense and administrative expenditures create budget deficit which reduced developmental expenditures and employment socialism experiments leave negative impact on the economy.

4. The Second Military Regime (1977-1988)

Features:

Economic indicators shows positive sign in growth in all sectors. Improvement in growth rate decline poverty, unemployment and liberal economic policies as compared to previous decades and there was higher industrial growth as compared to previous time period. Domestic dept. keep on increasing during this time period and defense spending also increases as a result development spending neglected and fiscal deficit is also increasing.

Policy Success:

Two major initiatives of last tenure started paying off in this regime that leave the positive impact on the economy. Govt make investment in heavy projects such as tumbala dam and Pakistani expatriates send abroad inflow of foreign remittances increases. Afghan war started due to which foreign aid and foreign remittances and also help to decrease fiscal pressure. One positive thing was the startup of the mega project which increases the employment and as a result of this income also increases and linkage sector started working, and improvement in industries. Massive inflow of foreign remittances (aid) due to which industrialization increases and linkages sector started working and as a result fiscal pressure reduced. This got introduced interest free banking system it is the partnership between entrepreneur and capital owner on principal of profit and loss sharing. In this time period we observe economic indicators shows positive sign in Gap growth as compared to Bad Luck Year because there were massive floods and external factors which affect the agricultural sector that's why GDP growth in agricultural sector was 11%(pea) in 11 years and manufacturing and industrial sectors also shows growth. And due to all this improvement in GDP growth is from 4.9% to 6.6%.

Policy Failure:

According to critical analysis three important strategic factors are ignored. First domestic saving rate is below 10% in this time period, exports as percentage of GDP (below 10%), and investment in development sector is also neglected and there was inadequate investment in social and economic infrastructure. Due to ignoring these three factors economic growth cannot be sustained in this time period.

This tenure shows negative public saving or declining public investment, domestic debt explosion rises so there was large interest payment and fiscal deficit and neglect development saving. National saving to gap is 16% but use to finance large fiscal deficit.

Fiscal deficit as a result of

*Non development expenditures increases

*Tax revenue/GDP ratio decreases

The overall Economic Era shows good progress and it was known as Second Economic Revolution Era in the history of economics.

5. Structural Adjustment Era (1988-1999)

Features:

During the time period of 1988-1999 there were four general election held in Pakistan and there was political instability because no got completed their allocated time period (5 years), corruption was at the peak in governance, law and order situation is worsen during this time period, there was inefficient state owned banks, excess capital was restricted and debt crises was the major problem of this time period, so this era is also known as Debt Crises Era. Economic liberalization was there and finally the structure adjustment program the role of IMF and World Bank).Got introduce the major policy of economic reform 1991 despite of these reforms the target area of exports and private investment that remain stagnant due to poor macroeconomic management or corruption of govt. Then privatization of state owned enterprises and banks that results out to be two improvements one is to reduce the expenditures on subsidies and second improvement of services due to privatization. Energy policy (private power policy of 1994) got encourage the private sector although its cost was high but it is the policy success in terms of improvement in the power generation policy.

Policy Failure:

In order to understand debt crises in 1957 public debt to GDP ratio was 57.5% it turns out to be 102% in(1998-1999). Then beside debt crises unemployment also rises, micro economic situation is worsen private investment was also stagnant, and there corruption in governance and there is no improvement in employment like previous era. Due to negligence of developmental expenditures and increase in external deficit foreign debt to GDP ratio also increases, foreign debt is triple in this time period. Secondly worst inflation had seen, GDP growth reduced and poverty increases and economic situation is worsen during this time period. Due to macro-economic instability private investor were not making investment so it remain stagnant and decline in development expenditures and poverty reduction program were not focused.so

In order to control the worsen situation got took help from domestic debt and foreign debt so worker remittances were declined due to poor economic performance of the country or worsen law and order situation, corruption in governance so worker s remittances were declined external dept. was tripled during this time period and we had taken help from foreign debt, economic difficulties further increased.

There are two helping factors.

1. One was economic aid or withdrawal of us aid due to Afghan war
2. Impose economic sanction on Pakistan in 1998 due to atomic explosion after these sanctions our foreign accounts were frees and investment was declined.

Pakistan adopted structural adjustment program of IMF that's why Pakistan had lost economic freedom and as a result development expenditures were declined and unproductive expenditures remain on the same phase. Most developmental expenditures were neglected during this time period.

Economic growth continuously declined due to

1. Macroeconomic instability
2. Political instability
3. Poor governance
4. Unfavorable external environment

So summing up the time period of this era we can conclude that got try to improve the economic situation somehow they succeeded to maintain the pace in agricultural sector and manufacturing sector. But they could not be completely succeeded to improve the overall situation e.g. political instability, poor governance etc., so it is the time of economic instability.

Conclusion

Analysis:

32 years of Military Government(3 times of different military government).
38 years of democratic government(4 times of democratically elected government).
Healthy growth around 5%(falling trend since 1988) 39 poorest nation in the world.
Highly dependent on Aid and foreign assistance.
Capitalist development(role of private sector is important).
Lowest performance in the South Asia region on human development indicators, especially in education.
Lowest female labor force participation rates in the region.
Tax-to-GDP ratio, at 12.4% is one of the lowest in the world.
Corruption(score 32/100)(Pakistan was consider 2nd corrupt country in 1996 after Nigeria)
Pakistan being blessed with;
Skilled labor
Sufficient natural endowments
Could have grown much more.

Second Module video#1

Agriculture Sector of Pakistan

Introduction ;

2nd largest sector of Pakistan economy

Around 20% towards GDP

42.3 Labor force employed

Basic supplier of raw material to industry(such as textile and sugar)

Agriculture performance has been unsatisfactory. Its attributes basically to,

Traditional to,

Lack of motivation

Lack of research

Natural disaster(like pests attacks and floods)

Outline

Agriculture sector	A historical account	Development of agriculture
	Green revolution	British before rule
	Land reforms	impact of British Colonialism
	Critical issues	Feudal or capitalist

Agenda

Briefly narrate the history of agriculture development in Pakistan from the pre-colonial Mughal times and examine the consequence of British rule.

Historical Account

Summarize the changes that have taken place over three centuries and conclude with picture of agriculture sector at the time of independence in 1947.

Video # 2

Historical Account

The development of agriculture before the consolidation of British Rule.

Precolonial India was stagnant society, colonial impact brings modernization development.

Under development in south Asian sub-continent is result of colonial impact.

India was a pre-capitalist social formation before the British Rule.

Under the Mughal Rule all land was owned by the king alone.

No private property in land.

Permission for use granted by king.

Mansabdars and jagirdars

Parts of ruling class who were supposed to maintain armies to serve the emperor.

Paid subsidies in cash or commonly given jagirs.

Transfer from open area to another.

Responsible for collecting revenues from the peasants.

Official rather than feudal lords.

Zamindars

Appointed by the emperor.

Responsible for collecting revenues on behalf of king.

Influential individuals from village.

Local lord /masters .

Presided over all social and judicial matters at the village.

Did not own the land.

Khalisa Land

Revenues sent to directly to the state.

No question of land being inherited by either the peasant family or the zamindars.

Zamindars and jagirdars assert authority over assigned tracts of land .

In 1707 (death of Aurangzeb) Mughal empire began to decay

Central authority weakened

Zamindars and jagirdars became more strong where they could.

Tried to strengthen their claims on land and hold on peasants.

Video # 3

A historical Account (Continued)

The impact of british Colonialism

In the middle of 18th century colonial expansion started in south Asia and by the end of the century British established direct or indirect control over the part of its land.

The impact ;

The British rule brings three institutional changes which had important consequences;

Institution of private property;

It was introduced in late eighteenth and nineteenth century.

A legal system (Resolve disputes)

It was established with reference to the ownership of property.

An efficient Government (Give property rights to tenants, Farmers and all)

It is systematized/Settled multiple claims of land which emerged after decline of Mughal empire.

As a result ,the power of the landlord over the peasant was dissolved and restructured.

Economics and political power separated.

In 1793,in Bengal;

Property rights given to revenue collectors /zamindar (who had taken land possession),ensuring collections.

In 1843,sindh was taken over by the British Empire .

The royalties system was established for land .

Ryotwari:

A system in which state was landlord and occupant was ryot /tenant.

Occupant was given heritable land transferable rights .

Payment of land revenue was basic condition.

The British granted ownership rights of large tracts of land (as jagirs) to the influential as they provided some kind of service to the British rulers.

These owners became landlords of Sindh.

Video # 4

Historical Account (Continued)

Import of British Colonialism(Continued)

Steps by British Rulers;

1 Introduction of monetary tax:

Tax on cultivated land as well as on fallow land.

2 Agriculture commercialization

Emergence of agriculture market

Product selling in market

3 Process of building canals (late 1870's)

Proprietary rights were given to self cultivators(1912)

Result

Results:

Greater integration of ruler economy with rest of Indian sub-continent as a result Agricultural development on capitalistic line.

Cropped area (grew)

Marketable agricultural product (grew)

(1874 4000 ton cotton produce after British arrival in continent)

(Cash crop increases)

Land held by usurers under mortgages(emergence of debt market).

In 1947,

Punjab had 42% land with landlords 58% was on lease.

Sindh had 80% land with landlords.

Video # 5

Historical Account (continued)

Is agricultural sector in Pakistan feudal or capitalist

British colonialism initiated capitalism in agriculture in the region

1 Absence of agriculture revolution

2 Economics expansion and modernization

3 Quantitative increase (not qualitative)

4 Greater integration (monetization)

Results:

Capitalist form of agriculture did not merge on significant scale so conclusion is clear Agriculture remained feudal or at least pre capitalist

According to many scholars ,British instituted capitalism.

Private ownership of land

Emergence of agricultural market

Rights of alienation and transfer

Introduction of legal system

Establishment of official sources of credit
 Protection of rights of rights of land users
 Greater interaction and integration between town and country
 Quantity of crops grew (exported as well)
 Wage labor emergence
 Setting up of agricultural zone
 Video # 6

Green Revolution

Most important events in Pakistan's agricultural history is Green revolution occurred in mid 1960s
 It is complete technological package applied to the world wide for improvement of quality and quantity of agricultural output its result are remarkable throughout the world.
 Green revolution is significant increase in agricultural productivity resulting from the introduction of technology package of high yield varieties(HYV) seeds, chemical fertilizers and pesticides.
 The result in major changes in economics ,social and political structure of the economy.
 1949 -1958 1.43 annual (Agriculture was stagnant in1950)
 1959-1964 3.7% annual
 1965-1970 6.3% annual
 Increase in growth took place in two phases
 1960-1964 increase in irrigation
 1965-1970 Use of high yielding variety of seeds, pesticides and fertilizers.
 Complete technology package of water
 Seed (two HYVs)
 Fertilizer
 Pesticides Most important ingredient in the technology
 package was water.
 Green Revolution was a rounding success, however three arise various issues as a result .

Video # 7

Agriculture sector of Pakistan Green Revolution (Continued)

Issue of the tube wells
 Issue of mechanization (tractors)
 Regional and Income disparities
 (1) Issue of tubes

1960	few hundred
1968	75000
1975	156,000

Highly concentrated in canal colony districts of Punjab(91% in 1968).Very little tube well development outside Punjab
 Developed by landowners having more than 25 areas of land due to size and cost of tube wells.(70%of tube wells with big farmers)
 Even the middle level peasants could not afford its cost.
 Large public subsidies were given for this investment .
 (Fuel, installation cost, and maintenance)

(2) Mechanization Issues (Use of tractors)

1960	2000 tractors
1968	18909 tractors

But

Most tractors were owned by landlords with more than 100 acres of land

Lord with more than 100 acres of land .(38% in Multan division)

(3) Regional and income Disparities

Installation of tube wells

Tractorization

Access to credit

In accessible to poor farmers hence the

result is interregional and income disparities.

Since the NWFP and south Eastern part of Sindh had inadequate access to Water and the (HYV) technology.

Thus , Landowners owing so to 100 acre of land ,almost all of them from Punjab ,Produced

“Pakistan Green Revolution”

Video # 8

Land Reforms

Land reforms is changing the pattern of land possession to stop the concentration of land between landless/small land owners by taking land from large land owners.

Pakistan had long history of land reforms starting in 1947,focusing the nature of tendency and structure of land holding.

The objective of land reforms was to put ceiling on landholding and supposed to be an attempt to change tenancy regulation.

Three phases of land reforms

1.1959 Land reforms

2.1972 Land reforms

3.1977 Land reforms

. 1959 Land reforms

. A ceiling of 500 acres of irrigated and 1000 acres of unirrigated land.

. Tenants already cultivated land.

. Permanent ownership to occupants

. Compensation was paid(Rs.5/pr PIU)

. Resumed land to be sold to landless tenants.

Critical Analysis of land reforms 1959

. Major landlords benefited by getting compensation for the poor quality land.

. By 1967 only 50% of the resumed land had been sold.

20% from this half of resumed land was sold to landless tenants.

80% of this land was auctioned to rich farmer and civil military officials.

Video #9

Land Reforms (Continued)

1972 Land Reforms features

A ceiling of 150 acres of irrigated and 300 acres of un irrigated land .

Permanent ownership to occupants.

No compensation was paid.

Resumed land to be given to landless tenants free of cost.

Pending dues of 1959 land reforms were written off for tenants.

Critical Analysis

Only 42% land was resumed in Punjab ,59% in Sindh.

0.6 million acres land resumed(for less than 1959 figures).

1% of the landless tenants and small owners benefited.

1977 Land Reforms features

A ceiling of 100 acres of irrigated land 200 acres of irrigated land 200 acres of unirrigated land.

Permanent ownership to occupants.

Compensation was paid (Rs.30/PR PIU)

Agricultural income Tax to replace the land revenue. The irrigated land of 25 acres or less, and the unirrigated land of 50 acres or less were exempted.

Conclusion

Land reforms were always controversial .It was argued that they were an Islamic and that they violate the right to own ,use and enjoy property as protected by constitution .

The reforms did not yield the expected due to variety of reason.

Land reform do not achieve their target, in a Pakistan

Video # 10

Story of Agriculture

Process of change

Nature of change

How social and economics relations have change over time

Agricultural Issues

Agriculture price policy

Agriculture credit

Mechanization

Agriculture Income tax

The water crises

Land Reforms

Agriculture price policy

Govt can paly critical role in determining what and how much produced through pricing policy

A good agriculture pricing policy can defined as one which can act as an incentive to produce certain goods in required quantities.

National commission of Agriculture report 1988

Low food grain prices

Exports duties on cotton

Fixed prices of wheat and rice

Inter-districts and inter-provinces restrictions

Agriculture commonly commodity import

An extensive structure of agricultural input subsidies was evolved covering (1960,s 1970,s)

Fertilizers

Seeds

Plants

Tube wells

Machinery

Agriculture suffered from output policies and large farmers get most out of input price subsidies.

Agriculture Credit

Formal sources of credit

Complex procedures

.Third phase is 1969-1977

First phase is period 1947-1958

Industrial policy of April 1948

Features:

- .Extreme industrial backwardness.
- .No jute mills with (75% of world jute production).
- .Few textile mills (huge cotton production).
- .Pakistan blessed with considerable economic resource.

1949-1958 growth rate of industry in Pakistan most rapid in the world(Large scale manufacturing growth 23.6% between 1949-1954).

1950 s established and expansion of large scale manufacturing sector.

Economic development and investment tool in the first decade,

- .The impact of exchange rate.
- .The trade policy regime.
- .Import substitution industrialization

Video#2

Industrial sector of Pakistan

The impact of exchange rate

September 1948,Pound sterling currencies of numerous countries as well as India were devalued. But Pakistan did not follow,

- .Announce the world Pakistan's independent economic policy
 - .Sell raw material (jute) at higher prices and import the machinery at lower prices.
- Pakistan got imposed some controls on imports and exports to manage the trade.

India suspended trade with Pakistan in September 1949

As a consequence Pakistan,

- .Either devalue currency
- .Find alternative market

Due to Korean war Pakistan make spectacular profits on its exports.

1952, the price of cotton and jute fell but govt decided not to devalue.

Instead govt put physical control on imports and exports.

.The decision not to devalue currency started Pakistan on the road to industrial and economic development.

The trade policy regime

Analysis :

- .Collapse of Korean Boom(1952)
- .Fall in export prices
- .Balance of payment deteriorated
- .Control and restriction were imposed

Pakistan trade policy impact

- .Overvaluation of rupee
- .Use of quantitative control on imports
- .Highly differentiated structure of tariffs on imports and exports taxes.

Import substitution industrialization

.The exchange rate and trade policies adopted by Pakistan lead to import substitution industrialization.

Protective policy

- .Produce anything that reasonably can be produced
- .Ban on imports of domestically produced goods

Due to highest protection (consumer goods) import substitution progressed easily and rapidly.

Import of capital goods and non agricultural industrial goods . Only govt played major role in determining the nature and structure of industry.

Video#3

Second phase (1958-1968)

Introduction:

.Economic policies of the first decade initiated an Era of industrial growth and development.

.This laid the foundation for the decade of development between 1958-1968.

.Growth rate in large scale manufacturing, agriculture and GDP showed astonishing trend over the ten years between 1958-1968.

Examine the nature of development through,

.Growth rate

.Policies pursued

.Consequences of policies

Growth rate

.High growth rate in large scale manufacturing continued in the first few years of this decade (growth rate around 17% annual).

.Even after 1965 manufacturing sector growth remained above 10%.

Trade policies

1).Many control on trade were disbanded.

2).New trade policy 1959 shifted away from direct control to indirect control.

3).Exports Bonus Scheme(EBS) launched in 1959.

4).Import licensing scheme replaced with Open General License(OGI) in 1961.

5).Introduction of “Free List” scheme(with import license to import the goods).

6).focus on import liberalization

7).New import control introduced

Analysis

.Import liberalization would not have been possible without increase in foreign aid.

.Exports Bonus Scheme(EBS) compensated overvalued exchange rate and boosted exports.

.Due to overvalued exchange rate it became cheaper to import machinery.

Consequences

.Impact of EBS, import licensing and liberalization strategy was considered “Dramatic on industrial development”.

.Large scale manufacturing growth increased from 8% (1955-1960) to 17% (1960-1965).

.In 1965 Pakistan manufactured exports were greater than the combined exports of south Korea, Turkey, Thailand and Indonesia.

.Foreign aid Imports

.Both industrial production and investment responded well to liberalization of imports.

.Exports Bonus Scheme encouraged the exports of manufactured goods.

Video no.4

Third phase (1969-1977)

Introduction

Last phase end with rise interregional disparities and income inequalities particularly between east and West Pakistan.

New democratic govt. inherited new Pakistan defeated in war by India in December 1971.

Analysis

Socialism concept was responsible for dismal growth rates and highest rates of inflation.

Bad economics and poor policies were responsible economic performance.

Many bad luck factors also caused played a critical role in causing economy to grow at below trend rate.

Major Steps\Economic policies

Nationalization of all basic industries and financial institutions. Nationalization policy has three aspects.

All those means of production that are generators of industrial advancement must be taken in public hand.

All enterprises of national economy infrastructure must be in public ownership.

Institutions dealing with medium of exchange (banking and insurance) must be nationalized.

The party's promises to urban organized labour were fulfilled within six months of coming to power through labour reforms (1972).

Devaluation of Pakistani rupee by 131 percent.

Banking reforms may 1972, state bank of Pakistan extend control over scheduled banks.

Export Bonus scheme (EBs) was abandoned.

Bad luck factors

August 1973_____measure flood hit Pakistan.

October 1973_____increase in international petroleum prices.

World recession as a result of OPEC prices rise.

Huge failure of cotton crop (25%).

Consequences of factors

Nationalization measures results out to complete reversal of public and private sector investment.(In 1947\1975 private sector investment was only 15% from only 5% in the same time period).

Private sector had lost all trust in govt.

Inflation reaches to peak level due to oil price rises.

All price rises wiped out positive balance of trade (gains from devaluation).

Flood and pests attack damages crop severely.

Failure of cotton crop 1974\1975 (as much as 25%).

Critical review

Lack of fiscal and monetary disciplines.

High budget deficit

Monetary growth and inflation

Period of domestic and international turmoil.

It was more external (bad luck) factors than bad management which resulted the poor economic growth.

Video no.5

Process of industrialization (1977 till present)

Introduction:

Last era was characterized by poor policies, bad management and various bad luck factors which result into overall poor performance of the economy.

This era started in 1977 with the military rule in the country.

Features:

Pakistan's manufacturing sector became more capital intensive between 1975-1986.

There is little employment growth in almost all industries between 1975 – 1986.

1980's has been period of relatively high growth in manufacturing.

This time period has the first ever industrial policy, formulated and executed.

Overall performance of the economy in this period was phenomenal.

Analysis:

Change in govt. in 1977 brings a change in industrial strategy.

Most important concern of the govt. was to restore private sector confidence and motivation in order to revise investment in industry.

Govt. made the decision that private sector was to play the leading role in industrial sector.

Steps taken:

September 1977, denationalization of number of agro based industries.

Dec.1977 number of the basic and heavy chemical and cement industries was opened to private sector.

March 1978, tax holidays and incentives to encourage industrial activity in the less developed regions of country.

June 1978, export rebates were given.

Fifth five years plan 1978\1979 was launched (third and fourth plan were lost).

Return of assets seized and nationalized in last regime.

Sixth five years plan 1983-1988 marks the process of deregulation and liberalization.

A “negative list” was introduced to encourage foreign trade.

Manufactured exports were given rebates, import facilities, income tax concession to encourage export.

Distinguishing measure of this govt. was i

Islamization (Islamic laws were enacted, commissions formed and economy was brought under Islamic laws and principals).

On the whole manufacturing sector in Pakistan has recorded impressive growth rates during 1977_1988 period.

Video no.6

Structural adjustment

The age of structural adjustment: 1988 onwards

Introduction:

The political & economic background of the role that the IMF & World Bank began to play in Pakistan’s economy after 1988 through structural adjustment program.

Seventh five years plan (1988-1993) under the instructions of IMF & World bank set ambitious target for overall reforms in industrial sector.

Industrial Sector Reforms:

Further deregulation liberalizing the economy.

Privatization

Tariff reforms

Regulation of Foreign investment

Industrial Sector Reforms:

Under three years agreement (1988-1991) with IMF, the industrial policy was outlined. Some points are as follows.

Deregulating business decisions.

Exchange exports incentives.

Reducing level of protection.

Reducing the list of restricted imports.

Divesting the shares of public sector companies to private sector.

Industrial Sector Reforms Review:

The World Bank in its review program (1991) felt that economy responded well to policy reform.

Progress in implementing structural reforms to promote private sector activity has been exceptional.

Manufacturing sector managed impressive 7.4 % growth (1991).

World Bank & IMF have concluded that three years structural adjustment program (1993) went well especially in industrial sector.

Industrial Sector in 1990’s:

Manufacturing growth rate fell from 8.21% average annual to 4.8% average in 1990's.

In 1996-1997 industrial sector growth was minus 0.1%.

1999-2000 Industrial sector growth was only 1.5%.

Industrial sector in 1990's was only reconfirmed the deteriorating condition of the industry in the country.

Analysis of industrial sector in 1990's,:

All the govt. relying on private sector to lead Pakistan on higher levels of industrial development.

Its not surprising the public investment reduced.

Disturbing fact is that the private investment (as % of GDP) also fell.

But public investment was higher 9.2% (as a % of GDP) then private investment 7.8% (as % of GDP).

Industrial Sector in 2000's:

Most of the investment & manufacturing indicators improved substantially after 1990's.

Both total investment & fixed investment grew at higher rate.

Main motor of investment was private sector with almost three time's higher as much as public investment (12.6% as compared to only 4.8%).

These trend marks a very clear shift in the dynamic of investment in Pakistan.

Summary:

Industrial sector has suffered since new liberal structural adjustment program was initiated in 1980's.

It was only after 9/11 that growth rates in industrial sector, in investment & of the economy picked up.

Growth & investment in Pakistan depends on incentives to the private sector & on supportive conditions in which private sector is willing to invest.

Video No. 7

Key Issues of Industry in Pakistan:

Introduction:

Trends in industrial sector.

The small scale manufacturing sector.

The textile industry.

Public Sector industry.

The privatization process.

The energy crises.

Trend in Industrial Sector:

No industrial base in beginning.

1950's extra ordinary industrial growth rate.

1960's large scale manufacturing.

Shows exceptional growth.

1970's substantial reduction in industrial growth.

1980's impressive annual average growth in manufacturing.

1990's growth in industry again fell.

2000's revival in industrial growth after 9/11.

The industrial & Manufacturing growth of Pakistan witnessed roller coaster.

Boom/ Bust trend throughout the time.

Population increases in this time but employment in formal manufacturing sector did not increase.

Small scale sector grew in 1980's captured the increase in labor force.

The Small Scale Manufacturing Sector:

Small scale sector play an increasing and critical role in number of areas in urban economy.

In urban manufacturing sector 98% of the manufacturing units were small scale unregistered firms.

Employment elasticity in the small scale sector is amongst the highest in all the sectors.

Issues Effecting Small Scale Sector:

State policy has been biased in favor of the large scale manufacturing sector was treated with contempt.

State played no real role in explicitly promoting the small scale sector.

Banking sector was also unhelpful & discouraging to small scale in formal units.

With regard to utilities provided to large scale manufacturing, the small scale sector was treated “hand-off “policy.

Video no. 8

The textile industry

The textile sector holds a very important position in Pakistan economy in terms of

i-Employment

ii-value added

iii-contribution of this sector towards exports

Highest manufacturing value added (26%) 2005\2006.

One third of entire manufactured employment in textile

Issues in the textile industry

Textile was highly concentrated amongst few industrial houses.

Number of installed spindles has been lower than 1950's and 1960's.

Only 66% of installed capacity is being utilized in the loan sector(number of working loans in one fifth of that in 1950's and 1960's)

Negative productivity in the textile and garment sector is the result of fragmentation of the industry from large scale to small scale units.

Public sector industry

Role of the govt. has been reduce

public sector enterprises are,

1-inefficient

2-costly to run

3-poor performance

4-drain on exchequer

Pakistan industrial development corporation (PIDC) established in 1952 played very important role in fulfilling its objectives. Its role was leading the public sector was considerably expanded. By 1977 govt. was involved in finance, manufacture, transport and communication, construction energy etc.

After 1977 the role of the public sector began to diminish.

Public sector enterprises besides responding to pure market criteria have social and political responsibilities and motives.

Public sector industries performed far better than the overall manufacturing sector during 1972-1977.

The efficiency leaves across industries are independent of locus of ownership.

By 1990's much has been changed in public policy after structural program.

Video no. 9

The privatization process

The disinvestment and deregulation committee was established in 1990 to identify the units for privatization

This committee identified 109 industrial units and four out of five nationalized banks to be privatized at earliest opportunity.

The privatization commission replaced the committee in 1991,with the following functions;

1-valuation of public enterprises

2-implementation of the bidding process

3-supervision of the transfer of the units to private sector.

But this privatization process were severely criticized;

1-lack of transparency corruption

2-incorrect bid evaluation process

3-inadequate attention to new management

4-favouritism as the unit transferred to management with no previous experience

5-inconsistency in process

The privatization process:

Public and private investment are essentially complementary in nature; and that while process private investment holds the greatest promise in areas of productive efficiency. Its success depends on public investment which provide efficient infrastructure.

The energy crises

An important factor having its impact on industrial sector as well as on economy as a whole is energy crises in Pakistan.

The ongoing energy crises has crippled Pakistan's industry and economy.it is hitting the industry of multiple levels;

Energy tariff increases(cost increases profit decreases)

Un-announced load shedding

Voltage fluctuations

Un availability harms productivity of works

The energy crises reasons

Growing gap between the rising demand and supply of energy.

Rising burden of circular debt.

Lack of maintenance

Line losses(power theft)

Billions of rupees of unpaid bills

In appropriate energy generation mix

The energy crises consequences

In industrial crises such as Karachi, Lahore, Gujranwala and Faisalabad, thousands of units have shut down are operating at bare minimum level.

Energy crises resulted in huge capital flight(investment have shifted elsewhere)

Loss of thousands of jobs due to

