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Economic Growth in Pakistan – A Historic Perspective

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ABSTRACT

Economic growth shows the increase in GDP per capita and potential of a country. The study describes the history of economic growth in Pakistan form 1947 to 2020. It examines the effect of various policies on economic growth. The economy of Pakistan depends on the institutional structure and nature of governance. It shows the economic policies of various regimes in the history of Pakistan. In the decade of 1950s, Pakistan was an infant state of economy struggling for its survival. It had to face the impact of martial laws and loss of important political leaders. The decade of 1960s was considered as golden age due to higher growth rate of GDP. The decade of 1970s was socialist era. Land reforms was introduced. The era of 1980s was led by Islamic ideology. Geographical importance of Pakistan was emerged due to soviet invasion in Afghanistan. Economy of Pakistan had to face the leaving impacts of afghan war. In 1990s democracy was revived. But no successive political party was able to complete its term. Personal rifts and thrust for power lead to political war. The era of 2000s reveals *the institutionalization of military power. The decade of 2010s showed that stagflation persisted with high growth rate of GDP. The decade of 2020 ends with the aftermath of COVID-19 which is responsible for the collapse of economy. Restructuring the economic growth is necessary for the reduction of poverty. There is need to broaden the basis of sustainable GDP growth rate.*

Keywords: Economic growth in Pakistan; History of economy of Pakistan; Economic issues of developing countries; GDP growth in Pakistan; Economic history.

1. Introduction

Economic growth is the expansion of country's potential GDP or output. It reflects increase in average real income and improvement in standard of living. It is measured by increase in GDP (Gross Domestic Product), GNP (Gross National Product), NI (National Income) and national wealth as the main quantitative indicators of production for the period of one year. (Mladen M. 2015). It is complex long run phenomenon in developing countries due to increasing population growth rate, limited access to resources, lack of infrastructure, political interventions, inefficient policies, institutional and cultural obstacles.

The new classical growth model presented by Solow (1956) investigated that technological progress, exogenous rate of saving and population growth are important determinants to generate economic growth. Rostow (1960) presented the five stages of economic growth. According to Rostow, A country must pass through these five stages to become a developed country. Robert and Lucas presented the endogenous growth model in 1986. It assumes that constant and increasing returns to the capital lead to the higher level of growth rate. In 1990 Romer presented an endogenous growth model which focuses on the role of human capital to accelerate economic growth. According to Fischer (1993) there is a positive relationship between foreign exchange markets and fiscal performance. He also explored the negative relationship between inflation and long term economic growth. Barro and Lee (1994) also supports the role of human of human capital to increase growth rate. According to these growth theories, investment in human capital, trade openness, fiscal performance, capital accumulation, higher level of saving and technological progress are important determinants of economic growth in the context of developing countries like Pakistan. (Shehbaz et al. 2008)

The economic management of Pakistan is dependent on SAP (Structural Adjustment Program). This program has improved the balance of payments deficit by devaluation of local currency, lowering fiscal deficit, cutting down fiscal expenditures and openness of trade. But these economic reforms couldn't bring the fruit due to lack of transparency, corrupt system, lack of merit, political rift, instability of successive governments, foreign debt, limited capital mobility, financial integration and foreign dependency.

2. Literature Review

Literature review is a section of research study in which the previous work of experts is undertaken to understand the current scenario. It forms the basis for theoretical knowledge about the study. Likewise many studies are reviewed to understand the history of economic growth in Pakistan. The review of different studies is briefed here;

Akmal Hussain (2012) presented the perspective of economic history of Pakistan during seven decades. He discussed the fluctuations in the growth rates of GDP due to political instability. Growth rates were higher during 1960s. He criticized the economic policies made during various regimes. The pattern of growth has not been regular in Pakistan. He recommends an efficient policies for increasing growth rates of GDP.

Allen Heller (2012) discussed the concepts of economic growth and development. After passing through agricultural and industrial stages, a society is confronting the stage of knowledge. She explained difference between economic growth and development. These concepts are the priorities of economic policies. That should be redefined.

Nacolae Moroiano and Daniela Moroianu (2012) explored the relevance of various economic growth models. They have discussed the growth models by new classical economists. Exogenous models are dependent on capital accumulation and rate of saving. Endogenous models are dependent on the role of human capital. So, exogenous models are good for developed countries while endogenous growth model is good for developing countries. He concluded that biggest problem is the implementation of these models. There is only thing that could be helpful in both models that is innovation.

Rashid Amjad (2014) explained the historical approach to the causes of growth cycles in Pakistan. The study reveals that unsustainable growth in Pakistan is due to high inflation rate, fiscal debt, debt servicing and weak foreign demand for Pakistan products. There is abundance of unskilled labor, unfavorable weather and deteriorating law and order situation. He concludes that foreign exchange constraints are the major reasons for irregular growth cycles.

Melvic M. Ivic (2015) investigated the difference between the concepts of economic growth and development. Economic growth is quantitative and narrower approach. It is measured by increase in average income per capita. While economic development is qualitative and wide approach toward national welfare. It is measure by increase in production capacity and living standard. He suggests that economic development should be preferred in policies.

MI Anjum (2017) discussed the history of Pakistan’s economy. History reveals the unfavorable impacts of inefficient policies for growth. Economic growth never been consistent from inception to current decade. It was high during 1960-70 and lower in 1990. It was consistent in 2000 and collapsed in 2020. He recommends the effective role of government in implementing laws and policies.

3. A Brief History of Economic Growth in Pakistan

Economic growth extends the potential of a country to combat against its social and economic issues. It reflects the living standard and average income of the population. Rostow (1960) presents five stages of economic growth. That are following; 1) traditional society 2) preconditions to take off 3) take-off 4) drive to maturity 5) high mass consumption. According to Rostow, if a developing country wants to become a developed country it must go through these five stages. Pakistan is a developing country. Every new government declares that economy is at its take off stage. But economy of Pakistan has to face some serous constraints to sustainable growth in short and long run. It has been facing the inconsistent growth rate for a long. Each successive government that has been in power since 1990 including current spends their early years in stabilizing the precarious economic situation it inherited with the threat of default. The roots of current issue lied in history.

3.1. Survival of an infant state (1947)

Pakistan is an agricultural country. Agriculture contributes 24 percent in GDP growth and generates employment for nearly half of the population (Pakistan Bureau of Statistics). Pakistan had only Rs. 200 million rupees worth of foreign exchange in central treasury when it emerged as a new nation on the map of the world. Its population was 30 million and it was difficult to feed them. It had to dependent on imports from foreign countries. It lucked of industrial base, basic infrastructure, trade deficit, technical expertise and intellectuals. An average income a Pakistani could earn was less than \$100. It had saving rate of 2 percent and investment was only 4 percent in 1949. While services sector shared 39 percent in GDP. It had literacy rate of only 10 percent. There was lack of roads and communication network. Energy consumption was high as compared to its production. Poverty was rising due to immigration of migrants. Government started the policy of import substitution to encourage exports. It increased the agricultural production and paved the ways for exports in international market. The sudden demise of leader Jinnah was great a shock to the nation. This situation added fuel to the fire and worsened the law and order condition in country. There was no work for developing proper policies or implementation of these policies. The worse condition was due to destiny. (Ishrat Hussain 2004)

3.2. Decade of 1950; Era of Industrialization and import substitution policy

It was a phase of economic planning. Pakistan has launched five-year planning policy in 1951 and initiated Colombo plan. Sui gas was discovered in 1952. It was huge achievement for population welfare. But it also gave birth to discrimination and negligence among provinces. Baluchistan was not given its due share. Pakistan's policy regarding the development of import substitutes industry has remained continued. businesses profit becomes the capital of industry because other sectors of Pakistan need the industry capital. New industries came into domestic market. Competition was increased and also increased the employment opportunities. (Ishrat Hussain 2004). During period of 1955-58, Government introduced large profit for traders in manufacturing. The step was taken to protect the infant domestic industries. It also encouraged the domestic production of consumer goods. Pakistan had taken foreign aid amount increasing to Rs. 500 million dollars from USA. Pakistan achieved export development but it dragged Pakistan into the habit of foreign aid dependency. Martial law was imposed in 1958 after granting export license named as export bonus vouchers. Agriculture growth rate and per capita income was decreasing. Standard of living of people was deteriorating. (MI Anjum 2017).

3.3. The decade of 1960s: Era of rapid and uneven Economic Growth

It was declared as decade of golden age due to high growth rate of GDP. High growth rate was the result of subsidies. But there were constraints to growth which restricted its sustainably that were tariff protection, income inequality, narrow, inefficient industrial base, increasing loan dependency for next four decades. That conditions lead to add negative value in industry. Economic elite were failed to save out of their increased income. Ratio of Debt to foreign exchange increased up to 4.2

percent. Inequality between income and living standard persisted due to uneven rapid economic growth. Pakistan reached to the increasing growth rate because of foreign aid inflow and political stability. (Amjad 2014) Poverty increased up to the half of the population of Pakistan. Large investments are made in water management providing benefits to farmers, increased the use of machinery in agriculture, immense use of fertilizers, pesticides and use of hybrid seeds lead to an increase in GDP growth rate. Major focus was on the manufacturing sector. The efficiency of manufacturing sector I increased due to granting protection to small industries. Foreign aid was conditioned owing to the Indo Pak war in 1965. West Pakistan was facing immense discrimination and marginalization. These precarious economic conditions lead to mass movement against Ayub Khan. (MI Anjum 2017).

3.4. Decade of 1970; Era of Nationalization and Command Economy

Economic and social disparities had developed the sense of deprivation, anxiety and repression in East Pakistan. Political conditions were aggravating the economy. The lust of power and lack of understanding between establishment and public dragged the country into war. These two reasons were the alpha and omega of separation of East Pakistan. India played the role of an opportunist to harm the solidarity of Pakistan. Covert operations of Indian army were obvious. It created the air of extremism and militancy in Pakistan. Furthermore, the oil price shocks of 1973 added fuel to the fire. It increased the import bill and current account deficit. Unfortunately, crops were destroyed due to pest attacks and floods. People were suffering from the worst form of inflation. Growth rate of GDP was increased 2.4 percent owing the privatization of national institutions. It boosted the investment and manufacturing sector. It shares to 25 percent of value added in GDP. It strengthen the landed elite and widened the economic base for state patronage. Nationalization was done in 1972. It grabbed the 43 large industrial units and effected the monopolists. In 1972, small and medium enterprises declined in private sector which resulted in loss of investment. Interest rate was increased and GDP growth rate was declined from 6.3 percent to 5 percent. Important economic decisions were made on the basis of political consideration, Domestic debt was increased. (MI Anjum 2017).

3.5.Decade of 1980; Era of Islamic ideology

That was the decade of extremism and militancy. Pakistan shake hands with United States on the issue of Afghan war (1979). General Zia-ul-Haq took hefty amount of foreign aid for pushing country into proxy war. U.S. started the training of army for fighting in Afghanistan. Small town mosques were engaged in militant religious organizations that were linked to Afghan war. Government implied the theocratic social order in country. GDP growth rate was 6.6 percent. Foreign remittances and domestic saving were increased. Annual development program begun to get contradicted. Reversal of nationalism increased the growth rate. Poverty and unemployment rate was reduced. Government had imposed interest free Islamic banking system in country. Entrepreneurs took an initiative to proceed businesses with the owner of capital on the rule of profit and loss sharing. There was 16 percent increase in national saving because of huge inflow of remittances from Middle East. Public investment falls to negative ratios throughout the decade. Pakistan has to face the critical circumstances of trade deficit, a huge amount of expenditures were consumed in national saving to finance deficits. Tax to GDP ratio falls and government has to finance the budget deficit through non-bank domestic borrowing. Superficially, large amount of interest payments, public expenditure and fiscal deficit were accelerated. Democratic culture was developing in 1985 but Pakistan's annual growth rate wasn't up to the significant ratio. Consequently, manufacturing boom had increased the growth rate of manufacture and agriculture sectors in Pakistan. (MI Anjum 2017).

3.6.The decade of 1990s: Era of Democratic order

Pakistan experienced the obstacles of decreasing remittances and increasing deficits. Decline in the GDP growth rate led toward worst inflation. Unemployment rate was high up to 5.9 percent and Pakistan financed current account deficit by the sustained increase in foreign currency deposits. External debt enlarged threefold due to high debt/export ratio. Domestic debt to GDP ratio increased due to Pakistan's diminishing profile of external liabilities. Ratio of government debt to Gross Domestic Product has risen up to 102 percent in late 90s. Interest payments were increased and destabilized the public debt. External debt default occurred in 1996 due to sanctions imposed by western countries on Pakistan for the testing of nuclear weapons. Large Capital flights increased the debt crises. Growth rate of agriculture and service sector was decreased and poverty level was increased to 30.6 percent. Use of public office for private wealth was became norm. Rampant corruption, extremism, sectorial violence, declining growth rates, erosion of many institutions, instability, poor law and order situation lead to the economic crises of 1990s. These conditions resulted in decreasing private investment and GDP. Structural adjustment program was adopted under the strict conditions of IMF (international monetary fund). Unproductive expenditures were increased which reduced the development expenditures. GDP growth rate decreased up to 3.5 percent. Level of poverty was increased. (MI Anjum 2017).

3.7. The decade of 2000s: Era of Economic Liberalization, Growth and military power

That was the era of institutionalization of military power. A large number of constitutional amendments were restructured in political system. War on terror promoted Pakistan as a terrorist country. Foreign investors hesitated to invest in Pakistan due to this dark image. After 9/11 macroeconomic indicators were improved due to foreign aid. GDP growth rate was increased to 6 percent. Debt servicing was at tolerable ratio and budget deficit was reduced. State bank reserves were increased to record level. The Official Debt Reduction and Management Committee (DRMC) explored the reason behind huge debt crises and declining growth rate of GDP. Increasing the growth rate of GDP has been major route for overcoming the debts. The main reasons of debt crises are failure of macroeconomic policies. Improvement in growth rate didn't stabilize the price system, energy shortfall, budget deficit and deterioration balance of payments would not be stabilized by rising economic growth. Poverty level increased up to 34 percent in 2001 but diminishes to 22 percent during 2005. Unemployment rate was 7.8 percent and then went down to 5 percent during 2008. The literacy rate was rose to 55 percent and Pakistan experienced the economic crises because of global crises in 2009-10. Inflation-adjusted growth rate kept at 4.9 percent with the 2 percent growth rate of agriculture sector. Growth rate of manufacturing and services was 4.6 percent. Debt to GDP ratio was 56 percent and ratio of external debt to GDP was 25 percent. Large share of gross domestic product of industry can take Pakistan on the way of development. (MI Anjum 2017).

3.8. 2010-2020. Era of democracy and its aftermath (COVID-19

PIDE (Pakistan Institute of development Economics) assessed that stagflation problem was occurred owing to the lack of coordination between fiscal and monetary authorities. Pakistan has to face the energy crises and debt crises in 2013. Growth rate was increased up to 4.3 percent in 2014-15 because of declining oil prices, higher remittances, better security conditions and high consumer spending. Inflation was reduced and foreign reserves were sustained. It brought back the macroeconomic stability in 2016 and imports increased with decrease in exports. The book named as ‘’Rise and fall of nation’’ by Richer Sharma shows anticipation that Pakistan is on its take off stage and would transform to middle income country by 2020. There is hope of rule of law and order and independent judiciary in country by restoring democracy. (Amjad R. 2019). In fact, Pakistan has performed well under military governments and worse under democratic conditions. (World Bank report 2018) Pakistan‘s growth rate was improved and increased to 5.3 percent in 2017. Agriculture and service sector was improved due to boom in industrial sector. Low interest rate enlarged the investments in private sector. Inflation rate kept unchanged at 3.8 percent. Exports were recovering in 2018. Poverty rate decreased. Tax to GDP ratio has been the lowest ratio in world. Reforms in tax base enhanced the revenues. A large contribution has given to National Finance commission award to perform their operations. Present economic conditions were much better than previous decades. Pakistan occupies large number of ordinance factories, sport industries, vibrant steel, plastic and auto industries, car, motor, bike and tractors producing companies, textile industry, fertilizers, chemicals, sugar and industries. Economy is still unstable owing to the inexperienced and corrupt politicians. The recent pandemic COVID-19 has developed perilous conditions all over the world. People are experiencing economic as well as psychological pressure. It challenges the overall economy of Pakistan. Economic growth has gone into negative because of this pandemic. Only the agriculture sector is improved with positive growth rate. (Economic survey 2019-20).

4. Present Economic Condition of Pakistan

Let's start the analysis of the performance of the incumbent government from the corona pandemic. Government has to face precarious economic conditions during the pandemic. It handled this with adherences and aptness. When there were strong arguments of placing lockdown, the government still thought about the poor working community and implemented smart lockdown. The fight against the virus is a result of able team work. The government has set up a team of National Command and Operation Centre with the army and provincial governments also played a vital role in coordinating and implementing the strategy. The State bank of Pakistan has also played a pivotal role in keeping the economy moving by cutting interest rates and targeting interventions. (Husnain Ahmad 2012)

The government provided surviving money to poor and unemployed people. It give relief to the urban poor by providing food items. It launched housing construction schemes for poor people who couldn't afford their own houses. The housing scheme could channel private investment. Exports have been falling slightly up to three percent but now it is rising.

Although IMF has helped in achieving macroeconomic stability it has some disadvantages. The most important flaw is agreeing to market determined exchange rate. It devalued the Pakistani rupee, lowers the purchasing power of people, and raise domestic inflation. Borrowing is not going to help out if there is no political will to consume it efficiently.

People have to face price hikes, shortages of goods, interruptions in supply due to high demand. The government is blamed for avoiding corruption at the provincial level and accused of giving undue subsidy on sugar exports to its members of the party. The government took an action against these accuses and published reports of wrongdoers. The government should bring these guilty under the knife of justice and penalized them for wrongdoing. The consumer should be given relief from high prices.

The government should focus on reducing circular debt and rising revenues. It should make a proper plan to achieve macroeconomic stability to spurring economic growth. (Husnain Ahmad 2012).

Table 4.1 Growth rates of three important sectors of Pakistan on annual basis

Pakistan Sectors of Economy	Annual Percentage Growth Rate						
	Period of 1960	**Period of 1970**	**Period of 1980**	**Period of 1990**	**Period of 2000**	**Period of 2010**	**Period of 2020**
GDP	6.77	4.84	6.45	4.6	4.32	2.4	-0.38
Agriculture	5.07	2.37	5.44	4.4	3.76	1.2	2.67
Manufacturing	9.93	5.5	8.21	4.8	4.83	3.0	-5.4
Service sector	6.74	6.26	6.65	4.6	4.54	4.1	-0.59

Source: Economic Survey of Pakistan (2019-20)

This mentioned table indicates percentage values of average growth rate of agriculture, manufacturing and services sectors of Pakistan. Growth rates are highest during the decade of 1960 and lowest in current period of 2020.

5. Conclusion

In the perspective of economic history, growth in Pakistan has been facing following challenges i.e. restructure economic growth for poverty reduction, broaden the base of GDP growth and make it sustainable, a democratic structure and culture of tolerance. Success of an economy depends on a stable, efficient and active government structure. That will support and guide the democratic structure. If it is absent none of the main conditions of economic growth could be fulfilled. (John Keneth Galbraith). Pakistan is has been facing the lowest growth among south Asian countries since 1980. The exogenous forces are equally responsible for the low growth and development. There have been unique large spill-over effects of war on terror, internal instability that is promoted by hostile neighbors and frenemies. Endogenous mishandling of energy crises in 1990 were result of weak institutional framework, poor governance and economic management. It created untenably large inside and outside lags in policy formulation and implementation. There are some suggestions to improve the economic conditions.

1. Tax system should be fixed that also supports the investment and commercial activities of domestic and foreign sector.
2. Strict energy constraints should be eased to some extent that it could address the affordability for industries.
3. There is need of better leverage of CPEC as a potent growth driver. It would promote the diplomatic relations with gulf and Central Asian countries.
4. Agriculture sector should be promoted and given its due importance.
5. There is need to encourage privatization. It will spur competition and innovation.

6. Meaningful institutional reforms should be introduced and applied.
7. Literacy, productivity and innovation are the building blocks of economic growth. Improvement in these indicators is a key to sustainable economic growth.

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