



## ECO-610 SHort-Notes By MR Shāhīzāz

Virtual University Of pakistan (Virtual University of Pakistan)



Scan to open on Studocu

# 'ECO610' Issues in the Economy of Pakistan

## Short Notes Module 1 to 7

By °★. +MR ʃhāhḡāz+. ★°

### Objectives of Module 01

- Laying the Foundations
- The Decade of development
- The Bad Luck Years
- The Second Military Government
- Neo-Liberalism
- Military Regime
- Democratic Transition

### Introduction

Pakistan's economy has undergone significant structural transformations over the past seven decades.

These transformations have been shaped by a combination of internal and external factors.

Understanding these transformations is crucial for comprehending Pakistan's current economic challenges and opportunities.

## Structural Transformation at a Glance

The structural transformation of Pakistan's economy reflects shifts in sectors, technology, and overall organization. This dynamic process has played a crucial role in influencing the pace and nature of economic growth and development

### Laying the Foundations: The Early Years of Pakistan's Economy (1947-1958)

The birth of Pakistan in 1947 marked the beginning of a new economic era for the region. The newly formed nation inherited a diverse economy, with agriculture accounting for a significant portion of the GDP, followed by manufacturing and services. The early years were characterized by a focus on import substitution industrialization (ISI), a policy aimed at fostering domestic industries to reduce reliance on imports. While ISI was successful in establishing a manufacturing base, it also led to inefficiencies and a lack of competitiveness in the export sector.

### The Decade of Development: Rapid Growth and Challenges (1958-1968)

The 1960s witnessed a period of rapid economic growth, fueled by the continued implementation of ISI policies, favorable external factors like high commodity prices, and increased foreign aid. This era saw the expansion of manufacturing industries, infrastructure development, and the establishment of new educational institutions. However, the rapid growth was accompanied by rising inequality, a widening trade deficit, and increasing reliance on foreign aid.

### The Bad Luck Years: Economic Shocks and Stagnation (1968-1977)

The 1970s marked a turning point for the Pakistani economy as a series of external shocks disrupted the previous growth trajectory. The 1971 Oil Crisis, the 1973 Indo-Pakistani War, and the 1974 global recession had a profound impact on the country's economic performance. These events led to a period of stagflation, characterized by high inflation and low growth rates. The economic slowdown exacerbated existing issues of poverty and inequality.

## **The Second Military Government: Economic Reforms and Mixed Outcomes (1977-1988)**

In 1977, General Zia-ul-Haq took power in a military coup, ushering in a period of economic reforms. The Zia regime implemented deregulation, privatization, and trade liberalization measures aimed at promoting market-based economic growth. While these reforms led to some economic growth, they also contributed to increased inequality and poverty.

## **Neo-Liberalism and Economic Liberalization (1988-1999)**

The 1990s saw a shift towards neoliberal economic policies in Pakistan. The government reduced tariffs, deregulated the financial sector, and privatized state-owned enterprises to encourage private sector participation and economic growth. These policies attracted foreign investment and boosted economic growth, but they also exacerbated inequality and poverty.

## **Military Regime and Continued Neoliberalism (1999-2008)**

In 1999, General Pervez Musharraf seized power in another military coup. The Musharraf regime continued to implement neoliberal policies while also emphasizing poverty reduction and social welfare programs. These policies were partially successful in reducing poverty but also contributed to rising corruption and governance issues.

## **Democratic Transition and Economic Challenges (2008-Present)**

Pakistan returned to democracy in 2008, facing a number of economic challenges, including a global financial crisis, a balance of payments crisis, and a devastating natural disaster. The new government implemented a series of reforms, including reducing the budget deficit, increasing tax revenue, and improving governance. These measures helped stabilize the economy and promote growth, but Pakistan continues to grapple with issues of poverty, inequality, and infrastructure development.

## **Conclusion: Navigating the Challenges and Opportunities of the Future**

Pakistan's economic journey has been characterized by periods of growth, stagnation, and reform. The country has faced numerous challenges, both internal

and external, but it has also demonstrated resilience and adaptability. As Pakistan moves forward, it must continue to address its economic challenges, including poverty, inequality, infrastructure deficiencies, and energy security. Embracing innovation, enhancing education, and strengthening governance will be crucial in achieving sustainable economic growth and improving the well-being of its citizens.

**In First Module we discuss the structural transformation of Pakistan's economy over the past 70 years since independence in 1947.**

- At independence, agriculture dominated Pakistan's economy, accounting for 53% of GDP and employing 65% of the labor force. Over time, the services sector has grown to become the largest sector at 59.59% of GDP, while agriculture's contribution has declined to 19.5%.
- The early years after independence were challenging due to Pakistan's underdeveloped state, lack of capital, and influx of refugees. However, the economy grew at a decent rate in the 1960s under Ayub Khan's leadership through economic reforms and industrial growth.
- The 1970s saw economic turmoil due to the 1971 war, oil shocks, floods, and inflation. The nationalization policies of the era were largely unsuccessful.
- The 1980s saw some improvements under Zia-ul-Haq's regime due to macroeconomic stability and liberalization policies. However, issues remained like a low savings rate, high debt, and neglect of social sectors.
- In recent decades, Pakistan's economy has struggled with high deficits, inflation, energy shortages, and a weak tax base. While some progress has been made through reforms and projects like CPEC, sustained growth remains elusive.
- Overview of First Module Pakistan's economy has transformed significantly but has largely underperformed given the country's resources and potential. Issues like corruption, poor infrastructure, and weak governance have held back faster economic growth and development.

## Key feature Module 1

The issues in Pakistan's economy are explored, and references to structural transformation are made, suggesting a critical examination of the economic evolution of the country. The introductory section includes links to external sources that likely delve deeper into the discussed issues.

### Structural Transformation:

- Extraordinary transformation in economic, social, and political spheres.
- Shift from an agrarian society towards urbanization and a growing middle class.
- Highlighted as a crucial indicator of Pakistan's development over time.

### Initial Years (1947-1958) - Laying the Foundations:

- Predominantly agrarian with limited industry and services.
- Challenges included adverse international conditions, a precarious domestic situation, and a lack of capital.
- Efforts like the Colombo Plan, basic necessities provision, and industrial growth emphasis were made.
- Policy failures, including declining agricultural growth and deficit financing.

### Decade of Development (1958-1968):

- Considerable economic growth and a focus on policy-making.
- Transition towards a model capitalist economy.
- High growth rate in manufacturing (34% from 1952-54).
- Progress in agriculture with a 5% annual growth rate.
- Increase in exports, American aid, and the Indus Water Treaty played significant roles.
- Economic and social reforms, including technological breakthroughs in agriculture.

### The Bad Luck Years (1971-1977):

- Fundamental structural and institutional changes in social, economic, and political sectors.
- Nationalization of industries, banking, insurance, and education.
- Challenges included the 1973 oil price shock, balance of payment issues, devaluation of the Pakistani rupee, and worldwide recession.
- Massive floods in 1973 and 1974, coupled with the worst inflation and a widening fiscal deficit.

### **2nd Military Regime (1977-1988):**

- Improvement in growth rate, decline in poverty and unemployment.
- Liberal economic policies, higher industrial growth, and initiatives like the Indus Water Treaty.
- Challenges included domestic debt increases, increased defense spending, and neglected development spending.
- Inflow of foreign remittances and foreign aid (Afghan War) eased fiscal pressure.

### **Structural Adjustment Era (1988-1999):**

- Democracy marked by four general elections.
- Challenges included inefficient state-owned banks, debt crises, and economic liberalization.
- Successful economic reforms in 1991, privatization of state-owned enterprises, and energy policy changes.
- Rising unemployment, external deficits, and macroeconomic instability were notable challenges.

### 3rd Military Regime (1999-2007):

- New Liberalism under dictatorship with economic achievements and challenges.
- Considerable GDP growth, foreign exchange reserves, and budget deficits.
- Positive indicators in unemployment rates, real estate development, modern services sector, and foreign direct investment.
- Challenges included dependency on foreign inflow (Afghan War) and issues in basic services and widespread poverty.

### Democratic Transition (2007 Onwards):

- Declining GDP growth, rising inflation, and challenges during the global financial crisis.
- Issues such as rampant corruption, unemployment, falling FDI, and energy crises.
- Improvements in GDP growth, budget deficits, private sector confidence, and tax collection from 2013 to 2018.
- Challenges like rising foreign debt, imports, and current account deficits.

### Conclusion:

- A historical overview of Pakistan's economic transformations spanning military regimes, democratic transitions, and structural adjustment eras.
- Successes marked by growth rates, policy initiatives, and economic reforms.

- Challenges such as political instability, corruption, energy crises, and dependency on foreign aid.
- Analysis of economic indicators, human development, and international rankings.
- Reflection on missed growth opportunities despite natural endowments and skilled labor.
- Emphasis on continuous learning and the importance of sustained development efforts.

## Objectives of Module 02

- Agriculture Sector
- Agriculture before British Rule
- Impact of British Colonialism 1
- Impact of British Colonialism 2
- Feudal or Capitalist
- Green Revolution 1
- Green Revolution 2
- Land Reforms 1
- Land Reforms 2
- Issues in Agriculture 1
- Issues in Agriculture 2

**Second Module** discusses various issues in Pakistan's agriculture sector. It begins by noting that agriculture is the second largest sector in Pakistan's economy, contributing 20% to GDP and employing 42.3% of the labor force. However, agricultural performance has been unsatisfactory due to traditional methods, lack of motivation and research, and natural disasters.

- Agriculture is the second largest sector in Pakistan's economy, contributing around 20% to GDP and employing 42.3% of the labor force. However, agricultural performance has been unsatisfactory due to traditional methods, lack of motivation and research, and natural disasters.
- Before British rule in the Mughal era, all land was owned by the king. There were no private property rights in land. However, after the decline

of the Mughal Empire in the early 18th century, zamindars and jagirdars asserted more control over land.

- British colonialism brought institutional changes like the introduction of private property rights, a legal system, and an efficient government. This led to the emergence of zamindars as landlords and agricultural commercialization. However, capitalism did not fully emerge and agriculture remained mostly feudal.
- The Green Revolution in the 1960s led to significantly higher agricultural productivity through the use of high-yielding seed varieties, fertilizers, and pesticides. Though initially successful, it faced issues like concentration in Punjab and among large landowners.
- Repeated land reforms in 1959, 1972, and 1977 aimed to redistribute land from large to small landowners but failed to achieve their objectives due to many factors.
- Pakistan's agricultural sector faces critical issues like unfavorable agricultural price and credit policies, insufficient mechanization, high agricultural taxes, water shortages, and ineffective land reforms.
- Second Module outlines key issues facing Pakistan's agriculture sector including price policies, agricultural credit, mechanization, taxation, water crises and issues with land reforms. It notes that government policies have often benefited large farmers more and that the irrigation system has deteriorated.

## Key feature Module 2

### Agriculture Sector:

- Contribution to GDP: Accounts for approximately 20% of Pakistan's GDP.
- Employment: Employs 42.3% of the labor force.
- Challenges: Faces issues such as traditional methods, lack of motivation and research, and susceptibility to natural disasters.

### Agriculture before British Rule:

- Land Ownership: All land belonged to the king during the Mughal era.
- Absence of Private Property: No private property rights in land.
- Post-Mughal Decline: Zamindars and jagirdars gained control over land after the decline of the Mughal empire.

### Impact of British Colonialism 1:

- Institutional Changes: Introduced private property rights, legal system, and efficient government.
- Emergence of Landlords: Zamindars became landlords, and agriculture saw commercialization.
- Remained Feudal: Despite changes, the agriculture system retained feudal characteristics.

### Impact of British Colonialism 2:

- Introduction of Taxes: Monetary taxes on land were implemented.

- Commercialization: Agriculture became commercialized, but capitalism did not fully emerge.

### **Feudal or Capitalist:**

- Continued Feudal Characteristics: Despite colonial changes, agriculture largely retained feudal features.
- Limited Capitalist Transformation: Complete shift to capitalist agriculture did not occur.

### **Green Revolution 1:**

- 1960s Initiative: Higher agricultural productivity through new seeds, fertilizers, and pesticides.
- Initial Success: Boosted agricultural growth significantly.

### **Green Revolution 2:**

- Issues: Concentration in Punjab and among large landowners.
- Technological Advances: Utilization of high-yielding seed varieties and modern farming practices.

### **Land Reforms 1:**

- Objective: Redistribute land from large to small landowners.
- Years: Implemented in 1959, 1972, and 1977.

### **Land Reforms 2:**

- Limited Impact: Failed to achieve objectives due to various factors.

- Issues: Challenges in implementation and resistance from influential landowners.

### Issues in Agriculture 1:

- Unfavorable Policies: Challenges related to agricultural pricing and credit policies.
- Mechanization: Insufficient adoption of modern farming technologies.
- Taxation: High agricultural taxes affecting farmers.

### Issues in Agriculture 2:

- Water Shortages: Facing scarcity impacting irrigation and crop yield.
- Ineffective Land Reforms: Historical challenges in implementing land reforms.
- Policy Bias: Government policies often favor large farmers over smallholders.

## Objectives of Module 03

- **Industrial Sector of Pakistan**
  - **Phase 1 (1947-1958)**
  - **Second Phase (1958-1968)**
  - **Third Phase (1969-1977)**
  - **Fourth Phase (1977-1988)**
  - **Structural Adjustment**
  - **Key Issues in Industry 1**
  - **Key Issues in Industry 2**
  - **Key Issues in Industry 3**
- 
- Pakistan had no industries to speak of at independence but saw phenomenal industrial growth in the 1950s and 1960s. However, industrial growth reduced substantially in the 1970s.
  - The first phase of industrialization from 1947 to 1958 saw the establishment of large-scale manufacturing through import substitution policies and an overvalued exchange rate.
  - The second phase from 1958 to 1968 witnessed liberalization of imports and export incentives that boosted industrial production and investment.
  - The third phase from 1969 to 1977 saw nationalization measures that reduced private investment and inefficient public sector enterprises. Poor economic policies and external shocks also hindered growth.

- The fourth phase from 1977 to 1988 saw pro-private sector policies and incentives that revived investment and growth in the industrial sector.
- Since 1988, Pakistan has pursued structural adjustment policies recommended by the IMF and World Bank with mixed results for the industrial sector.
- Key issues facing the industrial sector include the small scale sector not getting adequate government support, underutilization of capacity in the textile industry, inefficiencies in public sector enterprises, and problems with the privatization process.
- The ongoing energy crisis is crippling the industrial sector, resulting in factory shutdowns, job losses and capital flight.

## Key feature Module 3

### Industrial Sector of Pakistan:

Generally Industrialization implies “Growth and Development”

At the time of independence, Pakistan had no industries to speak of, no industrial raw material, and no significant industrial or commercial groups.

By the mid 1960's, Pakistan was considered model developing country with phenomenal industrial growth.

During 1951 to 1955, the manufacturing sector grew annually at 34%. (One of the highest growth rate witnessed in the world)

## PROCESS OF INDUSTRIALIZATION (1947-1977)

## THREE PHASES

θ First phase is period 1947-58

θ Second phase is 1958-1968

θ Third phase is 1969-1977

### Phase 1 (1947-1958):

- No jute mill (with 75% of worlds jute production)
- At independence, Pakistan lacked industries and significant raw materials.
- Industrial growth started with a manufacturing sector annual growth rate of 34% during 1951-1955.
- Economic development tools included exchange rate impact, trade policy regime, and import substitution industrialization.

### Second Phase (1958-1968):

- Decade of development with high growth rates in large-scale manufacturing.
- Policies focused on import liberalization, export incentives, and trade policy reforms.
- Export Bonus Scheme (EBS) and Import Substitution Industrialization were key strategies.

### Third Phase (1969-1977):

- Nationalization of basic industries and financial institutions.

- Economic downturn due to bad economic policies, bad luck factors, and external challenges.
- Massive floods, oil price rise, and poor cotton crops contributed to economic challenges.

#### **Fourth Phase (1977-1988):**

- Change in industrial strategy with a focus on private sector confidence and motivation.
- Denationalization, export rebates, and five-year plans to promote private sector-led growth.
- Period marked by deregulation, privatization, and economic liberalization.

#### **Structural Adjustment:**

- Initiated in 1988 onwards with the role of IMF and World Bank.
- Emphasized deregulation, liberalizing the economy, privatization, tariff reforms, and foreign investment regulation.
- Periods of both growth and decline in the industrial sector during the adjustment programs.

#### **Key Issues in Industry 1 (Small Scale Manufacturing Sector):**

- Small scale sector's increasing importance in Pakistan's economy.
- Biased state policies and lack of support for small-scale industries.
- Employment elasticity and the role of small-scale industries in absorbing labor force.

### **Key Issues in Industry 2 (Textile Industry):**

- Significance of the textile sector in terms of employment, value-added, and exports.
- Concentration among few industrial houses, issues of underutilized capacity, and negative productivity trends.
- Fragmentation from large-scale to small-scale units impacting productivity.

### **Key Issues in Industry 3 (Public Sector Industry):**

- Reduced role of the government in the industrial sector.
- Inefficiencies, costliness, and poor performance of public sector enterprises.
- Changes in public policy and efficiency levels after the Structural Adjustment Program.

### **Key Issues in Industry 4 (Privatization Process):**

- Establishment of committees and commissions for privatization.
- Criticisms of lack of transparency, corruption, and favoritism in the privatization process.
- Complementary nature of public and private investments.

### **Key Issues in Industry 5 (Energy Crisis):**

- Ongoing energy crisis impacting industrial productivity and the economy.

- Reasons include a growing gap between demand and supply, circular debt, lack of maintenance, and power theft.
- Consequences include increased energy tariffs, unannounced load shedding, and capital flight.

Pakistan's industrial sector has undergone phases of growth, challenges, and reforms, with issues ranging from policy biases, privatization criticisms, and energy crises affecting its performance.

**Tip:**

These notes only provide you an overview of Eco610 (Issues in Pakistan Economy) in short way. If you want to get high mark then I will recommend you to watch Lectures thoroughly and clear your concepts.

**Feel free to ask me about any queries through mail**

**Remember me in your prayers**

☆ ★ ☆ ★ ☆ **Wish you all the best** ☆ ★ ☆ ★ ☆