

How can Pakistan reinvigorate its economy

OUTLINE

1- Introduction

Thesis statement: Currently Pakistan is facing myriads of problems that are directly or indirectly having a catastrophic effect on the economy. Historically, the problem of dwindling economy was faced by every developing country and there are several ways to reinvigorate it which is discussed in later paragraphs.

2- Economic situation of Pakistan

3- Causes of dwindling economy of Pakistan

- a) Unstable political situation of Pakistan
- b) Devaluation of Rupee against dollar
- c) Balance of payment crisis
- d) Reliance on external sources for loans resulting in increased debt burden

4- Impacts of economic crisis on Pakistan

- a) Rise ^{spinning} in Inflation across Pakistan
- b) Devastating impacts on educational sector
- c) More people fall below poverty line
- d) Unaffordable energy bills

5- Ways to reinvigorate the economy of Pakistan

- a) Reforms in every sector of Pakistan
 - i) fiscal & administrative reforms
 - ii) energy sector reforms
 - iii) civil services reforms
 - iv) structural reforms
 - v) Industrial reforms
- b) Increase exports & reduce the unnecessary & luxury items import

- c) Policy actions to reduce dependency on IMF
 - d) Lessons from history - policy shift
 - e) Introduction of digital economy
 - f) Need for National Investment Plan
 - g) Acquire long term loans & investments
 - h) Increase competition among local producers
 - i) collect taxes from wealthy people and quell tax evasion
- 6 - **Conclusion.** ~~g) increase investment~~

"It is important to note weakness in our financial system and work toward implementing the solution before the next crisis come"

- Gordon L. Eade

Currently, Pakistan is facing myriads of problems which include devaluation of rupees, balance of payment crisis, budget deficit, political instability and many more.

Historically, the problem of dwindling economy was faced by every developing country and there are several ways to reinvigorate it

Pakistan faces a grave threat of economic default as its foreign reserves are depleting exponentially. In Fiscal Year 23, foreign reserves had fallen below 8 billion dollars.

Inflation remains at historic high of 38pc according to "Pakistan Bureau Statistics".

As per "World Bank Report", poverty is raised by 5% in FY23 to 39.4pc, pushing 12.5 million more people below poverty line. To make the situation even worse, (political) political instability adds fuel to fire. The Devaluation of Rupees against dollar makes

the situation even more fragile. Historically, Pakistani Rupee reach to all time high of 307 Rs against dollar

Each factor contributes to the declining economy of Pakistan, ^{out of} in which political instability remains one of the major problems. Country is being run by caretaker setup from many ~~years~~ months surpassing the constitutional time limit of 3 months.

The trust of investors had declined due to the risk of government being prematurely kicked out of office as seen in the case of former Prime Minister Imran Khan Niazi

Similarly, devaluation of rupees put a strain on the economy of country. It took more than 10 years for dollar to double in value from 2008 to 2019 and it took less than two and half year for it to double from 2019 to current time 2023. In 2008, one dollar was equal to 37 Rs. In ~~2008~~ ²⁰⁰⁸, one dollar was equal to 62 Rs. In 2013, one dollar was equal to 84 Rs. In 2018, one dollar was equal to 125 Rs. In 2019, one dollar was equal to 178 Rs. In 2023,

37
62
84
125
178
308

one dollar was equal to 307 Rs (Inter Bank Rate)

Devaluation of rupees further leads to balance of payment crisis. It is one of the major reason for which a country acquires loan. According to State Bank of Pakistan, balance of payment crisis in FY 2018-19 remains 18 billion dollars. In FY 2020-22 remains more than 11 billion dollars. In FY 2022-23, the balance of payment crisis remains 16 billion dollars. These figures underscore the situation of the economy of Pakistan

Furthermore, reliance on the external sources for loans resulting in increase debt burden.

~ "our relation with IMF is like a unhappy but lasting marriage"
(Riaz Riazudin, our trysts with IMF, Sep 22, 2023)

Pakistan acquired its first loan from IMF in 1958 and 23rd loan in 2023. This underscore the fact that instead of bringing reforms, Pakistan always looks toward external sources for injection of finance

All these factors had grave impact on economy leading to spiralling inflation all across Pakistan. In FY23, inflation rate was at 38pc (consumer price Index 2023). Inflation in electricity bills, food items results in suffocation of lower class people. According to consumer price Index, inflation hike was started in 2021 and remains unabated since then.

With such inflation rate and low resources, a person on only daily wages cannot afford a good education in Pakistan. According to United Nation Educational, Scientific and Cultural Organization, the number of out of school children in Pakistan is historically high with number of 22.8 million. Pakistan ranks at first position in the list of most out of school children country.

According to Article 25(A) of constitution of Pakistan, it is state responsibility to provide the free necessary education to a child.

This horrendous situations leads to increase in poverty. Every individual is suffering for the basic daily life needs.

In FY 23, poverty increased by 5pc leading to 39.4 pc. 12.5 million more people was pushed below poverty line (World Bank Report 2023). Poverty is a major problem as it give rises to many crimes which will further put strain on the economy.

To add insult to injury, inflated energy bills sparked protests all across the Pakistan. Shutter down protest is witnessed in different parts of country NEPRA revised the electricity traffic and increase it by 27 pc, which was implemented on 1 July 2023. This situation further curtailed to the access of common man to basic needs

"The greatest tragedy is that, we dont even realise what we have done to ourselves" — John Eliya

§ There is no denying to the fact that we the economy of Pakistan is facing its toughest period. But there are many ways by which we can reinvigorate the economy of Pakistan. The first and the foremost thing is to bring effective reforms for long term solution

Pakistan is in the grim need of fiscal and administrative reforms. There should be an increase in tax-to-GDP ratio and decrease in debt-to-GDP ratio. Energy sector reforms are needed to reduce the circular debt which was 2374 billion rupees in FY23. Civil service reforms are needed for effective governance. Structural reform is the grim need of the economy, ^{in which} tax ~~prevent~~ evasion should be prevented. Industrial reforms are needed. Textile industry is our strength, so we should bring effective reform that will lessen the burden of debt on economy. The development in IT sector is very important. India earned 130 billion dollars from IT sector alone. Increase industry will lead to increase production, increase export & decrease import. Effective reforms is the grave need to stabilise economy

"Great Ideas donot comes from slum,
it comes from idealists and dreamers"

(New World order, Pat Robertson)

One of the imperative factor for ~~#~~
reinvigorating the economy of Pakistan

is to put duty on the imports of luxury and unnecessary items. Pakistan should focus on making its economy export oriented rather than import oriented.

Effective policy actions should be taken to reduce the dependency on IMF. IMF loans (conditions) comes with conditions which put burden on economy. Macro economic stabilization is possible by following policies prescribed by IMF. In March 2023, Pakistan signed a ~~base~~ Stand-by agreement with IMF of 3 billion dollars followed by the conditions which resulted in increase in inflation, electricity bills & many more horrendous impacts. Effective policy is required to tighten its financial belt and move toward self sufficiency.

Many lessons are present in history which can be followed to get out from this situation.

"History offers many lessons, not just in economics. We should learn to embrace it."

(Lessons from history, Sakib Sherani, Sep 23, 2023)

Turkey, Brazil and India presents a great example of reforms. In the Epoch of economic downfall, Turkey shifted its economy toward export oriented followed by cuts on imports. Tax reforms were undertaken. Brazil turn around the country from promise rich economic backwater to vibrant and modern industrial economy via Plano real which consist of two phases. In first phase they put cuts on public expenditure along with measures taken for tax revenue generation. In second phase, Brazil introduce new currency called Brazilian Real with the removal of extensive subsidies to private bussiness. India presents a great example of reforms which were more successful than Brazil and Turkey.

"The world is full of obvious things,
which nobody by any chance observes"
- Sherlock Holmes

We just have to look around to find solution.

Another Panacea to revive the economy is the introduction of digital

economy. Many countries around the world has implemented this method in their tough economic situation. According to **Asian Development Bank** Digital economy has the potential to change the social environment radically and increase economic growth for Asia.

There is grave need to form a national investment plan. China followed right model of investment and doubled their national income five times resulting in 34 pc increase in GDP since 1978. Pak is simply not investing in its future. Pakistan can invest in education, health, energy, sustainable landcare use, urban renewal where majority of population resides and digital transformation like introducing 5G service. Quality of investment is important than quantity. Pakistan economy is on edge of precipice warns world Bank. It is crucial for Pakistan to have National Investment Plan at this stage.

One of the crucial factor is to attract foreign direct investment

Pakistan economic situation can not survive without loans and investment at this time. Efforts should be made to acquire loan for long term and on easy conditions. For investment, special Investment Facilitation Council creation is the step towards right direction. Effective policies should be made to attract long term loans and investment.

Increasing competition among local producers will lead toward improve quality of products along with low prices. As per **Harvard Business Review**, by increasing competition with foreign items and by providing a conducive business environment. would lead toward improve quality of products & prevent local producers from extinction.

Collection of tax from wealthy people will increase the collection resulting in decrease burden. IMF chief, Kristalina Georgieva advises Pakistan to collect tax from wealthy people. This statement shines light on inequitable tax collection system of Pakistan.

"You raise tax during economic crisis time, as we ~~raise~~ did back in the time of Herbert Hoover, you send country into depression."

- Jhon McCain

Tax rate of china is divided into seven levels based on income of individuals with maximum rate of 45 pc and minimum rate of 3 pc. This underscore the need to collect tax from wealthy people and prevent tax evasion.

In a nut shell, every developing country goes through the phase of economic crisis. Pak is currently facing myriads of problems including devaluation of rupee, balance of payment crisis, health sector problem, educational sector problem, inflation, poverty and many ^{other} factors that is putting direct and indirect strain on the economy. But effective reforms, policies and procedures should be planned which will help in reinvigorating the economy to a great extent.