

70-Year of Economic Management in Pakistan and Role of Provinces

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Introduction

- ▶ In its checkered history, Pakistan has followed a variety of models for economic management;
- ▶ Starting with a planned economy, select group of capitalists were sponsored to lead the process of economic development;
- ▶ This was succeeded by a major wave of nationalization and attempt to foist a socialistic model of economic management;
- ▶ Military intervention pushed back this model;

Introduction *(Cont.)*

- ▶ Democracy succeeded the military rule and since then economic regime is moving in a secular trend toward a market-based economy but with considerable volatility in the styles of governance of succeeding governments.
- ▶ Provinces had little role in national economic management until 18th Amendment and last NFC Award. Their significance now is critical.

I-Planned Economy (1947-1970)

- ▶ As Cold War ally of the United States of America, receiving considerable military and economic assistance;
- ▶ Imported the Harvard Advisory Group, setting up the Planning Commission of Pakistan;
- ▶ Framework of 5-Year Plans was formulated and economic management revolved around the Plan;
- ▶ Economic controls were widespread (rationing of essential commodities)

Major Achievements

- ▶ High economic growth (6%+);
- ▶ Low Inflation;
- ▶ Industrial base established;
- ▶ Green Revolution in Agriculture
- ▶ Urbanization;
- ▶ Emergence of a capitalist class;
- ▶ Foreign Exchange Availability

Major Failures

- ▶ Uneven development across East & West Pakistan;
- ▶ High Concentration of wealth among 22 families mostly belonging to the West Pakistan;
- ▶ Income distribution worsened and disparities in West Pakistan were also noticeable;
- ▶ Import substitution was promoted at the expense of exports;
- ▶ Unfettered support to USA compromised non-aligned status.

II-Nationalization & Socialism (1970-1977)

- ▶ Reactionary forces pushed-back the policies of planning and state-sponsored capitalism;
- ▶ Massive nationalization of major industries and banking and financial sector;
- ▶ A gigantic public sector came into existence controlling nearly all major economic assets in the country;
- ▶ Economic values were transformed with capitalist held in low esteem.

Major Achievements

- ▶ Correction of anti-export bias through a major devaluation of rupee leading to exports surplus after Korean War in 1951-52;
- ▶ Establishment of basic industries in the country;
- ▶ Balancing of labor-capitalist relations;
- ▶ Look Middle East Policy and their generous support helped remove the USA label;
- ▶ Nuclear Power Program initiated

Major Failures

- ▶ Over-stretched nationalization without adequate preparation;
- ▶ Disruption of industrial peace and discouragement of capitalist;
- ▶ Shocking Devaluation and High Inflation;
- ▶ Improved income distribution was mired by high inflation;

III. Mixed Economy: Public-Private Sectors (1977-1988)

- ▶ Reaction to Nationalization-Socialism was also fierce;
- ▶ Martial Government did not undo nationalization but leveraged the public sector for political patronage and for tightening the stranglehold on power;
- ▶ 5-Year Plan was back and economic controls continued; US support was also revived;
- ▶ Private sector was gradually given space to play its role and thus

Major Achievements

- ▶ Economic Growth was revived and inflation was low;
- ▶ Private sector was gradually inducted back into economic development;
- ▶ Industrial sector was revived;
- ▶ Agriculture Pricing was improved through small steps toward deregulation;
- ▶ Foreign Exchange constraint was removed;
- ▶ A policy of creeping devaluation was initiated.

Major Failures

- ▶ The initial promise to return and denationalize the industries and financial and banking assets was not honored, rather a more organized and strengthened system of public enterprises was established;
- ▶ The gigantic public sector was used as a source of political power and patronage;
- ▶ Efficiency of public enterprises was not monitored and they became a source of economic distortion.

IV: Market Economy & Crony Capitalism-I Political Instability (1988-1999)

- ▶ Symington/Pressler Amendments brought an end to US financial support to Pakistan;
- ▶ The period coincided with the fall of Berlin Wall that signaled end of cold war;
- ▶ Wave of globalization swept through the emerging markets (East Asian countries);
- ▶ The decade was shaped by political instability, economic mismanagement, drying up of foreign flows and mixing of public and private interests.
- ▶ Start of IMF programs on regular basis

Major Achievements

- ▶ Space was created for private sector and their role and Privatization process was initiated and a number of industries and Banks were divested;
- ▶ Broad-based reforms were implemented to create enabling environment for encouraging enhanced private investment;
- ▶ A large number of controls were removed such as investment licensing and import permits;
- ▶ High walls of tariffs were removed and trade taxes common to local production and imports were introduced; Sporadic Fund programs enabled a market based transformation.

Major Achievements *(Cont.)*

- ▶ Board of Investment was established to promote investment;
- ▶ Tax Regime was transformed with Income and Sales taxes becoming more important revenue spinners overtaking by a significant margin excise and customs duties;
- ▶ Opened traditional sectors, such as power and highways for private investment

Major Failures

- ▶ Inconsistent policies, political instability fueled by rapid changes in government failed to inspire investors confidence;
- ▶ Economic growth suffered and inflationary pressures mounted;
- ▶ Fund programs routinely abandoned mid-stream;
- ▶ Macroeconomic instability became the norm and frequent rush to IMF became a necessary;
- ▶ Questions of public propriety among key public office holders was a new phenomenon that further undermined economic environment;
- ▶ Freezing of Foreign Currency Accounts & IPPs Disputes

IV: Market Economy & Crony Capitalism-II Military Rule/Economic Stability (1999-2008)

- ▶ Political instability led to another military intervention;
- ▶ Economic Governance improved significantly and after 9/11, resource availability was enhanced;
- ▶ Growth and price stability were revived and key reforms were implemented;
- ▶ War on terror soon started shaping the economic and political discourse; imposing a very high cost on the economy.

Major Achievements

- ▶ Political stability and private sector friendly policies spurred domestic and foreign investments;
- ▶ Economic Growth was high and inflation was low;
- ▶ Foreign Reserves, aided by American support were highest at the time;
- ▶ Banks were privatized and performance improved markedly;
- ▶ Partial debt retirement of expensive debt made.

Major Failures

- ▶ Toward the end of its tenure, the military government became complacent and its focus on economy was distracted (Judicial Crisis);
- ▶ The fragility of the model was visible on the face of global financial crisis & exceptional increase in oil prices, as there was a melt-down and new government shifted the blame on the military government;
- ▶ Around the time of its departure, much of the reserves were depleted and there were even rumors of lockers' seizures and freezing of FCAs;
- ▶ The stock market had to be suspended for more than 3 months;

IV: Market Economy & Crony Capitalism-III

Democratic Revival (2008-Present)

- ▶ Judicial Crisis and BB's tragic death led to the fall of military government;
- ▶ Democracy was revived and the next coalition government of PPP completed its five year terms;
- ▶ After 2013 elections, PML (N) formed the new Government and it continues to this day;
- ▶ There is uncertainty about the political process with the disqualification of PM Nawaz and the Panama cases.

Major Achievements

Gilani-Ashraf Governments

- ▶ Transition to democracy after BB's tragic departure;
- ▶ New NFC Award was given
- ▶ 18th Constitutional Amendment was enacted;
- ▶ IMF Program and other inflows helped build higher reserves compared to Military Rule;
- ▶ Successful completion of 5 year terms.

Major Achievements *(Cont.)*

Nawaz-Abbasi Governments

- ▶ Successful implementation of 3-Year IMF program
- ▶ Revival of economic growth and low inflation;
- ▶ Launching of CPEC a transformational concept;
- ▶ LNG terminals and import of large quantities of LNG to meet the industrial and power generation demands;
- ▶ Huge investments and additions to power, highways and other infrastructure projects;

Major Failures

Gilani- Ashraf Government

- ▶ The two democratic governments had entirely different economic performance;
- ▶ Gilani government had to seek an IMF program at the outset and in the wake of global crisis and oil price hike;
- ▶ The program was abandoned mid-stream as the government failed to implement a key reform on taxation;
- ▶ There were also serious propriety issues associated with key public office holders;

Major Failures *(Cont.)*

- ▶ Growth was lowest averaging less than 3% in five years and Inflation was too at an average of 12%;
- ▶ Although reliable estimates are missing but poverty was reduced (BISP);
- ▶ Power sector arrears became a major issue and liquidity shortages led to acute power shortages;
- ▶ Around the close of it's term, Government squandered much of the external resources obtained through a front-loaded Fund program and other development assistance;

Major Failures *(Cont.)*

Nawaz-Abbasi Government

- ▶ The government had to seek a Fund program as reserves had nearly depleted and a situation of default was imminent;
- ▶ It attracted significant investment through CPEC;
- ▶ During the program period, the Government adhered to reforms diligently but thereafter it abandoned the guards and went on to spending spree and poor collections (Deficit 5.8%; Reserves down);
- ▶ The problem of power sector arrears resurfaced and outstanding circular debt is as high as it was in 2013;

Role of Provinces

- ▶ The provinces never played any significant role in national economic management until after the passage of 18th Amendment and last NFC Award;
- ▶ The new award coupled with the 18th Amendment has radically altered the political and economic landscape;
- ▶ The award has transferred a larger share of divisible pool to provinces thereby leaving the federation in relative poverty;

Role of Provinces *(Cont.)*

- ▶ The scope of CCI has been expanded and matters of federation have been made part of CCI;
- ▶ In oil and gas, provinces have been made equal shareholders;
- ▶ Provinces have been empowered to borrow even abroad within certain limits;
- ▶ Sales tax on services has been given to provinces compromising the possibility of instituting a pure nationwide value added tax on all goods and services;

Role of Provinces *(Cont.)*

- ▶ In the process of these amendments balance between federal and provincial needs as well as the mechanics of an efficient federation have been compromised.
- ▶ For instances Part-II of Federal Legislative list has subjects over which CCI has jurisdiction. So if the federation proposes to make policy changes those would be approved by the CCI.
- ▶ But would Provinces accept any bindings as a result of those changes? For example if a part of the subsidy on electricity is proposed to be shared with Provinces would they come forward, very likely not and this has been tested on many occasions.

Role of Provinces *(Cont.)*

- ▶ Provinces have acquired centrality in economic management;
- ▶ Without provincial consent and participation, economic reforms and fiscal adjustment would be impossible;
- ▶ Need for federal and provincial coordination is imperative both in setting objectives and then achieving them.

FEDERAL TRANSFERS TO PUNJAB

(Rs. in billion)

Description	2014-15	2015-16	2016-17	2017-18 (BE)
Divisible Pool Transfers	719.337	895.781	921.697	1153.713
Grants in Aid (NFC)	-	-	-	-
Straight Transfers	7.550	5.672	7.143	8.111
Other Grants	11.606	1.685	0.344	-
Development Grants	0.832	0.950	3.385	0.100
Grand Total:	739.325	904.088	932.569	1161.924

Provincial Surplus

2011	133.9
2012	-39.1
2013	52.7
2014	196.9
2015	87.3
2016	207.4
2017	-15.7

Resources Transferred to Provinces

Rs. In billion

Provinces/ Heads		2009-10	2010-11	2011-12	2012-13	2013-14	2014-15 BE
Punjab	NFC Transfers (NFC)	330	461	518	569	646	813
	Others inc. Dev. Grants	9	8	16	16	0	2
	<u>Total</u>	339	469	534	585	647	815
Sindh	NFC Transfers (NFC)	197	285	291	328	392	475
	Others inc. Dev. Grants	9	6	6	13	1	2
	<u>Total</u>	206	291	298	340	393	477
Khyber Pakhtunkhwa	NFC Transfers (NFC)	95	158	179	200	234	284
	Others inc. Dev. Grants	25	30	27	28	27	1
	<u>Total</u>	120	188	206	227	261	285
Balochistan	NFC Transfers (NFC)	54	101	107	125	142	160
	Others inc. Dev. Grants	17	21	23	21	22	18
	<u>Total</u>	71	122	130	147	164	177

Thank You

The background features abstract, overlapping geometric shapes in various shades of green, ranging from light lime to dark forest green. These shapes are primarily located on the right side of the frame, with some extending towards the center. The overall composition is clean and modern.