Pakistan's Economy Under Zia-ul-Haq

By Ichiro Yamanaka

Pattern of past economic growth

During the 37 years since Pakistan gained independence in August 1947, the country's economy has continued, on the whole, to develop and expand despite the effects of periodic political upheavals (See Fig. 1).

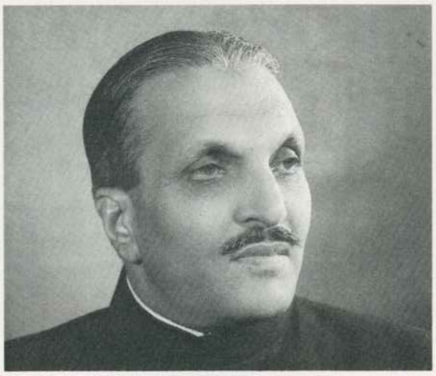
Politically, the 1950s was a period of flux for the fledgling nation, but economically, and especially with respect to industrial production, it was marked by the establishment of a domestic industry centered on cotton spinning and weaving. The decade of the 1960s that followed was a period of high economic growth under the regime of Mohammad Ayub Khan, the country's economy maintaining an annual real growth rate of close to 7%. Although economic expansion was halted momentarily by the military clash with India over Kashmir (1965), the overall growth continued, supported by industrialization fueled by private capital, and expansion of agricultural output due to the "green revolution." This emphasis on economic growth, however, brought about an industrial concentration and a widening of the gap in income between different sectors of society and a gap in development between regions of the country. In fact, the split between West and East Pakistan in 1971 was triggered by dissatisfaction over economic disparity.

Zulfikar Ali Bhutto's regime, which was in power during most of the early 1970s, adopted the policy of socializing the economy. It nationalized the basic industries and then the financial and the distribution sectors of the economy as well. It also introduced land reform and changes in labor and educational policies. At the outset, a favorable turn in the world primary product market resulted in increased exports and economic expansion, but the worldwide economic recession following the 1973 oil crisis caused the Pakistani economy to turn sluggish. In particular, as nationalization progressed, private capital's "will to invest" began to cool. Thus, during the latter half of the Bhutto regime's period in power, the growth of the country's economy began to decelerate, and industrial production, especially among the large-scale industries, began to mark negative growth from year to year.

Islamization of the economy

The current Zia-ul-Haq regime, which came to power through a coup d'etat in July 1977, was initially regarded as being a provisional administration, but it has continued to hold the reins of power and has begun to formulate political philosophies and economic policies of its own. It has now become the longest-lasting military regime in Pakistan's history, exceeding the span of the regimes of both Ayub Khan and Yahya Khan. The Zia regime originally came on the scene as an antithesis to the Bhutto regime's efforts to socialize the country, and it began to push *Nizam-e-Islam* (the Islamic system).

For Pakistan, plagued as it is with political and social problems, Islam undoubtedly is the greatest common factor for uniting the country. Islam is not only the basis of its national policy but the establishment of a Muslim nation was the lofty ideal under which the nation was

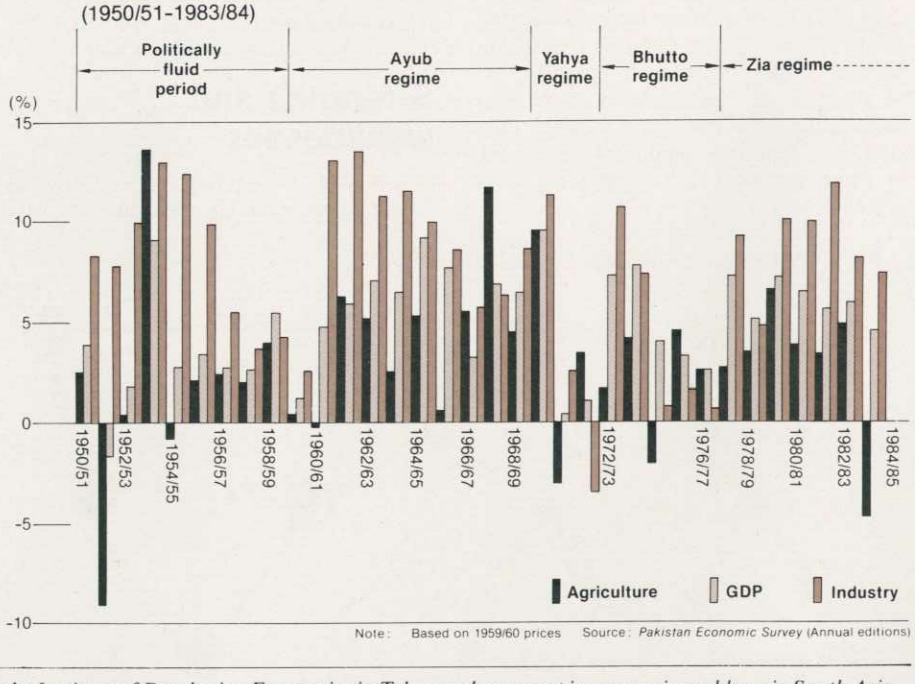


President Zia-ul-Haq of Pakistan

founded. Thus, the basic stand of seeking Pakistan's national identity in Islam is a call to revert to the original spirit of national establishment and a confirmation of a national principle to which no one should have cause to object.

However, it is a fact that the current measures for furthering Islamization are being conducted under a continuing military regime, and it cannot be denied that they are being used as a means of keeping that regime in power. Certain restrictions have been imposed on political activities, the freedom of women in

Fig. 1 Trend of Real Economic Growth Rate (GDP, Agriculture, Industry)
(1950/51-1983/84)



Note: Based on 1959/60 prices Source: *Pakistan Economic Survey* (Annual editions)

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society is being obstructed and there is a tendency to emphasize formality under the pretext of observing religious commandments—and there are criticisms of such conditions. Even among those not opposed to reverting to Islam per se, there is criticism of the fact that Islamization is being linked with conservatism and is being used to prolong the rule of the military administration.

On the other hand, the current policy of Islamization is directly linked with events on the international scene. That is, Pakistan is clearly reacting to the growing influence of the Middle East oil-producing countries and the strong resurgence of Islam in the world during the past decade. Pakistan is now pursuing a basic strategy of strongly emphasizing its Islamic character and thus attempting to link its own economic development with the vast market and the financial resources of the Middle East.

Pakistan's industrial circles are deeply interested in this basic strategy. Under the preceding Bhutto regime, they had the bitter experience of having their private enterprises nationalized, but the Zia regime is rectifying the socialization policy of its predecessor and has begun providing incentives for private-capital investment. And the reaction to these measures has been favorable.

One result of Islamization in the economy has been the implementation of a ban on collection of interest on loans and this has resulted in the introduction of the non-interest paying system known as Profit and Loss Sharing (PLS). It has been officially announced that all collection of interest in financial dealings will cease by July 1985. On the national level, a uniform 2.5% per annum religious tax known as *Zakat* is now levied on financial assets, and an agricultural products tax known as *Ushr* is levied on all farm output at the uniform rate of 5% per annum.

International balance of payments and remittances from abroad

Pakistan's imports grew from US$1 billion at the beginning of the 1970s to US$5.5 billion at the beginning of the 1980s, while its exports rose only from US$700 million to US$2.6 billion during the same decade (See Fig. 2). And this gap between imports and exports is widening. Pakistan's exports consist principally of primary products such as rice and cotton and of processed agricultural products such as cotton yarn and cloth; in fact, these four items alone constitute 40% of the total value of its exports. As a developing country lacking oil resources, its imports consist chiefly of crude oil, machinery and industrial raw materials.

Fig. 2 International Balance of Payments and Remittances from Abroad

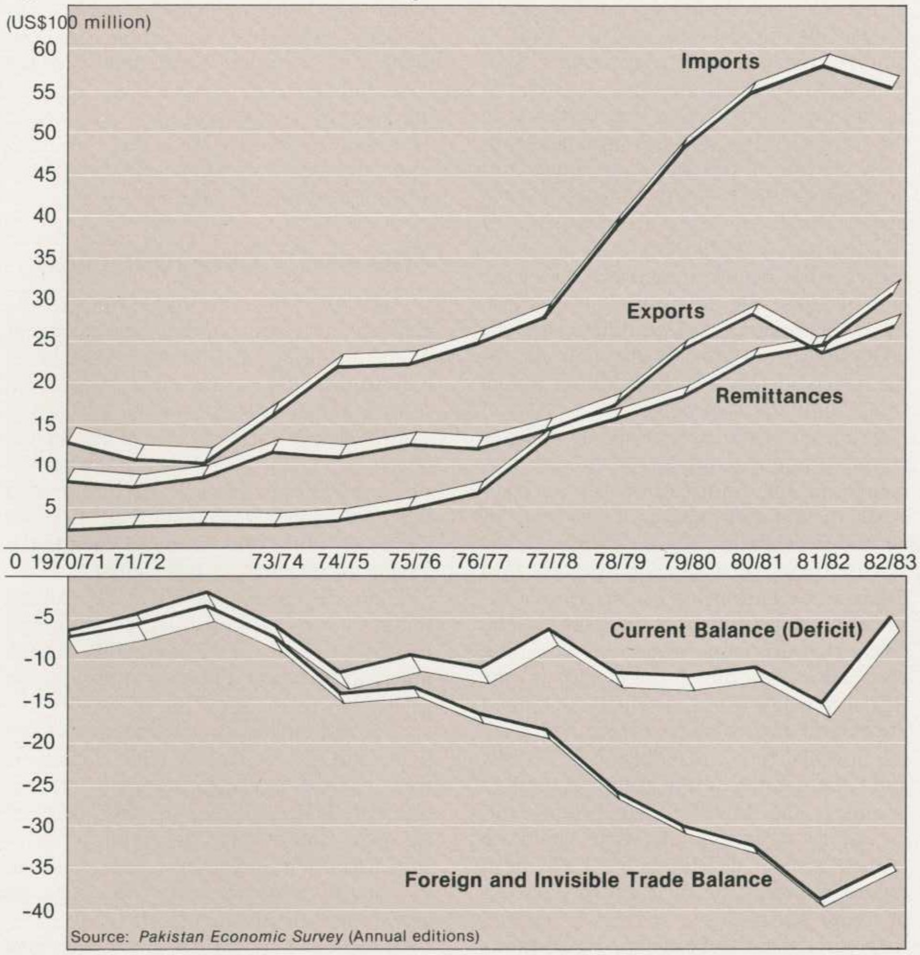


Table Trend of Foreign Aid (Loans)

(Unit: US$ million)

	Pre-Plan Period 1947/48-1954/55	1st Plan Period 1955/56-1959/60	2nd Plan Period 1960/61-1964/65	3rd Plan Period 1965/66-1969/70	Division Period 1970/71-1971/72	Bhutto Regime 1972/73-1976/77	Zia Regime 1977/78-1983/84*	Total
1. Consortium (2-nation)								
U.S.A.	35.0	279.4	900.0	1,010.4	136.6	862.0	808.8	4,032.3
U.K.	28.0	28.0	100.2	131.9	75.8	166.5	234.9	765.2
Japan	—	25.2	108.9	101.7	19.5	186.8	769.9	1,212.0
France	—	23.1	21.2	57.1	30.6	187.8	260.7	580.4
W. Germany	—	—	181.4	160.0	27.4	183.7	424.2	976.8
Others	—	5.2	24.6	256.4	47.4	354.3	580.3	1,310.5
Supplier credit from various countries	—	42.3	—	—	—	—	—	42.3
(Sub-total-1)	(63.0)	(403.2)	(1,336.3)	(1,717.5)	(337.3)	(1,941.1)	(3,078.8)	(8,919.5)
2. Consortium (Multinational)								
IBRD	58.2	92.0	202.7	191.3	—	240.0	345.2	1,129.4
IDA	—	—	187.2	158.5	23.1	433.9	1,160.0	1,962.8
ADB	—	—	—	4.2	23.4	384.0	1,309.0	1,720.5
Others	—	1.4	9.3	7.1	—	—	239.9	257.7
(Sub-total-2)	(58.2)	(93.4)	(399.2)	(361.1)	(46.5)	(1,057.9)	(3,054.1)	(5,070.4)
(Sub-total 1 + 2)	(121.2)	(496.6)	(1,735.5)	(2,078.6)	(383.8)	(2,999.0)	(6,132.9)	(13,989.9)
3. Non-Consortium								
U.S.S.R.	—	—	35.9	78.4	246.9	250.1	433.3	1,044.6
China	—	—	—	—	217.4	4.3	67.4	289.1
Others	—	—	33.7	76.1	11.1	43.9	153.5	318.3
(Sub-total-3)	—	—	(69.6)	(154.5)	(475.4)	(298.3)	(654.2)	(1,652.0)
4. Islamic Countries								
Saudi Arabia	—	—	—	—	—	128.2	407.8	532.9
Iran	—	—	—	—	—	765.4	—	765.4
Kuwait	—	—	—	—	—	75.9	115.1	191.0
Others	—	—	—	—	—	224.4	225.6	453.1
(Sub-total-4)	—	—	—	—	—	1,193.9	748.5	1,942.4
5. IMF Fund	—	—	—	—	—	—	292.4	292.4
Total	121.2	496.6	1,805.1	2,233.1	859.2	4,491.2	7,828.0	17,876.7

*July-March for FY1983/84

Source: *Pakistan Economic Survey*, 1983/84 Edition

When the deficit in invisible trade is added to the unfavorable foreign trade balance, Pakistan's current account deficit would approximate US$3.5 billion for the current fiscal year. Actually, this deficit fluctuates between US$500 million and US$1.5 billion from year to year (See Fig. 2). One source of funds that counterbalances this huge deficit is aid from abroad, and the other is remittances from Pakistani nationals working as migrant laborers in the Middle East countries, whose number has increased sharply since the latter half of the 1970s. As indicated in Fig. 2, the remittances from this source approximated US$100 million at the beginning of the 1970s but had expanded to US$3 billion during the 1982–83 fiscal year (July 1982–June 1983). Behind this rapid increase is the phenomenon of the outflow of Pakistani migrant laborers. Relevant data indicate that of the estimated 1.8 million to 2.1 million migrant workers abroad today, between 1.2 million and 1.4 million, or two-thirds, are in the Middle East—and from 600,000 to 700,000, or one-third, are estimated to be concentrated in Saudi Arabia.

In recent years, however, the demand for foreign labor has peaked in the Middle East, and the flow of Pakistani laborers now tends to be homeward bound, a phenomenon that could give rise to new economic and social problems for their country.

Expansion of foreign financial assistance

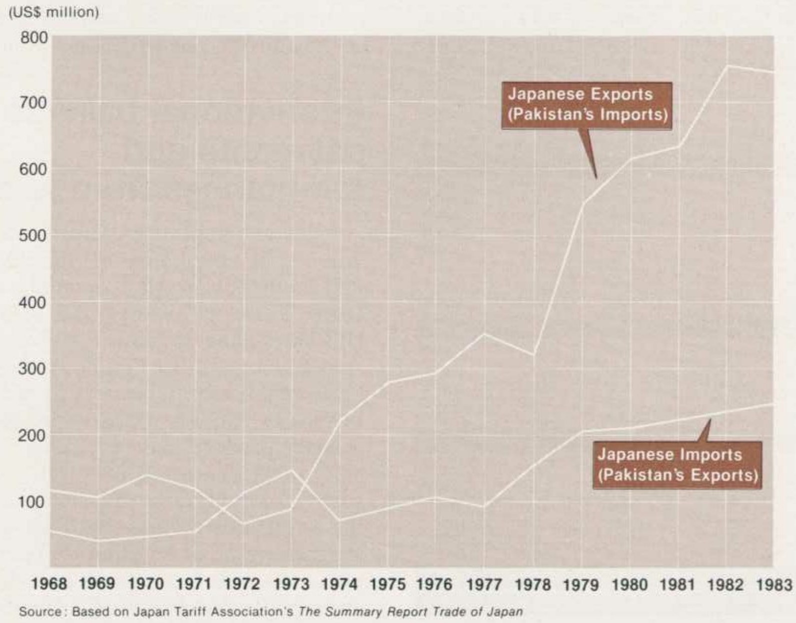
Foreign financial assistance to Pakistan, which dates back to the Colombo Plan of the early 1950s, has continued to increase as the country's economic development has progressed, and the total of all types pledged to date surpasses US$20 billion. More than one-third of financial aid during the 1950s and the 1960s was in the form of grants, but this ratio has gradually decreased and has been replaced in increasing ratios by loans for specific purposes. However, since the invasion of Afghanistan in 1979, relief assistance for refugees has begun to increase. As of the end of 1983, the aid funds disbursed to Pakistan totaled US$13.6 billion and the deduction from this of the amount already repaid leaves US$10 billion as the total cumulative net debt.

In recent years, as a result of the ever greater amount required for interest payment and for amortization of the principal, the amount received in the form of net aid is declining.

The trend of financial assistance to Pakistan by nations and international organizations is shown in the Table. The group that accounts for an overwhelming proportion of the foreign aid is the Pakistan Consortium, in which the United States and Japan are involved. Aid from the Socialist bloc, including the U.S.S.R. and China, much of it in grants, is small in volume. The Middle East Islamic oil-producing countries, in what could be termed a new development, have been gradually increasing their aid to Pakistan in recent years.

In foreign aid to Pakistan, Japan ranks second after the United States in terms of funds and technical assistance. By March 1984, the grants and loans that Japan had extended to Pakistan had reached the huge aggregate of $US1.4 billion. There is no doubt that, through this economic cooperation, Japan has made a major contribution to Pakistan's economic development. On the other hand, however, the trade imbalance in Japan's favor is growing year by year (See Fig. 3). Financial assistance is all very well, but this huge trade imbalance is an urgent issue that needs addressing by both countries.

Fig. 3 Trend of Pakistan–Japan Trade



Source: Based on Japan Tariff Association's *The Summary Report Trade of Japan*

The sixth five-year plan

Pakistan thus far has implemented several five-year economic development plans, including the first plan in the latter half of the 1950s, the highly successful second and third plans in the 1960s, the fourth plan in the first half of the 1970s, which was nullified by the independence of East Pakistan (now Bangladesh), and the fifth plan started in the 1978/79 fiscal year (July 1978 – June 1979) with the advent of the current Zia regime.

This fifth plan was PRs. 210 billion (US$15 billion; US$1 = PRs. 14 at the end of July 1984) in scale. The stability as such under the military administration and the easing of restrictions on private sector capital had encouraged a gradual increase in industrial investment, while favorable weather had increased agricultural production; hence, during the five years of the plan, the average per annum expansion was 4.4% in the agricultural sector, 9% in the industrial sector and 6.2% in gross domestic product (GDP).

Encouraged by the results of the fifth plan, the Zia regime in July 1983 launched the sixth five-year plan, whose PRs. 495 billion-scale is more than 2.4 times that of the preceding plan. The features of the latest plan are that the ratio of private-sector capital has been raised to 40% of the total and that the self-financing share of capital required by public corporations and local bodies also has been raised. In other words, at all levels, self-support and self-financing of capital investment are stressed, and various kind of subsidy cuts are to be implemented. Great expectation is placed on the initiative role of private capital. Public sector investment is specified as being for the development of energy resources, economic infrastructure, agriculture and water resources, while industrial development is left to private sector. In the 1983/84 fiscal year, the first year of this sixth plan, the agricultural sector was hard hit by the failure of the cotton crop, which led to a slowdown in the cotton textile industry and caused overall exports to stagnate. From the long-range viewpoint, however, the major considerations must continue to be the further liberalization or de-regulation of the economy, the non-expansion of the public sector and the delegation of a larger role in the country's economic development to the private sector. ●