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The Strategies of General Ziaul Haq (1977-88) to Boost the Economy of Pakistan

Dr. Muhammad Shamshad¹, Dr. Amjad Abbas Khan², Zulqarnain Haider³, Dr. Nusrat Zahra^{4*}, Muhammad Waseem Akram⁵, Amjad Ali⁶, Nabeela Kousar⁷

¹Ph.D. Pakistan Study Centre, University of the Punjab Quaid-i- Azam campus Lahore, Pakistan
Email:smuhammadshamshad@yahoo.com

²Associate Professor, Pakistan Study Centre University of the Punjab Quaid-i-Azam campus Lahore, Pakistan. Email: amjad.psc@pu.edu.pk

³Ph.D. Scholar, Pakistan Study Centre, University of the Punjab, Quaid-i-Azam campus Lahore, Pakistan. Email: zulqarnain9038@gmail.com

^{4*}Lecturer, Department of Humanities Government College Women University Faisalabad, Pakistan. Email: nusratzahra@gcwuf.edu.pk (Corresponding author)

⁵Ph.D. Scholar, Pakistan Study Centre, University of the Punjab, Quaid-i-Azam campus Lahore, Pakistan. Email: waseem.akram89@gmail.com

⁶Ph.D. Scholar, Pakistan Study Centre, University of the Punjab, Quaid-i-Azam campus Lahore, Pakistan. Email: bakhrani.amjad@gmail.com

⁷Lecturer, Department of Economics Government College Women University Faisalabad, Pakistan. Email: nabeekousar@gcwuf.edu.pk

***Corresponding author:** Dr. Nusrat Zahra

***Email:** nusratzahra@gcwuf.edu.pk

Abstract

The economy of Pakistan has been experiencing ups and downs in various periods since 1947 and the first decade witnessed troubled fiscal management accompanied by political chaos. The influential and powerful bureaucratic elite and institutional clashes did not allow the development of the economic sphere that turned Pakistan into a fragile economy. During the days of General Ayub Khan, there was an unexpected and dramatic economic development that could not be legitimized by Zulfikar Ali Bhutto especially due to the defunct policy of nationalization. Bhutto's successor General Ziaul Haq tried his level best to boost the economy by taking different initiatives. This research has elaborated on the steps taken by Zia to make Pakistan able to enjoy a stable and secure economic position. A special focus has been paid to Zia's Islamization of the economy which was considered an initiative to frame the economy of Pakistan according to the principles of Islam. It has investigated how Zia discouraged the policy of nationalization of Bhutto, encouraged the private sector, and promoted industrialization. It has explained how Zia planned things for rural development to attain stability at the local level and for the promotion of exports to approach the latest trends of trade in the international market. Formation and participation of the efficient corporate sector are also part of this research. The research is informative for the students of the economic history of Pakistan and for researchers who are inclined towards researching the economic policies of Zia. It is also supportive for policy-makers who are responsible for managing the monetary affairs of Pakistan today.

Keywords: Pakistan, Ziaul Haq, Economy, Denationalization, Industrialization, and GNP.

Historical Background

At the time of the division of British India in 1947, there were 30 million people in Pakistan with a \$100 per capita income. Agriculture was the major source of income, sharing almost 50 percent of the national economic output (Husain, 2018). Other sectors of the economy were not in a condition to reflect a rapid development that did not allow Pakistan to enjoy considerable economic growth in the first decade. General Ayub Khan came into power in 1958. He took some effective measures to attain economic uplift for Pakistan. He paid multi-dimensional focus towards the various sectors of the economy and the promotion of agriculture was his top priority. The soaring economic growth during Ayub's reign can be judged after acknowledging that "Pakistan exported more manufactures than Indonesia, Malaysia, Philippines and Turkey combined in 1965" (Husain, 2018). Agricultural products shared the most in these exports as the Green Revolution¹ of Ayub made Pakistan able to compete with all these states. But, with the arrival of the Bhutto government, Pakistan started losing its position as a major exporter among these countries. Zulfikar Ali Bhutto assumed power in 1971 and nationalized all the larger industries, banks, insurance companies, the education sector, etc. This step of Bhutto caused an irreversible loss to the

¹ The term is associated with the late 1960s when General Muhammad Ayub Khan of Pakistan paid a special attention towards equipping the farmers with the then latest machinery for farming. He increased the number of tube wells, supply water and ground water which resulted in the better irrigation of the farmland.

national economy and eroded the confidence of private investors. In addition to that, Bhutto's socialism negatively affected industrial development, restrained the expansion of exports, decreased the quality of education, and most importantly, the bureaucrats were given an overarching role in economic decision-making.

Later on, the Zia regime (1977-88) inherited the state when it was facing economic disarray. Zia abandoned the nationalization of Bhutto and benefited from the output that came on stream from the investment of the large public sector in the 1970s. Tarbella Dam was one of the mega projects that increased the availability of irrigation water and hydel power capacity. Zia obtained financial assistance from the Asian Development Bank (ADB), Canadian International Development Agency (CIDA), and Organization of Petroleum Exporting Countries (OPEC) to commission units 5-8 of Tarbella from December 1981 to September 1982 (Government of Pakistan, 1978). Factories of fertilizers, steel, and cement were the other sources of the national economy during Zia's government (Husain, 2018). Zia paid attention to the development of the cement industry which resulted in adding 300 thousand tonnes to the already existing 3.75 million tonnes of cement. It was an 8.2 percent increase in cement production as compared to the year 1979 (Government of Pakistan, 1980). Despite these projects, there were both external and internal factors responsible for encouraging General Ziaul Haq to formulate fiscal policies. Soviet invasion of Afghanistan in 1979 was the most important one of the listed external factors. The invasion imposed an external threat to the security of the country that triggered both economic and military assistance from abroad (Baxter, 1985; Husain, 2009). Under this regional scenario, Zia got an opportunity to support the Afghan Muslim brethren in the name of 'Sacred Mission' (Shafqat, 1997). Meanwhile, the United States was a lot more interested in the involvement of Pakistan in that war. In return, the US promised economic and military aid that assured the hegemony of the Pakistan army in making domestic and foreign decisions. Later on, the Reagan administration struck a deal with Zia for the procurement of sophisticated F-16 fighter planes, artillery, and armor equipment. Resultantly, the Afghan War proved a source for the modernization of the Pakistani army that helped it to bolster its professional image. Accordingly, the overseas migration of almost two million Pakistanis to the Gulf States in the early 1980s brought a level of prosperity to the lower and middle classes in Pakistan (Baxter, 1985). In fact, 4 billion dollars during the reign of Zia and 2 billion dollars as annual workers' remittances particularly from Middle East provided a sigh of relief for the deteriorated economy of Pakistan (Baxter, 1985). Stephen Philip Cohen argues that the stabilization and rebuilding of the Pakistani economy is associated with Zia years. Zia's efforts towards ending the state control over the minor firms and a series of deregulatory steps paved the way for the investment climate to be promoted in the country. Zia, accompanied by his fiscal advisor Ghulam Ishaq Khan, eliminated the export duties, removed price controls, levitated the exchange rates, vindicated the tariffs, and encouraged investment and technology transfers. The introduction of industrial policy in 1984 consolidated the gains of the Bhutto era (Cohen, 2005). At the same time, the infusion of foreign aid played a pivotal role in constructing the strong basis of the Pakistani economy. By the late 1980s, Pakistan had emerged as an improved and boosted economy due to the developed investment climate. However, Zia avoided the land reforms and discouraged investment in advanced technology sectors causing stagnation in educational and technical spheres. But, arguably, the economy grew at an average rate of 6.7 percent a year throughout the decade (Cohen, 2005). Rose and Kamal, further, analyze the economic policies of Gen. Zia in the following words.

"He was steadfast in his economic policies, which—in the hands of the same Ghulam Ishaq Khan now acting as his successor—made the most of Pakistan's scarce resources, mobilized support from abroad, avoided the capaciousness of the Zulfikar Bhutto years, and provided an unparalleled period of domestic growth and stability" (Rose and Matinddin, 1989).

Comprehensively, Ziaul Haq did make lively efforts to get Pakistan out of the economic turmoil by taking quick and effective measures. He introduced an Islamic code of conduct to deal with the business community revoked all the defunct policies of the previous regime and lighted up the image of Pakistan as a developing economy in the contemporary world.

Steps Taken by Gen. Zia to Stabilize the Economy

General Ziaul Haq had learned many lessons from the economic policies that had been devised during the first decade of the Ayub era, especially the faulty ones from the side of Bhutto. He selected competent managers, like Ghulam Ishaq Khan, Mahboob ul Haq, and Nawaz Sharif, to run the economic affairs of the state. He introduced a few lenient policies which were favorable for the local investors. Details of these policies are provided briefly in the following:

(a) Islamization of Economy

As enunciated by many authors Zia was a lot more religious person. They have constructed the opinion after judging the fact that most of the time; Zia was surrounded and accompanied by religious personalities. Therefore, he used to follow Islamic teachings as a staunch Muslim and wanted to govern Pakistan accordingly. His feelings for running the state affairs can be judged by examining his policies of Islamization specifically. He expressed his feelings about the value of Islam in an interview with *The Economist* in 1981 where he pointed out that:

"Pakistan is, like Israel, an ideological state. Take out the Judaism from Israel and it will fall like a house of cards. Take Islam out of Pakistan and make it a secular state; it would collapse" (Devji, 2013)

It was the impact of this nature that he initiated the scheme of Islamization of the economy as he believed that Islam is not only a religion but provides a complete code of economic conduct as well. He was of the view that 'Islamic Economics' is purely based on the norms, values, customs, and traditions of Islam which distinguishes it from the modern and secular outline of economics. Zia wanted to apply the concepts of *Zakat*², *Usbr*³, the twelve modes of Islamic Finance, and

² It is an Arabic word means 'which purifies'. It is one of the five pillars of Islam and is mandatory to observe for the wealthy Muslims. It is levied on moveable property if it remains under one's possession for one year. The philosophy behind the promulgation of *Zakat* is the financial support of the poor within the society.

*mudaraba*⁴. In addition to that, Zia wanted the elimination of *riba*⁵ from the banks which was the primary condition to mold the economy according to the framework of Islamic teachings (Haque and Gardezi, 1991). For that purpose, the Zakat and Usher Ordinance was introduced in 1980. According to the first schedule of the Ordinance, the deduction of Zakat was made in respect of eleven types of assets. These may include Saving Bank Accounts, Notice Deposit Receipts, Fixed deposit accounts, Deposit Certificates, NIT Units, ICP Mutual Fund Certificates, Government Securities, shares of companies and statutory corporations, Annuities, Life Insurance policies, and Provident Funds (Government of Pakistan, 1982).

The basic purpose behind the Islamization of the economy was to implement the Quranic injunction against interests. The banks were supposed to deny the payment of interest on deposits and were directed to end the interest on loans. Zia introduced the Profit and Loss System (PLS) in 1981 to counter the prevailing trends through which depositors were to share in the overall success of the banks. 'Interest on loans' was replaced by 'a service charge' (Hayes 1986: 278). With a motive of eliminating interest from banking and financial system of Pakistan the Zia government initiated the process of Islamization of economy. The operations of the National Investment Trust and Investment Corporation of Pakistan and the House Building Finance Corporation of Pakistan were made interest free. All the banks were advised to open interest free counters to encourage the masses for opening the Profit and Loss (POL) sharing accounts. The commercial banks were directed to provide the small farmers and fishermen with the interest free production loans under the scheme for agricultural loans. The Federal Bank for Cooperatives also awarded interest free loans on water course improvement through the existing cooperative societies (Government of Pakistan, 1981). Twelve modes of interest-free business were also offered in 1984 and by the mid-1985, all the banks observed the PLS and the mentioned modes of finance. However, the National Savings Schemes of the government were exempted from that implementation. *Musharika*⁶ and *Mudaraba*, Islamic modes of investment, were encouraged which could not be popular among the investors to such a considerable extent (Rizvi, 2003). Moreover, the bank account holders were to pay *Zakat* at the rate of 2.5. Unfortunately, most of the money of Zakat went into the pockets of the religious elite. In the particular case of Jama'at-i-Islami (JI) the money was used for achieving the political goals. The same was the case with the promulgation of *Ushr*. It could not be implemented efficiently due to its complexity and unpopularity (Hayes, 1986).

Gen. Ziaul Haq used the judiciary as well in acquiring the economic uplift for Pakistan. By and large, he tried to negate the economic measures of the previous regime through judicial decisions and manipulated fiscal management efficiently. On December 13, 1980, the Federal Shariat Court declared the land reforms of 1972 and 1977 in consonance with the Islamic injunctions. Ulama were consulted in this matter, and traditionally they supported the landlord class. Three high-profile ulama were included in the FSC and two in the Shariah Appellate Bench of the Supreme Court. Thousands of tenants, who had fallen victim to the policies of the previous regime, had been 'forcibly evicted from the land in many districts. Zia made it clear that neither he was going to commit the redistributive agrarian policies nor wanted to award the supporters and punish the enemies using the ordinary politics of land reforms (Kamran, 2017).

(b) De-nationalization

Most of the economic units were nationalized during the period of Z. A. Bhutto under 'Islamic Socialism'. Ziaul Haq denationalized all the victim organizations, firms, and institutions and proceeded slowly toward achieving the economic goals. The nationalization policy of Bhutto was gradually reversed and the process of privatization was encouraged to be completed quickly. Therefore, soon after taking over, Zia formulated policies to restore the confidence of the private sector. He stepped in and picked famous figures from the private sector to get expert industrial input into policymaking. The names of General Habibullah of Gandhara Industries and Mustapha Gokal (a shipping magnate) are mentionable in this connection. Both of them were victimized by the Bhutto government and were equally facilitated by the Zia regime to promote their business (Kamran, 2017). Further, Bhutto's nationalization created so many problems for the provincial governments which were also avoided by denationalizing certain sectors. Under the Bhutto administration, there was great competition among the provinces regarding resources, revenues, and relative power due to increased national debt. The Provincial governments tried to balance their budgets with additional borrowing from the central treasury. Zia nullified all the policies of nationalization to favor unregulated private interests. He left necessary planning for the basic services like water, energy, power, land use, and education without a special focus (Newberg, 1995). This outlook earned the trust of provinces for Zia who could move forward quite easily to attain economic prosperity for the country in general and for the provinces in particular.

Unlike Bhutto, Ziaul Haq won the loyalties of the traditionalist elite to succeed in his economic goals. Bhutto's nationalization underrated the significance of a strong group of entrepreneurs from the small business community in Punjab. Prominently, he nationalized the rice-husking mills in Punjab while rejecting the healthy share of the newly emerged inter-

³ It is extracted from the Arabic word "Ashara" means one tenth. In fact is a kind of tax levied on produce; 10 per cent if the land is irrigated by rainfall and 5 per cent in case of artificial irrigation. It is applicable on each crop and does have concerns with the ownership of the land either producer owns it or lends it.

⁴ An Islamic technique in which an investor and borrower initiate a business activity on the basis of profit sharing partnership. The investor provides the funds and the borrower, prohibiting himself from spending these funds in dealing in tobacco, alcohol or gambling etc., promotes and completes the business activity. At the end, both the parties receive their pre-agreed ratio of the profit.

⁵ The Arabic word *Riba* can be translated as usury, excess, increase or additional. It is the term of exploitative gains in which the debtor has to pay money back with an agreed additional sum.

⁶ Literary meaning of *Musharaka* is sharing. It is a joint enterprise in which all the partners share profit and loss of the joint venture. In Islam, it is supposed to be the best alternate to the interest-based financing.

middle class that could be a great support to the Pakistani economy. On the contrary, his successor, Zia, who was also from Punjab, courted this politically ambitious, economically industrious, and temperamentally conservative group which made Pakistan able to make progress in the economic field by leaps and bounds. Nawaz Sharif was one of the prominent representatives of this intermediate group of entrepreneurs (Malik, 1997). It is worth mentioning here that Nawaz Sharif is the product of Zia's clement economic policies who served Pakistan as Finance Minister of Punjab (1981-1985), Chief Minister (1985-1990) and 12th, 14th and 20th Prime Minister.

In addition to that, the process of privatization was stalled by civil servants like Ghulam Ishaq Khan and A. G. N. Kazi who believed in a gradual course of action to make it successful. The hasty process of privatization seemed to be premature. They feared that the process was to be unleashed at once because the large-scale and intensive projects, started during the Bhutto era, had not yet been completed (Kamran, 2017). Almost all the private initiatives produced mixed results. Only the labor groups were there to resist the process as it could jeopardise their benefits which they gained during the process of nationalization of Bhutto. Bureaucrats were trying their level best to match the international standards of trade. Verbally the exports were being expanded rather than changing it into a practical. "Bureaucratic red tape and corruption prevent the economy from being responsive to changes in world economic trends" (Hayes, 1986).

Industrialization

The new administration of Gen. Ziaul Haq decided not to take the industrial units on the auction block. Rather, Ishaq Khan paid special attention to improving the performance of these units. Though, this step irritated some members of the business community; Habibullah and Mustafa Gokal departed the government, but the government intimidated these departures. Ghulam Ishaq Khan took charge of all the important economic departments and worked with full commitment to raise the Gross Domestic Product (GDP) and Gross National Product (GNP) through an increase in industrial yields. This firm handling of the economic matters resulted in winning the respect of the business and industrial communities for the government. Moreover, private investment began to pick up significantly, GNP increased by 76 percent and per capita income by 34 percent between 1977-78 and 1985-86 (Burki, 1988).

Industrial development was one of the brighter indicators for the economy of Pakistan during the rule of Gen. Ziaul Haq. In 1982, it was expected to grow at an annual rate of over 10 percent. The growth can be observed in small-scale economic activities but it remained disappointing in the larger industries despite Zia's government's stated bias in favour of the private sector. The manufacturers were still complaining of the lack of credit, obsolescent equipment, and over-regulation that restrained them from operating below 50 percent of the capacity. Most importantly, the program of denationalization could not touch the many larger industries to attain success in industrial uplift practically (Weinbaum and Cohen, 1983).

The planners and managers could not plan things accordingly as well. Grants were not specified for the rapid promotion of the industrial field rather the money was being spent on the other interests of legitimacy. During the Fifth Five Year Plan (1978-83) the average ratio of the defense expenditures was 44 percent more than the revenue collected by the federal government. At the same time, the total external debt was running at about \$ 11 billion. It was supposed that "servicing this debt accounts for 80 percent of every new dollar borrowed". It was admitted in the plan that only 25 percent of resources, mobilized by the government, were available for all other expenditures which were not purely developmental (Sayeed, 1984).

(c) Promotion of Exports and Foreign Aid

Pakistan emerged as an agrarian economy in the modern world that had to depend a lot on agricultural products, especially rice and wheat. It could not enjoy a better rank in the comity of nations in the fields of exports. In this way, the various governments could not make themselves able to accumulate the money through foreign exchange. With the arrival of President Ayub, the Pakistanis felt a kind of economic security as he had taken many initiatives like the 'Green Revolution'. Pakistan experienced a greater rise in the ratio of exports of commodities. But, once again, Bhutto's various experiences with the economic sphere of Pakistan brought it to the brink of destruction. Pakistan lost its image as an emerging exporter of the commodities in the world. Then, it was due to the efficient economic policies of Gen. Ziaul Haq that the Pakistani economy was not adversely affected by the global economic depression of 1980-81. Key macroeconomic indicators remained growing steadily even in the early 1980s. Special attention was paid to the agricultural products. Agriculture production grew up to 45 percent of the total export revenue. "The average annual growth of agricultural production during Zia's rule was almost three times more than in 1971-77" (Belokrenitsky and Moskalenko, 2013).

External confidence in the economy and Zia's policies was also high. Pakistan received \$ 1.87 billion in monetary aid from U. S during the reign of Gen. Ziaul Haq for assisting the military officers during their training sessions and for purchasing the spare parts of U.S.-made equipment. Comparatively, \$ 1 billion reached Pakistan from U. S during the years 1972-77 when the country was being governed by a democrat. The lower U. S award for Bhutto reflects the reality that Bhutto was much inclined toward China to secure considerable military assistance and was very interested in purchasing weapons from European Countries (Haqqani, 2013). International Monetary Fund (IMF) awarded Pakistan with a credit of \$ 1.7 billion on November 25, 1980. It was the largest amount given to a developing country. The purpose of the award was to liberalize the imports of industrial raw materials and machinery. Later on, a consortium of 36 international banks showed an inclination towards lending \$ 200 million to finance the commodity imports in December. With the support of oil, multinationals increased the level of their exploration. Meanwhile, Zia invited American businessmen to New York on October 5, 1980, and urged them to broaden their field of investment, particularly for making Karachi and Lahore special export processing zones (Gustafson and Richter, 1981). Zia launched a scheme for 'national sufficiency' for wheat that made Pakistan able to achieve self-sufficiency in particular yield and stopped importing it. In 1981, the production of wheat was expected to be increased up to 30 percent more than in 1977-78 (Cohen and Weinbaum, 1982).

Almost \$ 200 million in loans from the World Bank's IDA in 1981 were given to Pakistan for completing its development projects. Further, the US promised \$00 million for the financial year 1982 as a result of the restoration of economic assistance. Aid from Saudi Arabia and the Middle East in the same year also makes the national economic plans more effective. In March 1981 Saudi government showed a desire to invest \$ 3 billion in Pakistan which was 60 percent of the total development of the Third World. This aid aimed at the agricultural and industrial development of Pakistan so that it could become a 'granary' for the Middle East (Cohen and Weinbaum, 1982). Pakistan exported wheat for the first time in 1982 since its inception. The same was the case with the production of cotton that, often, had been prey to the weather conditions. Resultantly, the disruption in the cotton production caused a colossal damage to the textile industries. However, Zia's focus on the uplift of agricultural products bore the fruits regarding an increased quantity of cotton. An all-time high cotton product was achieved in 1984-85 when 1208 thousand tons of cotton increased the ratio of Pakistani exports to an unexpected ratio (Belokrenitsky and Moskalenko, 2013).

It was also in the same year that Pakistani exports increased by 16.7 percent. Inflation was under considerable control. Pakistan's oil production increased with the drilling of sixteen new wells including the already 40 operating in the country. The production reached 20,000 barrels a day which was twice the production in 1978 (Richter, 1985). Ashok Kumar criticizes the financial management of Pakistan during the 1980s and elaborates on the share of U. S. aid and agricultural products in a way that:

"Pakistan's economic performance had more to do with lucky harvests, healthy overseas remittances by Pakistanis and foreign aid packages rather than superior economic management" (Kapur, 1991).

(d) Corporatization

Zia's regime crystallized the hegemony of the civil and military bureaucrats, both on political and economic fronts. Their political and administrative role ensured their entrenched entity in the economy that provided strength to the sector to a greater extent. The bureaucracy supported Zia as a critical ally and Zia, too, did never undermine its role concerning economic control and power. The retired and serving officials, particularly from the military, became more and more visible in the economic sector and were awarded lucrative positions (Zaidi, 2011). Zia was not going to lose the cooperation from his corporate sector at any cost as his strategy to consolidate power and legitimacy could not be proved workable otherwise. In other words, Zia guarded his corporate to exercise the tight tutelage of his government (Shah, 2014). In addition to that, Zia considered the military as his base for support to ensure his prolonged rule in Pakistan. He, therefore, proliferated military-run businesses and provided retired military officers with lucrative employment opportunities. These officers with little or no business experience, started working in prominent positions in different firms, insurance companies, and cement and cereal industries, which could be productive for boosting the economy of Pakistan at a rapid pace. Military criticism in routine for the civilian sector, regarding corruption, also paved the way for these officers to enter the fiscal management of Pakistan (Hayes, 2014). This approach of Zia won the trust of the business community for the bureaucrats which enabled the private companies to have close ties with the military establishment to make rapid economic progress. These officials were involved in the boards of companies to formulate rules and regulations and to decide the dimensions of the investment. The networking was totally in favor of the industrialists, the private sector, and the military personnel. However, the third party was the major beneficiary during the whole process of economic control. Therefore, the image of the army as 'defenders of the motherland' changed into the 'corporate bosses' who were soldiering over tonnes of sugar, cement, and steel (Zaidi, 2011).

Conclusion

In short, during Zia's rule, Pakistan enjoyed financial advancement. His Islamization policy worked properly for him, denationalization encouraged the private sector to invest more in return for gaining more. The promotion of the industrial sector gave birth to economic prosperity and the active role of the corporate sector backed all these policies quite efficiently. The ratio of exports increased dramatically and remittances of the overseas Pakistanis removed many economic restraints. Significantly, the development rate was solid on account of the infusion of US aid, which was sufficient to erect and strengthen the pillars of the economy but it came at an incredible social expense introducing drugs, arms, violence, jihad, and hypocrisy in the general public. In financial terms, President Zia didn't haggle well with the US and agreed to "peanuts" bringing about the scourge of unmanageable foreign loans, a large adverse trade balance, and IMF dependency. Overall, economic conditions, be that as it may, improved: GDP grew at 6.6 percent annually, with agriculture at 4 percent and the manufacturing unit at 9 percent. Fiscal deficits, in any case, increased to 8 percent of GDP notwithstanding a decrease in development expenditures. Domestic borrowing to finance these deficits didn't debilitate development promptly yet had genuine repercussions for open funds and full-scale financial steadiness during the 1990s. As an outcome, Pakistan needed to move towards the International Monetary Fund (IMF) for assistance in 1988.

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