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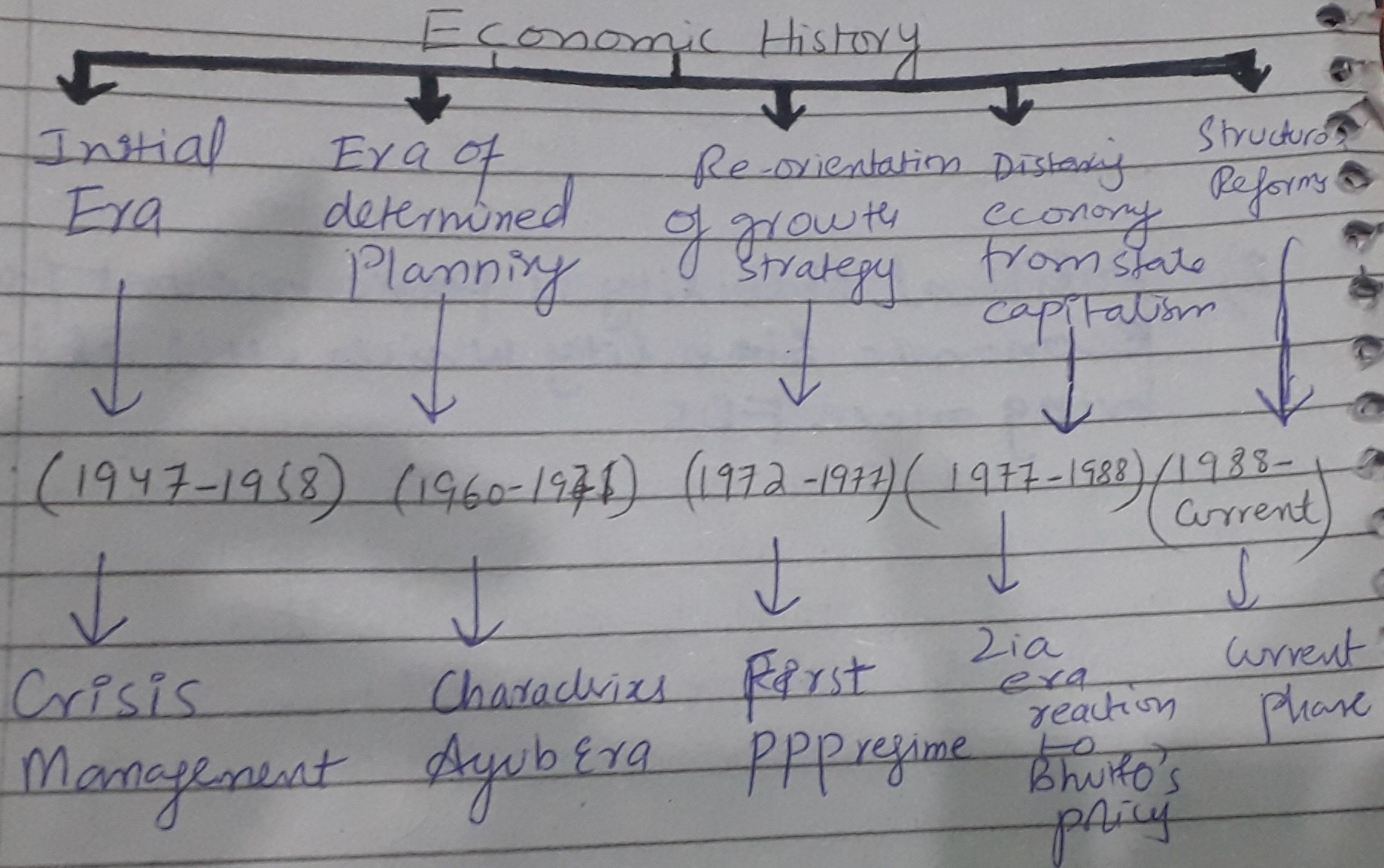
(Qno1) Write a detailed analysis on Pakistan's dwindling economy. What are the causes behind it and what has to be done to better it?

## Introduction: Dwindling Economy of Pakistan

Pakistan is a developing country. The World Bank considers Pakistan a low-income country. The current GDP of Pakistan is around 376 billion dollars, which makes Pakistan the 46<sup>th</sup> largest economy in the world. It is the South Asia's second largest economy after India, representing about 15 percent of regional GDP and it is the 24<sup>th</sup> largest in the world in terms of <sup>purchasing</sup> nominal power parity. As Pakistan has a population of over 220 million, the world's fifth largest populated country but the GDP per capita is \$3,149. Thus ranking 140<sup>th</sup> in the world. Pakistan's economic growth since its inception has been varied. It has been slow during periods of civilian rule, but excellent during the three periods of military rule, although the foundation for sustainable and equitable growth was not formed. There are many factors of economic crisis in Pakistan. But the most prominent are Covid-19 and Russia-Ukraine conflict which was a great setback to the economy of Pakistan and government of Pakistan should take steps to rejuvenate economy of Pakistan.



# Time line





...steps to rejuvenate economy of Pakistan.

## Causes behind the dwindling Economy of Pakistan

1) ~~The~~ Following are the reasons for dwindling Economy of Pakistan. These are mentioned below:

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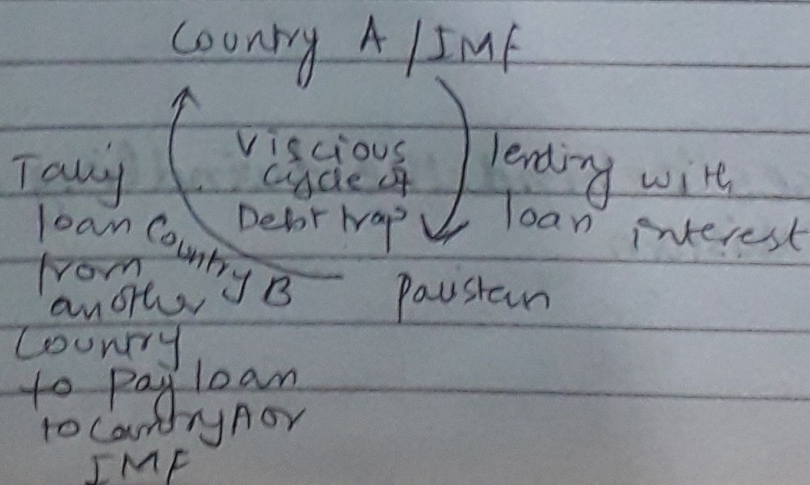


# 1) Pakistan's Economy is excessively dependant on debt and foreign aid.

Pakistan's economy is excessively dependant on debt and foreign aid, which is not useful in long term. A country cannot make progress if its economy is dependant on debt and foreign aid. It is useful for short term objectives. Moreover debt is associated with interest. Either the countries or IMF gives loan on high interest rate which has trapped Pakistan in a vicious cycle of debt trap. For example: The Loan of IMF cannot be spend on development sector. Rather it can be <sup>only</sup> used for commodities or services. This excessive debt affects the policies of Pakistan.

Confessions of an Economic hitman by John Perkins said that: "Debt and fear are the two most powerful drivers of an empire".

The total debt of Pakistan including internal and external debt is around 140 billion dollars or in other terms 72 trillion rupees. 93% of total GDP exists as debt. That's why Pakistan is trapped in vicious cycle of Debt trap.





## 2) Difference in between the exports and imports of Pakistan.

There is the difference in between the exports and imports of Pakistan. According to Pakistan Bureau of Statistics, exports of Pakistan is 584,156 million rupees and imports of Pakistan is 1,037,152 million rupees. As Pakistan has more imports and less exports which indicates that currently Pakistan is trade deficit.

Figure:

Exports  $\uparrow$  more, Imports  $\downarrow$  less = Trade surplus

Exports  $\downarrow$  less, Imports  $\uparrow$  more = Trade deficit  
Currently Pakistan is in trade deficit because of four reasons

- 2.1 Pakistan is producing very few commodities
- 2.2 There is no or low competitive advantage in certain products.
- 2.3 Pakistan is importing the raw material of the things, that it exports. Resultantly, the finished goods are expensive compared with other countries.
- 2.4 There is production of very few value added goods.

## 3) Lack of updated industrialization in Pakistan

Currently, Pakistan is lacking updated industrialization which is a great set back to the economy of Pakistan. Due to Covid-19 and Russia-Ukraine conflicts, there is a price hike of every single material in Pakistan. Most



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of the Industries had been shut down by the owners and rest of Industries are facing difficulties because of lack of updated units.

Why Nations fail by Daron Acemoglu and James A. Robinson said that: "The rich countries of today are those that embarked on the process of industrialization and poor are those that did not."

That's why lack of updation of industrial unit is one of the reasons of dwindling economy of Pakistan.

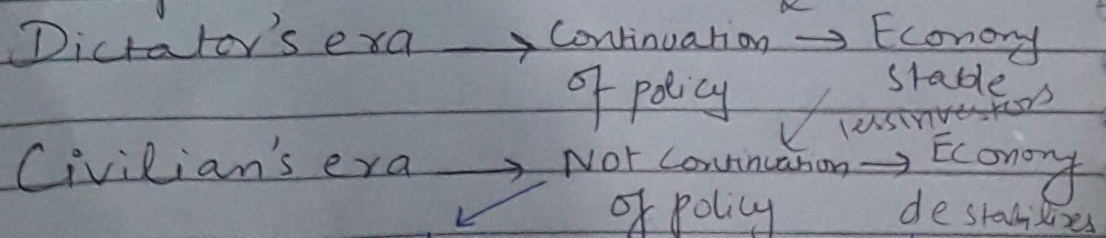
#### 4) Political Instability leads to Economic Instability in Pakistan.

The politicians "so called leaders" always focus on the political survival or political career. So the policies which are made for progress of country are not feasible and are hampering the economy of Pakistan.

Dr. Ishrat Hussain said that "political instability and frequent change in political regime has effected the economic governance in Pakistan"

Discontinuation of any policy in the next government affects the economy as well as trust of the investors.

For example



\* Sehat card, Kamyab Nojawan card started in PTI government and ended in PML-N government



## 5) The Informal and undocumented Economy of Pakistan.

The biggest chunk of economy of Pakistan is undocumented and informal. When there is undocumented economy then there will be decrease in number of tax payers. For example 99.99%, Doctors do private practise which is undocumented economy. Similarly, pharmacies, salons, shops which are generating revenues are also undocumented.

More undocumented Economy  $\uparrow$  Less tax payers in Country  $\downarrow$

Less undocumented Economy  $\downarrow$  More tax payers in Country  $\uparrow$

## 6) Lack of Research and development lead to less innovations in Pakistan.

Research and development is very important for the progress of <sup>any</sup> country. As the Pakistan lacks the facility of R and D, therefore there are less innovations. In foreign countries Research and development is integral part of study which is extremely beneficial for the prosperity of country.

R and D less  $\downarrow$  Innovations  $\downarrow$  Productivity + Product size  $\downarrow$

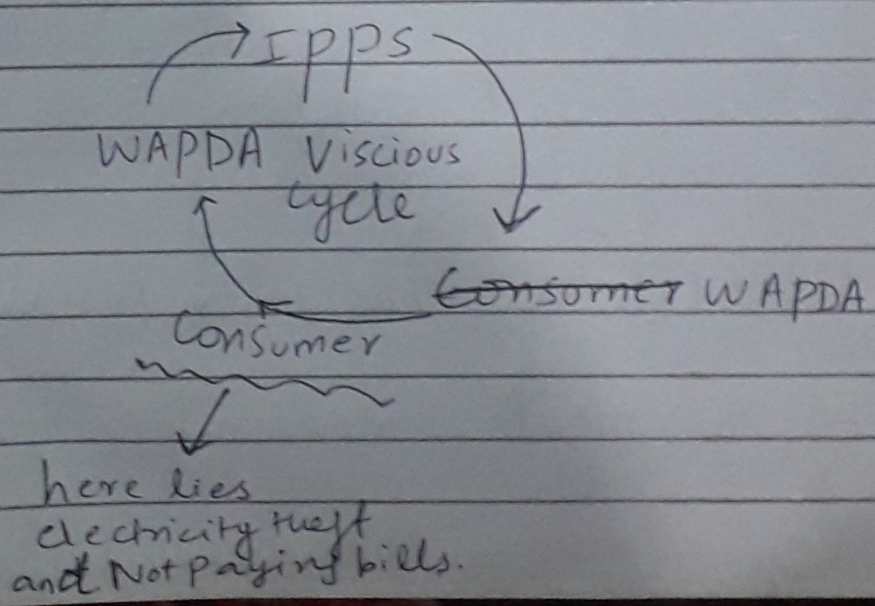
R and D more  $\uparrow$  Innovations  $\uparrow$  Productivity + Product size  $\uparrow$



### 7) Excessive Uncontrollable circular debt on Economy of Pakistan.

Pakistan is trapped in the vicious cycle of uncontrollable debt. This debt is increasing day by day, thus weakening the economy of Pakistan.

For example: IPPS (Independent power producers) produce electricity and WAPDA is responsible for distribution of electricity to homes, offices, industries etc. In return, for consumption of electricity, consumer gives money in form of bills to WAPDA and, then WAPDA give this money back to IPPS. Problem arises here that consumer are either not <sup>paying</sup> giving the bills or there is electricity theft going on. It results in deficit of money. To overcome this government of Pakistan is taking loans from bank to fulfil this deficit. So can provide back to IPPS. But the loan is always returned with an interest, which is creating burden on government of Pakistan. Hence a vicious cycle of circular debt has started.





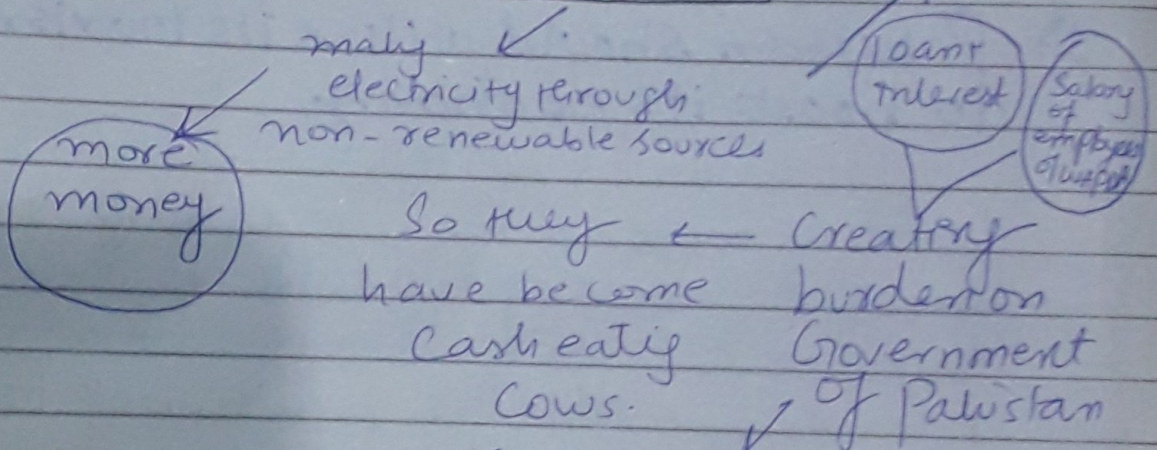
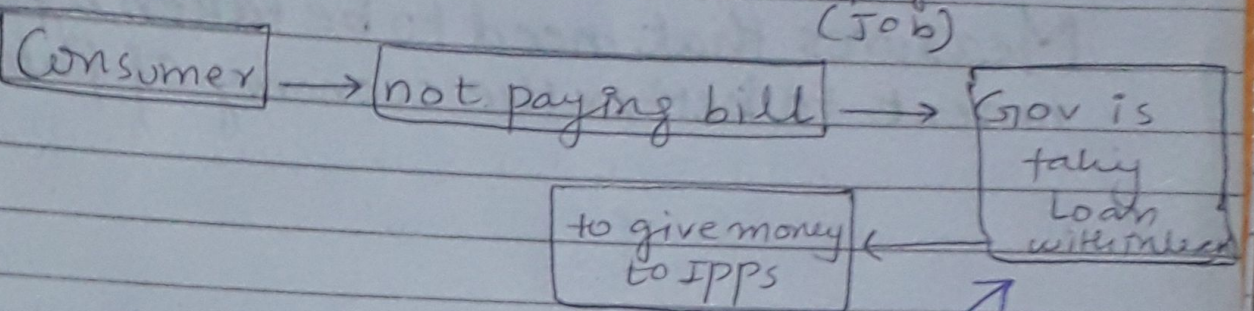
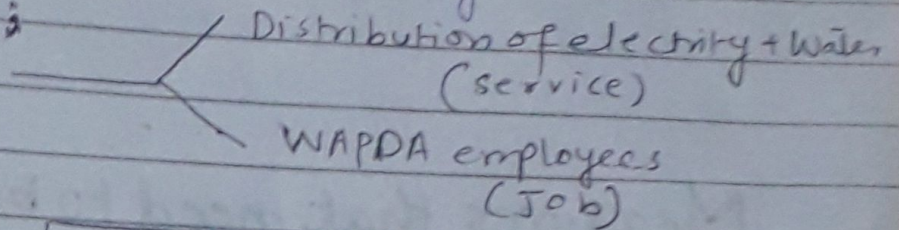
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## 8) Heavy losses in State own Enterprises.

The example of state own enterprises are WAPDA, PIA, Pakistan steel mills etc. They are not cash-making cows, means they do not provide money. They are just providing the services and jobs to government of Pakistan. In current scenario these institutions are not cash making cows any more rather, they have become cash eating cows.

For example;

WAPDA



So they have become cash eating cows. Creating burden on Government of Pakistan

SOEs in Pakistan has caused lost of 692 billion rupees

## 9) The pressure tactics used by India in form of FATF.

India is using all the tactics to push back



Pakistan into the grey list which will ultimately weaken the economy of Pakistan. Whenever, any country is placed in the grey list, it cannot open any international bank resultantly, there will be no foreign investment. For example, when Pakistan was placed in the grey list, the International Bank named as Bankase ended in Pakistan. There was no direct foreign investment in Pakistan. So Pakistan economy was crumbled because of presence in grey list.

## Measures that need to be taken by Government to better the economy of Pakistan

Following are the measures to be taken by government of Pakistan:

### 1) Pakistan should utilize its tourism potential to boost its economy

Tourism is an important source for boosting the economy of country. Hefty amount of money can be generated by tourism.

For example Maldives is a hub of tourism. There is no need of visa for visiting Maldives. Turkey is also hub of tourism, and its visa process is very easy. Similarly Malaysia, Sri Lanka and Thailand have also easy visa process. But on other hand the visa process of Pakistan is a sternous one. It requires forty days with a lengthy



documentation process. Moreover Infrastructure is not upto the mark which creates hurdle for tourist to visit Pakistan.

a) Digitalization of economy is the need of hour in Pakistan.

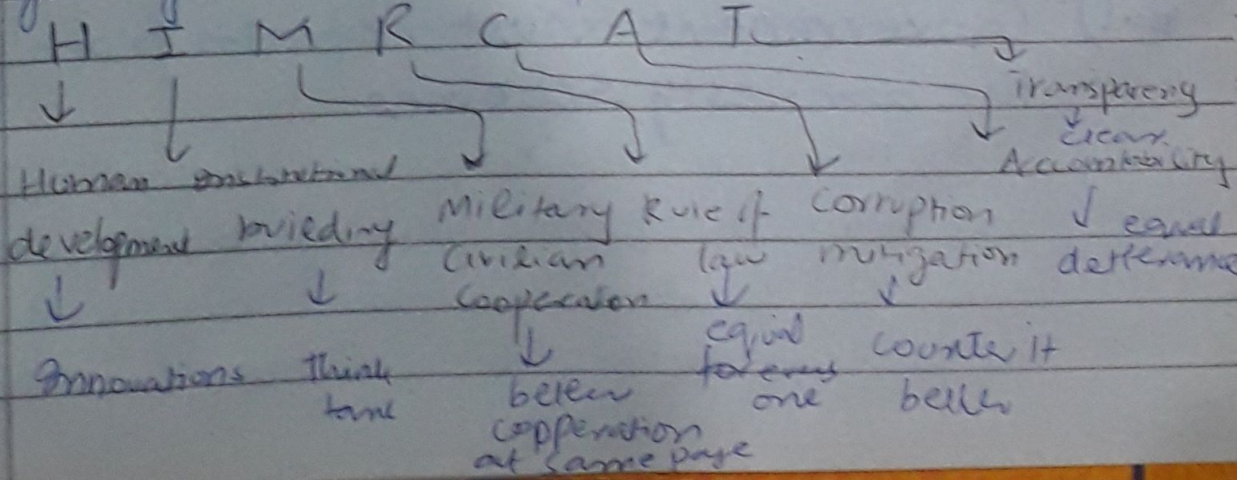
For the transparency of economy, digitalization is important. The number of tax payers will increase because of digitalization. Ultimately, it will better the economy of Pakistan. Western world has moved towards E-transfer. The biggest giants of economy in the world are digitalized like USA, China etc.

More Digitalized ↑ More Transparent ↑  
Economy Economy

Less Digitalized ↓ Less Transparent ↓  
Economy Economy

3) Pakistan should implement good governance model: ~~is it~~

Its an excellent model for implementing good governance in Pakistan





#### 4) The Government needs to facilitate the Agriculture Structure because it is backbone of Economy

Agriculture is the backbone of economy of Pakistan. 65% of population of Pakistan is directly associated with agriculture and rest of population is indirectly associated with the agriculture. The Gov needs to facilitate the farmers in agriculture. So there will be more exports of country

money  $\uparrow$ , R & D  $\uparrow$ ,  $\left. \begin{array}{l} \text{and} \\ \text{innovations} \\ \text{techniques} \end{array} \right\}$  agriculture  $\uparrow$  } agriculture exponential rise.

#### 5) Semiprivitization of state own enterprises

Semiprivitization of state own enterprises e.g. WAPDA, railways, PIA etc would result in less burden on government of Pakistan. It will boost the economy of Pakistan.

Semiprivitization  $\left\{ \begin{array}{l} \text{Regulations} \rightarrow \text{law} \\ \text{Implementation} \rightarrow \text{law} \end{array} \right.$

#### 6) A Following five point policy for better tax collection to be implemented

These are following points of this policy:

##### 6.1) Government must refrain from providing the amnesty schemes

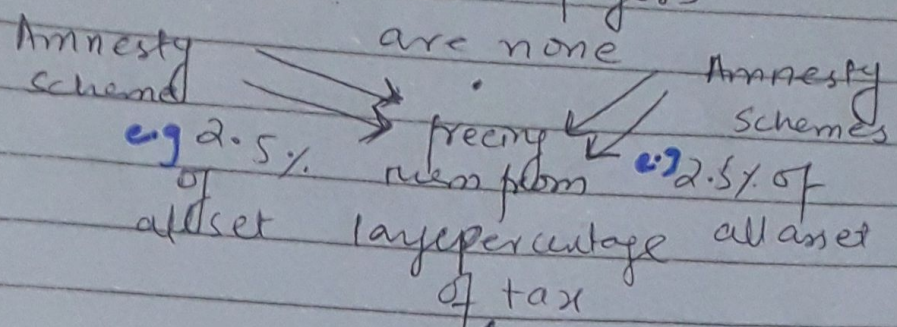
The amnesty scheme is beneficial for non tax payers, but it is injustice for the tax payers. It is weakening the economy of Pakistan as this amnesty scheme is used by elite class.



Businessman/women, Bureaucrats, hoarding class

↓  
earning a lot

↓  
but tax payers  
are none



Beneficial for rich class

↓  
hampering economy

lessen the progress of country

### 6.2) There needs to be a fair policy for imposition of tax

The government of Pakistan should better the horizontal and vertical tax system to boost the economy of country.

• Horizontal (---)

↓  
All equals must be taxed equally

• Vertical (—)

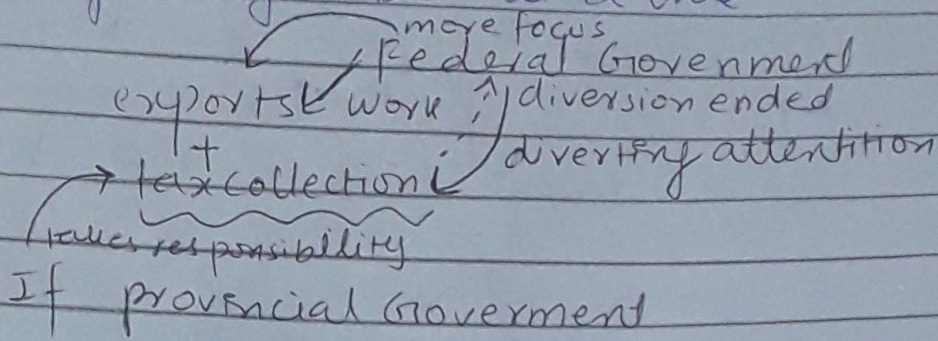
all unequals must be taxed unequally.

### 6.3) The Provincial tax collection system must be better

When the provinces will collect more



money in form of taxes, then there will be less pressure on the central or federal government. So that, it can focus more on exports. Although both of the matters are poles a part but federal government is focusing on both at a time

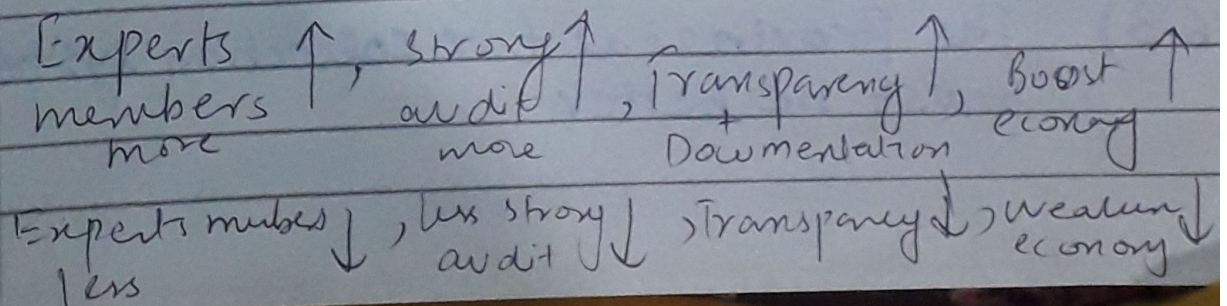


### 6.4) There needs to be a strong audit mechanism at the federal Board of Revenue

The audit mechanism needs to be strong for the tax collection by FBR. It will result into more tax payers. So the economy of country will boost.

### 6.5) The Government needs to overhaul the Federal Board of Revenue

There needs to be a proper panel including professionals, researchers from the finance, economics, public policy, law, business administration and IT background. So more the strong members, the more will be strong audit.





## Conclusion:

The economy is the start and end of everything. One cannot have any reform if one do not have a strong economy. Although, the economy of Pakistan has suffered a lot because of various factors but still it managed to withstand in this hostile world, ranking 46<sup>th</sup> largest in the world. This is an achievement in itself. The government is taking proactive measures to boost the economy and by grace of Allah Almighty, Pakistan will prove itself as happened in the past.