

Phases of Pakistan's Economy:

Fifties Era: 1947 to 1958

The era marked the government of Liaqat Ali Khan and initiation of first Five years plan. There was a 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 for a 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 were 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 worsen. 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.

Growth Era: 1958 to 1969

Political and Economic Situation

The second decade of Pakistan's history remained under the 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 Ayub's policy of modernization. Ayub's government also emphasized on some of the key social institutions like setting up an Ulema Academy in Lahore to modernize the thoughts, allocation of funds for family planning to check the inordinate growth in population and long term 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 gender discrimination, 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.

Nationalization and Command Economy Era: 1971 to 1977

Political and Economic Situation

This era in the earlier years is marked by the 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 the 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.

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 Zial-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.

The Muddling Nineties: 1988 to 1999

Political and Economic Situation

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.

The Reforming Era: 1999 to 2007

Political and Economic Situation

General Pervez 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.

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 our production capacity severely 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.

Also, 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%.