

Chapter 3

The Privatization of the Power Sector and Industrial Production

Introduction

In Pakistan economic policies have frequently changed. The lack of policy continuity has been a problem for private companies, hindering them from establishing of long-term strategies. After President Ziaul Haq, who came to power in a military coup d'état, was killed in an accident in 1988, an election for Parliament was held and Benazir Bhutto became prime minister. Benazir Bhutto and Nawaz Sharif alternately established governments twice. Whenever the government changed, policies changed too, and even under the same government, policies were changed. This is a reflection of the ease with which lobbies exerted pressure on the government and of the lack of long-term perspectives on the part of the governments themselves.

With a large, and expanding, budget deficit, Pakistan does not have sufficient funds to invest in infrastructure construction. The idea of privatization of the power sector arose in the 1980s. Benazir Bhutto actively invited IPPs (Independent Power Producers) to build new power plants. However, when Nawaz Sharif came to power, the price at which IPPs sold power to the government became a political issue. This chapter examines economic policies under the civilian governments, focusing on privatization of the power sector.

Industrial production stagnated in the 1990s, causing stagnation of demand for power and leading to the appearance of surplus capacity. The direct cause of industrial stagnation has been ascribed to the poor cotton crop in 1992-93, but the

basic reason is that the Pakistani economy still depends on the cotton textile industry in the 1990s. Since a middle class has not emerged in Pakistan, a durable consumer goods market for the middle class has not developed. The formation of a middle class is important not only for industrialization but also for the stability of the political system. The underlying cause of frequent coup d'état in Pakistan is attributed to the lack of a middle class.

3.1 Privatization of the Power Sector in Pakistan

The idea of privatization of the power sector was spelled out in the long-term energy strategy drawn up by the Government of Pakistan in 1985. The World Bank began to give loans to Pakistan to support structural reforms in the energy sector. Planning for the first IPP project, the Hub Power project, started in 1987, but implementation of the planning for privatization only commenced with a decision at a cabinet meeting on 18 July 1992 to adopt the Strategic Plan originally produced by the USAID in USA.

Saddled with huge budget deficits, the Government could not procure funds to construct the needed power plants and had to depend on foreign capital. As Table 1 shows, half of total expenditures in Pakistan's budget has gone for defense and interest payments, with a resultant decline in the share of development expenditure. Nevertheless, the government has constructed hydro and thermal power projects to produce the power necessary to further industrialization.

Table 1 The Share of Expenditure in the Total Expenditure

(%)

| | 1990/91 | 1992/93 | 1994/95 | 1996/97 | 1998/99 |
|--|---------|---------|---------|---------|---------|
| Current Expenditure | 75.0 | 78.1 | 80.8 | 84.2 | 83.4 |
| Defense | 24.8 | 25.1 | 24.4 | 23.6 | 21.8 |
| Interest Payments | 19.2 | 22.6 | 22.7 | 29.8 | 32.1 |
| Current Subsidies | 4.1 | 2.1 | 1.5 | 2.2 | 1.7 |
| General Administration | 5.2 | 5.8 | 8.0 | 8.5 | 6.4 |
| Social, Economic and Community Service | 10.8 | 15.7 | 16.2 | 13.6 | 15.0 |
| All others | 11.0 | 6.9 | 8.0 | 6.6 | 6.4 |
| Development Expenditure | 25.0 | 21.9 | 19.2 | 15.8 | 16.6 |
| Total Expenditure | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

Source: Government of Pakistan, *Economic Survey 1998/99*, p.45.**Table 2 Target of the Eighth Five-Year Plan** (Mw)

| | 1992/93 (Performance) | 1997/98 (Estimation) |
|----------------|-----------------------|----------------------|
| Public Sector | 9,649 | 13,585 |
| Private Sector | 0 | 2,700 |
| Nuclear | 137 | 137 |
| Total | 9,786 | 16,422 |

Source: Government of Pakistan, *Eighth Five Year Plan (1993-98)*, p.504.

The Eighth Five-Year Plan (from 1993/94 to 1997/98) estimated that maximum power demand would grow by 5.5 percent per year and aimed at newly constructing capacity to generate 6,636 mega-watt (Mw) to meet growing demand (Table 2). The plan expected that the private sector would construct 2,700 Mw capacity, which would account for 41 percent of new capacity. While the public sector had expanded its capacity by 11,819 Mw by 1997/98, the private sector constructed new capacity of 4,149 Mw, surpassing the target (Table 3). However, IPPs accounted for only 26 percent of total power capacity.

In Pakistan, WAPDA (Water and Power Development Authority) and KESC (Karachi Electric Supply Corporation) monopolize power supply from generation to distribution. The Strategic Plan tried to divide power supply into three sectors: generation, transmission and distribution,

Table 3 Installed Capacity in 1997/98 (Mw)

| | WAPDA | KESC | IPP | Total |
|--------------------------------|-------|-------|-------|--------|
| Hydel | 4,825 | 0 | 0 | 4,825 |
| Steam | 1,895 | 1,510 | 2,271 | 5,676 |
| Gas Turbine and Combined Cycle | 3,227 | 225 | 1,878 | 5,330 |
| Nuclear | 0 | 137 | 0 | 137 |
| Total | 9,947 | 1,872 | 4,149 | 15,968 |

Source: Government of Pakistan, *Detailed Annual Plan 1998-99*, p.102.

and to shift public enterprises to private companies in order to encourage competition. IPPs were to generate power and supply it at a competitive price. To promote efficient privatization, PEPCO (Pakistan Electric Power Company) was to take over the Power Wing of WAPDA, except for hydro generation, which was to remain under the Water Wing of WAPDA. The Power Wing was to be restructured into three thermal generation companies, one national transmission and dispatch company, and eight distribution companies. Eight private companies would distribute power to general consumers in each distribution area. NEPRA (National Electric Power Regulatory Authority) would be newly established to control transmission and distribution and to regulate PEPCO, IPPs and private distribution companies. However, the privatization plan has yet to be implemented. WAPDA still controls the power department. There was a plan to sell 51 percent eq-

uity in KESC with management right to the private sector, but this has not been implemented.

Over the medium term, the reform agenda for the power sector would focus on:

- (1) completing the corporatization process and establishing commercially oriented autonomous corporations, with NEPRA issuing licenses for the new corporatized entities;
- (2) implementing theft and loss reduction programmes and introducing other efficiency improvements;
- (3) intensifying bill collection efforts from both public and private customers so that the level of overdues remains within three months of sales equivalent;
- (4) implementing financial and other restructuring measures, including, if necessary, tariff adjustment to restore the financial viability of the energy utilities and the downsized WAPDA;
- (5) implementing an orderly framework to regularize and maintain normal commercial relations with the IPPs; and
- (6) accelerating the privatization programme for the existing thermal generation and electricity distribution companies.

The privatization programme began with the sale of 26 percent equity in Kot Add Power Co. to National Power Co. in the UK. In 1987 Hub Power Company Ltd. was planned as the first IPP project. Although the start of the project was delayed due to the effects of the Gulf War, construction began in 1993, and the company is now in operation.

The success of the Hub Power project led the Benazir Bhutto Government to decide that all new thermal projects would be run by the private sector. It announced a Policy Framework and Package of Incentives for Private Sector Power Generation Projects in Pakistan in March 1994 to attract IPPs on a BOO basis. The statement guaranteed

IPPs tariffs purchased by the WAPDA. An average first-10-years tariff of 6.5 US cents per kilowatt hour (kWh) and an average tariff for the period between the start and end of operations of 5.91 per kWh was offered. The tariff expressed in US dollars would be adjusted for changes in the exchange rate and fuel prices. As IPPs get tariff by rupee, the payments of WAPDA would increase by depreciation of rupees.

3.2 Political Issue of IPPs

The agreement became a political issue after Benazir Bhutto was removed from office in November 1996 for corruption at the time of the negotiation of contracts with the IPPs. The Nawaz Sharif government, which came to power in 1997, took up the corruption issue and used it to criticize the former government. After a presidential order was issued authorizing the cancellation of "contracts made through corruption," the government gave notice of a unilateral tariff reduction. Although IPPs strongly opposed the tariff reduction, they finally had to agree to it.

The Nawaz Sharif government expressed its view on IPP issues in its 1998 Power Policy: "... the IPPs coming under the 1994 policy would be a burden on the economy, vis-a-vis high tariff, as well as over-capacity in the near future". As a result of negotiations with the IPPs, an average first-10-years tariff of 5 US cents per kWh was offered for domestic fuel projects having a capacity of up to 20 Mw, while larger projects were offered a tariff of 4.8 US cents per kWh¹.

In 1998 the average tariff in the U.S. for industries was 4.6 US cents per kWh and for households, 8.36 US cents per kWh². If the difference of price level between the U.S. and Pakistan and the difference between consumer prices and wholesale prices are taken into consideration, we can conclude that the tariff offered for the WAPDA,

Table 4 Commercial Energy Consumption

(Gwh)

| | Households | Commercial | Industrial | Agricultural | Street Light | Other Government | Total | GDP growth rates (%) |
|---------|------------|------------|------------|--------------|--------------|------------------|--------|----------------------|
| 1991/92 | 11,458 | 2,143 | 12,289 | 5,847 | 310 | 1,802 | 33,878 | 7.71 |
| 1992/93 | 13,170 | 2,333 | 13,043 | 5,635 | 297 | 1,987 | 36,492 | 2.27 |
| 1993/94 | 14,133 | 2,547 | 12,637 | 5,772 | 298 | 1,967 | 37,381 | 4.51 |
| 1994/95 | 15,584 | 2,623 | 12,528 | 6,251 | 324 | 2,116 | 39,448 | 5.26 |
| 1995/96 | 17,116 | 2,962 | 12,183 | 6,696 | 378 | 2,382 | 41,737 | 6.76 |
| 1996/97 | 17,739 | 3,011 | 11,982 | 7,086 | 388 | 2,491 | 42,715 | 1.93 |
| 1997/98 | 18,669 | 2,334 | 12,297 | 6,937 | 387 | 3,726 | 44,366 | 4.3 |

Source: Government of Pakistan, *Economic Survey 1998/99*, p.152.

6.5 US cents, is high. However, a different picture emerges after factoring in cost accounting in the IPPs. In the first place, fuel prices in Pakistan are 2.5 times higher than international prices, so profits of IPPs are kept down by the high cost of raw materials. Secondly, in calculating the basic tariff, the operation rate is estimated at 60 percent of capacity. A higher operation rate estimate means a lower tariff per kWh. IPPs have proposed that WAPDA raise the estimated operation rate, but WAPDA, which wants an effective reduction of tariffs, has not agreed.

There are three reasons why the Nawaz Sharif government took the step of canceling the contracts made by the former administration. Firstly, the power demand growth rate being less than had been estimated, over-capacity could be anticipated. At present, surplus power is estimated at between 1,000 and 1,500 Mw. Power generation steadily rose from 38,066 kWh in 1991/92 to 53,259 kWh in 1997/92 as the government continued to construct power plants. However, contrary to expectations, consumption started stagnating after the GDP growth rate decelerated (Table 4). Industrial consumption has stagnated in contrast to a constant increase in household consumption. Only seven IPP plants were operating in August 1999, but more are

Table 5 Operating IPPs and IPPs under Construction

| Name of Project | Capacity (Mw) | Operation |
|-------------------------------------|---------------|-----------|
| AES Lalpir Ltd. | 337 | ○ |
| AES Pak Gen (Pvt.) Co. | 337 | ○ |
| Altern Energy Ltd. | NA | |
| Davis Engergen Ltd. | 10 | |
| Eashatech Ltd. | 19 | |
| Fauji Kabirwara Power Co. Ltd. | 144 | |
| Gul Ahmed Energy Ltd. | 128 | ○ |
| Habibullah Coastal Power (Pvt.) Co. | 123 | |
| Hub Power Company Ltd. | 1,292 | ○ |
| Japan Power Generation Ltd. | 107 | |
| Kohinoor Energy Ltd. | 120 | ○ |
| Kot Addu Power Co. | 1,260 | ○ |
| Liberty Power Ltd. | 212 | |
| Northern Electric Power Ltd. | 19 | |
| Power Generation Systems Ltd. | 110 | |
| Rousch (Pakistan) Power Ltd. | 358 | |
| Saba Power Company Ltd. | 104 | |
| Sabah Shipyard | 274 | |
| Southern Electric Power Co. Ltd. | 112 | |
| Tapal Energy Ltd. | 120 | ○ |
| Uch Power Ltd. | 525 | |

Source: Data from Local Companies.

under construction (Table 5). IPPs, which were introduced to cover a shortage of power, will be producing surplus power. Because the WAPDA has contracted to purchase power from the IPPs, its deficits will rise.

Secondly, WAPDA has huge deficits. It does not have enough funds to pay tariffs to the IPPs. In 2000 WAPDA will be paying over Rs 60 billion to IPPs, while total revenues are estimated to be just over 146 billion. That is, 41 percent of total revenues will be spent on purchase of power from IPPs³. However payments to IPPs is not the main reason for WAPDA's financial constraints. Accumulation of deficits has resulted mainly from power theft and nonpayment of tariffs. The chairman of WAPDA has confirmed that line losses and power theft siphoned off over 40 percent of WAPDA's revenues⁴. In Pakistan, power theft, nonpayment of tariff and corruption by collection officials are common, as is also the case in other developing countries. The Nawaz Sharif government had to depend on the army to collect tariffs.

Thirdly, depreciation of the rupee raised the tariff payment to IPPs. WAPDA is paying IPPs in rupees, the rate being pegged to the U.S. dollar. The exchange rate depreciated from an average of Rs 43.2 in 1997-98 to Rs 51.7 on December 22, 1999.

Now let us examine why industrial power demand has stagnated. Firstly, installment of captive generators can be supposed to have contributed to decreased demand. However, as Figure 1 shows, power generation by captive generators has increased only slowly, and we can not suppose that captive generators have taken the place of power plants. In Pakistan, large factories have captive generators as backup in case of power failure. The costs of captive generator power are much higher than public power charges, so captive generators are used only when necessary. Secondly, industrial stagnation has constrained growth of power de-

mand. Figure 2 shows that value-added growth rates in the manufacturing sector declined in the 1990s.

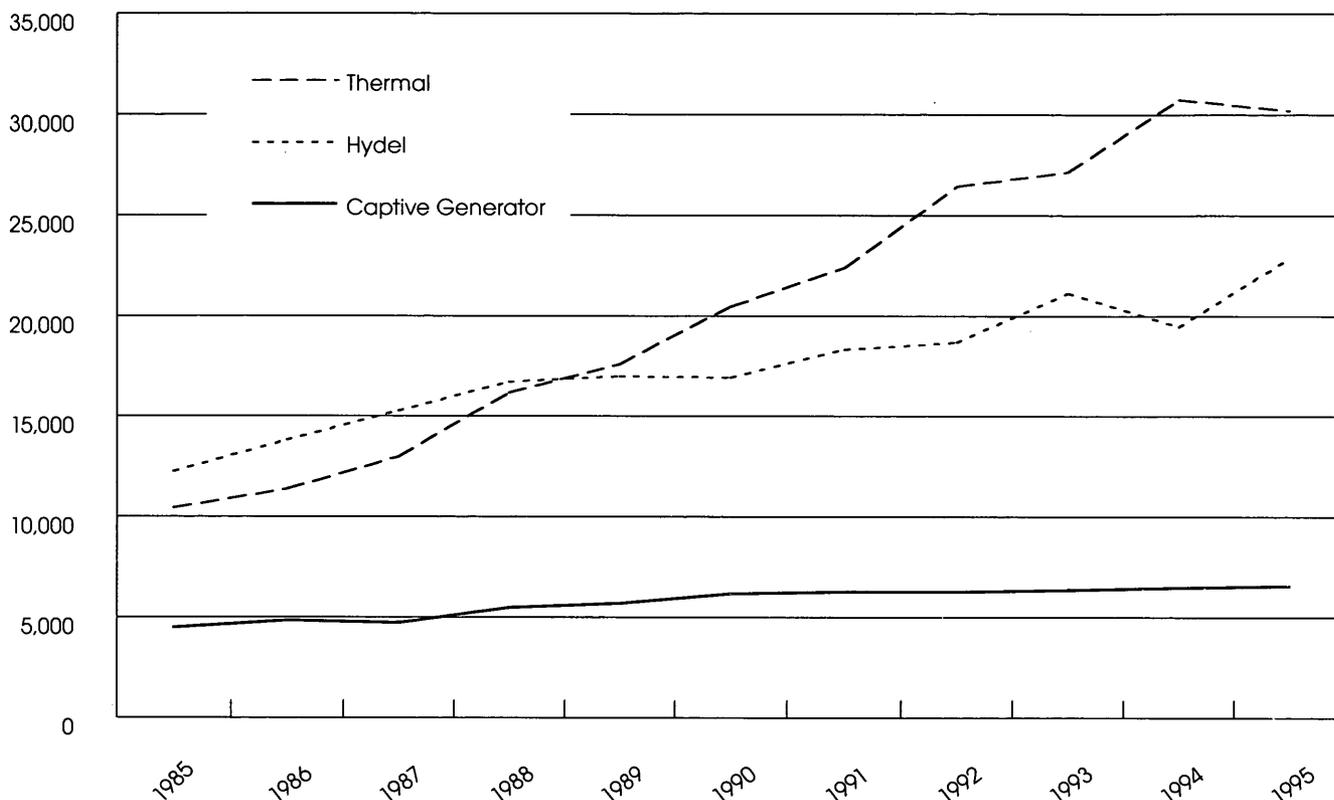
3.3 Stagnation of Industrial Production

Let us analyze why growth rates in the manufacturing sector have decelerated. In Pakistan the main manufacturing industry is the cotton textile industry. The cotton textile industry accounted for 26.4 percent of the total value added of the manufacturing sector in 1990. The main sector of the cotton textile industry is spinning. Cotton production rapidly increased in the 1980s with diffusion of high-yielding varieties. Against a background of sufficient availability of raw cotton, production of cotton yarn increased from 430,000 tons in 1981/82 to 1,190,000 tons in 1991/92. Growth of cotton yarn production spurred exports of cotton yarn and textiles. Between 1981/82 and 1991/92 exports of cotton yarn rose from 95,621 tons to 505,863 tons and exports of cotton textile, from 584.34 million square meters to 1,196.12 million square meters. Rapid growth of production and exports attracted new entries into the cotton textile industry, with a resultant dramatic increase in spinning capacity. However, production of cotton yarn has stagnated since 1992/93.

Cotton production suddenly dropped in 1992/93 due to damage caused by a virus that spread to all cotton cultivating areas. As a result, the wholesale price per 40 kg of raw cotton (K-68) rose from Rs 1,052 in 1992/93 to 2,254 in 1994/95⁵. Although the cotton crop recovered in 1995/96, it decreased again from 1,060 bales in 1995/96 to 879 bales in 1998/99 due to damage from insects and irregular climate. As a result, the domestic price of 20 count cotton yarn per 10 pound rose from Rs 400 in 1995/96 to Rs 462 in August 1998⁶. This rapid price increase damaged

Figure 1 Sector-wise Power Generation

(100 million kWh)



Source: Japan Electric Power Information Centre, *Overseas Electric Power Industry Statistics*, 1998, p.370.

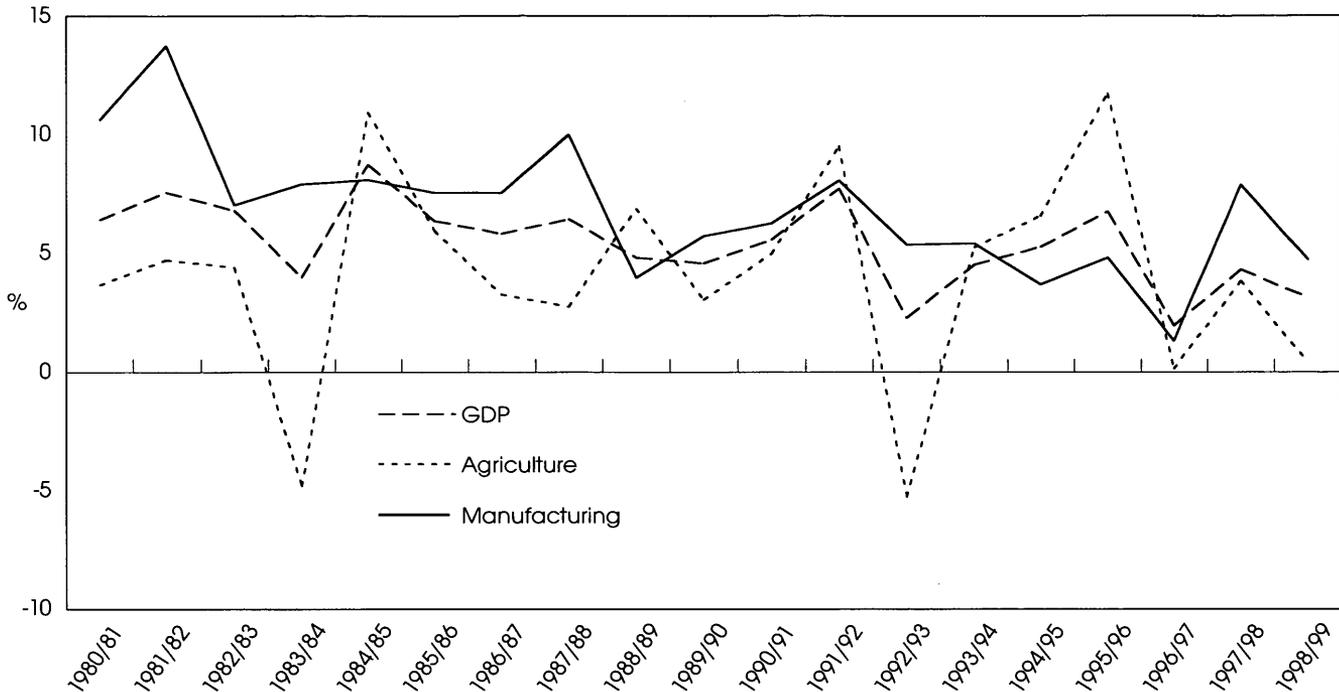
the international competitiveness of Pakistani cotton yarn and textiles. Between 1995/96 and 1997/98, exports of cotton yarn dropped from 535,900 tons to 461,900 tons and exports of cotton textile, from 132.31 million square meters to 127.13 million square meters⁷. As the domestic market has not been expanding, spinning mills introduced in the 1990s are facing stagnation of demand. The utilization ratio, which compares utilized capacity to installed capacity, decreased from 85.8 percent in 1991/92 to 79.4 percent in 1997/98.

Production is stagnating and overcapacity has emerged in the cotton textile industry,

Pakistan's main industry. This affects the manufacturing industry as a whole and also affects demand by the manufacturing sector for power. The industrial structure has not changed and diversified, and a serious problem for the Pakistani economy is its continued dependence on the cotton textile industry.

3.4 Industrialization and the Middle Class

Historically, a middle class able to purchase durable consumer goods rises in the process of industrialization. The rise of a middle class led to

Figure 2 GDP Growth Rates

Source: Government of Pakistan, *Economic Survey 1998/99*, pp.6-7.

the development of durable consumer goods in India. Japanese automobile companies invested in Pakistan and India during the 1980s, and Suzuki, Honda and Toyota operate factories in both countries.

A clear difference between the Pakistani market and the Indian market can be seen in the growth of automobile component producers in India, but not in Pakistan. All three Japanese automobile companies operating in Pakistan adopt a knockdown system. In other words, they bring parts from Japan and assemble them in Pakistan. The most important reason why component producers have not developed is the small size of lots. Producers cannot enjoy economies of scale, and consequently, prices of parts are higher than the international standard. Japanese companies can save production costs by adoption of the knock-

down system. Costs of inventory control are also higher because of high interest rates. Japanese companies must depend on procurement of parts from their headquarters in Japan, and it takes only one month from order to delivery. As parts made in Pakistan are not only costly but also inferior in quality, procurement of parts from the domestic market is difficult. But because of local content regulations, foreign companies must procure some parts from domestic producers. Although the three Japanese companies are raising the ratio of local contents to meet regulations, they depend on their headquarters to procure important parts.

When Japanese automobile companies invested in India, components producers associated with them in Japan also came to India. On the other hand, few Japanese component producers have in-

vested in Pakistan. The rise of a middle class in India has expanded domestic demand for automobiles⁸. Regulations on foreign investment were relaxed after economic reforms started in 1991. Foreign companies have invested in the Indian automobile industry to the detriment of Hindustan Motors Ltd. and Premier Automobile Ltd (Table 6). Both had produced more than 20,000 units per year but decreased their production after 1995. Suzuki-Maruti, founded in 1981, has raised its capacity to over 300,000 units per year. If an automobile company wants to develop subcontracting with specific component producers, it must produce more than 100,000 units per model per year. Maruti is producing several models. Output of its main model, an 800cc passenger car, is above the minimum level required to create subcontracting.

On the other hand, the maximum production by Pak Suzuki, the biggest producer in Pakistan, was only 23,000 in 1991/92.

Domestic demand for passenger cars in Pakistan has been between 50,000 and 60,000 since the mid-1980s. Not only is the domestic market limited, imports including secondhand cars outnumber domestic production (Table 7). Moreover, secondhand cars are being smuggled into the country, the level of smuggling being estimated to be 10 percent of new cars' sales. The domestic market is not promising for automobile producers in Pakistan. Due to limited demand, automobile producers operate at less than half of capacity. The most serious problem for Pakistani automobile manufacturers is the undevelopment of a middle class with purchasing power.

Table 6 Company-wise Production of Passenger Cars in India

(Nos)

| | DMIL | GML | HML | HYN | MUL | MBIL | PPL | PAL | TELCO | Total |
|------|--------|--------|--------|-------|---------|-------|-------|--------|--------|---------|
| 1993 | | | 25,536 | | 147,389 | | | 20,998 | 5,648 | 199,571 |
| 1994 | | | 25,164 | | 174,235 | | | 25,994 | 11,887 | 237,280 |
| 1995 | 4,443 | | 28,283 | | 254,094 | 669 | 7,453 | 24,389 | 10,548 | 329,879 |
| 1996 | 20,259 | 4,191 | 26,263 | | 316,812 | 1,819 | 8,482 | 9,918 | 8,632 | 396,376 |
| 1997 | 3,164 | 10,257 | 24,059 | | 342,821 | 2,326 | 6,798 | 14,169 | 6,301 | 409,895 |
| 1998 | | 3,279 | 20,672 | 8,676 | 335,759 | 1,355 | 613 | 4,841 | 2,201 | 384,139 |

Notes: DMIL: Daewoo Motors (I) Ltd. GML: General Motors India Ltd. HML: Hindustan Motors Ltd.
 HYN: Hyundai Motors India Ltd. MUL: Maruti Udyog Ltd. MBIL: Mercedes-Benz India Ltd.
 PPL: PAL Peugeot Ltd. PAL: Premier Automobile Ltd. TELCO: TELCO

Source: Society of Indian Automobile Manufacturers, *AUTOMAN*, 1999, p.16.

Table 7 Production and Imports of Motor Cars and Motor Cars on Road

(Nos)

| | 1991/92 | 1992/93 | 1993/94 | 1994/95 | 1995/96 | 1996/97 | 1997/98 |
|-----------------------------|---------|---------|---------|---------|---------|---------|---------|
| Production | 28,911 | 26,945 | 19,514 | 20,955 | 31,079 | 33,462 | 33,683 |
| Imports | 42,532 | 100,188 | 38,216 | 31,743 | 35,100 | 31,817 | 36,851 |
| Motor Cars on Road (000Nos) | 433,700 | 474,200 | 503,300 | 528,600 | 550,600 | 577,600 | 606,300 |

Source: Government of Pakistan, *Economic Survey 1998/99*, pp.147-8.

Table 8 shows household income shares in rural and urban areas. The share of the highest 20 percent income group declined once in both rural and urban areas during the mid-1980s and rose again in the 1990s. On the other hand, the share of the lowest 20 percent income group rose once in both rural and urban areas during the mid-1980s only to drop again in the 1990s. This phenomenon is reflected in the trends of the Gini co-efficient, which went down once in the mid-1980s and rose again in the 1990s. It seems, therefore, that the income distribution gap was expanding in the 1990s. This is in line with S. Kuznets' inversive U curve hypothesis, which holds that the income distribution gap expands

in the process of economic development. In fact, the production of durable consumer goods for the middle class in India increased after economic reforms in 1991 and led economic growth. Against this background, a middle class emerged in the 1980s. "Middle class" does not refer to an average income group in terms of income distribution. It refers to the rising white collar class and entrepreneurs, who are not land owners or business houses. This class has attracted considerable attention as buyers of durable consumer goods. In India, the marked rise in the share of the high-income group in urban areas is due to the rise of a middle class (Table 9). On the other hand, in Pakistan the share of the highest 20 per-

Table 8 Household Income Shares in Pakistan

(%)

| | Rural Area | | | Urban Area | | |
|---------|------------|-------------|-------------------|------------|-------------|-------------------|
| | Lowest 20% | Highest 20% | Gini Co-efficient | Lowest 20% | Highest 20% | Gini Co-efficient |
| 1979 | 8.3 | 41.3 | 0.32 | 6.9 | 48.0 | 0.40 |
| 1984/85 | 7.9 | 42.8 | 0.34 | 7.0 | 47.7 | 0.38 |
| 1985/86 | 7.9 | 40.0 | 0.33 | 7.5 | 45.0 | 0.35 |
| 1986/87 | 8.0 | 39.0 | 0.32 | 7.9 | 44.0 | 0.36 |
| 1987/88 | 8.8 | 40.0 | 0.31 | 6.4 | 48.1 | 0.37 |
| 1990/91 | 6.0 | 47.4 | 0.41 | 5.7 | 50.5 | 0.39 |
| 1992/93 | 7.0 | 44.8 | 0.37 | 6.1 | 48.9 | 0.42 |

Source: Government of Pakistan, *Economic Survey 1998/99*, p.42.

Table 9 Number of Household in the Reclassified Income Categories

(%)

| | Rural Area | | | Urban Area | | |
|------|------------|--------------|------|------------|--------------|------|
| | Low | Lower-Middle | High | Low | Lower-middle | High |
| 1986 | 73 | 22 | 5 | 42 | 36 | 22 |
| 1988 | 69 | 26 | 5 | 40 | 36 | 24 |
| 1990 | 67 | 24 | 9 | 37 | 35 | 28 |
| 1993 | 65 | 23 | 12 | 38 | 33 | 29 |
| 1994 | 65 | 23 | 12 | 37 | 33 | 30 |

Source: S.L.Rao and I.Natarajan, *Indian Market Development*, National Council of Applied Economic Research, Delhi, 1996. p.21.

cent income group in urban areas has not changed clearly. And land owners still dominate in rural areas. It seems, therefore, that the share of the highest 20 percent income group in rural areas rose because the existing ruling class got an even bigger slice of the pie.

In both Pakistan and India, the income distribution gap increased, the difference between them being in the growth rates. In Pakistan, growth rates of average real GDP declined from 6.4 percent in the 1980s to 4.79 percent between 1990/91 and 1997/98. On the other hand, India maintained the same growth rates.

Average growth rates were 5.66 percent in the 1980s and 5.57 percent between 1990/91 and 1997/98. And between 1994/95 and 1997/98, real growth rates were over seven percent. We can conclude, therefore, that a new class with power to purchase durable consumer goods has not emerged in Pakistan.

Conclusion

The industrial structure, dependent on the cotton textile industry, has not changed in Pakistan even after a civilian government came to power in 1988. Both Nawaz Sharif and Benazir Bhutto tried to further privatization, following the IMF-World Bank strategy. However, whenever government changed, policies changed as well, a case in point being the IPP issue. This issue gave not only foreign companies but also domestic private companies the impression that government policies are not consistent.

While the Nawaz government attracted foreign direct investment, it forced IPPs to agree to tariff cuts, even though WAPDA had huge deficits, giving a bad impression to foreign companies. WAPDA's financial constraints have been created mainly by power theft and nonpayment of tariffs. WAPDA cannot pay tariff for surplus

power. A more important point is the problem of over-capacity, which arose because industrial production stagnated in the 1990s.

The immediate cause of the industrial stagnation was a poor cotton crop. But the problem derives from the dependency of the Pakistani economy on the cotton textile industry alone. Although a rapid increase in cotton production led to a rise of cotton yarn production, forward and backward linkage has not developed and new industry has not emerged. In Pakistan, a middle class which can afford to purchase durable consumer goods has not risen, and therefore the market has not developed. This has hindered industrialization. The absence of a middle class also makes the political system unstable and is the underlying cause of frequent coup d'état in Pakistan.

Notes:

1. Government of Pakistan, *Economic Survey 1998/99*, p.168.
2. Overseas Power Association, *Statistics of Overseas Power Industries*, pp.100-1.
3. Shah Jahan Mirza, "WAPDA: Problems and Remedies", *Pakistan and Gulf Economist*, June 14-20, 1999, p.20.
4. Ibid.
5. Government of Pakistan, *50 Years of Pakistan in Statistics*, Vol. IV, p.390.
6. Ibid., p.47.
7. Government of Pakistan, *Economic Survey 1998/99*, pp87-88.
8. The boom of durable consumer goods for middle class rose in India in the first half of 1990s. But it was over in 1996. This expresses that purchasing power of middle class was not enough big to sustain economic growth in India.

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