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GEOPOLITICS AND ECONOMIC GROWTH COMPARISON OF SOUTH ASIA

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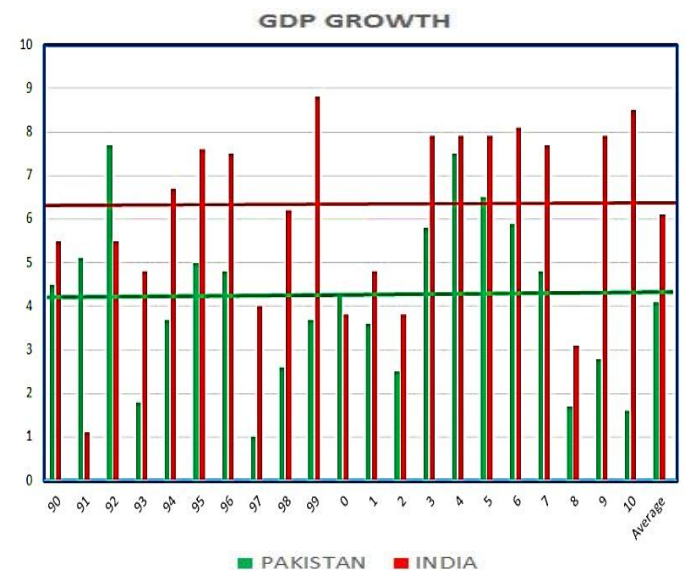
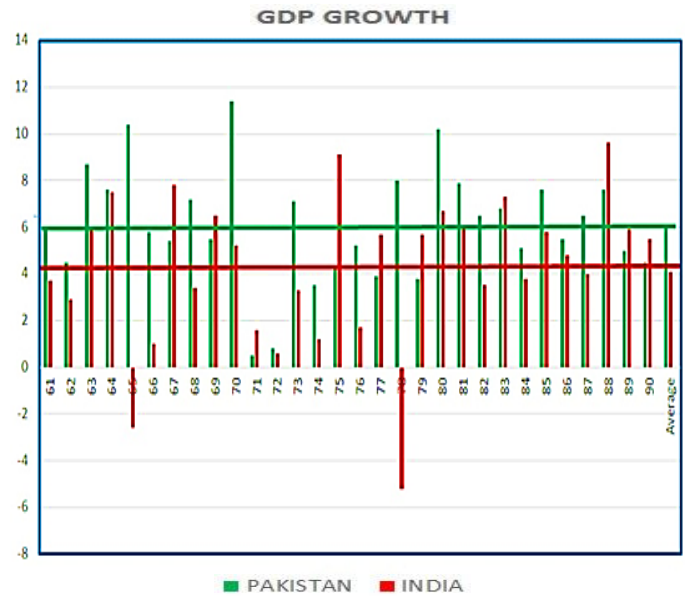
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India and Pakistan gained independence in 1947 and inherited almost similar economic legacy of underinvestment, neglect and ranked among the world's poorest nations. Pakistan was not given its full share of wealth and resources, therefore, had relatively more problems.¹ Out of 921 industrial units in undivided India, Pakistan received only 34.² Soon after independence, Pakistan was struggling with economic challenges. On January 5, 1948, LIFE magazine reported that Pakistan's economy was on the verge of collapse.³ Contrary to above assessments, during the first four decades of its independence; Pakistan's economy witnessed an average growth rate of 6%, while India lagged behind with only 4% average growth rate.

However, with the end of Cold War, the situation reversed. India surpassed Pakistan in economic growth rate and became one of the fastest-growing economies of the world in past three decades. Today, India is the 5th largest economy in the world. In 1970, Pakistan's GDP per Capita was US \$ 226 vs. India's US \$ 112, whereas, in 2022, Pakistan stands at US \$ 1400 vs. US \$ 2490 of India. Foreign Reserves of India are US \$ 554 Bn vs. Pakistan's US \$ 8 Bn. History of economic progress of Pakistan and India can be divided into two distinct periods, i.e., from 1947 to 1990 and 1991 to 2023. It will be very interesting to assess the impact of changing global order and strategic realignments vis-à-vis economic growth of both Pakistan and India in this period.

Soon after independence, Pakistan joined the 'US Camp' by becoming a member of CENTO and SEATO. Despite initial economic hardships, Pakistan's economy saw an upward trajectory that can be contributed to the flow of financial aid, especially from the US, West and Gulf countries, coupled with better governance. The period from 1958 to 1963 saw major economic growth, which led to infrastructure building, including dams, canal systems, power stations, industrialization and land/ agricultural reforms.



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Pakistan achieved an economic growth rate of almost 10% during this period.⁴ Although, two wars with India, the separation of East Pakistan coupled with 'nationalization' of industries, impacted negatively on economic growth of Pakistan during 1970s; yet Pakistan started recovering from its weak economic performance from 1980s onwards. This is the time when Pakistan was the front line state supporting Afghan Jihad with full support of the Americans.

In economic terms, Pakistan's recovery could be attributed to denationalization of industries in 1977 and increased remittances from the Middle East. The completion of Tarbela Dam gave a boom to the agricultural sector. During Soviet invasion of Afghanistan, the US and West provided direct financial assistance to Pakistan as an ally; therefore, till the late 1980s, Pakistan managed to maintain a uniform upward growth.

With the end of Cold War (early 1990s), things started to change, resulting in a downward trend of Pakistan's economy. During 1990s, under the 'democratic rule', Pakistan became the 'most sanctioned ally' of the United States and the economic situation was further aggravated post-nuclear explosions of 1998. However, geopolitics took another turn after the incident of 9/11. Pakistan was termed as a non NATO ally by the US in its Global War on Terror (GWOT). Interestingly, Pakistan's economy showed an upward trend for a short period of time between 2003-2006 with an average growth rate of more than 6%. As soon as Pakistan's relevance to US vis-à-vis Afghanistan diminished, Pakistan witnessed a deteriorating security situation, especially in FATA and Swat, and a rise in militancy which restricted foreign investment, resultantly FDI decreased. This deterioration of economy became more prominent once the US left Afghanistan which continues even today.

Like Pakistan, India's economic growth can also be divided into two phases, 1947-1990 and 1990 to date. During the period of Cold War, India proclaimed to be one of the leading countries of the Non Aligned Movement but realistically, India remained in the 'Soviet Camp'. In this period, Indian government adopted an economic model whereby it implemented a protectionist trading strategy and licence regime, which constrained economic growth. During this time, the average economic growth rate of India was around 3-4%. High levels of regulation and protection for the industrial sector, inefficient agriculture, and low trade ratios all contributed to a slow performing Indian economy. Before 1990, main sources of capital inflows to India mostly consisted of foreign aid from the US and Russia, commercial borrowings and remittances. India faced a

serious balance of payment crisis in the 1990s and approached IMF for a bailout.⁵

Interestingly, as soon as the Cold War ended, India abandoned the centralized economic policy in favour of opening up to the US and West at large for greater political and economic gains. Indian economic reforms included Liberalization, Privatization and Globalization (LPG). Indian export/ import diversified its outreach to almost all parts of the world. India liberalized trade, lowered tariffs, deregulated industries, abridged controls on foreign trade and investment, and privatized state-owned enterprises, thus, making it convenient for local companies to grow, which led to more foreign investment. Reforms were successful because they opened new markets for Indian businesses, increased their competitiveness, and ultimately resulted in a higher rate of economic growth for India as a whole. Result of India's outward-oriented policy and integration into the global economy proved fruitful and aided the country's accelerated economic growth which continues to-date. It is important to note that same India which performed below par vis-à-vis its economic potential in first 40 years, started performing better as soon as it got a favourable geopolitical wind.

India enjoyed uninterrupted democracy for 75 years, whereas Pakistan witnessed a turbulent political period where military and civilian rule changed hands many times. However, Pakistan's economic growth always remained encouraging during the periods (irrespective of type of regime) when it was geopolitically relevant to the US/ West during the Cold War and later as well. In other words, economic growth of Pakistan was always less dependent upon indigenous reforms, measures, policies, capacities, etc and relied primarily upon external monetary support which was available during periods of SEATO, CENTO, Afghan Jihad, US GWOT, etc. These were the times when Pakistan was positively relevant to the US/ West in the global order. India, at the same time, despite its 'democratic' credentials kept struggling in economic terms. The situation did not change until early 1990s.

However, as soon as the Cold War ended and the US changed its strategic priorities 'suddenly' finding a new 'democratic' ally in South Asia, Indian economy started showing signs of recovery and openness. Indian nuclear explosions of 1998 and later entry into Nuclear Supplier Group, etc were not meant for Pakistan but primarily to announce India's arrival against China in the evolving global order as the 'net security provider' on behalf of the US. Is it a coincidence that as soon as India became positively relevant to the US, its economy started showing

trends of upward growth? It also implies that Indian economic trajectory, like Pakistan's or any other developing country remains largely dependent upon its strategic alignment or relevance to the leading super power of the world.

Notwithstanding above, India was able to develop relatively robust domestic state institutions due to its continued democratic dispensation for 75 years. As a result, Indian economy showed very quick recovery as soon as it received favourable geopolitical environment. Contrarily, Pakistan could not develop strong state institutions due to turbulent political dispensation. As a result, Pakistan could not fully convert a relatively favourable geopolitical environment of Cold War into a more robust and sustainable economic model. In fact, contemporary unfavourable geopolitical environment has really exposed the domestic institutional inadequacies resulting in weak governance, socio-economic fragility, unbridled media, weak civil-military relations, etc.

Therefore, Pakistan must focus on building institutions if it wants to sustain through this difficult time of history where leading super power (US) has different strategic priorities in South Asia. Pakistan must recognize its immense geopolitical and economic potential while safeguarding its key national interests to wade through these tough times without inflicting a major self-harm. Learning lesson from the past, state institutions like military, bureaucracy and judiciary, etc apart from other important institutions need to be working in their respective spheres and in harmony for achieving socio-economic well-being of a common Pakistani. Moreover, Pakistan's politico-military leadership must continue to discover and explore geopolitical and geo-economic avenues to remain positively relevant to contemporary world powers in an era of changing global order.

References

¹ "75 Years Economic Journey of Pakistan." Ministry of Finance, Government of Pakistan.

² Ali Mudasar, "An Outlook of Pakistan's Economic History: 1947-2021." *Modern Diplomacy*, 12 Aug 2021. Available at moderndiplomacy.eu/2021/08/12/an-outlook-of-pakistans-economic-history-1947-2021/.

³ Hussain, Ishrat. *Pakistan and Indian economies compared*. Available at https://ishrathusain.iba.edu.pk/speeches/Indo_Pak_economies_compared.pdf

⁴ "Pakistan GDP Growth Rate 1961-2020." *www.macrotrends.net*. Available at www.macrotrends.net/countries/PAK/pakistan/gdp-growth-rate.

⁵ Waqar Ahmed, "The Political Economy and Geopolitical Context of India's Economic Crisis, 1990-91." *Singapore Journal of Tropical Geography*, vol. 35, no. 2, 21 May 2014, pp. 179-196, 10.1111/sjtg.12061. Pakistan entered CPEC project with China ink of default. Pakistan has not been able to implement key reforms needed for the growth such as increasing the tax base, addressing energy and infrastructure problems along with abysmal exports. The social indices, including those related to employment, health, and education, do not give a positive picture. Foreign aid has benefitted the vested interests of powerful individuals rather than being used to build the economy. Pakistan enjoyed close relations with US and China. But, due to policy lags and poor governance Pakistan has not been able to exploit its economic ties to its full potential.