

SOCIO-ECONOMIC CHALLENGES IN PAKISTAN

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Abstract

Economic turmoil in Pakistan is due to facets of reasons. The country since its very inception has remained in a vicious cycle of political instability, the lamentable lack of civilian leadership, long military rules and weak institutions. The cumulative implications of the scenario manifest Adhocism, inconsistencies in economic policies, foreign debt and fragile industrial policy. The people of the country have been facing intractable repercussions of economic turn down as increasing poverty, unflinching corruption, and awful conditions of governance. War on terror has further deteriorated economic conditions of Pakistan. The country has got invincible economic losses in the war against terror. The solution of economic problems of Pakistan lies in true democratic order, rule of law, consistent economic policies and the reduction of foreign debt and more investment in the country.

Key words: *Economy, Political Instability, Pakistan, War on Terror.*

Introduction:

The economy of Pakistan has been remained hamstrung by a host of issues; political instability, historic constrains with India, internal law and order situation in the country, lack of implementation of policies, last but not the least external debt. Pakistan has sixty-three years checkered history; where military rule in the country more than its existing period. Due to clashes with India since independence, defense budget was a priority of every political administration of the country. The situation manifests Pakistan as ‘praetorian state’.

The economy of Pakistan in the initial period was not sustainable to shore up the system; it needed external support to take off the country towards development and economic sustainability. Unfortunately, political instability and long military rules shackled the dream of self-reliance and economic growth. The whole system of the economy of Pakistan since the very existence has been running on external aid this proved Pakistan as “client state”. “It goes without saying that wrong economic policies, mismanagement of the foreign aid, and official corruption at the high levels have increased the country’s dependence on the IMF and the World Bank, so much so that not only its freedom of action in external matters has been compromised, but the government has to yield to the dictates of the donors even in matters of purely domestic concerns” (2001:1).

1. Cardinal Features of Pakistan's Economy:

“According to statically data of the Economic survey 2006 and 2008 the growth of Agriculture sector is estimated is 1.5 percent 3.7 in the year 2006-2007 percent. Other sectors like manufacturing contribute 4.8 is the highest during the year 2007-2008. Items like beverage 30 Sugar 34.0percent, leather 13.5percent, cement, 17.9percent. The overall collection of revenue in the year 2008 is 1545.5 billion that is higher to the expected target of RS 1545.5 billion. The inflation has reached at 10.3 percent during the year of 2007-2008, 7.9 in the year 2006 compared. The food inflation in the current fiscal year is estimated higher than the previous years. The performance of export sector was significant in the years 2002-2003 to 2005 -2006 with growth of 16 percent per year.

Export performance during the year 2006 and 2007 was meager with a sheer decrease of 4 percent .Pakistan's deficit on current account widened more to \$ 11.6 billion 6.8 percent of GDP. The decrease in the current account deficit is due to large trade deficit” (.www.finance.gov.pk/finance_economic_survey.aspx: 2011).

2. Economic Challenges in Pakistan (1990-2008):

At the start of the last decade of 20th century, Pakistan got severe setbacks to its economy. There were two factors that have largely affected the economic progress of Pakistan. First, there was the withdrawal of US aid to Pakistan at the end of cold war. Second, Pakistan couldn't get the fruits of the new phenomenon of 'globalization' due to political instability from 1990-1999. “The era of 1980 was better than the 1990s in terms of economic records and poverty alleviation During 1990s the inflation reached at high level and poverty almost double and debt burden increase macro-economic inequality become high” (1999: 22).

The return of democracy during the 1990s couldn't bring pragmatic reformation in the economy of Pakistan. “It is one of the ironies of history of Pakistan had to wait for Benazir Bhutto to come to power before the socialist orientation in economic management was abandoned. Benazir Bhutto gave full rein to the private sector. A board of investment was set up in the Prime minister's office to sanction the establishment of new industrial units in the private sectors” (1999: 25). The cardinal principles of the economy of Pakistan during 1990s are increasing debt, poverty, inflation and corruption.

“The fragile economic conditions and foreign debt resulted accretion of foreign debt during the decade of 1990s. The result of the faced was the overall debt increase \$ 20 billion in June 1990 to \$ 43 billion till 1998. The foreign debt of Pakistan became 47.6 percent of GDP having increase of 8.1percent during the 1990s. The increasing burden of debt, fiscal and poor social records including high poverty, and inflation unleashed that the decade of 1990s was a failure” (1999: 2-3).

On the other hand, the most extenuating factor that determined the turn-down of the economy of Pakistan during 1990s is prevalent corruption. Transparency International declared Pakistan one of the most corrupt countries in the world during the 1990s. In fact both the governments of Benazir Bhutto and Nawaz Sharif were dismissed due to corruption charges.

“Four major elements projected the economic performance of Pakistan during the decade of 1990s. One, instable political condition and perpetual removal of civilian rule and the inconsistencies in the economic policies due to the fact established environment of uncertainty. Two, prevalent the two parties that diminished the prospects of economic progress made bad governance. Nepotism, whimsical approach of the civilian rulers and corruption, without any check and balance. Three, desperate lack of politically motivated leadership that took quick and timely decisions. The spillover impacts of the fact were that the delay in making decision caused a great deal of economic loss. Four, there were unforeseen exogenous shocks, for example the nuclear testing in May 1998 which shook investor’s confidence accelerated flight of capital, led to the imposition of economic sanctions and disrupts external economic assistance” (1999: 4).

There are some serious challenges that the economy of Pakistan has been facing since 1990s. These are political instability, lack of direct investment, bad governance, external debt, corruption, economic policies of the governments and terrorism in the country. “Political instability was the significant element of Pakistan’s failure during the last eight years from 1988 to 1996. The elected governments of the Benazir and Nawaz Sharif and four caretaker governments each remained in power for 90 days. The quick change in governments also brought sudden changes in the economic policies and the atmosphere was not conducive for the investors” (ibid: 7).

3. Lack of Direct Investment:

Direct investment play pivotal role in the economy of a country. The phenomenon of ‘globalization’ has enhanced the fact of direct investment. The role of FDI (foreign direct investment) is significantly to the economic development of the host countries. It progressively enhances the capital, technology, management and access to the markets.

The foreign direct investment is the linchpin for the infrastructures, which encourage the comparative advantages, and considerably increase productions.

The general principle of foreign direct investment is that the investors, if get benefit they will invest their profit rather withdraw it from the host country. Indeed the other benefit of the direct investment is the confidence building impacts. The domestic

situations admire the level of investment confidence in a country; the incoming foreign direct investment can enhance and establish the cycle, which impinges not only domestic and foreign investment but also foreign trade and production. The effects of direct investment can be seen in the Asian Pacific region. In the starting the flow of direct investment in the emerging industrialized nations as Hong Kong, china, Korea, and Singapore; China India and Vietnam are also bringing direct investment to consolidate their economies.

4. Governance Issue:

The issue of bad governance is contemplated as a great impediment to the economic and other public policies and their implementation. The governance is pivotal to the political, economic and administrative to deal the national issues. The governance is a significant factor, technique, skill of providing benefits to the local residents, protects their entrenched rights and institutionally solved their differences. Indeed the good governing countries are enhancing the investors to come. Therefore, the good governance is set of effective, efficient, responsive and welfare oriented governance to accomplish the dire requirements of the society and the nation as whole. Good governance is cardinal for establishing and attracting investment in the welfare programs, poverty elevation and betterment of society.

“According to UNDP, governance can be considered linchpin mechanism that provides economic, political and administrative skills and techniques to manage a country's affairs at every aspect. It systems, processes and institution's management of the fundamental issues, by doing that the nationals and other groups must consider and assess their work , effective protection of their entrenched rights , enhancing the role of modern media that bring face to face discussions to counter the issues related to the common people. Enhancing the capacity of the people by participating in the political and administrative matters to sort out their fundamental issues is the work of responsible Governance” (www.eurojournals.com).

The foremost crisis of Pakistan's polity and society today is bad governance. Under the current democratic government, the situation has deteriorated from bad governance to no governance at all. The Pakistani state is incapable of undertaking and promoting collective. With all its benefits are reserved for those within system i.e. the rulers, officials, and employees. By one reckoning, one third of state's expenditures is wasted the state's budget and finance system is concerned with inputs rather than with outcomes.

The comparative study of the development of East Asian has unleashed the fact that there are various reasons for the issues of economic governance, which are following:

1. Political stability,
2. Stable macroeconomic environment,
3. The outward-looking trade strategies as opposed to the protectionist strategies,
4. The quality of primary education,
5. Effective land reforms,
6. Credit reforms,
7. A merit based, efficient and competent bureaucracy,
8. Well-functioning institutions, and
9. Identification and development of core areas of comparative advantage.

5. Debt Reduction:

External debt at the end of March 2008 was US\$ 45.9 billion. Debt reduction is one of the greatest challenges of the economy of Pakistan. The country failed to establish the policy of self-reliance because of political instability, corporate interests of the army, and authoritarian rule in the country. According to PAKISTAN Interim Poverty Reduction Strategy Paper (I-PRSP); the fiscal deficit of the country in the era of 1990 was around 7 percent and the current account deficit in the balance of payment was around 5 percent of the GDP.

The cumulative result of the deficit of the increase of public debt, that is four times higher which is RS 800 billion in 1990 to Rs. 2971 billion in 1999 and external debt, which is almost double from \$2billion in 1990 to \$ 43 billion in 1998. Resultantly, during 1998-99, 73 percent of the overall revenues and 40 percent of foreign exchange were consumed by debt service payment.

6. Corruption:

Corruption is the most intractable issue of third world countries. The case of Pakistan is unique in a sense it is prevalent in every nook and cranny of the country. Transparency international survey ranked Pakistan as the second most corrupt country in 1996. The significance of corruption in Asia is highlighted by the fact that some whatever political regime has crumbled in Pakistan and some other countries in South Asia, a major and often-decisive cause has been the prevalence of official misconduct among politicians and administrators and the concomitant spread of corruption among businessmen.

Like other South Asian countries the case of Pakistan in terms of corruption is unprecedented; it exists in the higher echelons its widespread effects discourage investment it rather enhance the flight of capital and it is always encouraging rather than punishes ; the judicial procedure is fragile to counter the corruption.

There is a general perception that the corruption is prevalent in the departments, which are established to control corruption as an anti-corruption department. The spillover impacts of corruption are on the human development. Skewed public sector investment priorities, which favor large visible projects where the chances for rent seeking are substantial. At one point of history, Pakistan has been declared as the most corrupt country in the world. It is generally believed that in terms of frequency, the incidents of corruption are highest in law enforcement agencies. In terms of the amount of corruption money changing hands, taxation departments, state owned banks and development finance institutions power sector utilities and civil works departments. Together these departments and institutions annually handle transactions in the order of approximately RS.1.3 trillion.

The following table shows Pakistan's ranking in corruption in:

TABLE -1

Pakistan's Rank in Transparency International's Annual Corruption Perceptions Index (CPI),

2001-2008:

YEAR	RANK	NUMBER OF COUNTERS SURVEYED
2008	134	180
2007	138	180
2006	142	163
2005	144	158
2004	129	145
2003	92	133
2002	77	102
2001	79	91

Source: LAN. S. Livingston and Michael O' Hanlon Brookings Pakistan index Tracking variable of reconstruction & Security, Oct 30, 2009 (livingston@brookings.edu)

NOTE: The CPI is a composite index the draws on 14 expert opinion surveys. It scores countries on a scale from zero to ten, with zero indicating high levels of perceived corruption and ten indicating low levels of perceived corruption. Due to a lack of reliable data, Afghanistan was not included in the CPI survey for the years 2006.

The table evaluates Pakistan's index of corruption from 2001 to 2008. It shows that at the beginning of the new century Pakistan's performance was rather fair. The level of corruption increases suddenly in the year 2004 that is 129 in the rankings. The table also suggests that the level of corruption increase in year, 2005 it is almost double than the previous year that is 142 in rank. It decreases in level in, 2007 and 2008 respectively that is 138 and 134 in rank.

7. Economic Policies of Musharraf:

Musharraf era is applauded due to its economic policies. Reformation of the economy of Pakistan Musharraf adopted pragmatic agenda. When the government of Musharraf comes into power by a coup in 1999 have to face a great deal of challenges as high foreign and domestic debt; great fiscal deficit and fragile revenue capability, extreme poverty high unemployment, the fragile balance of payment and inept export.

Comparative experience of the Nineties, Pakistan currently possesses good economic indicators. The Musharraf era has stabilized overall macroeconomic situations. Pakistan currently possesses great height of foreign exchange reserves that is almost \$ 12 billion as December 2003, low inflation rate 3 percent, fiscal deficit of 4.5 percent including amelioration in domestic resource mobilization by reforming the Central Board of Revenue. So far Pakistan possesses outstanding performance in different targets given by the IMF's PRGF.

“The IMF and the World Bank have recognized that the economy is considerably salubrious and well organized and there is crucial consideration that various reforms, like ameliorating revenue collection and enhancing the country's especial financing institutions like State Bank of Pakistan and the Security and Exchange Commission possess development candidness and cut off the cost of doing business in Pakistan. The situation is marvelous for turnaround providing fragile state of the economy in the late 1990s” (2004: 2010).

However, the second phase of the Musharraf era with the Government of PMLQ proved economic downturn. International economic crisis, increasing oil prices in the international market, high inflation rate in the country and law and order situation, have impaired the economic growth in the country.

“Economic shortfall of any country is directly proportional to the international environment and the strategy of the government to deal with the issues. Including internal shortcomings in the economy of Pakistan the last government of PML-Q explicitly failed in its strategies and its approach” (2008: 2010).

There is a great deal of analysts believes that government's capacity to effectively establishing economic planning and to give priority to the development that people can access by people is diametrically opposed to the dissipation of sponsorship. Various factors that contribute to the governance vacuum are lack of investment in education for forthcoming bureaucracy, long military rules that innervated civilian rule for providing daily work of government, and the institutionalization of politics and corruption of the state apparatus. Two cardinal features view Pakistan's politics: sheer instability and vicious cycle of military intervention. These are directly proportionate to the systematic opposition between the civil and military relations.

8. Social Implications of Political Instability:

Including economic implications political instability in Pakistan have social implications as well. Human Development indicators show that Pakistan has a low level of human development, due to large defense budget and high debt. There exists an acute crisis of poverty, inflation, population, polarization of society and gender discrimination in the country.

9. Polarization of Society:

Pakistan possesses a diverse kind of society. Ethnicity is playing a dominant role in social, economic, political and in terms of religious affairs of the country.

The crucial elements; of internal politics that possesses an unprecedented importance; are ethnicity and religion. Ethnicity is part and parcel of political lifeline of Pakistan. The crucial fact is that it was a cardinal factor of establishment of Bangladesh in 1971, Baloch Sindhi Nationalism Pashtun issue that has spilled over repercussions on the national and regional politics.

The ascendancy of Punjab on the economic and political affairs has always remained bone of contention between the smaller provinces and Punjab. In the Urban, areas are controlled by MQM capable of bringing about chaos and political upheavals; Owing to, the ineffectiveness of the government to deal the national issues, regarding the distribution of resources, distribution of water resources. “There is a peculiar situation about the ethnic and religious tension in Pakistan. There is a cycle of tension and violence where the ethnic violence is stopped the religious tension emerged; at every time there is considered the intelligence agencies and the army behind all these issues” (2005: 25).

There is a strange relationship between religious and ethnic tension in Pakistan. Whenever and wherever ethnic tension decrease, sectarian tension increase and vice versa. This relationship is most probably manipulated by the invisible hands of the army, through its intelligence services, in order to keep its grip on the country’s political processes.

11. Poverty in Pakistan:

Poverty has become a great challenge to the contemporary world. Taking into account the world community is taking steps as good governance and sustainable Human Development. The unfinished business of the 21st century is the eradication of poverty.

According to UNDP and World Bank report 2000-2001 out of 1.3 billion people, livings below the poverty line across the globe 550 million happen to be South Asian. Poverty can be contemplated in different perspectives. It may be either “Relative poverty or “Absolute poverty”. Poverty may be moneyless or it may be powerless. Private sector research on **consumer** spending pattern tells us that over eighty percent Pakistani's is spending on food, housing, and utilities. According to estimates put forward by a market research outfit about 180 billion per month spending on food, clothing and utilities alone. At the same time access to information has improved public understanding of the decision making process .This has politicized economic

decision making brought government policies under the scrutiny of not just economists, businessmen, traders and agriculturists but the general public as well.

Poverty is one of the intractable issues of Pakistan. The South Asia Human Development Report has unleashed the fact “less than one third of the population of Pakistan are poor, almost one half are enduring desperate deprivation of various opportunities of life. Almost two third of the overall adult population is illiterate. Access to basic facilities as primary health care and safe drinking water is denied to almost half of the population. Almost 38 percent of the children under five are desperately in lack of food. There are some crucial causes of poverty in Pakistan as high defense budget, political instability and long military rules, high external debt and distribution of resources.

Poverty during the 1990s remained a determined factor; it increased from 29.3 percent during 1993-94 to 32.2 percent in 198-99. Poverty was estimated higher in the rural areas as compared to the urban areas. The indicator of FBS based on PIHS data poverty was estimated during 1998-99 was 36.3 percent and 22.4 percent both in rural and urban areas of Pakistan. Different provinces of Pakistan have different figure of poverty. The NWFP has a higher ratio of poverty than the Punjab province. The level of poverty in Baluchistan during the years 1998-99 reveals low poverty, it possess highest poverty ratio than the other provinces during the era. Poverty is measured as the lack of fundamental requirements of the basic needs education and cultivable lands are its major factors. The poor people possess greater dependency, as large numbers of children, one earning member are considered as poor. The estimated ratio; of five households; members of the poor is less than 18 years of age.

“It is estimated that 45 percent of poor children are vaccinated fully from 58 percent of non-poor children. It is perceived that the major cause of the increase of the poverty is the poor are unskilled persons in the fields of agriculture, service sector, transport, infrastructure, sale and production. Moreover the poor possess less area of land for cultivation than the non-poor which is 0.27 acres in comparison of 0.84 acres. Indeed poor are more vulnerable by the economic fragility than the rich.”

Pakistan Interim Poverty. (www.finance.gov.pk).

The government of Pervez Musharraf had adopted “Interim Poverty reduction strategy” The strategy was based on, accelerating economic growth and maintaining macro-economic stability; investment in human capital, augmenting targeted interventions, expanding social safety nets; and improving governance. The new government of PPP has adopted the Benazir income support program, and Benazir youth development programs. However, these measures are not sufficient to deal

with poverty in Pakistan. There is need of grand strategy to eradicate poverty in Pakistan. The following table shows poverty in Pakistan in each province of Pakistan.

TABLE – 2

Multiple of Estimates of Pakistan is living in Poverty. By Province³⁰

	% of Population Living in Poverty		
	1998-99	2001-02	2004-05
Punjab ^b	^b	^b	^b
Pakistani Government	32%	32%	25%
World Bank	30%	30%	29%
SPDC ⁻	N/A	34%	31%
Sindh ^b	^b	^b	^b
Pakistani Government	26%	36%	19%
World Bank	26%	37%	22%
SPDC ⁻	N/A	35%	25%
NWFP ^b	^b	^b	^b
Pakistani Government	41%	42%	27%
World Bank	41%	41%	38%
SPDC ⁻	N/A	40%	37%
Balochistan ^b	^b	^b	^b
Pakistani Government	22%	36%	28%
World Bank	22%	36%	32%
SPDC ⁻	N/A	49%	34%

Source: LAN S. Livingston and Michael O’Hanlon: *Brookings Pakistan Index Tracking Variables of Reconstruction & Security, Oct 30, 2009* livingston@brookings.edu

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The Table two shows the level of poverty in Pakistan’s four provinces. In Punjab, it is 32 percent in 1998 to 99 according to Pakistan government 30 percent according to the World Bank. The level of poverty is 32 percent according to government of Pakistan -34 percent according to The World Bank and 34 percent according to SPDC in 2001 and 2002. The level of poverty decreases according to the government of Pakistan 25 percent; according to the World Bank 29 percent and 31 percent according to SPDC in 2004 and 2005. In Sindh province it is 26 percent according to government of Pakistan same is shown by the World Bank in 1998 and 1999. It is increased in 2001 and 2002 that is 36 according to the government of Pakistan; 37 according to the World Bank and 35 according SPDC to the percent respectively. In NWFP, it higher than Punjab and Sindh that is 41 percent according to government of Pakistan; the same is shown by the World Bank in 1998 and 1999. In 2001 and 2002, it is 42 according to the government of Pakistan; 41 shown by the World Bank and 40 percent shown by the SPDC.

In Baluchistan 22 percent shown by the government of Pakistan and same is shown by the World Bank. In 2001 and 2002, it is 36 percent according to the government of Pakistan same is shown by the World Bank and 49 percent according to the SPDC. In 2004 and 2005, it is 28 percent according to the government of Pakistan; 32 percent according to the World Bank and 34 percent according to the SPDC.

11. Inflation:

Inflation has become the most intractable issue of Pakistan. Political instability, policies of the Musharraf government and international economic crisis are responsible for higher inflation in Pakistan. "The rate of inflation inversely increases since 2003 in Pakistan. During the crisis period of 1999-98 the rate of inflation was stable up to 5 percent till 2000-2003. Stability in the monetary policies, including fiscal determinants seems cardinal factors of lower inflation in Pakistan. Inflation increase due to wider money growth and increase private sector credit increase. Due to increase in monetary growth, inflation increase in great deal in the end of 2003, reached at 11 percent in every year till 2005.

One of the main objectives of macroeconomic policy is to keep the rate of inflation low and stable because it is an indicator of macroeconomic stability. Low inflation along with the budget deficit, realistic exchange rates and appropriate real interest rate are an indicator of the macroeconomic environment conducive to investment and growth

The stability in inflation was noted 8 to 9 percent up to the end of 2005. The undue taxes on the poor have left spill on the economic development. The poor are desperate to deal with high inflation rates. Because the poor people don't have many resources their real asset is in the form of cash and having low saving. The cumulative effects of inflation make poor people more vulnerable. The high percentage of inflation on the other hand has largely affected the growth and economic development.

Conclusion

This research analyzes that political stability is crucial for economic development and a strong economy is the bedrock of effective foreign policy. In fact in today's globally world internal factors affect external factors. Political instability in Pakistan has directly and indirectly affected the economic development of the country. The focus of civilian and military governments in Pakistan remained on stronger defense rather than strong economy. On the other hand, failure of civilian government has left intractable implications on the economy of Pakistan in many accounts. For example during Zulfikar Ali Bhutto introduced an Islamic socialist economic system that put the mixture on the policy move was rather political than economic in nature. General Ziaul Haq introduced Islamic economic system. While during 1990 political

instability became the order of the day. Economic policies introduced by one government were dismantled by the successor government. The scenario gets economy of the country in Darwin. Pakistan got severe setback in terms of economy and policies. The failure of industrial policies, corruption and mismanagement of the economy by the civilian governments of Nawaz Sharif and Benazir Bhutto put Pakistan in the line of debit countries. More loans were received and got more dictations in terms of domestic politics and foreign policy.

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