

PAKISTAN'S ECONOMIC IMBROGLIO IN POST 2008***Muhammad Imran Afzal¹, Abid Ghafoor Chaudhry² and Adnan Nasir²**¹Peace Education and Development (PEAD) Foundation,²Department of Anthropology, PMAS- Arid Agriculture University, Rawalpindi, ³Anthropologist,*Corresponding Author: imran@pead.org.pk

ABSTRACT: *The analysis of economic crisis indicates that there is a considerable shift of public resources from social sector to defense sector and security affairs. This shift has changed the development priorities and financial resources have been taken away from socio-economic sector. Supply bottlenecks including gas and power load shedding are considered as a major factor affecting private investment and economic growth. Terrorism has taken a high toll on Pakistan's economy which leads to slow economic growth, low investment, high rate of inflation, and higher levels of fiscal deficits. Low economic growth and decline in private investment also leads to higher rate of unemployment, which further aggravated the economic situation of the country.*

Key words: *Economic Imbroglia, Foreign Direct Investment, Instability***INTRODUCTION**

Pakistan has been experiencing economic instability in recent years which impacts negatively on treasury and currency depreciations, uncontrolled inflation and unemployment, ruthless security situation, and growing developmental disparities between rural and urban populations. According to UNDP, Pakistan economic growth increased by 2% during 2008-2009; just keeping pace with an equitable level of population growth. Inflation rate remains the most concerning point for a common man and it increased from 7.7 % in 2007 to 20.3 % in 2008, and 14.2 % in 2009. In addition, the Pakistani rupee has depreciated since 2007 as a result of political and economic instability [1].

Economic instability, inflation, non-availability of food item to a common man all these issues placed a question mark on the credibility of the economic policy of the present government. There is a dire need to investigate the real issues faced by Pakistan's economy along with the suitable measures so that the economic crunch felt by the

common man may be reduced 14.2 % in 2009. In addition, as a result of political & economic instability, the Pakistani rupee has depreciated since 2007 [2].

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Pakistan is facing the challenges of impoverishment and low levels of foreign investment since decades. Since 2008, growth in industrial and service sector has slowed down significantly. Pakistan is facing acute shortfall of electricity, growing inflation and curse of unemployment. Apart from these, Pakistan is also facing other long term challenges like expanding investment in education, electricity production, healthcare, and reducing dependence on foreign donors.

Table 1: Pakistan's Key Economic Indicators (2000-2011)

indicator	Years 2000 to 2010									
	01/02	02/03	03/04	04/05	05/06	06/07	07/08	08/09	09/10	July-Feb 10/11
export	9.14	11.15	12.31	14.39	16.47	17.01	19.22	17.79	19.63	19.25
import	10.33	12.21	15.59	20.6	28.58	30.54	39.96	34.82	31.05	27.34
Trade Balance	1.20	1.05	3.28	6.21	12.11	-13.53	-20.74	-17.03	-11.42	-8.09
FDI	0.49	0.8	0.95	1.52	3.52	5.13	5.15	3.72	2.21	0.99
Foreign Investment	0.48	0.82	0.92	16.68	3.87	8.42	5.19	2.67	2.14	0.24
Worker emittances	2.39	4.24	3.872	4.17	4.6	5.49	6.5	7.81	8.91	6.96
Forex Reserves	6.43	10.72	12.33	12.61	13.14	15.18	10.83	12.23	16.07	17.45
Exchange (Rs. / US\$)	61	57.78	57.92	59.66	60.16	60.5	71	88.9	86.21	85.4
GDP Growth	3.61%	5.11%	6.41%	8.41%	6.61%	7.01%	5.81%	2.11%	4.11%	4.11%
Inflation	3.4%	3.3%	3.9%	9.3%	8.0%	7.91%	10.31%	13.11%	12.90%	-

Source: State Bank of Pakistan (SBP), Federal Board of Revenue (FBR), Federal Bureau of Statistics (FBS)

DISCUSSION ON ECONOMIC INDICATORS

After the so-called “lost decade” of 1990, Economy of Pakistan could gladly be identified with regards to increased in developments. Since 2002, Pakistan’s GDP growth rates has an average around 6 %, stock market surge have broken all the records, there was much more vigor in the banking industry, capital flows were pouring into the economy, overseas reserves have swelled to record high levels, and declining trend in poverty business [3].

Since 2004, the average growth rate of more than 6 % was observed in various sectors which decline to 4.10 % in year of 2009-10. Inflation increases by 9.30 % in 2005 as compared to year 2004. This increased in inflation was observed for the first time since 2000, as it remained below 5 % most of the time (from 2000–2005). However, during the years of 2006 and 2007, inflation increased, albeit less than the hike of 2005; therefore, prompt the authorities to raise discount rate as a policy measure. In year of 2009-10 inflation raised at the level of 13.1 %. Forex reserves were observed \$ 6.43 billion in 2000 which rise to \$ 15.18 billion in 2006 which reached at 17.4 % in first quarter of 2011. In import and exports sectors, Pakistan also witnessed a dramatic change since 2000 which is highlighted below.

Foreign direct investment was recorded \$ 0.49 billion from where it raised to \$5.15 billion which declined to 0.9 % in 2011.

In 2000 Public debt as a % to GDP was recorded at 86.13 %, from where it came down to 55.61 % in 2007. Primary budget balance remained in surplus along with reductions in budget deficits until 2004. However, these favorable developments started to reverse from 2005 onwards when primary budget balance went into deficit and the budget deficit also increased.[5]

Reasons of Economic Imbroglio in Pakistan

Pakistan’s economy is in continues crisis due to high inflation rate, falling foreign reserves and increasing foreign debt. A spike in global food prices has hit Pakistanis especially hard. Weak governance has contributed to growing militancy in Pakistan, economic troubles, and regional instability. Economy of Pakistan is under great crisis due to several reasons i.e. political instability, War on Terror, foreign investment, food and energy crisis, inflation, etc.

Political Instability

Since independence, Pakistan could never enjoy a stable political scenario. Pakistan experienced all types of political controls such as democracy whether presidential or parliamentary- along with repeated military coups with economic theories from capitalism to socialism. Military government ruled in Pakistan for more then 33 years and remaining 30 years practiced different forms of government, which is approximately always dissolved before time. In these 30 years, the early 9 years was without any defined political system (1947-1956). Besides other factors political instability plays a vital role in the fluctuation of the economic development of Pakistan.

Notably, the economy of Pakistan shows high economic growth in three different periods: 1958 to 1970, 1977 to 1988 and 1999 to 2008. Surprisingly, all the time periods are military-led governments. During military regime in 1958-71, 1977-1988 and

1999-2008, high economic growth trend was observed and unfortunately after every military government the elected

Table 2: Political Instability Indicators of 2010

S#	Variables	Observ.	Min.	Max
1	Normal Strikes	38	0	69
2	Manifestation	38	0	31
3	Riot	38	13	258
4	Government Longevity	38	0	10
5	Change in Government	38	0	1
6	Warfare	38	0	1
7	Management Type	38	1	3

government did not even maintain the economic growth, on the contrary the economic conditions became worse to the extent that sometimes the country was near to default[6]. Presently, country is presenting similar environment. However, it is believed that it is not the issue of democratic or military regime only but the government’s continuity is another factor which plays important role in political stability. Frequent change of government is a key factor of political instability in Pakistan.

War on Terror

In the backdrop of War on Terror (WoT), Pakistan as a key ally of the US is facing one of the biggest and most dire crises of its history in terms of its implications on its social and economic development. This crisis has various dimensions and can be categorized as socio-political issue in which all factors are inter-dependent and each component’s failure leads to others failure on all fronts. Since 2001, Pakistan has been paying heavy toll being the US ally on this ongoing war. The cost is rising exponentially in terms of dislocation of economic activity, high losses of life and property and impact on foreign investment. According to the estimates of the Ministry of Finance, the cost of this was \$150 billion in the years of 2007-08 which increased to \$ 320 billion between 2009 and 2010[7].

Since 2007-08, with the WoT moving to a qualitatively different phase, with the Pakistan army mobilizing and undertaking large scale military operations in the country’s North West and the negative effects on the economy have greatly increased.

Defense Budget

In Pakistan, defense budget is always a bone of contention and requires a deep analysis of all aspects. Government of Pakistan has decided to spend more than \$ 5 billion per year on defense sector which is a great blow to already weak economy of Pakistan. Government of Pakistan has spent \$ 4.1 billion in 2006 which increased to \$ 4.5 billion in 2007. The next two years showed a similar pattern of defense budget but the year of 2010 has witnessed a sharp increase in defense budget which estimated \$ 5.3 billion.

Floods of 2010

The floods of 2010 have greatly impacted the different parts of the country. The flood in July 2010, killed at least 1,645 people, more than 2,479 were injured and more then hundreds were listed as missing after the floods it inundated an estimated 62,000 square miles of land – nearly one-fifth of the Pakistan’s entire landmass. Wide range of damages occurred to the homes, road and rail network including, telecommunications and the agricultural sector. In KP and Punjab Twelve million people were affected, and two million were affected in Sindh province [8,9]. According to (NDMA) an estimated over seventeen million people were affected by the floods in 2010; and at

Table 3

Economy Loss 2005-2010 [Estimated]							
Rs billion	2004-05	2005-06	2006-07	2007-08	2008-09	2009-/10*	2005-2010 Cumulative
Direct Cost	67.00	78.00	83.00	109.00	114.00	262.00	712.00
Indirect Cost	192.00	223.00	278.00	376.00	564.00	707.00	2,340.00
Total	259.00	301.00	361.00	484.00	678.00	969.00	3,052.00
In US\$	4.40	5.00	6.00	7.70	8.60	11.50	43.00
*: July-April - Source: Finance Division, Government of Pakistan							

least 1.24 million homes were damaged or destroyed. Initial property damage estimates from the government were \$ 1 billion [10]. Some of the various estimates of flood damage are approximately 43 billion [11].

Impacts of IMF Programs on Pakistan Economy

Pakistan gain aid from International Monetary Fund to provide economic aid of \$7.6 billion to support and stabilize its economy in November 2008. This program has led to increase the charges of gas, petrol, electricity and telecommunication. The imposition of sales tax and cut in tariff rates on the conditions of IMF Program has greatly affected the incomes of lower and middle class earners. The gap between upper and lower class has widen greatly. The absolute poverty has increased which encouraged criminal and unsocial activities. IMF is not only responsible for this socio-economic crisis but Government of Pakistan is also responsible for it by not decreasing its fiscal and trade deficit.

However, there are also other contributing factors which are responsible for economic fragility in Pakistan i.e. energy supply shortage, shortage of food items, world food crisis, lack of foreign investment due to insecurity, law and order, oil prices, high imports and low exports, low public investment, fiscal deficit, poor tax system, regional conflicts, overpopulation and lots of other factors. The most fundamental factor that contributes towards the economic crisis in Pakistan is the instable government as a result of incompetent and inexperienced politicians.

CONCLUSION

Economic crisis in Pakistan is feeding the unrest and threatening its weak government. Poor governance has resulted in mounting economic hardship and frustration which has given rise to greater radicalization. Growth rate has been going down while inflation ratio and prices of food items and fuel are going upwards. Government is unable to deliver services and there is unhappiness in public because of high food prices, unavailability of fuel and electricity. After many sacrifices we have achieved this freedom. Therefore, it is a duty of every individual of the society to take part in development of this country in order to make its place as an honorable and developed country. There is a need to restore the confidence of people to take part in economic activities. Pakistan poorly managed country not poor country and only a sincere leadership with real commitments can solve the issue of economy and its development.

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