

# Economic development of fata within pakistan



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## **Introduction**

1. Situated midway along Pakistan's border with Afghanistan is a wedge of rugged terrain, dotted with sparsely populated valleys, home to a dozen Pakhtun tribes and hundreds of clans and sub-tribes. This mountainous land, known as the Federally Administered Tribal Areas (FATA), is made up of seven 'political agencies' and six smaller zones, called 'Frontier Regions', which separate the tribal agencies from the rest of the country. On three sides, FATA is bounded by the 'settled' provinces of Pakistan. The Durand Line forms its western border. In the 19th century, the area held great strategic importance, serving as a buffer between the British colonial government of India and Tsarist Russia. Starting with the 1979 Soviet invasion of Afghanistan, the turmoil and instability across the border spilled over into FATA.

2. FATA has remained one of the most insular and isolated corners of the country cut off from the mainstream of Pakistani society. Increasingly impoverished and marginalized, they have become an easy pray to terrorist elements. The overall economic situation of the region has remained below normal level due to governmental policies coupled with overall economic decline in the country due to the after effects of GWOT. In the succeeding paragraph an attempt has been made to analyze economic potentials of FATA with a view to initiate an economic development drive in the region. The aim remains to bring facilities of life to its people eradicating social deprivation.

**Aim**

3. To carry out a detailed analysis of present eco sit of Pakistan, with a view to recommend measures for a sustained economic development process within Pakistan's economic capacity to spearhead an economic development process in FATA in specific and Pakistan in general.

4. Sequence. The research paper haws been divided into following major parts:-

**Part – I**

Pakistan Economic Review

Problems of Pakistani Economy

**Part – II**

FATA Economy

Agency wise economic potential

Recommendations to improve FATA Economy

c. Part-IV

Budgetary Allocation

Recommendations for Sector Wise and Consolidated Budgetary Allocation

**Part – III**

Economic Developments Models for Development of FATA

Reconstruction Opportunity Zones (ROZs)

FATA Sustainable Development Program (SDP)

GCC – EU Friends of FATA Fund (FFF)

Recommended Framework

## **PART – I**

5. Pakistan Economic Overview. Pakistan's economy has been fluctuating throughout its 55 years history. The deplorable state of the economy was the result of many years of economic mismanagement and imprudent economics policies of the successive governments. The tragic events of September 11 and their aftermath further exacerbated the already difficult emerging situation on the global economic scene[1].

6. Problems of Pakistani Economy. Few of the major ones are:

**Political Instability.** In Pakistan governance is characterized by uncertain policies, ineffective implementation, limited accountability to clients, regulatory overhangs, and failure of the legal system to provide timely recourse.

**Lack of Long Term Planning.** Despite the establishment of planning commission in 1953, there has not been any meaningful planning. Futuristic needs/trends have not been catered for by so called planners.

**Nationalisation versus Privatisation.** In the past 60 years the country has oscillated between the two options and even now the privatisation drive is marred by personal interests and lack of transparency.

Bad Governance. Usually competent/professional people have not governed the state-controlled industries. This had pronounced effect on overall poor output of these units.

Poor Banking System. Our banking system has not supported the growth of economy. Money of innocent people deposited with these banks has been loaned to influential people that now stand defaulted.

Large Trade Deficit. In 2009, 80% of our imports were financed by our export earnings. This ratio has come down to only 50%, it may go up to 60% but a gap of 40% of financing needs in order to keep with the import level still exists[2].

Fiscal Deficit. Pakistan's government takes away 20% of national income as its own. 80% is left in the private sector and 20% in the hands of the government is spent on defence, debt servicing, development on education, health, general administration etc[3].

Declining Foreign Trade. In 1990, Pakistan's share was 0. 2% of the world trade. After 20 years it has come down to 0. 12% in a very buoyant world economy[4]. Pakistan is stuck with only a few commodities – textiles, leather, rice, sports, goods and the surgical goods.

Poor Economic Indicators. Pakistan's indicators in literacy, infant mortality, in access to water supply, primary enrolment ratios are more comparable to Africa rather than to the countries of similar per capita income.

Energy Crisis. Our industry is at a disadvantage that they get the orders from foreign countries but they cannot execute the orders because there are

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electricity outages and in addition of cost of production becomes higher than international competitors.

Law and Order Situation. In 2007, Pakistan was one of the most favourite countries among the international investor community[5]. However, in two years time we have missed that boat due to alarming law and order situation in the country.

Faulty Taxation System. Indirect taxes account for about 80 % of tax revenues, with nearly half of this coming from trade-related taxes[6]. This narrowness of the tax base can be traced to weak tax administration.

Smuggling / Black Economy. Independent economic analysts estimate an annual direct revenue loss of 25 billion rupees (US\$540 Million) to the government because of smuggling[7].

Export / Import Imbalances. This is usually over US\$ 3-4 billion per annum. The reason is heavy production cost and our inability to convert raw materials into finished goods[8].

Heavy External Debt. With over US\$ 32 billion, as external debt, even our future economic development is at stake[9].

Population Growth. This over hanging liability is a constant disadvantage to our overall economic growth. The effects of our economic growth are eaten away by the rapid growth of population[10].

Unrealistic Economic Policies. The absence of competent economist in planning departments of the government has adversely effected the economic growth.

Human Resources Management. Pakistan expenditure on social development sector has remained poor. The talent is going to foreign countries due to mismanagement[11].

Exports. The Rapidly growing competition in international markets coupled with improved quality standards has resulted in substantial decrease of share in foreign trade.

Poor Literacy Rate. Pakistan's primary and secondary school enrollment rates are considerably low. The average adult literacy rate is less than 50%. [12].

## **PART II**

### **FATA ECONOMY**

7. The rural economy is chiefly pastoral, with agriculture practiced in a few fertile valleys. The local economy operates on an informal basis and is undocumented, since few laws providing for the regulation of economic activity have been extended Most households are engaged in primary-level subsistence agriculture and livestock rearing. Some are involved in business and trading, or find employment in the small-scale commercial and industrial sectors. Those unable to earn a living at home migrate to other parts of the country or travel abroad in search of work. Women take active part in agricultural activities, collect fuel wood and fetch water, in addition to attending to household work and family duties.

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## 8. Agriculture[13]

Small landholders make up the majority of farmers and engage in agriculture mainly at the subsistence level, characterized by the underutilization of land, poor productivity and risk-averse behavior.

Only 7 per cent of the total geographic area of FATA is cultivated, with another 1 per cent recorded as fallow, accounting for roughly half of all potentially cultivable land.

Overall production and per-hectare yields in FATA compare poorly to figures for the country as a whole. The yield per hectare for wheat in FATA is just 38 per cent of the national.

## 9. Poultry and Livestock[14]

Livestock and poultry are an essential component of the rural economy, providing income support for most farm households.

The size of the herd depends on the household's capacity to purchase animal feed in the winter and spring months, when natural fodder is thin on the ground.

Some 4.9 million ruminants and 6.7 million birds are being reared across FATA. Fish farming is practised mainly at the household level on wasteland and marginal lands.

## 10. Commerce and Trade[15]



Commerce and trade form a major source of livelihood in the tribal areas, second only to agriculture.

Historically, and particularly during the 1980s, the region was a major centre for opium production and trafficking. Today, the transit trade with Afghanistan provides employment for the local population.

#### 11. Industry[16]

Industrial activity is restricted primarily to small, owner-financed units, operating without government oversight

Some mineral extraction is taking place in various agencies, using outdated technology and antiquated methods.

Many seek employment as short-term unskilled labourers or enlist in the local security and paramilitary forces. Those who are able to travel find work in cities across Pakistan as well as in the Middle East.

There is considerable local expertise in the manufacture of weapons but production is not regulated and export to the settled areas is illegal.

#### 12. Forests[17]

Forests are an integral part of the rural economy, playing a significant role in local livelihoods particularly in the mountainous regions.

The forest cover is declining rapidly as a result of timber extraction, prolonged periods of drought, uncontrolled grazing, and pressure from fuel wood and fodder collection.

Over-exploitation has also affected the natural regenerative capacity of forests. With forest resources rapidly disappearing, the environmental services provided by natural ecosystems have also diminished.

Rangeland and pasture areas are in a depleted state, partly from overgrazing but also because of extended periods of drought.

13. Economic Potential Available. A variety of economic potential exists in the tribal areas depending upon the population, land, geography, and vicinity of the Afghan border. These will be covered as per the existing administrative set up of the areas. The agency wise economic potential is covered in succeeding paragraphs[18]:-

15. Dir, Swat, Bajur and Chitral Agency. As per the old records the major source of economy has been Agriculture. Where so ever agriculture is possible majority of the population depends upon agriculture, but the produce is not sufficient to sustain the complete population therefore grain and certain other items have to be imported from other parts of the country. The second major source of economy has been cattle farming. It is still common in all the highland country and people involved in this profession spend a nomadic life shifting their abode in search of pastures and with the severity of weather. Mineral to include Iron and Copper are also found in the Khashkar valley of Bajour Agency, these are being mined in certain areas and few villages are totally employed in this profession. Inferior Cotton Carpets and Shawls are also made in these areas through which a number of families are sustaining their livelyhood. Forests have been another major source of income and have contributed in the overall revenue generation

from the area. Deodar forests of upper Dir valley are a famous source of income to thousands of people. Although these are protected by Forest department yet certain rights have been secured by the local population to sustain their livelihood.

16. Mohmand Agency. The Mohmand country comprises barren hills and a little of fertile alluvial plains between the doab of the rivers. Major produce is Grass, Dwarf Palm, Firewood and charcoal. But this produce is meager enough to sustain the population; therefore reliance of majority of the population is on trade through Khyber Pass from Afghanistan. It has been replaced by smuggling of drugs, weapons and other electronic item of Afghan transit trade which passes through Khyber pass.

17. Khyber Agency. The Khyber Pass is the great northern route from Afghanistan into Pakistan and India, while Kurram and Gomal Passes form intermediate communications. Agriculture has been the major source of sustenance besides trade. A limited cottage industry of gun manufacturing also exists in Bara area of Khyber Agency. Now a days smuggling through Afghan transit trade is the main stay of the economy along with drug trafficking and gun running. Cattle farming as a tradition have always been supporting the tribes in Khyber Agency. The Mullagori marble deposits are one of the largest marble deposits of the world. Other mineral deposits in Khyber Agency include soapstone, limestone, dolomite, ciliate, silica sand, barite, mica, and graphite. Marble deposits are found in Mullagori, Sultan Khel, Ghundai Sarand and Loe Shalman. Soapstone is the second most important mineral of Khyber Agency. The major deposit lies 7 kilometres from Jamrud Bazaar. The mineral production figures for the year 2003-2004

include 7260 tons marble, 1, 82, 160 tons of lime stone, 1200 tons of soapstone and 110 tons of barite. Khyber Agency has a very low industrial base having only three industrial units of significance including the Bara Ghee Mills and two cigarette factories namely One More Cigarette Factory and Tatara Cigarette factory with a total employment estimated at 525 persons. There are other small silk processing units at Alam Gudar Bara, which is basically a cottage industry.

18. Orakzai Agency. Named on a pathan tribe inhabiting the Northern slopes of the Samana range and the adjoining valleys of Tirah. The major source of income is as per Khyber agency agriculture; however a small industry of gun manufacturing also exists in the area. Poppy cultivation, drug smuggling has gained momentum in these areas over the last two decades.

19. Kurram Agency. The Agency has an area of about 1, 278 square miles. Agriculture is the major profession in the area. Wherever water is available the soil is highly productive. Major crops are maize, wheat, rice, barley and clover. Apples, pears, grapes, cherries, pomegranates, peaches, and a fruit peculiar to the Kurram and Tirah, known as the " Shalil" also grow in abundance and are one of the huge income earning sources. It is said that famine is unknown in Kurram. The agency is accessible from Kohat by the Khushalgarh - Kohat - Thal branch of the Railway and road link also exists. Forests of Blue Pine and Chinar contribute to the economy of the agency a great deal.

20. North Waziristan. The agency comprises of four large and fertile valleys. These valleys are irrigated by the Kurram, Tochi and Gomal rivers

respectively. The lands of the valley are extremely rich, and grow heavy crops of maize, rice, sugar cane, wheat. Agriculture is the major backbone of the economy however smuggling also brings a lot of cash in the agency. Forests of Mulberry, chinar, willow, gurgura and wild olive are also abundant on the slopes of the mountain which can be exploited to bring huge finances in the area. Fruit orchards of apple, apricot and peaches also contribute to the economy of the agency. Cattle forming is also a major source of livelihood in Pashtoon tribes of the agency.

21. South Waziristan. The lands which lie close to the numerous streams are well cultivated; their extent is insufficient to produce grain for the whole population. Wheat, barley, rice, maize and millet are the chief crops; these are often cut when green for fodder, springing up again before the harvest. Fruit orchards of apple and peaches are also contributing in the economy of the area. The chief mineral product is iron, which is found and smelted in many places, especially in the hills above Makin. Forests include wild olive, gurgura and dwarf palm trees. Mats and ropes are made of the dwarf palm by the men and the women weave rough cloth from wool and blankets from goat's hair. Cattle farming is also very common in many a tribes in the area specially the Ghilzai Powindas. Trade has also been a famous profession in the area due to the link through Gomal Pass. It still continues with an amalgamation of smuggling. In certain areas of the agency poppy cultivation has also been reported, which is being controlled now days.

## **Recommendations**

13. The following is recommended to fasten the rate of development work in FATA to boost its economy and bring it in line with the settled areas of Pakistan:-

**Development Plan.** The Central Government should allocate funds and provide loans to tribesmen organisations and individuals. The loans should be provided on minimal mark up rates and private and public sectors should be encouraged to assist the tribal organisations to develop viable and resource generating economic ventures of their own[19].

**Share in National Finance Commission (NFC) Awards.** NFC Award is based on the population of each province. In view of government's drive to bring FATA into the national mainstream, it is imperative that it be included in the NFC Awards as a separate entity.

**Transparent Financial Management.** A system of transparent financial management should be evolved with participation of general public. The authority of auditor general should be extended to FATA and proper audit of accounts of all government departments should be carried out.

**Trade Sector.** The international efforts for re-construction in Afghanistan and opening up of trade routes to CARs (Central Asia Republics) offer great economic opportunities for Pakistan with an annual trade which may fetch up to one billion dollars. Creation of environments conducive to trade will greatly help in improvement of economic situation. Following measures will help in this regard:-

Opening of Trade Routes. Formal trade routes between Pakistan and Afghanistan should be opened on priority e. g. Ghulam Khan Route between Miranshah and Khost

Custom Regulations. Relaxed custom regulations to encourage legalization of informal (smuggling) trade.

Tribal Chamber of Commerce. The establishment of a Tribal Chamber of Commerce would enable the tribal traders to have better interaction with the national and international markets.

Tribal National Bank. It should provide financial services, counselling and planning ability necessary to free the tribesmen from the isolation of an economic island in which they had been living for centuries.

Agriculture Sector[20]. Agriculture sector can provide a substantive base for economic development. Following measures are recommended in this regard: –

Adopt the ‘pocket area’ approach to focus on the production of specific crops in identified production zones.

Improve water management practices by introducing efficient water use technologies, and constructing small dams, ponds and reservoirs.

Reclaim cultivable wasteland through dry land agriculture. Introduce the use of bio-pesticides.

Irrigation network needs to be developed by construction of small dams, check dams and channels.

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A land settlement system should be evolved on modern lines.

Processing facilities should be provided to ensure proper packing and canning of fresh and dry fruit for international markets.

Grafting of wild olive trees with fruit bearing species. Fruit culture and off-season vegetables with free fruit saplings and expert's.

Model fish farms have also been constructed to encourage locals to adapt to the modern systems of enhancing their income.

Forestry Sector[21]. Forestry sector needs to be explored for economic improvement in the area. Following steps are recommended to be undertaken:-

Launching of a conservation campaign for the forests.

Encouraging plantation of new trees by provision of free saplings.

Establishment of checks for smuggling of timber to Afghanistan.

Modernization of timber industry in the area.

Provision of assistance to locals for olive grafting and plantation of oaks and chalthoza pines.

Live Stock Sector[22]. Following steps are recommended in this regard: -

Improve access to services, including animal health services.

Increase the number of female livestock extension workers.



Make feed and fodder widely available.

Improve the condition and productivity of rangeland, in collaboration with research institutions and the forest department.

Introduce new species of fodder, in collaboration with research institutions, farmers, tribes and herders.

Enhance livestock production through breed improvement.

Set up marketing facilities for farmers.

Improve rural infrastructure and access to markets.

Declare ‘pocket areas’ for dairy production, with linkages to agro industry for marketing and service delivery.

Ensure that savings and credit services are available to support micro enterprise and on-farm income generation activities.

Enable farmers to improve marketing by providing information.

Mobilise local communities, and establish linkages with public- and private-sector services for technical assistance and inputs.

Encourage and support the establishment of livestock- and poultry-based industry.

Develop a database, carry out resource mapping and set up information system to assist in planning and monitoring.

Conduct research into animal nutrition and breed improvement.

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Raise awareness about the importance of the sector in terms of livelihood security, and lobby for adequate funding.

Establishment of new veterinary hospitals and artificial insemination centres.

Setting up of government subsidized live stock markets.

Provision of incentives in the form of easy loans.

Establishment of food processing facilities for canning of meat.

Minerals Sector[23]. FATA has great potential of mineral resources. In order to increase productivity in the mining sector and improve the quality of the product, following strategies will be adopted:-

Legal framework governing mining activities to encompass leasing, dispute resolution mechanisms and regulation.

Increase the productivity of mines by adopting modern methods to boost quality and reduce wastage.

Introduce new technologies through joint ventures on the basis of public-private partnerships.

Maintain a healthy workforce by improving safety; develop emergency evacuation procedures.

Improve the quality of human resources through intensive training.

Following needs to be done to improve the situation in this sector:-

(a) To encourage tribesmen either in joint ventures or lease agreements with public and private sectors.

(b) The whole of FATA needs to be brought under geological survey mapping.

(c) Special funds should for mineral exploration and development on modern lines.

i. Industrial Sector[24]. However, there is a great potential available for development of certain industries in the area which should be exploited by public and private sector. These include following:-

Construction material including cement.

Decorative material including wood and marble products.

Defence related industries including manufacture of small arms and ammunition.

Public and private sectors should be encouraged to set up small scale industries.

The option of establishing clusters or pockets in industrial parks will be explored.

To set up training centres within functioning industrial units, for marble processing, mining, light engineering or footwear manufacture.

Organise local craftsmen into trade guilds for promoting best practice, standardisation and quality control.

Set up a regulatory authority for formulating investment-friendly policies through dialogue with stakeholders.

Strengthen infrastructure in the region, including roads, electricity and water supply.

Hold a regular dialogue with local tribes to promote investment.

Short-term mining courses can be arranged by the mining department at the Peshawar University of Engineering and Technology.

j. Tourism Sector[25]. Recommendations in this regard are as follows:

Develop tourist facilities and services at selected locations.

Facilitate private-sector involvement in the sector.

Promote areas that already witness some degree of tourist activity.

Encourage and facilitate inter-agency exchange visits and tours.

Carry out research on the cultural and natural heritage of the area, and make this information widely available.

k. Infrastructure Development. Following measures are recommended in this regard:-

Rehabilitate roads for better connectivity to strategic locations.

Construct new roads in remote or underdeveloped areas to generate economic opportunities and improve security.

Build new bridges and rehabilitate damaged bridges.

l. Good Governance. Good governance is a key prerequisite for achieving the goals set out in the economic development of FATA. Governance system is participatory, supported by a robust legal framework with active public consultations.

m. Law and Order. Another basic requirement for socio-economic development is human security. This is of course a critical issue for the people but security is equally important to service providers and government officials who travel to and work in the area. In this regard following is recommended[26]:

Reinforcement of the Frontier Corps with more manpower, modern equipment, mobility, intelligence, higher salaries and training in counterinsurgency.

Properly trained, better equipped and reformed FATA police and Khasadar Force.

Fencing of Pak-Afghan border with monitoring sensors Afghanistan and selected crossing places.

Phase wise handing over of areas to FC and local Law Enforcement Agencies.

n. Conflict Resolution. The people of FATA have long been accustomed to use of violent means for settling of conflict between the members of different tribes and clans. Although an indigenous mechanism for conflict resolution already exists in the form of the jirga, there is perhaps a need to find ways to

prevent conflict from occurring in the first place. In this connection, it is worth exploring the possibility of a set of rules and regulations, arrived at by mutual consensus, to serve as a basic charter or code of conduct for peaceful coexistence.

o. Private Sector Participation. The private sector has to play a crucial role in achieving the targets of economic development in FATA. The government must improve the framework conditions for the development of the private sector, and encourage public-private partnerships.

## **Budgetary Allocation**

14. Each year, the federal government sets aside a block allocation, known as the Annual Development Programme (ADP), intended exclusively for development expenditure. This allocation, disbursed according to province, region, sector or project, is part of the federally funded Public Sector Development Programme (PSDP). FATA receives an annual share of ADP funding. In addition to the ADP, the PSDP provides separate funds for programmes and projects in various agencies and FRs, and contributes to donor-assisted initiatives

15. Sector-specific allocations from the ADP are made at the Civil Secretariat FATA, based on priorities and needs. Although the development budget is not intended to finance salaries or recurrent liabilities, in practice this is often the case. Insufficient allocations for repairs and maintenance, meanwhile, mean that some of these costs are also met through the development budget[27].

## **Sector Wise and Consolidated Budgetary Allocation.**

16. Details are attached as Annexure A.

## **ECONOMIC DEVELOPMENT MODELS FOR FATA**

17. ROZ (Reconstruction Opportunity Zones) Model[28]. ROZs would be a specific type of export processing zone, and thus part of a world-wide network of free trade zones