

Pakistan's neglected infrastructure, a barrier to rapid development

by Ramtanu Maitra

Pakistan's ruling elites, comprised mostly of landlords and foreign-educated technocrats, are engaged in a campaign to promote Pakistan's bright economic future. They are well equipped with the requisite monetary data to back their optimism, and on the surface the claims might appear credible. But a moment's reflection on some of the hard realities of Pakistan's impoverished agriculture (see *EIR*, Feb. 3, 1989), its dilapidated infrastructure, and total dependence on foreign aid and the International Monetary Fund (IMF)-World Bank for economic management, points to problems the elites have not yet begun to tackle.

On paper, in the calendar year 1989, Pakistan's economy fared much better than in 1988. The rate of inflation in the second half of the year declined to 6% from 11% in the first half. The overall monetary deficit for the entire year showed a decline of about \$166 million, to about \$2.71 billion, from the previous year. Moreover, the Benazir Bhutto government has an IMF-approved economic policy bandwagon rolling that includes "privatization" of public sector industries and extensive concessions for foreign investment.

To the joy of free-market ideologues, Minister of State for Finance Ihsanul Haq Piracha announced recently that three public sector enterprises were to be privatized. "This will mark the beginning of the privatization process of the public-sector concerns," he told members of the powerful Karachi Chamber of Commerce and Industry on March 21. There are rumors that even the broken-down Pakistan Railways will soon be partially privatized.

The ruling Pakistan People's Party (PPP) government has also come up with a new policy package designed to increase foreign investment twentyfold. The Pakistan Board of Investment announced that total investment sanctions in the 12 months up to Dec. 2, 1989, are likely to cross \$2.5 billion—a six- to sevenfold jump from the previous two years—with half of this in foreign exchange.

This economic headiness was given the final touch by the ubiquitous U.S. Ambassador Robert Oakley, who recently announced to a Pakistani reporter that Pakistan can be "another tiger"—a reference to the four economic "tigers" of South-

east Asia: Taiwan, Singapore, Hong Kong, and South Korea.

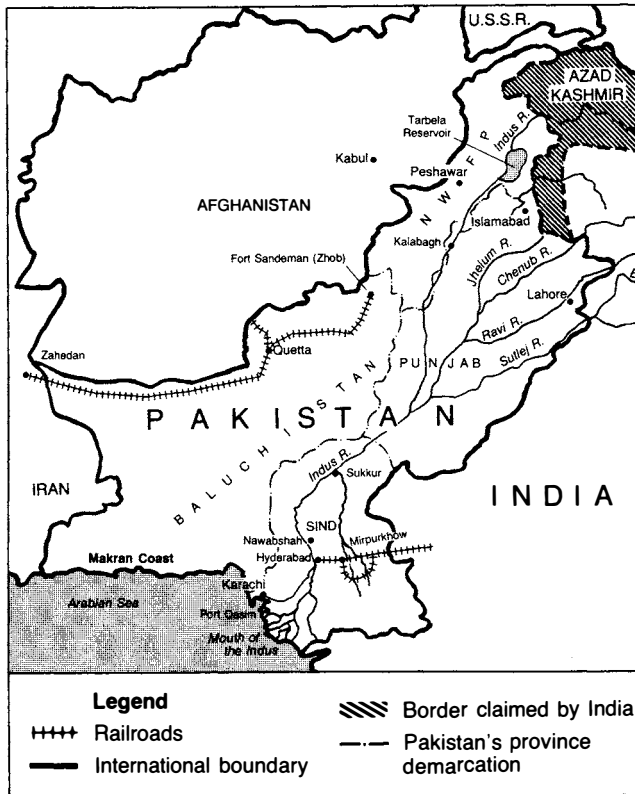
Tiger, or paper tiger?

But **Table 1** gives a hint of just how preposterous Oakley's claim is. As some economic journalists point out, inflation came down in 1989 because the ruling party decided to ruthlessly slash public expenditure. Even the IMF, the high priest of economic homicide, seems to have been taken aback by the slowdown of public sector investment. In its recent report, the Fund strongly backed credit-restraining policies, but remarked that public sector investment of only \$1.1 billion during the entire year had hurt the manufacturing sector badly.

These austerity policies are not without their political effects. The PPP's "Public Works Program," the cornerstone of its 1988 campaign promise to improve people's lot, has been given short shrift. It is no secret that the IMF vetoed the program. Within the party, such kowtowing to the IMF has few takers, and resentment is growing throughout the party ranks.

There is now open criticism of IMF diktats and the government's obsession to define economic policy on the basis of how to earn foreign exchange. Karamat Ali, Secretary of the Pakistani Institute of Labor Education and Research, told a news daily recently: "The IMF dictates our finances. We're told IMF has 'allowed' our government to do deficit financing to the extent of 6%. What it really means is only printing more paper money. It'll hit the ordinary people whether you increase taxes or not. . . . And who needs this foreign exchange? Not us. It's not used for much industrialization but for defense, bureaucratic and administrative expenditure on importing luxuries for 3-4% of the population."

A more comprehensive indictment was delivered in November by Prof. Khurshid Ahmad, a senator and chairman of the Institute of Policy Studies, in outlining the conclusions of an institute report on the state of Pakistan's economy. Even after three decades of planned development, Professor Ahmad said, a sizable proportion of the population is still deprived of clean drinking water, the literacy rate is among



the lowest in the world, and despite increased GNP, the quality of life has not improved (see **Table 2**).

This condition makes big foreign investment nearly impossible. Investors will soon find out, it is argued, that serious obstacles prevent them from maximizing output from their investing capital. Speaking at a luncheon meeting hosted by Karachi businessmen, French Ambassador Jean Pierre Masset pointed to two such factors: growing lawlessness, known in Pakistan as the "heroin and Kalashnikov culture,"

and mountains of bureaucratic tape. Inordinate delays in getting through even the sanctioned projects would no doubt scare French businessmen, Masset said bluntly.

Electrical power, the prerequisite

More fundamentally, how can any new investments survive and be productive in an environment characterized by crippled or nonexistent infrastructure? Some Pakistani analysts point out that the foreign investors have come forward to invest in manufacturing electronics, cigarettes, petroleum by-products, edible oil, pharmaceutical products, and fertilizers—all of which require a significant input of electrical power. Others predict that the decrepit transport system would break down under the additional weight of the construction materials to be carried to job sites to build these new factories.

The fact is that the shortage of electrical power in Pakistan has already crippled existing industries. Depending upon which of the energy demand figures one chooses to believe, the shortage of power runs anywhere from 14 to 40% of present-day requirements.

According to experts' reports published over the last two decades, Pakistan's hydroelectric potential is around 40,000 megawatts. This includes the huge potential of 30,000 MW on at least eight dam sites upstream of Tarbels on the main gorge of the Indus River, up to Skardu. Another 10,000 MW potential is available on the various sites on the Jhelum, Kunhar, Swat, Chitral, and Gomal rivers, and on the smaller tributaries of the Indus in Kohistan and the Northern Areas. Out of this 40,000 MW potential, Pakistan has only so far exploited 2,900 MW. The balance of the country's power comes from thermal and nuclear plants (see **Table 3**).

The failure to exploit hydroelectric power is not due to a lack of expertise or financial resources. In 1975, a study proposing to start construction of two major hydroelectric projects of installed capacity of 12,000 MW within a year was endorsed by then-Prime Minister Zulfikar Ali Bhutto, and the

TABLE 1
How Oakley's 'tiger' compares with four southeast Asian tigers

	Pakistan	Taiwan	Singapore	South Korea	Hong Kong
Infant mortality per thousand births	120	8.9	9.4	29	9.9
Lif expectancy	52	73	71	66	76
Work force					
Agricultural & fishing	55.5%	17.6%	0.7%	25%	1.4%
Manufacturing	17.8%	41.2%	36.4%	29.2%	44.6%
Commerce and services	26.9%	41.2%	62.9%	45.8%	54.0%
Number of individuals per physician	2,920	1,220	1,310	1,170	1,070
Enrollment in primary schools	44%	n.a.	100%	94%	100%

Source: U.N. and FAO

TABLE 2

Quality of life in Pakistan**Literacy:** 26.2%**Primary education:** Available to 44%
(66% primary school drop-out rate)**Infant mortality:** 120 per thousand births**Poverty:** 40% below poverty line**Land holdings:** poorest 40% households own 10% of land
richest 20% households own 57% of land**HEALTH****Physicians:** One per 2,920 people**Hospital beds:** One per 1,650 people**Budget:** 1.1% of total allocation**Access to electricity:** 15% rural; 81% urban**Access to potable water:** 40% rural; 80% urban**Access to sewage disposal:** 10% rural; 52% urban**Access to health care:** 35% rural**Income distribution:** poorest 40% households have 20% of income
richest 20% households have 50% of income**Life expectancy:** adults: 52 years; under 5 mortality: 170 per 1,000

Source: U.N. and FAO

stage was set to bring these plants into operation by 1982. In 1977 Bhutto was imprisoned, and hanged two years later. The new military junta buried the projects, and to this day they have not seen the light.

Meanwhile, the Water and Power Development Authority (WAPDA) has juggled numbers umpteen times to prove that Pakistan does not really need that much power anyway. In 1967, with the help of American consultants, WAPDA published a report projecting that Pakistan's power requirements by the year 1980 would be 5,700 MW. In 1975, another WAPDA report accelerated the power requirement to 12,000 MW by the year 1982.

In 1983, for the draft Sixth Five-Year Plan, WAPDA, having failed already to meet any of the targets, small as they were, revised the old studies and declared that Pakistan would actually require only 8,200 MW by 1988. But, the study noted, Pakistan's requirement by 1994 would be as high as 18,000 MW. Since 1983, two more sets of revised demand data have been issued, the latest revising the country's power demand by 1994 down to 10,000 MW.

Behind the maze of numbers is the reality that Pakistan in 1990 has a total installed capacity of some 7,000 MW. Since an average power plant takes a minimum of six years to complete in Pakistan, it is likely that Pakistan will not only be unable to meet the 10,000 MW target for 1994, but will fall significantly short of it.

Meanwhile, Pakistan's industry, agriculture, and commerce are forced to live with idle capacities. Recently, the PPP government began to address the power issue, and a

TABLE 3

Commercial supply of electricity

Source	Installed Capacity (Megawatts)	
	1981-82	1989-90
Hydroelectric	1,847	2,901
Thermal	2,121	4,015
Nuclear	137	137

Source: Directorate General of New and Renewable Energy, Government of Pakistan

1,200 MW thermal power plant will soon be installed in Hub, close to Karachi. Otherwise, the government's slogan "a kilowatt saved is a kilowatt produced"—represents no energy policy at all.

Transport neglected

Similar problems plague the transport sector. As an oil-importing nation, Pakistan shells out about \$1.5 billion annually for crude oil. Under the circumstances, the government should place a heavy emphasis on railroads and inland water transport to carry bulk items. But the opposite is the case. The railroads are decrepit and carry passengers only, and inland water transport is nonexistent. Meanwhile, roads of varying quality have been built and vehicles spewing black smoke criss-cross the country carrying bulk items at an astronomical cost.

According to available estimates, a locomotive carrying a 2,000-ton payload in Pakistan today does not cost more than \$1.5 million. By contrast, a road vehicle capable of hauling only a 20-ton payload costs not less than \$75,000—that is, a road-to-rail capital cost ratio of over 5 to 1 for the same hauling capacity. In spite of this published data, Pakistan's railroad carries only passengers and is losing money annually. The government is finding it difficult to carry this loss-making behemoth, and news leaks indicate a plan to pawn it off, at least partially, to private entrepreneurs.

The railway minister on Dec. 22 also announced the introduction of one new train between Karachi and Rawalpindi, along with four more passenger trains traversing the region. As a result, the railroad, which is presently losing about \$100 million annually, will lose more. With the existing fare structure, the Pakistani railways recover only 47% of the total passenger service cost. Meanwhile, the railways' share in freight traffic plummeted from 57% in 1960-61 to 49% in 1971-72, to 26.6% in 1984-85, and is about 25% today. This steady decline in freight traffic reflects the massive development of road transport, burning more imported oil, parallel to or short-circuiting the rail routes.

Pakistan is essentially a north-south country where ports

are located in the south and production takes place to the north. The country has very little trade with India, located to the east, and little trade, so far, with Afghanistan and Iran, located to the west. Although Iran is a major future trade partner for Pakistan, the north-south grid will continue to dominate transportation requirements.

Water transport is key

Common sense would dictate that Pakistan develop its inland water transportation, since the Indus River, the Jhelum, Chenub, and its tributaries flow north to south. A slow barge transport system operating between Port Qasim and Sukkur, and from Sukkur to Kalabagh would cut down transport costs significantly. Between Sukkur and Kalabagh, a distance of 809 km, the river contains sufficient water for year-round navigation. The route between Port Qasim and Sukkur, where a barrage is located, has some navigational problems, but they can be overcome by building feeder canals with locks.

There is no question that low-cost bulk commodities such as wheat, rice, cotton, sugar cane, edible oil, cement, salt, fertilizer, etc., now transported at a high cost by road, are ideally suited for water transport. According to available estimates, the cost to transport by slow-moving barges is about 50% cheaper than rail freight. Moreover, being labor-intensive, water transport could provide direct employment to a large number of currently unemployed people.

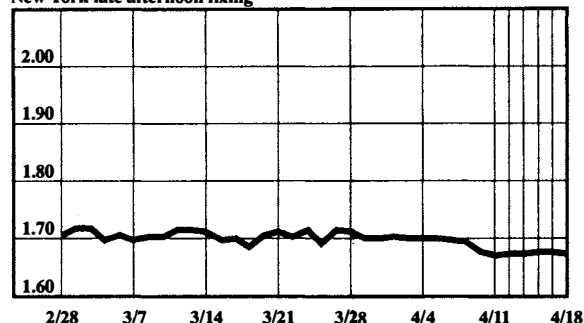
But railroads remain vitally important for setting up new towns and cities and distributing the population over the entire country. Government officials often complain that while the vast province of Sindh have remained sparsely populated, a few cities like Karachi, Hyderabad, Sukkur, Nawabshah, Mirpurkhas, and so forth are becoming too crowded. Sindh has two sets of parallel railroads, one on each side of the Indus River, and all these cities are located along the river. Apart from these river-hugging railroads, the province has no other railroads, except for a rickety meter-gauge line goes eastward from Mirpurkhas toward the Indian border.

Another case in point is Baluchistan. A British-built meter-gauge railroad, built for transporting British soldiers to the Afghan border, stretches from Fort Sandeman (Zhob) to Zahedan in Iran. Instead of turning this railroad into a broad-gauge one, the late President Zia ul-Haq built a roadway parallel to it, at an enormous cost, the idea being to enhance trade with Iran. In the same province, the southern Makran coast, now a major export area for drugs to the United States, is bereft of railroads. The area is accessible only through shingle roads, which proliferate, or by helicopter. The lack of water—which could be overcome by desalination of sea water and using Baluchistan's plentiful gas supplies for power generation—and lack of railroads have kept the Makran coast out of the hands of settlers and potentially productive enterprises and in the hands of the drug traffickers.

Currency Rates

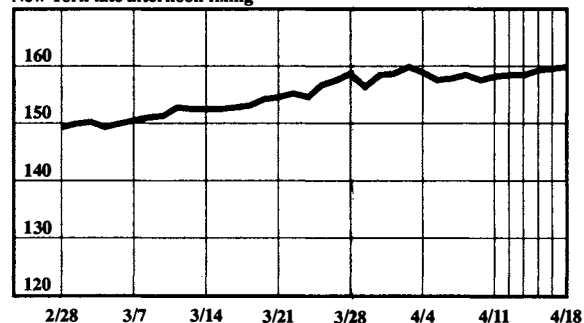
The dollar in deutschemarks

New York late afternoon fixing



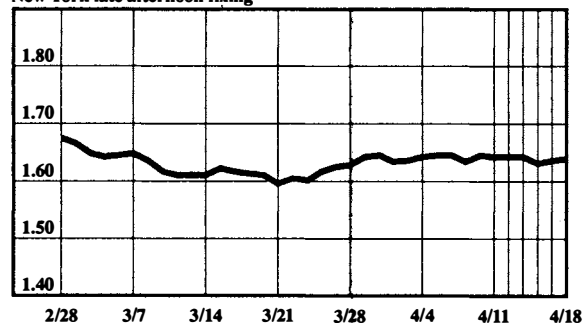
The dollar in yen

New York late afternoon fixing



The British pound in dollars

New York late afternoon fixing



The dollar in Swiss francs

New York late afternoon fixing

