

Economy of Pakistan:

Q: The country is faced with unprecedented economic, political and constitutional crisis. Critically evaluate the statement and give recommendations.

Ans: **Introduction:** The historically rich country Pakistan has faced many critical junctures. But it is the first time that the country is faced with economical, political and constitutional crisis all at once; with the huddle topped further by domestic insecurity and chaos. The former struggling economy of the country has witnessed the highest inflation and severe current account deficit in FY 2022-23. Along side dwindling economy, the country that has never seen any Prime Minister completing their tenure, since its independence, witnessed dismissal of a Prime Minister by a vote of no confidence, for the first time, in April 2022. This lead to political turmoil and never seen before domestic chaos. With the politico-economic crisis, the misinterpretation and wrong use of constitution was seen, by the hands of legislation as well.

-> Economical Crisis:

o Balance of Payment Crisis: The country, for the first time, witnessed the depletion of reserves, and was at the verge of default. In Feb 2023, total reserves were \$7 billion in both State Bank and Central bank, that further decreased to almost \$4Bn, and were ^{only} sufficient for few weeks to run the country. (State Bank of Pakistan). Current account deficit, trade deficit all lead to devaluation of money that further collapsed the already collapsing economy and has massively increased the debt burden.

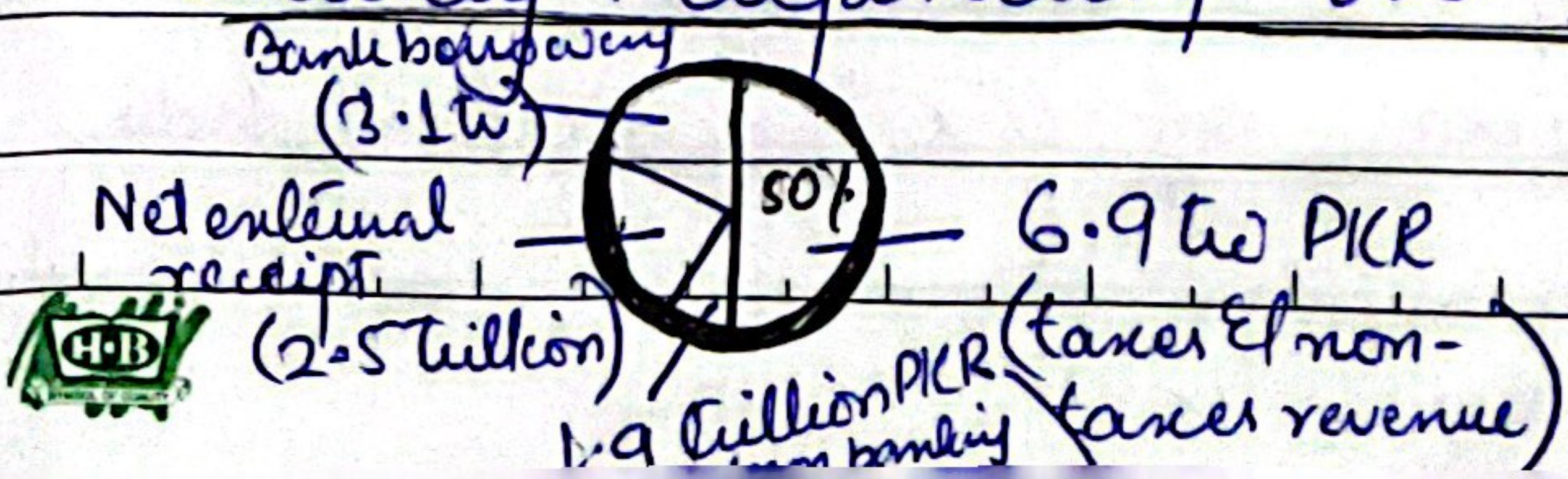
-> Trade Deficit: In FY 2021-22, total trade deficit of the country was \$44Bn plus \$13Bn of servicing. The already trapped country that has lower exports than its imports, stuck in a circular debt is further pushed down because of the increasing trade deficit.

-> Decreased Foreign Investment: The politico-economical turmoil of the country decreases the country's market value, decreases the investment due to lack of trust. This exact happened

with Pakistan. In the first seven months of year 2023, Foreign Direct Investments plunged by 44% (State Bank of Pakistan).

→ Devaluation of Money: Pakistan has witnessed lowest rate of Pakistani rupee against dollar this year. In August the country hit the 300 mark, and in the September, it hit 331 in open market.

⊙ Fiscal Mismanagement: The country that has been struggling with its economy since the day it was born, has seen many fiscal/budgetary decisions that were myopic characteristically, and only cared about the short term effects. The country stuck in debt trap is pushed further in the trap, by budgets and policies that are popular but their expenditures are overly exceeding. The budget given by coalition government before the end of its tenure; FY2023-24, has revenue generation of 6.9 trillion PKR expected (taxes and non-taxes), and the 50% of the other resources are entirely dependent on loans.



Resources

→ **Circular Debt:** Pakistan is sandwiched between the debt, be it from the monetary funds institutions or from the friend countries. And to make the burden more worrisome, devaluation of rupee has contributed further. Without acquiring a single penny loans have increased tremendously because of it. Now, \$350 Bn economy country needs to pay \$77.5 Bn by the year 2026. (Moody's).

→ **Political instability:** Insecurities build insecurities. Political instability, no doubt, had multi-dimensional effects, and the spillovers were seen over the economy as well, ^{especially} from the last year. GDP growth rate, trade deficit, export rate, import rate, Foreign direct investment, debt servicing, all the aforementioned and other indicators have fallen down ~~exactly~~ in a year.

→ **Political Crisis:** The country is strong only when its institutions are inclusive and strong. In the pipe of contributory institutions, political instigation is always on the top. The political situation of the Pakistan has

always been chaotic, and a non-inclusive policy has always been the case. The country was under dictatorship, the first twenty years of its independence, and has seen four martial laws in 76 years. The democratic government was always a constant game of power between two political parties only. But in 2018, the entirely new party was elected to run the government, that had expired before the completion of its tenure.

→ Elections 2018: After the elections, Pakistan Tehreek-i-Insaf an emerging party was elected to rule. This party had a popular agenda of recalibration and restructuring, that was seen failing in the first two years of its tenure. But since the elections, the country is constantly in the midst of a political turmoil. The other parties formed alliances against the ruling party and toppled the government.

→ Vote of No Confidence 2022: In April, the dismissal of Imran Khan, the then Prime Minister was seen. This led to

the worst domestic chaos; where, for the first time in the history of Pakistan, the attacks were seen on the defence installations on 9th May. And the charges against the people were ^{taken} under the Army Act.

→ Chaos during the tenure of Coalition Government,

After dethroning of Khan, the coalition government ran the country. It was the first time during the tenure of any government, the political leaders of the opposition were faced with multiple cases, and almost all the members of a certain party were jailed. The struggle for power seems to be the only agenda behind all the chaos, coming from either parties. There was no notion to save the country, and all the marketing was to gain popularity and to throw ^{the} dirt on the opposition from all the parties.

→ **Constitutional Crisis:**

It was seen that the law making parties were having trouble interpreting

the constitution, but there is no sufficient evidence to claim, whether it was a sincere mistake or a planned one.

→ Judicial Activism by CJP (2022):
Right after the demand of vote of no confidence from the opposition, the then Prime Minister in April 2022, dissolved the assembly with the help of President by claiming the foreign involvement behind ~~the~~ ^{the} agenda, and revoking ~~of~~ Article 3 of the constitution. The judiciary had to step in to dismiss the action taken by the then government, and for the proper interpretation of the constitution.

→ Impossible to conduct elections in 90 days (Dilemma)

After the last year, it is seen again that country is to face another constitutional crisis this year. The new census is expected to be completed in November this year, but there is no announcement of the election date by Election Commission of Pakistan. It is said that President might announce the date for elections, or judiciary

might step-in again, if the situation continues.

→ ~~Solutions~~ Recommendations:

There is no doubt that the country is toppled with the crisis from different directions. But, by keeping the National Interest as the first priority, all the issues are required to be addressed simultaneously. The country can only prosper, if it handles the critical junctures with a strong political and economical institutions, with the inclusive notions.

o ~~A~~ Addressing the political crisis:

The first priority must be political stability in the country. There must be longevity seen in the tenures, the country must be governed by the refer that not only deal humbly with the domestic crisis, but also put forward a better picture of the country internationally.

→ Recommendations for Trade deficit:

Sixty percent of all the imports is spent on the import of hydrocarbons, that is bought in dollars. This led to increase in the rates and high inflation. Sixty percent of the

imported hydrocarbons are used to generate electricity. Shifting the energy product to renewable energy production, and local hydrocarbon consumption can markedly decrease the import load and ultimately the trade deficit.

- Enhancing the Remittances:

Remittances play a major role in filling the gap of trade deficit. But major chunk is sent by the Hawala or Hundi in the country. There is a need to give relief to the expatriates by tax exemption, quick delivery, and by making rupee free-floating. This would build the trust and the remittances would increase. Steps like Rohan Digital Pakistan, are needed to be taken, 5 lac people had joined it and in FY 2021-22 \$31 Bn arrived in the country via remittances.

- Proper Revenue Generation: The country sees a visible difference between GDP growth rate to Revenue ratio. It is in the dire need to collect the taxes properly to increase resources. New tax reforms and Digitalization can help the country with the collection. One such example is Blockchain Tech. that can be adapted to improve collection.

the revenue generation.

→ Conclusion:

There is no doubt that the country is severely congested with economical crisis, political instability, and there has also been a mockery made of constitution in the present. The economical stability can only be achieved when the long-term policies would be adapted to bring the country ^{out} of debt trap, current account deficit, ^{and} trade deficit. Improvements within the agriculture, industrial, and textile sectors, decreasing import via import substitution, improving ~~in~~ the market value can all help. But most importantly, political stability is required to build the dwindling economic foundation. Political stability would address the predicament of economy, internal chaos, and international reputation all at once. The country is in dire need of a governing party that has a broader vision and the best interest of the country. This would in turn also address the constitutional crisis, as any competent government would be capable of interpreting the laws themselves, and would be sensitive towards the country's constitution. This

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is a fact that to address all the huddles, patience is required, from both the people and the government; as it would not happen rightaway. But by the adaptations that are in best interest of the people and the country, there is a hope in the future.