



Comparison of Key Economic Indicators of Pakistani Economy: Democratic Governments (FY89-FY99) with Military Regime (FY00-FY05)

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Abstract

The objective of this research was to analyze the two different regimes of government in Pakistan. The Military government of General Pervaiz Musharraf from FY-00-FY-05 and the democratic form of governments i.e. Pakistan Peoples Party and the Pakistan Muslim League's democratic governments from FY-89-FY-99. The economic data was taken from State bank of Pakistan and analyzed through T-test, Z-test and F-test. The major findings of the research stated that there is no significant improvement in the military government, as they have always claimed for shining economy or the improvement in macroeconomic indicators in military governments. Rather it is concluded that many macro economic indicators are significantly better in democratic governments as compared to the military regime. So, it is finally concluded that there is a false claim that military regimes are better than the democratic governments in terms of overall economic growth of the Country. The overall analysis are shown and proved that military regimes are not beneficial for any Country in terms of economic and social growth. It is further concluded from the study that military from any Country should not even think to topple the democratic governments because they do not have any moral and legal legitimacy to rule. The major responsibility of Military is to safeguard the geographic boundaries of the country not the political sphere of the Country.

Keywords: Economic indicators, military regime, democratic government, social indicator, macroeconomic variables, macroeconomic indicators.

Introduction

It is always said that the military regimes are better than the democratic form of governments in Pakistan and the military governments also claimed that economic growth and stability is always better in military governments as compared to the democratic governments¹⁻³. Especially in Country like Pakistan where half of the total period since its birth the military governments have ruled and seed of democracy did not kept its root in the Country⁴. The importance of the undertaken study is many fold because, this research compare the economic growth and stability and different macroeconomic and key social indicators of the Pakistani economy^{5,6}. This study is a comparison for both democratic governments of Mr. Nawaz Sharif and Ms. Benazir Bhutto from the period FY-89-FY-99 and the military dictator General Pervaiz Musharraf FY-00-FY-05^{7,8}.

Empirical Studies: According to Faisal Cheema⁹ "However, from the period 1997-2003 the collective economic position of Pakistan was good, almost all the economic variables were showing significant growth but ironically these economic benefits were not trickled down to the masses of Pakistan. The common man did not get any benefit from this shining and booming economy whatsoever; therefore the poverty and unemployment were increasing regularly. This was a very

serious situation for the government and policy makers despite the fact the World Bank and IMF both have helped in that period also".

U.S. Dependency: "Pakistan's economy performed extremely well during the three periods of Ayub, Zia and Musharraf. But Dr. Husain empirically proves that it's not merely US foreign Aid. If the U.S. and foreign aid is the main explanatory factor, than it must increased the flow of foreign savings during the military period. We confine ourselves to the period beyond 1971. The evidence shows that Pakistan's current account deficit was 6.5 percent of GDP on average in the 1972-77 period, financing 40 percent of investment outlay. It was 6 percent of GDP during the 1990-99 periods the most recent non-military period. In other words, more than one third of investment was financed from external borrowing and grants as against 20 percent in the 1980s-Zia period¹⁰. In the four years under the Musharraf Government (2000-2004), the country in fact generated a current account surplus, thus exporting capital to the U.S. and other developed countries rather than obtaining foreign flows. Besides repaying and prepaying a large amount of external debt and liabilities, the country has accumulated \$12 billion plus in foreign exchange reserves compared to an average of \$1 billion in the 1990s¹¹.

This can be further substantiated by the movement of net external transfer i.e. gross disbursement of foreign loans and grants minus debt servicing. Net external transfers were the highest during the 1990-99 period compared to the 1980s and 2000-04 periods¹². Despite these high net external transfers, growth rate was below the trend in the 1990s, poverty incidence resurged to 33 percent and fiscal deficits were unmanageable. While the observation that Pakistan thrives economically when relations with the U.S. are at their best is empirically true at a superficial level, a more nuanced analysis suggests that it is what economists call spurious correlation. Two un-related events may occur at the same time but their cause-effect relationship may be statistically insignificant¹³.

Defense Crowding Out Hypothesis: In the last hypothesis Dr. Husain states¹⁴, "Defense expenditures in real terms (as percentage of GDP and as a percentage of public revenues and as a percentage of total expenditures) have been on a downward path since 1990. The detail is presented in the table-1.

Table-1
Defense Expenditure as % of GDP

Year	% of GDP	% of Revenues	% of Expenditure
1990-91	6.9	39.4	24.8
1991-96	5.6	32.5	23.1
2000.01	4.0	23.7	18.3
2003-04	3.8	22.7*	19.5*

*The increase reflects the expenditure incurred on logistical support provided to the U.S. troops.

Defense expenditure, which used to account for about 7 percent of GDP in the early 1990s, declined to 3.8 percent in 2003-04. As a proportion of government revenues and total expenditure, the slide is even steeper. While it is true that Pakistan should spend relatively more on social sectors, the constraint was the ever-increasing debt servicing burden during the 1990s rather than the defense expenditure¹⁵.

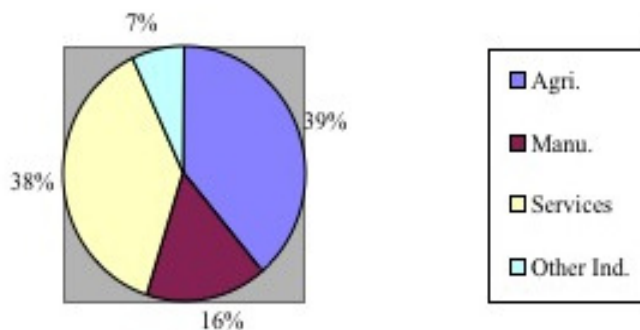


Figure-1
Economic Sectors and GDP (1969-70)

Renowned economist of Pakistan, Dr. Ashfaq has evaluated the macro economic variables of the Country and gave very optimistic picture of the economy¹⁶. He pointed out that

however, there are encouraging and positive figures of macroeconomic indicators but there is question of long-term sustainability of these macroeconomic variable. He evaluated these positive figures are because of the Pakistan's geopolitical position and due to changing environment of the World economy and political situations. He also pointed out the benefits of these positive economic variables are not reaching to the masses of the population rather only government and government functionaries are the beneficiaries of these positive changes. In contrast, the crimes, lawlessness, poverty, unemployment and inflation is spreading across the Country^{17, 18}. Pakistan has a very bad track record in Human development index (HDI), which are 135 out of 177 countries. Therefore the dilemma of this bright and glowing economy is that the common man is not getting any benefit from these positive changes of the economy so far^{19, 20, 21}.

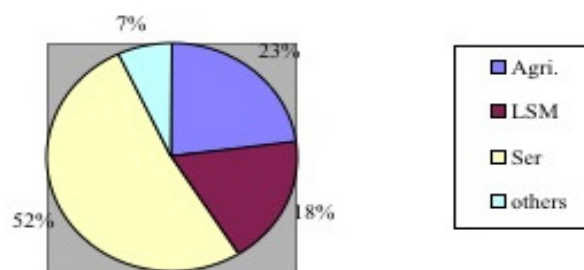


Figure-2
Economic Sectors and GDP (2004-05)

Methodology

Analysis of the data: The data has been tested through different statistical techniques like descriptive and inferential statistics through T-test, Z-test and ANOVA techniques and summarized in next section.

Macroeconomic variables of the economy: Growth rate in Manufacturing: The growth rate in manufacturing is defined as the conversion of raw material and raw products into the finished products for sales within the country and for export purposes. GRM is said to all industries registered with the government. Some industries and steel manufacturers use the term fabrication.

Growth rate of Large Scale Manufacturing (LSM): It is the growth rate of Large scale Industry as well as medium scale industry such as Textiles, Leather Products, Paper and Board, Pharmaceutical, Chemicals, Petroleum group, Tires, Basic Metal Industries, Non-metallic mineral products, Light engineering goods, Automobile, Electrical, Food, beverages, and Tobacco.

Growth in Small Scale Manufacturing (SSM): Small scale manufacturing mostly refers to the household sector and cottage industries. It includes a wide variety of area including garments, leather, sports goods, and other textile related industries.

Budget Deficit: When government expenditures exceed government revenues the Budget is said to be in a deficit position. This measures the deficit as a proportion of total budget.

Balance of Trade: The Balance of trade can be defined as the deficit between the Pakistan's imports and the exports in terms of value term for a certain fiscal year's time period.

Currency Depreciation (CDEP): The currency depreciation can be defined as the Pak Rupee's depreciation in terms of international standard money markets.

Exchange Rate (ERATE): The exchange of the rupee vis a vis the US dollar.

Debt Servicing as % of GDP (DSGDP): It is the total payments of principal and interest due on foreign loans as proportion of GDP.

Workers Remittances as % of GDP (WRGDP): Worker's Remittances are defined as the amount of money earned by the Pakistanis in foreign countries and then send to the Country.

Results and Discussion

The main hypothesis, the comparison of two group means of two erasin terms of macroeconomic indicators is not rejected. The individual results of the economic variables are as follows:

Hypotheses and Results: Growth rate in Manufacturing: i. *H₀*: There is no difference in the mean growth rate of Manufacturing during the two regimes? ii. *H₁*: There is a difference in the mean growth rate of Manufacturing during the two regimes. The Manufacturing growth rate for both forms of government (Military and democratic) also shows that the null hypothesis cannot be rejected and we have very strong evidence that this is the case as indicated by the *p* value of .083, So again with 99% confidence we can say that the null hypothesis cannot be rejected. Although the group means during the two eras of both growths in large-scale manufacturing and small-scale manufacturing is statistically much the same.

Budget Deficit: The results of above hypothesis derived from SPSS and which shows that there is no statistical significant difference between the two periods. The hypothesis has been rejected with t-values 2.947 and confirmed by p-values i.e. 0.0002. It is further validated and confirmed by the F-value i.e. 36.552, whereas, the F-critical value is 8.683. So, it is further concluded that the military era is not statistically significant as compared with the democratic governments in terms of betterment.

Balance of Trade: The results of hypothesis related to the Balance of trade for two forms of governments have also been extracted through the SPSS software and it is concluded that the

t-value (computed) is 1.1045 lies in acceptance region; therefore the null hypothesis is rejected. It is further validated by the p-value and F-value and ANOVA, which again concluded that the null hypothesis is rejected. So, it is further concluded that the military regime is not statistically significant as compared with the democratic governments.

Currency Depreciation (CDEP): Currency depreciation has a t-computed value -2.06, which lies in acceptance region because the t-value (critical) was 3.1695 at 0.01 significance level. It is further concluded that the p-value is 0.0665 and F-value (computed) is 2.8615 against the critical value of 8.6835. Therefore, it is further concluded that the military era is not good as compared with the democratic governments.

Exchange Rate (ERATE): The null hypothesis for the group means of the exchange rate is rejected at the significance level .01 and this indicates that they are statistically different in both regimes. The T-Computed value -6.47 falls in the rejection region, as the T-critical value is 2.947. The group means results are substantially different in both eras at the 99% confidence level. The *p*-value .00001 shows that extremely strong evidence exists to support this claim.

Debt Servicing as % of GDP (DSGDP): The same hypothesis was tested for Debt Services and the results showed that the t-computed value falls in acceptance region; therefore the null hypothesis was not rejected again. So, it is further concluded that the both periods are not different in terms of debt servicing and finally concluded that the military era is not statistically significant in comparison of democratic governments.

Workers Remittances as % of GDP (WRGDP): The same hypothesis were tested for Worker's remittances for both the periods i.e. the military government and the democratic governments, the results of the hypothesis showed there is no statistically significant for both ears and the null hypothesis is nor rejected, so, it is further concluded that the military era is not very good as compared with the democratic governments in terms of Worker's Remittances.

Conclusion

The results of the study showed that the Manufacturing growth rate, both during the Democratic era and Military rule, also shows that the null hypothesis cannot be rejected and we have very strong evidence that this is the case as indicated by the *p* value of 0.083, So again with 99% confidence we can say that the null hypothesis cannot be rejected. Although the group means during the two eras of both growths in large-scale manufacturing and small-scale manufacturing is statistically much the same, we have strong evidence that the group means are statistically the same. Again the ANOVA test confirms and validates this result 100%. But when Investment as a % of GDP are compared in the two eras' there is extremely strong evidence that the group means are the same as illustrated with t test and

ANOVA test results. The group means are the same of Work Remittance as % of GDP in both the eras. The T-computed value is -0.1110 falls within the acceptance region as the t-critical value is 3.3550 at 0.01 significance level. The group means of Debt Services as % of GDP are the same in both, democratic and military eras. The t-computed value is 1.5110 falls within the acceptance region at 0.01 significance level. The T-critical value is 3.4990. This null hypothesis cannot be rejected with a 99% confidence level. There is extremely strong evidence that the group means are same as the p-value 0.1750 is much more than .01. The null hypothesis for the group means of the exchange rate is rejected at the significance level .01 and this indicates that they are statistically different in both regimes. The group means results are substantially different in both eras at the 99% confidence level. The *p*-value .00001 shows that extremely strong evidence exists to support this claim. Currency depreciation has a t-computed value -2.06 is less than the t-critical value 3.169. Balance of Trade during the two regimes has a t-computed value 1.104 which falls within the acceptance region as indicated by the t-critical value of 3.499 at the .01 significance level therefore the null hypothesis cannot be rejected with a 99% confidence level. Therefore, it is finally concluded that from the major findings of the research that there is no significant improvement in the military government, as they have always claimed for shining economy or the improvement in macroeconomic indicators in military governments. Rather it is concluded that many macro economic indicators are significantly better in democratic governments as compared to the military regime. So, it is finally concluded that there is a false claim that military regimes are better than the democratic governments in terms of overall economic growth of the Country.

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