Is it possible to undermine Pakistan’s stabilization? Part 2

Despite the many economic, social and partially political difficulties, Pakistan’s national economy is still able to “remain afloat”. The rate of economic growth in the 2012-2013 fiscal year amounted to 3.6% (compared with 3.7% in 2011-2012). It is important to note that the plan anticipated the GDP to increase by 4% by the end of the fiscal year, which ended on June 30 of this year, therefore, the lag behind the planned figures is not as profound as would be expected if taking into account the intrinsic difficulties within the country’s economic development. Particularly since, according to official demographic statistics, the average annual population growth rate is around 2% which means that the per capita income has increased by 1.5%, with the absolute income reaching around $1,400 in 2013. The plan for the next fiscal year (2013-2014) calls for the GDP to grow by 4.4%, although there are already some doubts as to whether this figure will be achieved. This is due to the fact that, so far, there is a clear incapability to overcome the energy crisis, to achieve even a slight increase in state revenues, to reduce the size of the negative visible trade balance, to reduce the deficit of the budget, while at the same time overcoming numerous other serious obstacles on the path to developing the national economy.

As a result of the overall negative influence of these factors, the real economy suffered. Thus, the average annual growth in the farming sector amounted to only 2.4% within the last 5 years (2008-2013), while the industrial sector’s growth was even smaller – 1.7%. As such, the 3% GDP growth in the abovementioned 5-year period was achieved primarily by the service sector.

We do not emphasize the last five years (2008-2013) on accident. In 2008, the presidency of General Pervez Musharraf concluded and a civilian government headed by a civilian president came to power. However, the state of the economy has been slowly deteriorating since then, primarily seen in the slowdown of the pace of economic growth: if between 2000 and 2008 the GDP growth rate was, on average, 4.4% (reaching 6-7% in some years), then between 2008 and 2013, the rate was only 2.9%.

However, it would be incorrect to link the slower pace of economic growth overall as well as within the leading sectors (agricultural and industrial) particularly with the change in the character of political government and the ascension to power of the Pakistan People’s Party (PPP). Various objective factors played a leading role, including the global economic crisis that began in 2008, environmental catastrophes (floods) that have occurred practically every year during the second decade of the 21st century (the 2010 flood claimed the lives of almost 2,000 people and left 21 million homeless, costing the economy around $10 billion), the perpetual growth of expenditures to fight Pakistani and Afghan Taliban, the increasing excess of spending over income in the state budget and other factors. Although, to be fair, it bears noting that political collisions over the last five years have also contributed their
negative share to Pakistan’s slower pace of economic growth.

In analyzing the sectoral structure of Pakistan’s national economy in the 21st century, it is important to note the characteristic tendency seen in most developing countries – the steady decrease in GDP contributions to the agricultural sector in favour of increasing the contributions to the services and industrial sectors. Between 2000 and 2013, the proportion of the contributions to the agricultural sector decreased from 27% to 21% of the GDP, while the industrial sector contributions increased from 21% to 23% and the service sector’s increased from 52% to 56% (please note that the figures for 2013 are still preliminary).

The demographic problem is also a certain barrier on the path to aggregated socio-economic growth. According to official data, after Pakistan’s latest census in 1998 identified the population in the country to be 133.4 million people, this metric has reached 184.3 million people in the middle of 2013. Unfortunately, the meticulously prepared census planned for 2011 was postponed for 3 years until 2014. However, in March of 2011 the planned household census was nevertheless held and its results were quite unexpected. On average, based on the data received, it was revealed that Pakistan’s population increased by 47% since 1998. This means that the country’s population growth rate from 1998 to 2011 amounted to 3% (!). This, in turn, points to the fact that Pakistan’s population in 2013 realistically reached almost 210 million people (!). Ultimately, this means that all of the abovementioned per capita macro indices, most importantly the per capita income, have been exaggerated – in the best case scenario, the income in 2013 amounts to $1,050-1,080 and not $1,368, as was reported by the Pakistan Economic Survey 2012-2013.

Factors of economic growth

How was Pakistan able to, despite the abovementioned difficulties in both the economic and, to a certain extent, political spheres, escape a serious crisis within its national economy and at the same time not completely ruin it?

Two factors played a decisive role here. The first factor is the significant economic help from international financial organizations (primarily the IMF, World Bank and the Asian Development Bank) as well as from various nations, where the U.S. played the leading role. The second factor is the significant foreign funds that are coming into Pakistan from Pakistanis who work abroad.

Examing the economic aid from leading global financial institutions, it is important to first call attention to the IMF. At the end of 2008, this organization approved a $7.6 billion subsidized credit loan for Pakistan. At the same time, the World Bank also firmly promised to allocate $1.4 billion for the 2008-2009 fiscal year. Simultaneously, the Asian Development Bank also allocated $2 billion to Islamabad for the development of the country’s power grid. It is undeniable to that such significant financial contributions to the national economy helped to somehow soften the blow of the global economic crisis that started in 2008. Unfortunately, the national tragedy – a deadly flood in 2010 – once again exacerbated the country’s economic situation (as was stated above, preliminary IMF and World Bank reports estimated the flood damages to be around $10 billion). At that time, the IMF even agreed to postpone the introduction of the VAT in the country, which it was persistently (and very firmly) pursuing in the years prior.

Among the various nations that have provided the most financial aid, the first place, of course, is taken by the United States. From 2002 until 2008 Washington has provided Islamabad (according to official data from the Pakistani side) with close to $10 billion in aid. While at the beginning of September, 2013, the Washington Post reported with a link to an official source that “during the previous 12 years, Pakistan has received $26 billion in aid from the U.S.”. From 2009, Pakistan began receiving $1.5 billion annually in military and economic aid from the U.S. that is to last for a duration of 5 years in accordance with the special Kerry-Lugar Act (named after the senators who proposed the bill, which was approved both by the senate and the house of representatives). The Arabian nations are also providing significant financial aid (primarily Saudi Arabia), along with countries within the EU, Japan and other nations.

One of the reasons for the international community’s peculiar approach towards Pakistan lies in understanding that this is not the first year that Pakistan has been at the forefront of the struggle against Islamic terrorism and extremism and that its position will become much more important after NATO troops leave Afghanistan in 2014. A reduction in foreign economic aid (including military assistance) will inevitably lead to a decrease in Islamabad’s capabilities to restrain this kind of terrorism because the country’s government will naturally be forced to re-allocate the limited financial resources from being dedicated to countering extremism to the social and economic spheres.

The second important factor that is helping support Pakistan’s economic development is the flow of funds from Pakistanis working abroad. This flow of funds increased from $2.4 billion in 2001-2002 to $6.5 billion in 2007-2008 and has reached $13.9 billion in 2012-2013. For purposes of comparison, we will mention here that Pakistan’s
foreign currency reserves amounted to a modest $9.9 billion as of the beginning of October, 2013.

It is important to emphasize that, in a way, the leading donor in this respect is Saudi Arabia – in particular, Pakistanis working in this country contributed $4.1 billion during the 2012-2013 fiscal year. The second place is occupied by the United Arab Emirates (for 2012-2013) with $2.8 billion. The U.S. is next on the list with $2.2 billion, Great Britain with $1.9 billion, Qatar, Oman, Bahrain and Kuwait provided a total of $1.6 billion combined, while the EU nations contributed $356 million. A total of around $985 million was supplied by other countries, which include Norway, Switzerland, Australia, Canada and Japan.

However, the importance of this source of foreign currency for the country, and, mainly, for those Pakistani families whose relatives are working for these funds abroad, is not at all confined to the financial side of things. It is important to note other important issues here, such as alleviating social tensions due to Pakistan’s fairly high rate of unemployment and part time employment. According to official data, the country’s unemployment rate is currently 6%, although there is every reason to believe that this figure has been artificially lowered. The figure is also reduced since a part of the workforce has left the country because it could not find employment. Furthermore, the funds that are coming in from abroad are used, in many cases, not only to support immediate family (wife, kids, parents, sisters, brothers), but also many distant relatives of the worker as well.

In conclusion, we will note that, in accordance with the Planning Commission, the planned rate of economic growth for the 2013-2014 fiscal year amounts to 4.4%, the industrial sector should significantly accelerate its growth rate to reach 4.8%, the same as the proposed rates for the service sector (4.8%), while a growth of 3.8% is projected for the agricultural sector. Inflation should not exceed 8%, while exports should increase by 5% with a simultaneous growth in imports by 7%. It will be possible to verify how accurate these plans are in June of 2014.

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