

Pakistan's Development Journey

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The modern history of the south Asian sub-continent is inextricably linked with the advent of the British and their subsequent rule. While the Indian experience with the British commenced formally in 1758 with the establishment of Fort William in Calcutta in 1758, Pakistan saw the first formal British presence with the conquest of Sindh 85 years later in 1843, followed by the occupation of Punjab (including NWFP) 91 years later in 1849 and the takeover of Balochistan 118 years later in 1876.

British presence in Pakistan can be said to span less than 100 years. However, the territories comprising Pakistan remained the backyard of the British Indian empire and did not receive significant attention in terms of economic or social development. Resultantly, barring a few urban centres, large parts of these territories were as underdeveloped in social, economic and political terms in 1947 as in, say, 1900 or even earlier.

Pakistan's modern economic development process can, thus, be said to actually begin in 1947. An overview of this process shows two distinct phases: 1947-1977 and 1977-todate. During the first phase, 1947-1977, Pakistan was a 'Development State'; namely, socioeconomic development was a primary objective of state policy. Since 1977, Pakistan has become a 'National Security State'; namely, national security is the primary objective of the state; with 'national' being increasingly narrowly defined to the point of being seen largely from the lenses of the military's political and economic interests.

Phase I

The state of development in Pakistan can be gauged from the fact that the country started out with less than a dozen medium sized factories. From the outset, therefore, policymakers were seized with the objective of promoting development. Considerable political capital was invested in development planning – Colombo Plan, First Five Year Plan, etc. By the end of the 1950's, government offices and residential housing had been put up in the capital cities, agricultural and industrial output had risen, and many basic consumer products were manufactured in the country.

The 1960's saw the development effort move into higher gear, with the formation of the Planning Commission under the chairmanship of the President and the launch of the ambitious Second Five Year Plan. The decade of the 1960's saw significant expansion of economic infrastructure. The construction of large dams commenced, new canals were dug, and millions of acres of land brought under cultivation. The industrial structure graduated from producing basic consumer goods to the manufacture of intermediate inputs for agricultural and manufacturing sectors.

The 1970's represented the 'big push' towards development of large-scale infrastructure and capital goods industries as the basis for accelerated growth in the future. With the state taking over from the private sector in leading the development process, millions of additional land was brought under cultivation, new ports and highways were constructed, and several large industrial complexes were built. The steel mill, Port Qasim, Indus Highway, Heavy Mechanical Complex, Heavy Electrical Complex, chemical plants, etc., constituted huge additions to the country's economic infrastructure and output capacity.

Over the three decade period encompassing the 'development state' phase – the period up to 1977 – per capita income rose 10-fold, food production was up 3-fold, fibre

production was up 4-fold, manufacturing output increased 40-fold, electricity output increased 35-fold, telephone connections per 10,000 persons rose 10-fold, primary enrolment rate rose 5-fold, population per doctor declined 200-fold, and population per nurse declined 24-fold. Of course, the high growth rates are a function of the low base; however, the state effort in contributing to the absolute increases in output capacity and output and in taking the economy forward was critical.

The commitment of the state to socioeconomic development up to the end of the 1970's can be discerned from the fact that the rate of growth of budgetary allocations to development expenditure increased at an annual average of 21 percent during 1972-77. This growth rate was nearly 5 times the GDP growth rate; indicating that the surpluses generated by the economy was reinvested into rebuilding and expansion of the economic base.

Phase II

The growth momentum continued into the 1980's, on account of four factors: (a) output generated by the large-scale, long-gestation capital projects initiated in the 1970's and which began to contribute to commercial production in the 1980's, (b) inflow of remittances from the Middle East from 1978 onwards, (c) borrowing from bank and non-bank sources, and (d) bilateral and multi-lateral foreign assistance. Notably, the first two factors were exogenous to regime policy and the other two were not linked to development policy.

Even more notable and significant was that the rate of investment in economic infrastructure declined substantially post-1977 and suggested a shift away from the 'development state' paradigm. This shift can be discerned from the fact that the rate of growth of budgetary allocations to development expenditure declined to an annual average of 2.7 percent during 1977-88. This growth rate was about half the GDP growth rate during the period. At the same time, the rate of growth of budgetary allocations to

defence expenditure increased from less than 2 percent during 1972-77 to 9 percent during 1977-88. Notably, the rate of growth of defence expenditure was over two-thirds higher than the rate of growth of GDP during the decade. It appears that the surpluses generated by the economy were invested into building and expansion of the military apparatus. The 'national security state' was clearly in place.

With the economic infrastructure showing signs of strain on account of low level of replacement investment in the 1980's, the growth momentum began to weaken in the 1990's and virtually collapsed post-1997. However, even during the 1990's, public investments in economic infrastructure continued to be low, as the servicing of the debts incurred in the 1980's did not provide governments with the necessary fiscal space to allocate resources for development expenditure in order to rehabilitate or build infrastructure. However, a large power generation programme was implemented with private sector participation, which served the economy well up to the middle of the first decade of the 21st century.

Post-1999, fiscal space, public investment and GDP growth rates continued to be low until the financial bailout provided in the aftermath of the events of September 2001 in USA. From 2003 onwards, growth rates accelerated. However, the growth has been 'credit-financed and consumer-driven'. The element of investment in economic infrastructure or manufacturing capacity has remained low. Growth has been led by services sectors, particularly financial sectors, rather than by commodity-producing sectors. This is indicted by the fact that, despite high growth rates in the last 4 years, the tax-GDP and export-GDP ratios have remained stagnant. It appears that the strategy has provided Pakistan with growth, but little in terms of development.

A highlight of economic activity in recent years has been the surge of luxury real estate projects initiated by the military's

commercial entities in collaboration with foreign investors. This is perhaps indicative of the need and the desire of the 'national security state' to generate autonomous financing sources in order, partly, to free itself from the in-built accountability constraints of public funding. The economy of the country at large continues to suffer from neglect. A glaring illustration of this neglect is the fact that the government overlooked the need to provide for expansion of power generation capacity for over a decade.

The seriously deteriorating state of economic infrastructure can be inferred from the fact that recently a railway bridge near Hyderabad collapsed, suspending rail traffic between Karachi and the rest of the country for several months. More recently, two berths at Karachi port caved in into the sea. And even more recently, a newly built bridge in Karachi collapsed weeks after its inauguration. The former two incidents point towards the number of years the bridge and the berths must have been rusting to actually collapse and is indicative of the extent to which economic infrastructure has degenerated. The latter event denotes the extent to which the institutional infrastructure has decayed.

Conclusion

The state of affairs prevailing today cannot be said to be surprising. It is now three decades since the 'development state' ceased to exist. The people of Pakistan have a choice to make: sink into the status of a satellite economy of regional economic powers or stand shoulder to shoulder with the economic powers of the region. If the choice is the former, Pakistan can continue with the present situation. If the choice be the latter, it would be imperative to dismantle the 'national security state' and to restore the 'development state'.

Pakistan will need to create a policy combination of the 1960's and the 1970's to rebuild the economic base and to resume its journey on the path of development. There will have to be a national consensus on public investments in economic

infrastructure and human resource development equaling about 10% of GDP. Correspondingly, there will need to be a consensus on living with a low GDP growth rate of 3-4% over about 5 years. There will be an employment surge during this period, but there will also be an accompanying threat of inflation. The latter can be contained through financing the development programme through switching expenditures from non-development heads, rather than through deficit financing or borrowing. These will be politically difficult decisions; without which, however, the country cannot expect to rise from the low level equilibrium it appears to have been caught in.