COMPARISON OF ECONOMIC GROWTH UNDER DEMOCRACY AND DICTATORSHIP: COMPARING MUSHARRAF ERA TO THE POST 2007 REGIMES

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Objective of Study

Pakistan’s economy has experienced many ups and downs. The political instability in the country played a very crucial role in maneuvering the economic trends and hence affected every common person of the nation. Many democratic regimes were obstructed by military take-overs. The objective of this research brief is to analyze the economic trends during Musharraf’s era and to compare the economic conditions of his time with the following two democratic regimes: Zardari’s government and Nawaz Sharif’s current rule.

Introduction

During the 69 years of Pakistan’s history, military (Dictatorship) rule and Democratic governments have been imposed on the country. Each has a different way of governance and hence diverse economic and social outcomes. The country has seen four military rules: Field Marshal Ayub Khan from 1958, Gen. Yahya Khan from 1969, Gen. Zia-ul-Haq in 1988 and Gen. Pervez Musharraf from 1999. Before Musharraf’s regime, every democratic government had been interrupted by a military take-over and democracy could not stand on its feet till after 2007. For the first time in 2013, the democratic government completed its constitutional five years.

Pakistan’s economic history since its birth has shown mixed results. Different types of governments have influenced its macroeconomic performance. Governments, either democratic or authoritarian significantly affect the decisions and the performance of an economy. Different economies have dissimilar historical backgrounds and work under diverse government structures with the assistance of certain economic approaches in accordance with the interest of economic and political agents.

During Musharraf’s era, Pakistan’s economy grew at an average rate of 7% annually. Large-scale manufacturing and services sector grew at an average rate of 11% and 6% per annum respectively. Further curtailing unemployment and poverty, increasing investment opportunities as well as tax collection were the hallmarks of Musharraf’s era. During the democratic regime of 2008-2012, the economic indicators did not depict much progress.

Nawaz Sharif government is making promising efforts and economy seems to be reviving. This government greatly overcame electricity shortage and terrorism, the root causes of every economic problem.

Pre-1999 Regimes and Economic Trends

Pakistan was considered to be economically backward and underdeveloped when it came into being in 1947. Indians acquired complete monopoly in trade and commerce with the blessings of the British and unfortunately major industries,
banks and other financial institutions were located in the Indian territory. Inadequate railway and transportation system made its worse effect on the economic development of Pakistan. On August 14, 1948, Jinnah said:

“The foundation of your state has been laid and it is now for you to build and build as quickly as well as you can”.

Prior to Musharraf’s take over in 1999, the economic outcomes of Pakistan were a mixture of paradoxes. In the first four decades, the economy grew at a fairly impressive rate of 6%. The per capita income doubled and inflation rates remained low whereas poverty declined from 46% to 18% by the end of 1980s. But then Pakistan faced the “lost decade” during 1990s.

In early years, during the government of Liaqat Ali Khan, a five year plan was developed under the “Theory of Cost of Production Value”. This also comprised of areas of trickle down economic system. State Bank of Pakistan was established in 1948 to kick start the economic engine of the country. The Korean War which started on June 25, 1950 caused an economic uplift as Pakistani merchants sold raw material to anti-communist nations. But the growth was retarded by the assassination of Liaqat Ali Khan and the five year plan collapsed. In 1955, the plan was represented and this time it was focused on agricultural development as Pakistan basically is an Agro-based economy. This time, lack of technical knowledge and absence of basic information/data hindered the plan.

Field Marshal Ayub Khan was the first military leader who stepped into Pakistan’s politics and assumed complete control of the state in October 1958. The economic growth under the first dictatorship rule depicted positive trends and hence it is called the “Golden Sixties”. The second five year plan focusing on heavy industrial development, advancement in literature and science was revived in Ayub Khan’s era. Pakistan opted for a development base on industrialization and made investments in manufacturing automobiles and heavy machineries’ sector. GDP escalated to 6% from 3% and manufacturing sector expanded by 9% per annum. Agricultural sector grew at the rate of 4% due to the introduction of the Green Revolution technology. By 1969, exports of Pakistan were more than the exports of Thailand, Indonesia and Malaysia combined. The era is also marked by the establishment of mega projects of Tarbela and Mangla dam.

Zulfiqar Ali Bhutto (PPP) took charge of the government in 1971, he followed the policies of Nationalization. The process of Nationalization started in January 1972. Under this policy, he nationalized banks, industries, insurance companies and educational organizations. It marred the trust of foreign as well as domestic investors and derailed the journey of Pakistan towards modernization and faster economic development consequently. One of the investors said:

“Industrialists not just lost industrial units to Bhutto’s nationalization policy, they lost the urge to invest in Pakistan”.
The economy of Pakistan further hunted badly by the oil price shock of 1970 and the growth rate fell from 6% of the golden sixties to 3.7% in 1970s. Moreover, the fourth five year plan was abandoned after the fall of Dhaka, East Pakistan and this incident left high cost consequences.

Inflation on an average figured 16% from 1971 to 1977. The manufacturing sector remained slow with a growth rate of 3% and income inequalities rose as compared to previous periods. Large scale manufacturing sector which was in a classic condition in late 1950 and 1960s and the private sector was antagonized.

Another attack on democracy was done by Gen. Zia-Ul-Haq and this time it was legitimized in the name of religion. During his dictatorship, Pakistan participated in the campaign to overthrow the Soviet Union in Afghanistan and in reward it got massive economic assistance from the allied nations. Besides the worst social costs, economic conditions turned better and in the fifth five year plan (1978-1983), an attempt was made to stabilize Pakistan’s economy and to improve the living standard of the poor segment of the population. GDP growth remained 6.6% on average annually during the first half of his rule, GNP figured 7.6% per annum. Workers remittances increased in the second half and contributed in increasing foreign exchange.

Zia emphasized his policies on planning. Pakistan became self-sufficient in the production of basic food items. In the next phase of his era and the late 1980s, policies were shifted towards the private sector and focused on enhancing investment, increased saving ratios and issues like low agrarian productivity and dependence on imported energy were addressed.
The period between Zia’s regime and Musharraf’s martial law is known as the “lost decade”. Nine different governments reigned Pakistan during this period. The macroeconomic indicators fell dismally and the chief reason was high political instability in the country. Lack of political will to take timely and correct decisions coupled with the inability to cope with the distortions on the right time led to the loss of Pakistan’s credibility in the international community. The growth rate fell to 4% in the first half of 1990s. Total debt increased from $20 billion to $43 billion in May 1998 and the country’s external debt rose to 47.6% of its GDP with an average of 8.1% per year in that particular decade whereas domestic debt spiraled more rapidly accounting for 49.1% of the GDP. Poverty level rose up from 18% to 34% and employment in the economy declined as the manufacturing sector did not perform like it did in the previous decade, providing the employment. Inflation rates lingered in double digits throughout the 1990s. Therefore, the 1990s was a very crucial time in the economic history of Pakistan.

The Magical Growth of Musharraf’s Era

On 12th October 1999, Gen. Pervez Musharraf imposed martial law in Pakistan and threw away the Nawaz government violating Article 6 of the 1973 Constitution. It was the darkest day in the history of democracy. But if we analyze the tenure in economic terms, this martial law era embarked the achievement of many milestones and demonstrated excellent growth rates. The legacy General Musharraf inherited welcomed this third military ruler with stacks of issues and challenges; heavy external and domestic indebtedness, high fiscal deficit and low generations of revenues, rising poverty and unemployment, stagnant exports, weak balance of payments and less reserves were among the incoming challenges for the military government. The government had a limited capacity to increase the level of public spending as tax to GDP ratio was low and about 80% of revenues were forestalled to debt servicing and defense. Hence the overall situation of the economy was down at heel.

Pervez Musharraf in his rule appeared as an intellectual, visionary and a bold leader with a broad economic and political approach. He took on to solving Pakistan’s problems in the commando style he was trained in. Notable improvement in economic governance coupled with structural reforms laid the foundations for accelerated economic growth and social prosperity during the 2000-2008. The sluggish growth rates of the lost decade were uplifted from 2.1% to 7% in his very early years. Further, annual GDP at constant prices figured 8.95% in 2005 which was a hallmark in the economic history of Pakistan. Foreign exchange reserves were raised to cover six months’ imports whereas the amount of exchange reserves available in previous government could buy imports of barely three weeks. Foreign reserves, which were $700 million when he came increased to $17billion. It was his era which provided an attractive and suitable atmosphere for foreigners to invest in Pakistan. Investment grew at a rate of 23% of the GDP and the economy was financed with an estimated $14 billion of foreign private capital inflows. FDI during 2000-2001 remained very low at $481 million. However, the same head registered an enormous amount of $5152.80 million in the subsequent 8 years which proves the argument that Musharraf’s government provided a friendly atmosphere to foreign investors.

Further, Karachi Stock Exchange was awarded as the best performing Asian market and Pakistan was ranked third in banking profitability. Our large scale manufacturing sector was at a 30 year high and the construction sector was at a 17 year high. During the last authoritarian regime, large number of jobs were created. Information Technology (IT), telecommunication and CNG sectors flourished in his era, creating 90,000 jobs in IT, 1.3million jobs in telecommunication and 45,000 jobs in the CNG sector. President Pervez Musharraf’s policies focused on the social sector too. His government established 9 world class engineering universities, 18 public sector universities and increased the literacy rate to 53%. Poverty data shows a notable decrease of 10%. He encouraged and provided liberty to electronic media and this sector became as independent as it was never before. Hence, the performance of macroeconomic indicators during the military rule of President Musharraf showed positive and well-growing trends, picturing a healthy state of Pakistan’s economy.

President Zardari’s Government and the Economy of Pakistan

Asif Ali Zardari received the mandate by the people of Pakistan to form the government. He was the first elected civilian president and his government is the first one in the history of Pakistan to complete the constitutional tenure of 5-years
and be replaced by a democratically elected president, Mamnoon Hussain. Former President Pervez Musharraf left a well decorated economy and it was a challenge for the newly elected government to keep the flow of trends.

The performance of Pakistan Peoples Party led down the economic growth during its tenure; 2008-2013. The macroeconomic indicators demonstrate dismally bad performance of the PPP government. Average annual GDP fell to 2.9% which was around 7% in Musharraf’s era. Bangladesh marked the figure of 6.8% GDP during the same period.

As far as inflation is concerned, President Zardari’s rule is considered as the worst period after 1972-1977 term. Inflation remained in double digits throughout the period except the last quarter of his presidency. Pakistan recorded a mammoth percentage of inflation figuring 25.3%. Consumer prices grew by 80% just in a span of five fiscal years and hence cost of living climbed rapidly. It put severe impact and effected people specially ones in the limited or fixed income group.

During 2008-2013, Pakistani nation was buried under the foreign debt of $65 billion (2012) which was just $45 billion in previous government. Pakistan became the third largest debt receiving country of the region during PPP period. It was because of significantly low tax-to-GDP ratio, and ineffective tax policies. Out of 190 million people, only 1.8 million people paid taxes. Rampant corruption was another crucial factor in this regard. According to Transparency International 2014’s corruption report, Pakistan was ranked 126th most corrupt out of 175 countries. Foreign debt increased also due to erratic power supply, crippling inflation and low productive capacity led to fiscal deficit and ultimately high foreign debt. In 2012, our debt to GDP ratio rose to 60% which was down to 55% in 2008.

The unemployment rate declined rapidly from 7.8% in 2000-2001 to 5.1% in 2006-2007 but it started rising gradually through President Zardari’s regime and recorded at 6% in 2012-2013. This increasing unemployment showed the sluggish economic condition in these 5 years as less economic activities caused unemployment in the country. It is mainly because as population keeps on increasing more people come in to the labor force. If economic activities in the economy do not increase then a large proportion of people newly entering the labor force would remain unemployed and it will affect the GDP per capita of the country.

Foreign Direct Investment (FDI) is considered to be a vital resource for any economy to enhance employment opportunities, build physical capital, and to integrate with the rest of the world. PPP government inherited Foreign Direct Investment of $5152.80 million which fell to $597 million in FY 2012. The fall in FDI was due to poor law and order situation of the country accompanied by weak economic activity and political uncertainty. Energy crisis cannot be ignored in accounting reasons for decline in FDI.

Taxes are the fundamental source of government to fund its expenditures. The PPP government during its 5 years performed sub standardly. Zardari’s cabinet inherited 9.9 tax to GDP in FY 2008. Due to insufficient policies and lack of tax reforms it fell to 8.9% in FY 2011.

Any government would not be able to deliver performance unless it either raised the revenues or reduced non-development expenditures. The democratic government remained unable to generate enough revenues and unfortunately, government expenditures were in excess. The period of 2008-2013 is considered as one of the worst in terms of economic growth as Pakistan faced recessionary trends during these years. Bad governance, corruption, ignoring tax-reforms and hence less capacity to generate revenues, neglecting structural reforms are accounted in as the reasons behind the deplorable performance of PPP government.

**Nawaz Sharif’s Government and Economic Trends**

Triumph in May 2013 general election put a grand responsibility which people of Pakistan levied upon Nawaz Sharif and his government. Before coming into power, the economy as well as the social setup of the country was a downward spiral. Every sector was performing below the standards and corruption was among the main problems prevailing in the institutions. Uncertain law and order situation, massive energy crisis, lower level of domestic and foreign investment, unemployment and record inflation were curbing the growth rates. However, Pakistan’s economy is the 26th largest in the world in terms of Purchasing Power Parity and it has the potential to rank itself among the world’s leading economies in the 21st century.
Nawaz’s government gladly seems to be on the track, achieving successes. Improved tax collection, reduced fiscal debt and inflation contained in single digit figures, positive trends in growth rates, new height of worker’s remittances, significant increase in foreign reserves, strengthened Pakistani Rupee, setting new records in the stock market, achieving GSP plus status in EU, launching Vision 2025 which shows the political will and commitment of this government, auctioning of Euro Bonds, all these are the hall marks of the current government and a sense of optimism can be felt in the economy.

GDP growth which was averaged at 3% in the former regime rose up to 4.14% in FY 2013-14 and recorded 4.71% in 2016. This shows the increase of economic activities in the economy and it further builds the confidence of foreign investors. Per capita increased to $1386 in FY 2013-14 with a growth of 3.5%.

Budget deficit narrowed from 8.2% to 5.5% in FY 2014. Increase in non-tax revenues such as foreign aid and auction of 3G and 4G played a partial role in this decrease. Tax collection grew to 16.7% and major tax revenue collections have been through indirect means such as surge in tax on petroleum products and imports. Increase in tax collection is a positive sign for development as it is the main source of government revenues which further finance government expenditures and different developmental projects. For a smooth financing of government spending, capacity in tax administration and political will to broaden tax base act as significant factors.

PML-N government seems quiet committed for the revival of Pakistan’s economy. Efforts to create an investment friendly atmosphere has been made in the last few years which exhibits the results as well. Total investment was recorded at Rs.3276 billion in FY 2012-13 and it is increased to Rs.3554 billion in FY 2013-14. Public investment raised to Rs.877 billion in 2013 as compared to Rs.748 billion in the previous year. Long awaited auction of 3G and 4G licenses has been done which not only generated a great economic activity but also enabled people’s access to the new technology which has social impacts too. Moreover FDI growth has increased by 3.5% relative to last year. UK, China and USA are the top three investors of Pakistan with a share of 16%, 16% and 11% respectively followed by UAE with a share of 9.4% of total inflow. Communication, oil and gas exploration and financial businesses are the top three sectors receiving FDI in Pakistan. Hence, now the government is building confidence of local and foreign investors by providing different incentives.

The extant government remained successful so far in containing inflation to a single digit figure. The core inflation on average basis from 2013-14 stood at 8.3% and for the same indicator, it was 9.9 percent in FY 2012-13. Fall in oil prices and government’s fair policies are the chief reasons which assisted in curbing inflation although in the prior rule, inflation rates escalated to massive percentages.

Pakistan’s economic downturn can be ascribed to infrastructural deficiencies and lack of energy. The PPP government could not uplift the energy sector and the gap between production and consumption of energy, especially electricity, kept on widening.

Circular debt was the key issue and PML-N government paid the mammoth amount of Rs.480 billion and it resultanty added 1752 MW of electricity in the stream. It must be appreciated that this government pin points the key difficulty which had become a stumbling block in the economic performance of Pakistan. The government is committed to address and root out the energy shortage issue. Different projects have been started to match the production-consumption gap. Preeminently, the kick start of China-Pakistan Economic Corridor (CPEC) is a land mark achievement which shall not only fulfill the power requirements of Pakistan but it will provide a large energy infrastructure in the next decade. A gigantic sum of $34 billion is allocated to the energy and power sector under CPEC. Prime Minister Nawaz issued the directions to originate a Solar Village Electrification Program. 24 LOIs (Letters of Intent) in solar energy have been issued for growing the capacity of 792.99 MW. Thousands of solar home systems have been installed in various villages across the country. AEDB (Alternative Energy Development Board) issued 35 wind power IPPs (Independent Power Producers) holding LOIs which are in different development stages. 969 MW of electricity will be added through Neelum-Jehlum hydro power project. Government is undertaking many power projects and small dams are under construction to fulfill the energy requirements of the country in the upcoming years. Pakistan’s government is quite optimistic to tackle the crisis by 2018.

Relationship between unemployment and economic growth can be observed more clearly in the long run. There is
a negative relationship between GDP growth and the unemployment rate. Increase of 1% in unemployment rate is associated with a 2% points decrease in real GDP growth (Okun’s Law). In case of Pakistan, unemployment rate decreased to 5.9% in January 2016 which was about 6.5% in 2013. Due to boom in the economy, government is able to create a number of employment opportunities and used it as a mechanism to transfer the benefit to the poor segment of the society. Prime Minister Mian Muhammad Nawaz Sharif has also launched a Youth Development Program in 2013 for the provision of skills training, education and employment opportunities. The current government is efficiently supervising CPEC projects creating about 700,000 jobs in the next fourteen years.

Hence, after great days of struggle, Pakistan’s economy is back on the track of revival and macroeconomic indicators are showing growth trends. The fate of Pakistan is about to change and the economy of Pakistan may rank among the world’s top economies in the coming years. Nawaz Sharif’s government is playing a vital role and making a satisfactory contribution on its behalf.

Comparison

When Gen. Pervez Musharraf took over the government from Nawaz Sharif in 1999, the size of Pakistan’s economy was only $70 billion. In the next 8 years the figure rocketed to $170 billion and Pakistan was among the fastest growing economies of the world. The national treasury had only $0.4 billion and Pakistan was on the edge of becoming insolvent but by the end of the dictatorship, national treasury was credited with $18 billion. Further he decreased the foreign debt of Pakistan from $38.5 billion to $34 billion. Today after almost 8 years of his departure, exchange rate stands at Rs.108.4 which when he left was Rs.60 and inherited at Rs.55. Pakistan stayed successful in attracting $5152.80 million of foreign direct investment in era of President Pervez Musharraf, which in succeeding regime declined to $1456.5 million and further dwindled to $1281.1 million during the first half of the current government. But efforts to restore the investor’s confidence are being made by PML-N and it must be appreciated. According to the World Bank and IFPRI (International Food Policy Research Institute) report, poverty was cut half from 34.5% to 17.2% by targeted interventions and social safety nets during the dictatorship of Musharraf. In his successor regime, BISP was launched by the PPP government which was a positive step towards eradicating poverty also continued by PML-N government which showed respect to the contributions of the previous government.

The tag of growth achieved by foreign aid is a false flag rather it was Musharraf’s policies and his good governance by the government and appreciable performance by institutions that accelerated the economic progress of the country. The main reasons behind the ruthless performance of following democratic regime were inadequate policies, negligence in structural and tax reforms, politicized anti-corruption efforts, ailing institutions, bad governance, and inability to create peaceful alliance with other political parties. Not even a single dam was constructed in Pakistan during 2008-2013 whereas during 1999-2007, 5 medium sized dams were built, capacity of Mangla dam was extended and dozens of small scale dams were constructed as well. But PML-N took the matter earnestly and is keen to overcome the crisis by undertaking different mega projects and is hopeful to reduce a colossal ratio of power shortage by 2018. Moreover, the mega project of Gwadar was started by the government of President Musharraf and Phase-I was completed in limited time, whereas the working of the project stopped in next period but fortunately, Nawaz Sharif not only successfully reinstated it but brought the world’s largest warm water deep sea port into functioning which is a big milestone that PML-N achieved.

Henceforth, during the magical era of Gen. Pervez Musharraf, Pakistan’s economy escalated rapidly to high growth rates due to its structural reforms coupled with good governance. His approach towards fiscal and economic discipline led his era to set record rates. In very next rule, Pakistan economy faced many problems and a downward trends were observed in the macroeconomic indicators of the country. The slow pace of the economy is generally connected to lack of commitment, mismanagement and a dire attitude towards governing the state. Current democratic government is performing satisfactorily so far using policies focused on the key issues of the country’s economy. Though the figures of different macroeconomic indicators are not comparable to the above mentioned authoritarian regime but it has brought the nation on the path of economic revival.
Conclusion

Pakistan has witnessed rapid economic growth in the first 8 years of the 21st century. During 8 years of military rule, voluminous developments took place and the economy has recorded historical growth rates. The dictator rule brought structural reforms and ability of good governance made conditions conducive to development. During 2008-2013, political uncertainty was high which resulted in capital flight, ignoring reforms and altering the inherited policies caused a downward movement of economic growth. Figures recorded in PPP regime were historically worst and bad governance, malfunctioning and corruption of the institutions remained the chief reasons.

In recent developments, PML-N government is playing a very vital role and a number of projects are streamlined by it. The confidence of foreign investors has been restored and Pakistan is using its potentials in a beneficial way and is emerging as the center of attention in the world due to CPEC. The whole discussion and facts collectively conclude that Pakistan’s economy grew rapidly under dictatorship but with good-governance, pro-active approach and commitment, democracy can deliver a notable outcome too. Authoritarian regimes may perform well but it is not the solution rather the ultimate form of government for a better economic and social upshot is democracy and it is a long-run phenomenon. Democracy struggles when it is new born but its effects are broad based when it matures.
References

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