

## Economic meltdown: Causes, impacts and remedies

### Outline:

#### 1- Introduction

**Thesis statement:** A good economic growth ensures multiple benefits in a country. But Pakistan's economy has meltdown due to various causes. However, the economic mess in Pakistan can be eradicated by adopting some pragmatic measures. (33) words

2- overview of the topic / Pakistan economy.

#### 3- Causes leading to economic meltdown in Pakistan

- a) Uncertain economic policies.
- b) Tax evasion by many business entities.
- c) Undocumented - economy in the country.
- d) Corruption in the economic sector.
- e) Consistent lost of state-owned enterprises.

4 - Impacts of economic meltdown in the country:

- a) Turndown in economic growth
- b) Capital flight of businesses
- c) Low inflow of FDI's
- d) Depletion of foreign reserves
- e) Downward human development.

5 - Ways forward for economic growth of Pakistan.

- a) Bringing political instability in the country
- b) Acquiring more loan from internal and external sources.
- c) Transforming informal economy into formal economy

6 - Conclusion.

Adam Smith says "A nation is not wealthy by the childish accumulation of shiny metals, but enriched by the economic prosperity of its people"

This means that a nation is

wealthy by the economic prosperity of its people rather than by the acquisition of shiny metals. But unfortunately in the case of Pakistan, where both of the above propositions are missing, the economic prosperity of the people is abysmal due to the economic meltdown in the country. This economic meltdown has caused by various factors such as uncertain economic policies, tax evasion, undocumented economy, corruption and perpetual loss of state-owned enterprises. These various causes have resulted in adverse impacts like turnaround in economic growth, capital flight, low FDI inflow, depletion of foreign exchange reserves and downwarded human development.

However, the economic meltdown of the country can be tackled by taking some constructive measures such as bringing political stability, acquiring more loans from internal and external resources. Moreover, transforming the informal economy of the country into formal economy. Thus, a good economic growth ensures multiple benefits in a country. But Pakistan's economy has come to meltdown due to various causes. However, the economic mess in Pakistan can be eradicated by adopting some pragmatic measures.

A country's economic

position, whether it is developed or developing, is depicted by the economic indicators.

These indicators show the standard/rank of the country economy where it stands.

So, Pakistan is a low-income developing country facing huge economic challenges due to the economic turn

down. "The country economic growth in the financial year 2022-23 was only 0.29% declining from 6.1 in 2021-22." Pakistan

Economic survey 2022-23. In a nutshell, Pakistan is a developing economy which faces many challenges.

As it is already mentioned above that the economic meltdown in Pakistan has caused by-

Various factors. One of the factors is uncertain economic policies. In 2016, Pakistan shifted from geopolitics to geoeconomic which was good decision for uplifting the cripple economy of the country. But recently the country has shifted back to geopolitics from geoeconomic.

Apart from it, the successive governments of the country reject the economic policies of the previous government. This practice has reflected in the history of the government. These governments ~~are~~ of one party does not carry the <sup>economic</sup> policies of the previous government & owing to its own political interest. Thus, this unreasonable practice for personal interest of the government causes ~~an~~ economic meltdown in the country..

Besides uncertain economic policies, the tax system of Pakistan is prone to various kinds of frauds aimed at evading paying due amount of tax to the national exchequer.

One of the frauds is tax evasion which results in losing a hefty chunk of tax revenue. It is a common practice in Pakistan and a massive loss of revenue occurs as a result.

Annual tax evasion within five sectors: real estate, tea, cigarette, tires and oil lubricant industries pharmaceutical industries of Pakistan amounting to Rs. 956 billions" (Ipsos, an international research body, June, 2023). If the other sectors are added, the amount goes very high. Thus, tax evasion is another cause of

economic meltdown in  
the country.

An

An addition to the above  
another cause, which has crippled  
the economic sector, is the  
undocumented economy of Pakistan.

Pakistan with a significant informal  
sector which goes unrecorded and  
untaxed by the government  
authorities. Resultantly, it has an  
extremely negative impact on  
economy because the government  
loses out on potential  
tax revenue. It also hampers  
equitable and efficient allocation  
of resource among different  
sectors of economy that leads  
to an increase in tax burden  
of the members of the formal  
economy. Pakistan has a large informal  
economic sector. According to  
**Asian Development Bank, more**  
**than 90%** of the businesses -



with 50 employees or fewer are operating informally.

Thus, the undocumented economy of the country has hindered the economic growth because the sector operates outside the regulatory framework.

Moreover, corruption, in the economic sector, is another cause of the current economic meltdown.

Pakistan's economic sector is prone to high corrupt practices because the majority of the people pay bribes to reduce tax, fees, and custom duties.

This illicit practice by people negatively impacts on economic growth as Maric Chene

(2014) rightly say "corruption has a negative and direct impact on economic

growth and economic development".

Corruption: creates unemployment, discourages inflow of foreign direct investment and leads to misallocation of resources.

Hence, corruption has created great hindrance in economic growth of Pakistan.

Apart from corruption in the economic sector, the consistent loss of state-owned enterprises have also contributed to the economic meltdown of the country. Generally, state-owned enterprises generate significant revenue for the state and enable the government to exercise greater control over the economic sector of the country. But unfortunately, the state-owned enterprises of Pakistan's performance is not

upto the standard rather worst performance. **The World Bank** has recently reported that **Pakistan's state-owned enterprises** are the worst performing ones in south Asia. The report has further highlighted that "Pakistan's SOEs cost taxpayers over Rs. 458 billions to stay afloat." Thus, this alarming position of the state-owned enterprises of Pakistan has put a heavy burden on the already crippled economy.

The aforementioned various causes of the economic meltdown in Pakistan have left <sup>adverse</sup> far-reaching impacts on the economic sectors of the country. One of the impacts due to ~~poor~~ economic performance is the turn-

turn down in economic growth. many of the ~~also~~ economic activities in the country have close down because of the unfavourable economic environment of the country. Resultly, they have greatly impacted the ~~the~~ economic growth of Pakistan.

According to Economist Survey 2022-23 of Pakistan ~~2022-23~~ the economic growth declined from 8.0% in FY 2021-22 to just 0.3% in FY 2022-23. GDP growth has declined from 6.1% to 0.29 FY 2023.

Owing to the low economic growth, investors lost confidence in the country's economic strength which has resulted in capital flight of businesses.

many businesses have  
flew out of the  
country and settled  
their businesses abroad.

capital flight imposes a  
great danger to the economy  
of the country by lowering  
its economic activities,  
devaluing the currency and  
hindering economic growth.

Dr ~~Arif~~ Azam Chudhry estimated  
capital flight from Pakistan  
using data from the balance of  
payments and the level of  
trade misinvoicing in Pakistan.

Dr Azam concluded that over  
the past 10 years, capital  
flight has reached significant  
levels, amounting to almost  
5 billion dollars in recent  
years." (Exports Optimistic about  
Economic Recovery, Dawn, May 2023)

Thus, capital flight from Pakistan  
is caused by the low economic growth.

Another impact of the economic meltdown in the country is the discouraging inflows of foreign direct investment. The current economic turmoil of Pakistan has badly damaged the country's economic sector as a attractive place for investment. Due to prolonged economic uncertainties, Pakistan has been remained poor candidate for attracting foreign direct investment. The foreign direct investment has dropped compared to the previous fiscal year 2022. According to State Bank (July 2023) "foreign direct investment dropped 25 per cent to \$ 1.46 billion in the previous fiscal year" (Dawn, July 2023). Thus, the crippled economy and poor investment environment of the country has greatly ~~was~~ affected on the inflow

of foreign direct investment.

Furthermore, the low economic growth of the country greatly downwards the standard of human development. Many people fall under the poverty line. Challenges to the people's economic security has grown in the country which has ~~has~~ left adverse impact on the human development. The weak economic growth has led Pakistan into an unstable <sup>human</sup> social development. In 2022, According to Human Development Index "Pakistan ranked 161 out of 192 countries".

~~The~~ In a nutshell, economic meltdown has downwards the standard of living in the country.

Another impact of

the low economic ~~and~~ growth, is the depletion of foreign reserves. Foreign reserves are a crucial economic indicator of country's economic performance as they aid in increasing market confidence in a country's ability to meet external obligations. Furthermore, foreign reserves also help in influencing monetary policy, strengthening Pakistan's ~~repe~~ and prevent the economy from global shocks. Unfortunately, Pakistan has deprived from these ~~utae~~ benefits associated with holding large amount of foreign reserves, because the Pakistani ~~repe~~ is also devaluated extremely. ~~and~~ Foreign reserves of Pakistan have depleted into a very unfavourable/unstable figure. In March 2022, the country -



was holding more than \$16.50 billion foreign reserves but due to rapid depletion amid political instability and economic turn down, the reserves depleted into less than \$4 billion in ~~April 2023~~ the first quarter of 2023. Later on, loans were taken from friendly ~~friends~~ countries and (IMF) international monetary institute and external resources, so the serve jumped into more than \$9. billions. **According to State Bank** July 2023, the foreign exchange reserves of Pakistan climbed to \$9.83 billion.

However, the economic meltdown can be tackled by taking some concerted efforts. One of these concerted efforts should be bringing political stability in Pakistan because the country has been facing -

Political instability since March 2022, which has impacted on the economic performance of the country. In Pakistan, the ongoing political instability has led to an economic crisis because it negatively affected the overall performance of the economic sector in the country. The efforts to revamp the economy must be carried out by ending political instability and holding the general election on time. Senior economists also recommend the end of political impasse for economic growth of the country. For example, **Dr. Sajid Amin**, a senior economist at the ~~Institute~~ Sustainable Development Policy Institute (SDPI) said that "holding of election on time strengthens the democratic system and economy".  
**Dawn**, Sep, 2023.

Besides, bringing political stability in Pakistan, the acquisition of more loans should be taken from external and internal sources for addressing the immediate economic crisis. Realistically, Pakistan's economy has come to a position which cannot be <sup>brought</sup> driven into the track of sustainable economic growth without domestic and international borrowings. Once loans are taken, the concerned authority should talk positively the ~~above~~ <sup>early</sup> mentioned causes of economic meltdown in Pakistan. Recently, IMF approved \$3 billion loan program for Pakistan. The loan will stabilize Pakistan economy, if the authority use it holistically. Priorities should be set for spending the loan to revamp the

crippled economy of the country such as first addressing immediate challenges then long term issues ~~such as~~ like budget deficit.

Moreover, the undocumented/informal economy has been a longstanding concern for the economy of the country. As it mentioned earlier that informal economy leads to an increase tax burden because the government's loses out on potential tax revenue.

The informal economy should be transferred into formal economy to come out of from this perpetual vicious cycle of a bubble economy.

Pakistan should build its economy on strong foundation and bring the informal sector under the regulatory framework.

Pakistan has a large informal sector. According to Pakistan's Labour Force Survey of 2020-21, the informal sector employs almost 75% of the working-age population.

Further, it contributes 32% of Country's GDP. So, if Pakistan add this sector, which operates outside the regulatory framework, into its formal economy, it can greatly strengthen the formal economic sector.

A useful conclusion can be sum up from the above discussion that strong sustainable economic growth guarantees the prosperity of the country. But unfortunately, the economy of Pakistan faces different challenges such as uncertain economic policies, tax evasion -

and large sector of informal economy. Furthermore, corruption in the economic sector and perpetual loss of state-owned enterprises.

As a result, these various challenges have ~~ad~~ left adverse impacts on the overall performance of the economic sector. Like  
Turndown in economic growth,  
capital flight, low FDI's.

Depletion of foreign exchange reserves and downgraded human development.

However, the country can revamp the crippled economy if the country build the economy on strong foundations like bringing political stability, taking loans from various sources to address immediate challenges and transforming informal economy into formal economy.