PAKISTAN AND INDIAN ECONOMIES COMPARED

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Pakistan and India both achieved independence in 1947. At that time there was a great deal of skepticism about Pakistan's economic future. India was much advanced on all indicators of economic sustenance, resource endowment, potential output and growth. LIFE magazine of January 5, 1948 had predicted almost an economic collapse of Pakistan.

From such a shaky start Pakistan today is 34th largest economy in the world with per capita income in US $ 1050. India is 10th largest economy in the world with per capita income of about US dollars 1100. How have the two countries fared economically between 1947-2007?

Pakistan is one of the few developing countries that has achieved an average annual growth rate of over 5 percent over the six decades. Consequently, the incidence of poverty has declined from 40 percent to 24 percent. The salient features of Pakistan's economic history are summarized below:

- A country with 30 million people in 1947 that couldn't feed itself and had to import all its food requirements is not only able to fulfill the domestic needs of 170 million people at a much higher per capita consumption level, but also exports wheat and rice .
- An average Pakistani earned about $ 1050 in 2009 compared to less than $ 100 in 1947. In US current dollar terms the per capita income has expanded almost ten fold.
- Agriculture production has risen five times with cotton attaining a level of more than 12 million bales compared to 1 million bales in 1947. Pakistan has emerged as one of the leading world exporter of textiles.
- Manufacturing production index is well over 13,000 with the base of 100 in 1947. Steel, cement, automobiles, sugar, fertilizer, cloth and vegetable ghee, industrial chemicals, refined petroleum and a variety of other products are manufactured for the domestic market and in many cases for the world market too.
- Per capita electricity generation has reached 10,160 kwh compared to 100 in 1947. Pakistan's vast irrigation network of large storage reservoirs and dams, barrages, link

canals constructed during the last five decades has enabled the country to double the area under cultivation to 22 million hectares. Tubewell irrigation provides almost one third of additional water to supplement canal irrigation.

- The road and highway network in Pakistan spans 250,000 km-more than five times the length inherited in 1947. Modern motorways and super highways and four lane national highways link the entire country along with secondary and tertiary roads.
- Natural gas was discovered in the country in the 1950s and 32 billion cubic feet of natural gas is generated, transmitted and distributed for industrial, commercial and domestic consumption accounting for 50 percent of the country's energy needs.
- Private consumption standards have kept pace with the rise in income. There are 52 road vehicles for 1000 persons relative to only one vehicle for the same number of population in 1947. Phone connections have reached 100 million from almost scratch. TV sets which were non-existent adorn 62 out of every 1,000 houses.

. These extremely impressive achievements in income, consumption, agriculture and industrial production ,however, do pale into insignificance when viewed against the missed opportunities. The largest setback to the country has been the neglect of human development. Pakistan's manufactured exports in the 1960s were higher than those of Malaysia. Thailand, Philippines and Indonesia. Had investment in education been up to the level of East Asian Countries and the population growth rate reduced from 3 percent to 2 percent, Pakistan would have been a middle income country by now.

India's economic achievements during the last sixty years can be divided into two distinct phases. In the first phase that covered the period 1947-90 the country pursued an inward looking strategy that relied on public sector commanding the heights of the economy. A highly regulated and protected industrial sector, inefficient agriculture and lower trade ratios kept the economy much below its potential. In this phase, however, Pandit Nehru had the vision and foresight to establish several premier institutions of higher education, science and technology in the country. These institutions particularly the Indian Institutes of Management (IIMs) and Indian Institutes of Technology (IITs) – have turned out to be global centers of excellence. Economic growth rate in this first phase got stuck at a low 3.5 percent per year i.e. the Hindu rate of growth. Poverty rates remained high and stagnant.

The second phase of India's economy starts in 1991 when the present Prime Minister Manmohan Singh then the Finance Minister embarked upon a major program of liberalization of the economy. The demise of the licence raj, the reduced role of the Government in economic decision making, the lowering of tariffs, reliance on market mechanism for resource allocation produced incentives to the private sector and unleashed their entrepreneurial energies. The continuation of the same policies by the BJP Government in the late 1990s reinforced the confidence among the domestic and international investors that India had indeed made fundamental irreversible changes in its economic policies. The results of this outward oriented policy are simply remarkable. India is recording 8 to 9 percent annual growth, exports of goods and services are rising by 20 percent annually, foreign direct and portfolio investment flows are pouring in significant volumes. A strong middle class of 250-300 million has raised the demand for consumer goods, apartments, cars etc. which is fueling the industrial and services sectors. Poverty has declined to about 23 percent and a highly confident India is now hyphenated with China and is considered as one of the emerging giants in the global economy.

India's private sector has been surprisingly more successful than Pakistan. Having been nurtured under a licence raj and enjoying substantial protection the turnaround in the corporate culture, the assimilation of technology, the professionalization of management in the post – 1991 period has simply been remarkable. In 2006 alone the Indian companies have invested $ 22.4 billion in mergers and acquisitions of firms in all continents of the world in IT and IT enabled services (ITES) , pharmaceuticals, automobile components, consumer goods, steel etc. Several Indian companies have acquired the status of multinational corporations (MNCs) and many others are following this lead. On the contrary, the enabling environment for private businesses in Pakistan, except for the 1970s, has been highly supportive. But big business leaders, instead of enhancing productivity and internal efficiency, used lobbying and political influence and clout to extract maximum concessions from the government. Loans taken from the nationalized commercial banks were not repaid, incomes were concealed and tax evaded, under invoicing and over invoicing of tradable goods was rampant, fictitious claims were made to collect refunds and rebates, and secondary trading in textile quotas was widespread. These practices rather than entrepreneurship, innovation and risk taking became the major tools for wealth acquisition and accumulation in the country. Investment in training of labour, induction of skilled manpower and professional managers and paying them market rates of compensation, full disclosure of financial accounts could have helped them in becoming competitive in international markets but these opportunities were missed.

Contrary to popular perception the Human Development Indicators of India are not as impressive as its recent macroeconomic achievements would tend to suggest. HDI index for India is 127th out of 175 countries two rungs above Myanmar. Approximately 250 to 300 million people are still living below poverty level. Literacy rate is low 63% and the standards of instruction leave much to be desired. Unemployment rate is already 7.3 percent which means 38 million are already without any jobs. The entire IT and IT enabled industry employs no more than 1.5 million people out of a labor force of 400 million. 40 percent of labor force is illiterate and others have low average years of schooling. Caste and other forms of identity based discrimination remain rampant. Regional income disparities are causing dissatisfaction. Uttar Pradesh, the largest state with 170 million population has per capita incomes less than half of the national average and is home to 80 million poor.

Pakistan's record of human development is quite dismal. Literacy rate is uninspiring 53 percent and enrolment ratios at all levels – primary, secondary and tertiary – are not commensurate with the level of per capita income. Tertiary education ratio is only 4 percent compared to 10 percent in India. Consequently, the dearth of skilled manpower cuts across all the dynamic sectors of the economy – oil and gas, telecommunications, IT, financial services, electronic media.

India is today way ahead of Pakistan in basic and applied scientific research and technology developments. The number of scientists and engineers per million population is almost twice as much as in Pakistan. The research publications in international journals, and intellectual property produced every year by Indian scientists are among the highest in the developing world. A significant number of faculty members and research scientists working in the U.S. institutions originate from India. A number of Fortune 500 companies have CEOs and senior executives of Indian origin. India spends, average 0.5% of its Gdp on Research & development while Pakistan's expenditure is 0.2%. The flow of PhDs in scientific disciplines in Pakistan does not match with India even after adjusting for the size of the population. Almost all big MNCs are setting up their R & D centers in India because they can access a pool of highly qualified and trained scientists and engineers.

India is clearly a world leader in business outsourcing. 27 percent of exports originate from the services sector. IT and IT – enabled services industry revenues are projected at around $ 60 billion and contribute 5 percent of Gdp. Pakistan has lagged far behind in the services sector and particularly missed the opportunities in the IT and ITES industry. Although the last few years have witnessed some modest growth but the catching up with India in this sector will take at least a decade if aggressive efforts are made to produce the quality manpower and set up enabling infrastructure.

Pakistani and Indian policy makers' main headache is the poor state of infrastructure. Energy shortages are widespread and take a heavy toll on productivity and competitiveness of the exports and on the quality of life for the majority of the households. In India 56 percent of households are without electric connections and one third of electricity generated is lost or stolen in transmission. One fifth of generated power is distributed free to farmers. Peak supply falls 11 percent short of demand. The situation is no better in Pakistan. Not only that the Transmission and Distribution losses of WAPDA are one fourth and that of KESC over 40 percent the government has to dish out about Rs.200 billion as subsidies out of the budget.

A common theme that so glaringly stares the two countries is the weak delivery of basic public services. Lack of access by the poor due to low bureaucratic accountability, corruption, political interference is observed in both the countries limiting the impact on poverty reduction. The gap between expectations of the citizens and the delivery capacity of the government departments and ministries is widening and the electoral defeat of the incumbent political parties is in fact a testimony to this trend.

To sum up, Pakistani economy performed very well until 1990 and was well ahead of India during this period. But there has been a perceptible shift since 1991 and India has done much better and has overtaken Pakistan. A growth rate averaging 6 percent for the last 15 years without any periods of decline for a diverse society of one billion is indeed highly creditable. As a global leader in business outsourcing , an attractive location for the services sector, a dynamic Private sector it is positioning itself to become a major player in the global economy. World class professionals educated and trained in India and abroad are adding to the intellectual capital of the country. The out ward orientation, liberalization and integration in the global economy are paying huge dividends. World attention is now focused on India and China. A buoyant and highly confident 200 to 300 million strong middle class has emerged as the back bone of domestic economic expansion led by consumption.

Pakistan has slipped badly in the last 15 years . Despite impressive economic performance between 2002-07 the country is facing serious difficulties. Macroeconomic stability has to be re-established to restore confidence of domestic and international investors and financial institutions. Pakistan has also lost its advantage in international trade by continuing to depend up low-tech non-dynamic sector such as cotton textiles as its main export earner. A narrow base, lack of diversification in commodity composition and markets has accentuated the vulnerability of the economy.

Internal security problems and participation in the war against terror have tampered the investor enthusiasm. Skill shortages and low educational intensity of the labor force are putting at risk the efforts for productivity gains. Private sector players have not yet attuned themselves to the new realities of global markets and are still engaged in lobbying for rents at the expense of the government. Infrastructure deficiencies, particularly the shortages in electricity are having a detrimental effect on the business as well as on the living conditions of the households. Widening gap between the rich and the poor and regional income disparities are creating pressures on internal social cohesion and inter-provincial harmony. Political divisiveness and tensions have exacerbated these tensions. Unless these challenges are forcefully resolved the gap between Indian and Pakistani economies will continue to widen in the future.

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