

## **ECONOMIC GROWTH OF PAKISTAN ( BARE FACTS)**

Safdar Hasan Siddiqi

Economic growth is crucial to poverty reduction. In the first instance, a marked increase in the per capita income (at least 7 percent) alone was likely to improve the lot of the poor. Secondly, rapid and sustained economic growth led to greater availability of resources for financing anti-poverty schemes and finally, higher GDP growth improved the access of the poor to public services like education, nutrition, health care etc.

Income inequality increases on account of the relative share of national output going to capital (as compared to labour) having gone up in recent years. Secondly, the rate of labour absorption had declined, presumably, due to automation and steps taken to improve productivity. Lastly, it was because of millions of workers were trapped in low productivity jobs. As a matter of fact, that was one of the reasons why the rate of poverty was so much higher than the rate of employment.

With rapid increase in indebtedness, debt servicing was now consuming bulk of the federation budget with the result that the government had little to spend on development, poverty reduction and human resource development. Development expenditure as percentage of GDP had gone down from 7.6 percent in 1991-92 to only 3.4 percent in 1998-99. The unemployed work force had increased from 2.37 million in 1999 to 6.65 million in 2003, while the unemployment rate had gone up from 5.89 to 8.27 percent.

Spiraling prices of items of daily use had further eroded the limited income of the poor. In addition, the growing burden of indirect taxes was also making the life of the common man miserable.

In order to make the poverty alleviation programme of a government successful, the work relating to distribution of government land among land less farmers (instead of to army and civil government servants) and grant of ownership rights to 'katchi abadis' would have

to be expedited. Besides higher budget allocations for education and health-care would be necessary to improve the access of the poor to these services.

Agriculture's share in Pakistan's gross national Product (GDP) has declined from 53 percent in 1947 to 23.3 percent in 2004. The 66 percent labour force engaged then has fallen to 44 percent due to increased employment in industrial and servicing sectors. The agro-based products contribute nearly 80 percent to total exports. But land and water are not being efficiently utilized, nor the yield potential achieved due to mismanagement and politicizing of the land and water resources, and failure to implement the high production technology at field level. Our fertile agricultural lands are decreasing due to urbanization, industrialization and construction of roads and highways. The production potential of cultivated and cultivable lands is fast declining due to the uncontrolled soil erosion, salinity, waterlogging and sea intrusion in the coastal belt, and the poor and inefficient policy of the land resource management of our agricultural managers. Unlike many countries we have not been able to fix a lower limit beyond which no further fragment can take place for sustainability of agricultural production. River and canal water resources are declining due to the sedimentation of old reservoirs. Our rain-fed wheat yield is nearly 118 percent below the irrigated wheat yield, while in many countries the rain-fed crop yields are nearly equal to the irrigated ones. The gap between actual and potential yield of wheat is 77 percent. More or less the same is case with other crops (i.e.55 percent and above) Improvement in agriculture could be made by making the agricultural research system independent of the bureaucracy

The law of nature is that the land belongs to the tiller of the soil. But in Pakistan the land belongs to jagirdars, sardars and absentee landlords. The tillers of the soil, the *haris* and the *kashtkars* do not find a place in the administrative system of Pakistan. The tiller of the soil does not have a free choice in voting he has to vote for his landlord. Unless we are able to eradicate this system of landlordism there is not hope of survival of Pakistan. If every cultivable land is brought under the plough by the tiller of the soil, there will be no

dearth of food grain in the country, and we will not have to import it from abroad.

The military regimes did not work for the masses; they distributed land to the armed forces, right and center.

There is a need to provide some kind of insurance cover to protect the incomes and outputs of farmers from the vagaries of the weather, natural calamities (like pest attacks) and price fluctuations.

There is a move to reserve millions of acres of state-owned agricultural land for corporate farming, so as to encourage small farmers to merge their landholdings into joint-stock companies to achieve economies of scale in production. The objections to this scheme is firstly, that the "small farmer" has to be defined, otherwise it will remain unclear what benefits would go to the wretched small peasants already on the fringes. Secondly, to achieve economies of scale through capital-intensive technology, human hands will be displaced. Commonsense dictates that any strategy should be based on the resources a place is naturally endowed with. Pakistan is endowed with human resources in abundance. Why then should we focus on agricultural techniques that require capital resource more than the abundant human resource especially in a sector, which can be labour intensive?

Over 8 million hectares of agricultural land have been available with the state. Why was never a meaningful attempt made to parcel it out to small peasants with state support until the peasants would graduate to higher levels of farming? This is because the development recipes come tied with foreign aid and financial assistance. They lack indigenous ingredients. They look after the interests of the elite. As for the multitude, they are promised a trickle and expected to wait. Capital-intensive production methods cannot generate employment for all. Therefore, emphasis should be laid on labour management in agriculture that would, in turn, generate demand for produced goods. Thus corporate farming is another one of those recipes that will not cure the ailment.

The fact of the matter is that elite networks provide support to the not-so-stable democracies and dictatorships. In return the interests of the interlinked elite would remain uppermost at the time of the direction setting of policies. The policy assortment is a reflection of the interests of the elite and not for the multitud.

This will continue to be the case as long as the governments either remain captured in the elitist network (domestic and/or international) or the interests of the various strata of society remain divergent. This process is hindered due to a host of anti-development attitudes that abound. First and foremost, the attitude is to try and get a bigger share of the economy which is not getting any bigger, whereas the focus should be on enlarging the size of the economy from which everybody would stand to gain simultaneously and not the privileged now and the commoners at a future point in time. The second anti-development attitude is to gain personally at the expense of the gain of all others including the institutions and society at large. The third anti-development attitude revolves around a value-system that hinders hard, honest and sincere efforts all across the board.

We may talk a good deal about good governance but unless we disvalue the system of nepotism, cronyism and favoritism prevails, good governance will remain a far cry. For, the resourceful get the resourceless to depend on them personally for their survival and progress. It is this warped value system that that fosters dependence within, and which renders us unable to stand on our own feet, thus eventually leading to external dependence

So, if a major part of the population is kept dependent on a core group of affluents for sustenance, nation's productive potential remains unexploited. As the economy thus fails to operate at potential, nation as a whole remains dependent on the developed centers of the world. Dependence within begets dependence outside on other nations.. To breakout of this vicious circle, the decision-makers would need to rise above personal popularity considerations in the interest of hardheaded decisions. These are badly required to shatter the anti-development attitudes that remain at the center of our development dilemma. Political strengths emanating from

convictions can alone lead to a social system that is required to undergird the economic development process.

Political and social development are both required to break away from elite-centric economic policies, which alone can determine who benefits from and who participates in the process of economic development.

Enhancing economic growth to around 7 to 8 percent of the GDP is essential to sustain high growth rate over the medium to long term so as to enhance the income and living conditions of the largest number of people, especially the poor, and to reduce the menace of unemployment. True benefits of any transformation or progress in economy can only be achieved if accelerated economic growth coupled with low inflation can be sustained over a long-term period and the benefits of such growth are well dispersed to wider and poorer sections of our population.

Pakistan also needs to become far more competitive to capture the benefits of globalization by reducing the tax rates, lowering the cost of doing business, improving work ethics and environment, and further improving its governance structures and processes, including rule of law and justice dispensation system.

The most important thing to remember is that all depends on the quality of the people at the helm because people are more important than the systems and processes.

Some of the imperatives of economic growth are:

- a) Reduction in the duties of raw materials critical to the sectors of iron and steel, plastics, chemicals and locally manufactured plant and machinery.
- b) Adoption of a uniform rate of GTS on goods, which help check evasion and also make the tax structure more convenient to administer.
- c) Withdrawal of GTS on ginned cotton, hides and skins and raw wool to help lower the working capital costs of exporting units, thereby enhancing their competitiveness.

- d) Reduction of import duty on new plant and machinery to five percent, and the exemption of such imports from GTS and withholding tax.
- e) Reduction in the electricity tariffs, especially for commercial and industrial establishments. Lowering of the electricity tariff on tubewells in agricultural lands.
- f) Increase in the limit of income liable to tax to Rs. 100,000. Reduction in the interest rate on agricultural loans from 15 percent to 9 percent.
- g) Reduction in import duties, GTS and withholding tax on tractors and agricultural implements and equipment of educational institutions and hospitals.
- h) Raising the life line slab of 50 units for electricity and gas to 100 units, and also exempting this consumption from GTS.
- i) Withdrawal of GTS on Pesticides. It is the productivity of the small landowners that need to be raised. Sales tax on fertilizers, pesticides and agricultural machinery should be abolished or reduced to 5 percent to help promote agriculture.
- j) A 15 percent GTS is too high and a deterrent to consumption and domestic production, and higher employment.

The farmers form 65 percent of the labour population in the country. They should be given agricultural loans liberally along with fertilizers and pesticides at lower rates. Canals should be lined in the rural areas to make more water available to the farmers and far more land cultivable. The agricultural system, as it is, is not performing to its full potential.

A third of the 145 million people are living below the poverty line. Absolute poverty is now around 30.5 percent. A permanent Employment Commission should be set up.

Economic growth is of good quality when a significant amount of incremental income is delivered into the hands of the poor and the lower middle classes. Growth reduces poverty only when the distribution of income in the country is relatively equitable.

The policymakers should not treat Pakistan's large population as a burden but as an economic asset, which can provide high economic and social returns to the economy

The job of the legislators is to legislate and oversee the working of the executive branch of the government. It is not to directly participate in the economic development of the constituencies to which they belong and which have elected them. That is the task of the local government institutions. It is not a good strategy, economically or politically, to confuse these two functions.

Pakistan tends to borrow more than what it has been repaying; the net foreign debt tends to increase.

Rapid infrastructural development is essential to achieve accelerated economic growth.

Universal self-assessment has come into being with welcome results.

The IMF insists on a reduction in budget deficits even if it is at the expense of growth and jobs. The top rate of customs duty has been brought down by the government on the insistence of the IMF to 25 percent for trade liberalization.

Total foreign investment expected this year is one billion dollar but for this the law and order situation will have to be improved. The small and medium scale industries, too, are to be helped in a big way. The success of the entire budget depends on trade and industry as a whole. Will they pass on the benefit of the reduced duties and taxes to the consumers? Over the years they have not been passing on the benefits to the people.

The poor are consuming far less and spending far more. Population is rising by over 2.5 percent and has touched 151 million. Pakistan has now a population growth higher than that of India, Sri Lanka and Bangladesh. Hence the economic growth has to be accelerated to provide jobs and increase production all around. High growth rate has to be assisted by a good law and order situation, good

governance and elimination of corruption. The problems of the poor ought to be articulated well on the floor of the house and the government made answerable to it.

Political parties should hold conferences of their own to evaluate the official economic policies and present their own alternatives. They should determine what kind of reforms there should be from the people's point of view.

On the macro level, financial stability can be a *prelude* for policy action for growth and poverty reduction but not a *substitute* for such a policy. For macro economic stability to be achieved it is necessary that: (i) The level of investment is high enough to ensure macro economic equilibrium at full employment in the short run and (ii) The growth rate of productive capacity is consistent with full employment equilibrium in the long run. Clearly neither of these necessary conditions for macro economic stability has been achieved in Pakistan so far. The macro economy signifies levels of investment, output, exports and employment. It is this realm of real economy that determines the financial variables such as budget deficit, inflation rates and exchange rates. Thus unless the persistent problems of low investment rates, inadequate exports and slow GDP growth are addressed, the twin crisis of debt and exchange rate instability will rear its ugly head again. It would be dangerously misleading to suggest that with this fragile financial stability, the market mechanism will necessarily bring about both rapid economic growth and poverty reduction. A higher level of economic growth clearly requires a higher level of investment (private plus public sector). It is not enough to have just exchange rate stability and low inflation rates. Even more important for private sector investment is establishing peace on our borders and the conditions of law and order within the country, so that the life and property of citizens can be safe. Equally important are the availability of improved infrastructure, cheaper electricity, and trained manpower. Increased public sector investment for growth requires a sharp reduction in the government's non-productive expenditure to release resources for production investment. Otherwise increased development expenditure may not lead to increased development. If there is no



change in the composition of growth and the degree of inequality, then for growth to have a significant effect on poverty reduction, a GDP growth of at least 9 percent will have to be achieved. This means that the productivity and incomes of the poor would have to rise faster than the overall GDP growth rate.

The process of economic revival requires not only an increase in investment, but also a change in the composition of investment to accelerate growth of employment and exports. An economic strategy should be designed to lay down the basis for a sustainable pro-poor growth. A national campaign on a war footing should be launched to rehabilitate Pakistan's irrigation system. The campaign would involve semi-skilled labour for the de-silting of canals, strengthening the banks, organizing villagers for making "Pucca Khalas"(concrete lined water courses) and to improve the gradient of water courses and farmlands in order to improve both the delivery and application efficiencies of irrigation. The district level development institutions in the local government system could coordinate with union councils, village development councils and autonomous farmer associations to implement such a campaign. In addition to these such projects could be undertaken as building of farm to market roads, national highways and ports, upgrading the railway system and enlarging its transport capacity for bulk cargo together with an improved communication system. And increased production of cheaper energy through domestically available coal rather than imported furnace oil.

Another part of revival strategy is to rapidly develop export led production capacity for milk, fisheries and high value added agricultural products such as fruits, vegetables and flowers. At the moment Pakistan is producing 177 billion worth of milk annually for domestic consumption. The milk yields per animal in Pakistan can be doubled within two years through scientific feeding, breeding and marketing. This would have a dramatic impact not only on the incomes of the poor peasants, but also on exports and GDP growth. Pakistan lies at the hub of milk deficient regions such as Central Asia, West Asia and South East Asia. Marine fisheries also provide a significant potential for improving foreign exchange earnings.

Facilitation of the production of fruits, vegetables and flowers will also increase export in the agricultural sector.

Rapid growth of small-scale industry would provide the institutional support necessary for the rapid growth of small-scale enterprises. Small-scale industries in the construction, light engineering and automotive sectors have a low gestation period are labour intensive, and can generate a larger output per unit of investment compared to a large-scale manufacturing sector.

Training of a large number of software experts for a large increase in export earnings require a proactive government to establish joint ventures with large software companies

Overpowering poverty in the rural areas is fundamentally a process of empowering the poor to actualize their creative potential. Such a profound social change, if that is to be sustainable, involves tapping into the specific cultural wellsprings of creative consciousness of the peasantry. It comes from transcending the ego and relating with the community through love. Such consciousness enhances the self through a relationship with others .It comes by abnegating a leader's/teacher's/ manager's own exceptionality and recognizing each individual as the unique origin of change.

The problem of the lack of goods and services for the poor is the result of the fact that that are fragmented and alone. They have neither the skills nor the resources to increase their productivity, nor the organizational strength through which to acquire resources from governments, donors and the market. Hence the poor should be enabled to organize, acquire new skills, increase productivity, achieve savings, and develop the ability to access training, technical support and credit from a variety of institutional sources.

Income inequality between the richest 25 percent and the poorest 25 percent of the population has been increasing over the last decade. Inflation in the prices of the poor person's food items has increased at a higher rate than the average inflation rate. When

income inequality is high and increasing, a small increase in GDP growth cannot be expected to lead to a sharp reduction in poverty.

Ill health is so widespread in Pakistan that it should now be regarded as a major national issue in the context of poverty alleviation and economic development. Malnutrition is a major problem and is an important underlying factor in ill health and morbidity. For children, women and men, malnutrition leads to impaired immunity and high susceptibility to infection.

The high prevalence of disease amongst those who are slightly above the poverty line is a major factor in pushing them into poverty. Those who are already poor get pushed into deeper poverty as the result of loss of income and high medical costs resulting from illness. The high prevalence of disease amongst those who are slightly above the poverty line is a major factor in pushing them into poverty. It is, therefore, important that the government integrate its health policy with the strategy of poverty alleviation. It should establish at least one model hospital of international standards in each district. Improved health of Pakistan's population through preventive and curative measures will be an important factor in improving productivity and incomes, and in alleviating poverty in the future.

Poverty occurs when the individual is isolated from the community and is locked up into a nexus of power, which deprives the poor of their actual and potential income. The poor face a structure of market, State and institutions, which discriminate against their access over resources, public services and government decision-making. In this context overcoming poverty means empowering the poor at the local level. The challenge of pro-poor growth therefore is to re-orient both the structure of the economy as well as the local structures of power in favour of the poor.

Three aspects of governance during the 1990s intensified the economic burden on the poor: (I) Due to poor financial management of successive governments both the level of development expenditure and efficiency of its use declined. (ii) Indirect taxation also contributed to increasing poverty, since the adverse impact of

such taxation has a relatively greater impact on the poor. (iii) During the 1990s there was unprecedented level of corruption in government, which had a significant adverse impact on economic growth and poverty. It has been estimated that the overall cost to the country of corruption at the highest level of government was 20 % to 25% of the GDP in 1996-1997, or approximately US \$ 15 billion.

## **STEPS FOR ECONOMIC IMPROVEMENT**

(Draft for further improvement)

The new economic team of the Coalition government will have to re-design its investment policy. It will have to provide maximum incentives to agro-based industries. Pakistan should go for value addition of its agricultural products. Government should ensure better distribution of growth benefits.

Hoarding of food items should be banned. The black and easy money secured through hoarding is not invested in setting up new industries. Hoarding happens because institutions were under the influence of political forces.

The money generated by the affluent class is being spent on non-productive activities, in the stock market, property or are siphoned out of the country. It should be invested in productive industries, which create jobs. Massive wealth thus generated should be taxed. Capital gains tax on stock market trading should be imposed immediately. Industrialization should correspond to the huge wealth created through such trading.

The protections provided to industries producing raw material for export industries should be withdrawn. Industries in Pakistan will survive only by competing globally.

All properties should be documented and owners identified through computerized identity cards, and due taxes should be imposed. However, property tax should be lowered from 15 percent to 10 percent.