

PAKISTAN ECONOMY

Economic Policy Under Zia: 1977-1988

- Martial Law was imposed by General Zia-ul-Haq in 1977.
- Zia took over with the declared purpose of resolving the rift between Bhutto's Peoples Party and the combined opposition to hold free and fair elections within 90 days.
- Due to Bhutto's public popularity, Zia feared that he could return to power through free elections, therefore the elections were postponed.
- Instead government published a number of white papers outlining Bhutto Administrations miss deeds.
- Bhutto then charged with the murder of a political opponent was found guilty in March 1977 and hanged on 4th April 1978.
- There were four factors which helped Zia prolong his rule
 1. Efforts to Islamize society to strengthen his political support.
 2. Soviet occupation of Afghanistan and Zia's highly successful efforts to mobilize and coordinate considerable external assistance for mujahideen from diverse sources such as the US and Saudi Arabia increased his political standing and control after 1980.
 3. Zia extended the role of the army in governance through extensive use of military intelligence, appointment of senior officers to key positions and general dispensation of patronage to armed forces.
 4. Economy under Zia enjoyed a high and sustained rate of growth. The economy expanded to nearly 6.6% per annum and inflation tended to decline during 77-78. There was a broad sharing of the benefits of growth. Real wages increased and poverty tended to decline.

Economic Performance and Policies:

- Economic growth averaged 6.6% per annum.
- Economic growth as measured by GNP slowed down during Zia's last five years.
- During 1977-83, the rapid rise in worker remittances had pushed GNP growth rate to an annual record of 7.6% per annum.
- As worker remittances tended to decline steadily after 1982-3 and interest payments on external debt gathered momentum, the GNP growth rate fell sharply to 4.9% per annum during 1983-8.
- In the first half of the 1980's, worker remittances were almost as important a source of foreign exchange as merchandise exports.
- Unfortunately, the workers remittances boom did not translate into a significantly higher rate of national savings and investments.
- Most of the remittances were directed to consumption and this played a major role in reducing poverty.

Growth Rates (per cent per annum)

	1977-83	1983-8	1977-88
Agriculture	4.2	3.5	3.9
Manufacturing	10.2	8.2	9.2
Other	8.6	7.0	7.9
GDP at factor cost	6.7	6.2	6.6
GNP at factor cost	7.6	4.9	6.4
GNP per capita	4.4	1.9	3.3

Worker Remittances

Selected Years	US \$ Million	As % of GDP
1972-3	136	2.1
1976-7	578	3.8
1982-3	2,886	10.1
1987-8	2,013	5.2
1990-1	1,848	4.1
1993-4	1,455	2.3

Agricultural Growth and Policies:

- The agricultural growth increased to 4% in 1977-88 from 2% in 1972-77.
- Wheat production rose from an annual average of 8.5 mill tons in 1975-7 to nearly 13 mill tons in 1986-8.
- Cotton production increased from 0.5 mill tons average in 1974-6 to 13 mill tons in 1985-7.
- Domestic fertilizer production of nitrogenous fertilizer nearly tripled during the first half of 80's.
- The government price policies after 1980 improves agricultural incentives, especially for wheat.
- The agricultural growth since the early 1980's also benefited from strong growth in live stock.
- The livestock grew annually by 5.5% in the 80's and further continued.
- The high burden of fertilizer and wheat subsidies on the budget finally led to a review of agricultural policies in the early 80's and a substantial upward adjustment of both fertilizer and wheat prices.
- The agricultural expansion was mainly due to the past investment and exogenous technical change.
- The increase in the raw cotton production in 1987's was mainly due to the development and spread of improved variety and greater use of fertilizers and pesticides.

Procurement/Support Prices

(Rs per 40 kg)

	Wheat	Cotton (Delta Pine)	Rice Irri	Sugar Cane Punjab
1969-70	18	NA	22	3
1976-77	40	525	58	6
1979-80	58	481	53	10
1986-87	80	542	86	12
1990-91	112	690	127	15
1994-95	173	1,055	183	22

Export and Industrial Growth:

- Industrial growth under Zia was impressive as Manufacturing sector growth over 1977-88 averaged over 9% as compared to 3.7% in 1972-77.
- Large scale manufacturing grew even faster than the small scale
- The main reasons behind this rapid growth in industry were
 1. Large public sector investments which started in Bhutto's resulted in major increases in steel, cement, fertilizer and vehicle production.
 2. Incentives for manufactured exports were strengthened by the introduction of a flexible exchange rate policy after 1982, by increasing the standard rates of rebate of custom duty and sales tax for exports. The export subsidies ranging from 7.5% to 12.5% were extended to all important manufactured exports.
 3. The investment climate for the private sector was improved by providing guarantees against future nationalization, clearer demarcations of activities between the public and the private sector and additional tax concessions.
- Private sector investment in manufacturing grew by 9.5% per annum during 1978-83
- The revival of private industrial sector was particularly important for addition to capacity in traditional industries such as cotton textiles which have quick pay off.
- The manufactured exports boom of the 1980's was narrowly linked to the expansion of raw cotton production which in turn made possible a major expansion of cotton textiles.
- Over 60% of the increase in real value of exports over the decade was attributable to cotton, cotton textiles and garment exports.

Exchange Rate and Trade Policy:

- Pakistan in 1982 began to regularly adjust the value of the rupee
- The rupee was devalued from Rs. 9.90 per US dollar to Rs. 11.84 in 1982 and then gradually depreciated to Rs. 18 per US dollar by the end 1988.
- Between 1982 and 1988, there was a substantial real depreciation of the rupee; the nominal exchange rate was devalued almost twice as fast as warranted by the relative change in prices between Pakistan and major trading partners.
- This real devaluation assisted the overall export expansion of 7-8% per annum during the period and contributed in a significant way in reducing the relative dependence on worker remittance.
- By 1988 exports were more than double the level of remittances.
- The industrial zone was established in the late 1970's to attract foreign investment, speed up flow of modern technology, provide more job opportunities, raise skill and management standards and

provide exporters a base for production in an environment free from import duties but the results were however disappointing as exports from the zone were relatively small.

Industrial Policy Framework:

- While there were significant improvement during the Zia period in the industrial policy framework in terms of emphasis on the role of the private sector, greater import liberalization of industrial raw materials, and relatively strengthening of incentives for manufactured exports, not much was done to signal fundamental change in industrial policies which had hampered the structural change in manufacturing during the 1960's and 1970's.
- By the early 1980s, Easy Asian countries like China, Thailand, Malaysia, the Philippines and Indonesia were successfully following the lead of Korea, Taiwan, Hong Kong and Singapore to develop manufactured goods export aggressively.
- Pakistan's manufactured exports increased fourfold from US \$ 1.3 bill 1980 to US \$5.6 bill in 1983.
- Weaknesses in the trade policy were a key factor in the lag in manufactured exports.

Relative performance of manufactured exports

Country	1980	1988	1990	1993	Ratio 1993/1980
Bangladesh	0.55	0.85	1.34	1.80	3.28
Brazil	7.84	6.17	16.03	23.16	2.95
China	8.69	34.70	44.62	74.28	8.55
India	5.07	10.66	13.51	16.20	3.19
Indonesia	0.44	5.71	9.57	17.81	40.48
Korea	15.75	56.44	58.75	77.27	4.90
Malaysia	2.47	9.38	13.47	30.62	12.40
Mexico	1.87	11.36	12.04	15.70	8.39
Pakistan	1.28	3.01	3.23	5.61	4.38
Philippines	2.12	4.38	5.44	8.55	3.89
Thailand	1.82	8.22	11.27	6.86	14.75
Turkey	0.78	7.46	10.33	11.02	14.12

Slow Growth in Investment:

- High economic growth during the Zia period was no accompanied by a rapid rise in investment.
- It was inadequate in relation to both current needs and future requirements.
- Serious shortages on infrastructure, especially in the energy, transport, and urban development sectors.
- Equally serious was the neglect of investment in human resources.

Inelasticity of Tax System:

- The inelasticity of the system witnessed during the 1960's and 1970's persisted in the 1980's.
- Substantial additional taxation undertaken in 1979-80 and 1986-7 yielded only marginal improvement in tax as GNP to tax increased from nearly 12% IN 1978-9 TO 1987-8.
- Direct taxes continued to account fro fraction of total revenue and, the dependence on foreign trade taxes became greater.

- The problem with elasticity of the tax system was compounded by the generous use of tax holidays.
- The level of income and corporation tax revenue at 1.6% of GDP in 1987-8 was not only low, but also had not increased over the previous decade.
- Employment of agriculture incomes from taxation was another factor in the elasticity of tax revenue.
- Keeping domestic wheat, rice and cotton prices low, the government was able to benefit the urban consumer and the industrialists at the cost of the agricultural producer.

Non Development Spending:

- Government revenues grew steadily as a proportion of GDP, though this steady progress invariably required new tax effort.
- By 1987-8 consolidated government revenues (including non tax revenue) were around 16% of GDP compared to 7-8% in the 50's.
- The government expenditures had grown by from 10-11% to 27% of GDP.
- In nominal terms, defence expenditures increased from 5.5 to 7% of GDP over the period.
- Real defence spending increased by 9.2% per annum over 1977-88, real development spending increased only by 3.2% per annum.
- The army was Zia's main constituency and he made sure that he continued to enjoy its support.

Pattern of Public Expenditure (selected years)
(Rs in billions)

Years	Interest Payments	Defence	Development	Other	Total
1976-7	2.8 (1.9)	8.1 (5.4)	15.0 (10.0)	9.3 (6.2)	35.2 (23.5)
1979-80	4.8 (2.0)	12.7 (5.4)	21.8 (9.3)	15.3 (6.5)	54.5 (23.3)
1982-3	7.7 (2.1)	23.2 (6.4)	29.4 (8.1)	26.8 (7.3)	87.1 (23.9)
1985-6	19.0 (3.7)	35.6 (6.9)	39.8 (7.7)	40.1 (7.8)	134.5 (26.1)
1987-8	32.2 (4.9)	47.0 (7.0)	46.7 (6.9)	53.5 (7.9)	180.4 (26.7)
1990-1	50.0 (4.9)	64.6 (6.3)	65.3 (6.4)	80.1 (7.8)	262.0 (25.5)
1994-5	97.2 (5.2)	104.5 (5.6)	82.3 (4.3)	144.3 (7.7)	428.3 (22.8)
1995-6	132.5 (6.1)	119.7 (5.5)	94.2 (4.3)	171.7 (7.9)	518.1 (23.9)
1996-7	150.2 (6.0)	127.4 (5.1)	85.1 (3.4)	180.4 (7.2)	543.1 (21.7)

Real Growth in Public Spending (per cent per annum)

	1977-1988	1988-1997
Defence	9.2	1.6
Development	3.2	-2.8
Interest	15.8	7.9
Other	9.1	4.1
Total	8.0	2.8

Rising Debt Burden:

- Interest payments had become the fastest growing element in government expenditures during 1977-88, rising from 1.9% of GDP in 1976-7 to 4.9% of GDP in 1987-8.
- The main element in the rising of fiscal debt burden has been the interest payments on domestic debt reflecting both the enormous growth in internal debt and the high interest rates at which the borrowing was done.
- Domestic debt increased from 20.8% of GDP in mid 1981 to 4.2% of GDP in mid 1988.
- There was a much higher reliance on government borrowing from non bank sources at relatively high interest rates of 14-15% per year.
- A greater reliance on non inflationary sources of financing meant that credit creation in the public sector and the overall rate of monetary expansion slowed down sharply in Zia period.

Social Progress:

- Substantial economic growth and relatively low inflation during the Zia period did translate into broad based income growth for most income group.
- Average per capita GNP grew at an annual average of 3.3% per annum or by 4.3% during 1977-88 though the growth was much higher in the earlier period.
- Real wages which had increased during the Bhutto period, showed further increase during Zia's rule.
- The annual earnings of two main wage groups of factory workers indicate an increase in nominal wage of around 150% over 1977-88.
- The wages of unskilled laborers tended to rise faster than those of skilled.
- High growth rate of the economy, good agricultural growth, and labor immigration influenced real wage ret and incidence of poverty.
- Like Ayub's period, in Zia's regime employment creating growth did not receive special policy support and agricultural programme did not favour farmers.
- Primary school enrollment during 1977-88 expanded at an annual rate of only 4% only moderately faster than the growth rate of the population.
- Nearly 75% of the real increase in public sector development programme between the Fifth and the Sixth plan period was pre emptied by increase allocations for energy.
- Total public spending on education did increase to 2.7% of GNP by 1987-8 from 2% of GNP in 1976-7.
- Progress in increasing access of the population to basic health services was slow.
- Only modest gains were made in reducing infant mortality and increasing life expectancy.
- The increased demand for services in rural areas following rising incomes generated pressures for rapid rural electrification and rural roads,

- Rural electrification spending was 52% higher than original allocations while spending on rural roads exceeded targets by 29%.

Daily Wages of Construction Workers (in Rs)

	1974	1977	1979	1982	1985	1988	1991	1994
Carpenters								
Karachi	25	50	65	78	80	112	132	179
Lahore	22	37	50	57	70	87	129	151
Peshawar	17	37	48	73	78	90	100	135
Unskilled Labour								
Karachi	10	25	27	30	40	54	59	81
Lahore	11	18	20	30	40	46	71	86
Peshawar	7	10	17	22	25	33	48	60

Primary School Age Group Enrolment Ratio

Year	Total	Female
1950	20	6
1965	36	Na.
1970	40	22
1980	39	27
1987	46	31
1993	65	49
1996	73	57

Health Indicators

	1965	1970	1980	1988	1994
Percentage of total population with access to					
Health Care	Na.	Na.	65	85	85
Safe water	Na.	21	39	44	59
Sanitation	Na.	Na.	13	19	28
Infant mortality (per 1000 live births)	149	142	124	107	92
Prevalence of malnutrition (% children under 5)	Na.	Na.	Na.	48.8	40 (1989-95)
Contraceptive Prevalence rate (% age)	Na.	6.0	Na.	11 (1986)	12 (1989-95)
Total fertility rate	7.0	7.0	7.0	6.6	5.4
Crude birth rate (per 1000 population)	48	48	46	46	39

Crude death rate (per 1000 population)	21	19	14	13	11
Life expectancy	45	53	54	55	60

Islamization of the Economy:

- As a part of general emphasis on Islamic values and codes of conduct, Zia announced a plan for the implementation of an Islamic economic system in February 1980.
- The institutionalization of zakat and introduction of interest free banking were the two most important measures of Islamizing economy.
- The aim was to free the economic order from exploitation and provide equal socio economic opportunities for the needy.
- Under the Zakat Ordinance, most financial assets in the banking system and saving instruments were made subject to 2.5% deduction annually on account of zakat.
- By 1987-8, zakat collections deducted at source were Rs.1.9 billion and had risen further to Rs.2.6 billion by 1988-9.
- Even assuming that all the benefits were to the lowest 20% income households and that the administration expenses were minimal, the zakat donation would have augmented the income of this group by only 2%.
- Islamization also affected the interest rate policy. Technically all lending and deposit rates were by 1988 set on profit and loss sharing.
- The move to profit and loss sharing as such did not make big difference to the process of financial deepening that is increase in share of monetary assets to GDP.
- The ratio of the total monetary assets to GNP, which is suffered a sharp decline in Bhutto's period due to higher inflation and uncertainty about the future of private enterprise, had recovered to 36.5% to 1980.
- Under the circumstances zakat deduction of 2.5% per annum, from which foreign currency deposits are exempt, provides a strong disincentive to hold rupee assets.

Conclusion:

- Zia's rule is the longest rule ever by a single individual in Pakistan.
- He never let go of the reigns of the power until he was killed in a plane crash.
- Although his death bought about the end of his rule, much of his legacy still had a strong impact on the political and economic developments in Pakistan for some years.