

# **PAKISTAN'S ECONOMY: CURRENT SITUATION AND FUTURE PROSPECTS**

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# **PAKISTAN'S ECONOMY: CURRENT SITUATION AND FUTURE PROSPECTS**

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**Pakistan's economy is at a conjunctural moment in its history. Deep rooted problems in the structure of the economy and in the institutions of governance have slowed down economic growth, and created the dangers of an intensified financial crisis, high rates of inflation, unemployment and food shortages. At the same time, the changing balance of global economic power and the emergence of new economic growth centres in a number of Asian countries around Pakistan have opened up unprecedented prospects of shifting Pakistan into a new trajectory of economic growth, provided Pakistan takes the necessary policy initiatives for plugging into the emerging economic power houses of China, Japan, the East Asian countries and South Asia.**

**According to a report last year by the US Under-Secretary of Commerce for International Trade, 75 percent of the World's total trade growth over the next decade will emanate from 10 emerging markets in the developing countries which include India, Turkey, South Korea, Indonesia, China, Hongkong and Taiwan<sup>1</sup> by the year 2010. These countries are expected to double their share of global output and their merchandise imports will increase by one trillion dollars over the next decade or so. These trends represent not only a change in the global balance of economic power but also the possibility of rapid export-led growth for a country like Pakistan which lies at the hub of this new constellation of economic power.**

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<sup>1</sup> The Wall Street Journal, Europe, February 11 -12, Page 2.

**The direction in which Pakistan's economy moves at this crossroads, depends upon the speed with which changes are brought about in the policy environment and in the institutional structure of both agriculture and industry for responding to the opportunities available in the emerging economies of Asia.**

**At the financial level Pakistan faces a severe crisis if present trends of debt-servicing and government revenue continue. By the year 2000, debt servicing could rise to Rs. 469 billion as compared to total revenues of Rs. 410 billion.<sup>2</sup> This means that even if in the entire government revenue is directed to debt servicing, it would still be insufficient. It is, therefore, vital to slow down the growth of short term borrowings and to attempt to retire government debt by means of funds obtained through privatization of public assets. (See Table)**

**The central issue that the budget makers should concern themselves with is the sharp and persistent slowdown in the growth rate of national income over the last three years. Average annual GDP growth rate has declined from a trend rate of about 6 percent over the last four decades to less than 4 percent over the last three years. In the boom years of the 1980s I had argued in my first book (Strategic issues in Pakistan's Economic Policy) that the GDP growth rate would decline in the 1990s unless structural constraints to increasing investment were addressed.<sup>3</sup> Unfortunately my prediction of the slowdown in GDP growth rate has proven true and it may therefore be an urgent imperative now to address the structural constraints that impede growth. Such constraints are: (a) Decline in crop yields in major crops associated with soil degradation, and low irrigation efficiencies, (b) absence of an efficient institutional framework for providing working capital credit to long gestation projects, (c) trained manpower at the shop**

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<sup>2</sup> These projections are based on Pakistan Economic Survey, Figures for 1985-86 to 1992-93.

<sup>3</sup> Akmal Hussain: Strategic Issues in Pakistan's Economic Policy, Progressive Publishers, Lahore, 1988, Chapter titled: Is Pakistan's Growth Path Sustainable?

floor level, (d) transport and communications, (e) last but not least, the protection of life of a hapless citizenry.

Underlying the disturbing slowdown in the growth rate of GDP are even more disturbing trends in both agriculture and industry which require immediate action by the government within a ten year perspective.

**1. Agriculture:** Agricultural growth in the past relied on increasing cultivable land and extending the irrigation system. It is clear that in future agricultural growth will have to be based on increasing the efficiency of land use and of irrigation, both of which will require the establishment of new institutions at the village level to improve agricultural practices, and application efficiency of irrigation. The imperative of institutional change is indicated when we examine the long term growth trends in agriculture: Average annual growth rate during the decade 1960<sup>4</sup> to 1970 was 4.9 percent, during 1970 to 1980 it declined sharply to 2.3 percent; during 1980 to 1994 average annual growth rate increased to 3.6 percent but was still below the level achieved in the 1960s. The picture of a slow down in agriculture growth comes out even more sharply when we examine the performance during the last three years. For example, during 1992-93 agriculture had negative growth rate of 5.3 percent (i.e., there was an absolute decline in agricultural production of 5.3 percent). There was even sharper decline in major crops which registered a growth rate of minus 15.7 percent.<sup>5</sup> During 1993-94 this absolute decline persisted with the sharpest reduction in output occurring in the case of wheat (minus 6.2 percent, and in cotton minus 11.2 percent). It is noteworthy that the negative growth rate in agriculture was primarily due to a decline in the yield per acre of major crops such as wheat, cotton and rice.

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<sup>4</sup> See World Bank Report No. 13092 – Pak: Pakistan: A strategy for Sustainable Agricultural Growth, November, 1994.

<sup>5</sup> Pakistan Economy Survey 1993-94, Government of Pakistan, Finance Division, Economic Adviser's Wing, Islamabad.

**The observed long term trend of declining agriculture growth is essentially due to improper agricultural practices in the process of production such as: Lack of crop rotation and the resultant loss of humus leading to soil degradation; stripping of top soil and resultant loss of fertility associated with over grazing; and finally over use of improper pesticides. The simplistic view of some policy makers that the output of major crops can be increased merely through increased use of fertilizers has been proven incorrect by the evidence. For example, a study by Byerlee and Siddiq conducted on actual farmers' fields shows that yields of high yielding varieties of food crops have not grown since 1970 despite intensification of fertilizer use.<sup>6</sup>**

**It is clear, therefore, that if we are to reverse the observed sharp decline of yield per acre of major crops, village level institutions will need to be developed to introduce new production practices for sustainable agriculture: The importance of crop rotation and replenishment of the humus in the top soil would have to be brought home to the farmers not simply by allocating more money for extension services but by ensuring that the farmer gets informed and persuaded about the necessity of such practices. This would require demonstration of the efficacy of such improved agricultural practices to the farmers within village level organizations of farmers. Similarly, the fact that 53 percent<sup>7</sup> of the irrigation water gets lost between the water channels and the crop zone requires the establishment of water users associations who would ensure the building of pucca khalas (brick-lined water channels) and proper land gradients for smooth transportation of water to the root zone of crops.**

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<sup>6</sup> Byerlee and Siddiq, quoted in World Bank Report No. 13092 – Pak, November 1994, op. cit., page 12.

<sup>7</sup> Ibid

A new dimension to the problem of declining yields in the future is related with global warming. Given the sensitivity of the wheat seed to temperature increase, even a 2 degree centigrade increase in average summer temperature could mean an absolute yield decline of between 10 to 16 percent during the 21st century.<sup>8</sup> With a 3.2 percent population growth, even a decline of 5 percent in yield/acre associated with global warming, could mean serious food deficits for Pakistan. It is therefore incumbent upon policy makers in Pakistan to take urgent action along the following lines: (i) Encourage agricultural research specifically aimed at developing heat resistant varieties of food grains, (ii) Encourage the growth of manufactured exports which alone could provide a sufficient increase in foreign exchange earnings to finance wheat imports if required in the future; (c) Development of new port facilities and inland transport system not only along the major arteries but also link roads between villages, small towns and cities to enable import and distribution of food grains.

2. **Industry:** The trend rate of growth in the large scale manufacturing sector over the last three decades has been around 10 percent. Unfortunately this has declined to less than 5 percent during 1993-94. The target for large scale manufacturing industry was 8.2. percent but only a growth rate of 4.4 percent was actually achieved; again during 1994-95 industrial growth was targeted at 8 percent, yet tragically the actual performance was a growth rate of less than 4 percent. Industries such as cotton ginning, paper and board, trucks, buses, tractors and electric motors have registered a negative growth during 1993-94.<sup>9</sup> Most important

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<sup>8</sup> If atmospheric carbon is doubled the average summer temperatures in Pakistan are expected to increase from 1.5 C to 4.5 C ( base average of 2.5 C), over the next 70 years. This could lead to a decline in wheat yields from 10 percent to 60 percent, depending on the type of wheat seed, planting time, related atmospheric/weather conditions. See: Qureshi, Ata, Ana Iglesias: Implications of Global Climate Change for Pakistan Agriculture: Impacts on Simulated Wheat Production, Climate Institute, Washington, D.C. USA, 1992.

<sup>9</sup> Pakistan Economic Survey, op. cit.

of all is that Pakistan's largest industry, textiles has registered an unprecedented decline in output with hundreds of textile units closed down.

In the years ahead if the dangerous decline in industrial growth rate is to be reversed then a long term perspective would have to be adopted for the building of new institutions aimed at achieving the following: (a) Research aimed at developing new varieties of cotton which are resistant to the leaf curl virus which is currently ravishing the cotton crop and thereby the textile industry; (b) Development of marketing capability amongst textile manufacturers and technological diversification to shift from predominantly gray cloth production to higher value added cloth and apparel; (c) Implementing the new incentive package for the engineering goods industry which the government has finally acknowledged as the backbone of the industrialization effort; (d) Technical training of machine operators, technicians and foremen on the basis of industry specific associations which would ensure standardized and operation oriented training; (e) Restructuring development finance institutions to direct credit to medium and small sized firms in the technologically advanced industrial fields such as electronics, fiber optics and high precision metal fabrication which use electroforming and spark erosion technology. This would help in the diversification and growth of Pakistan's manufacturing sector.

Even a brief analysis of Pakistan's macro economic malaise suggests that underlying the sharp slow down in the growth rate of national income there are severe structural constraints that have shifted both agriculture and industry from vibrant growth to stagnation. Unless these constraints are addressed urgently and within a long term perspective Pakistan's economy could face such a severe unemployment, shortage of key commodities and inflation that the present social tensions could reach a flash point. The policy makers should face the challenge of inducing and facilitating the building of new institutions for pulling the economy out of its current crisis, that threatens both state and society in Pakistan.

## TABLE

RUPEES BILLION

	1985-86	1992-93	2000-1
(a) Debt Servicing	30.50	114.10	469*
(b) Defence	35.60	87.85	128.1
(c) Total Revenue Receipts	89.87	243.36	409.6
Difference [c- (a+b)]	+ 23.77	+ 40.51	- 187.0

**Note:** The debt servicing figure for year 2000 is based on an acceleration in the debt servicing burden of 50 percent in the period 1992-2000, compared to the period 1985-1992. This accelerating trend is based on high short-term borrowing over the last three years.

**Source:** Pakistan Economic Survey, Government of Pakistan (various years).