

# Issues in Pakistan's Economy:

## Outline:

### A. Introduction

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1. Introduction to Pakistan's economy.

quite relevant and well organized

2. Historical context of Pakistan's economy

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3. Thesis Statement. →

### B. Issues in Pakistan's Economy:

#### 1. Persistent Trade Deficit.

1.1 - Massive imports, specially of hydrocarbons.

Example: Hydrocarbons are 50% of overall trade deficit. <sup>contributing to</sup>

1.2 - Declining industrial and agricultural sectors.

Examples: Since 2022, more than 200 industries have been closed. <sup>also</sup> Cotton exports declined.

1.3 - Unprecedented growth in population size.

#### 2 - The Growing problem of Tax Evasion;

2.1 - Low tax to GDP ratio

Example: Currently, 9.2%



2.2 - Undocumented <sup>✓</sup> economy

Example: According to IMF

35% of Pakistan's economy is not documented.

2.3 - Uneven tax <sup>dependence of</sup> collection.

### 3- ~~Addition~~ to foreign aid

3.1 - Over addition to foreign aid.

Example: The recent bailout from IMF, in 2024, was 26th.

3.2 - Strict terms and conditions of

3.3 - Trapped in vicious cycle of foreign debt.

### 4- Gender Desparities

Limited  
4.1 - Education and skill gaps.

4.2 - Lower labor participation and limited choices.

### 5- <sup>Vulnerability to</sup> Natural Disasters

5.1 - Damaging infrastructure and cost of rehabilitation.

5.2 - Vulnerable agricultural and industrial sectors.



Example: In 2010 floods, approximately 1.6 million acres of cultivated land were damaged, leading to losses in crops, such as cotton, wheat and sugarcane.

## 6- Extreme Income Inequalities

6.1- Feudal system in the rural areas of Sindh and Punjab.

6.2- Diminishing of middle class.

6.7- Political instability.

## 7- Uncertain Political Environment.

7.1- Frequent and persistent military interference in the civilian affairs.

7.2- Difference among the priorities of different governments.

## 8- Challenging Security Situation.

8.1- Resurgence in terrorism, since the takeover of Afghanistan by Taliban.

8.2- Attacks on foreigners



especially Chinese.

Examples:

~~Attacks on Chinese workers in Dasu, Boham and Brachi~~

2.3 ~~military expenditures.~~

9- **The Absence of Growth-**

→ **Enabling policies.**

9.1- Over spending on infrastructure, specially, on roads.

9.2- Lavish and irrational spending on urban projects.

Examples:

Around 70 billion rupees were spent on BRT project, a transport project, in Peshwar, Khyber Pakhtun Khwa.

**B. Way forward for improvement**

**1- Enhancing Exports:**

1.1- Adopting protectionist policies

1.2- Increasing production and enhancing quality.



of commodities.

## 2- Investment in human capital

2.1 - Developing skills and technical education.

2.2 -

## 3- privatization of major sectors.

## 4- Encouraging tourism:

4.1 - publicity of tourist destinations.

4.2 - Improving infrastructure at tourist spots.

## 5- Tackling security challenges.

5.1 - Adopting intelligence based operations

5.2 - Addressing grievances of marginalized communities and

5.3 - Rehabilitation of terroris people affected by military operations.

## D- Conclusions:



## Essays

Economy is considered the backbone of a nation and it drives a nation's progress. Pakistan's economic structure is composed of <sup>mostly</sup> agriculture sector, industrial sector and services sector. Agriculture sector contributes more than 20% to GDP and employs 40% of the labour force. Furthermore, industrial sector remains the second contributor in the form of some major export items production, for instance, sports goods and surgical instruments. Historically, Pakistan had an agrarian economy but has it <sup>has</sup> experienced many economic restructuring. Firstly, Ayub Khan experimented industrialization and provided incentives to major industries. ~~This industrialization accompanied with foreign aid~~



contributed to GDP. After that, Z.A. Bhutto, aiming for wealth distribution, adopted nationalization policy by nationalizing industries, banks and schools, but it backfired. Similarly, Zia-ul-Haq, Benazir and Nawaz Sharif provided incentives to industrialists and focused more on privatization. Currently, Pakistan's economy is suffering from grave challenges. Government is heavily dependent on imports as Pakistan is not self-sufficient, especially in terms of imports hydrocarbons, while exports remain low. In addition, government expenditures are more than its revenue. and natural disasters are putting more fuel on the fire. Furthermore, extreme income inequalities and gender discrimination have always remained causes for economic



uncertainty. Like-wise, fragile political environment and terrorism are contributing to impeded foreign direct investment. Hence, has been suffering from trade deficit, tax evasion, foreign aid addiction, income inequalities and absence of growth-enabling policies, ~~that~~ which can be recovered by adopting protectionist policies, privatization of major industries and by enhancing exports and tourism.

One of the major economic issue that Pakistan is facing, is of persistent trade deficit. In the FY 2023-24 trade deficit is more than 44 billion dollars.

Similarly, in the last 5 FY the average trade deficit was 40 billion dollars. This massive trade deficit has been resulted by the import of hydrocarbons, which contribute 23 billion of dollars.



out of the total 80 billion dollar imports, forming 50% of trade deficit. Pakistan imports more hydrocarbons because of its high demand for energy. Furthermore, decline in industrial and agriculture sector is impeding exports, leading to trade deficit. For instance, since 2002, more than 200 industries have been closed. These industries included textile industries like Nishā, Lawrencepur and Kohinoor etc. Also, auto mobile companies like Samsung and Galaxy have closed or shifted their companies abroad, mostly to Bangladesh. Similarly, agricultural products, which were the major exported products, are being produced ~~limitedly~~ due to poor irrigation systems and unavailability of advanced technology and fertilizers.

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For example, till 2000, Pakistan was one of the major exporters of cotton, but now it imports more than 35% of cotton.

In the same way, production of mangoes, tomatoes, onions and wheat has declined, hence, declining exports. ~~Other~~

~~than that~~, <sup>this</sup> there has been unprecedented growth in the size of population. In 1998

census (conducted by PBS), the total population of Pakistan was 140 million but in 2023 it had reached to 250 million and has been increasing day by day. Resultantly, demand

of products increase as in order to meet such a large number of people. As local

production sector is unable to meet the demand, the government <sup>relies on</sup> ~~relies on~~ importing more, resulting in trade



deficit. Secondly, the problem of tax evasion is also contributing to destabilize Pakistan's economy. The expenditure of government are more compared to the revenue. Unfortunately, the government has remained unable to collect the targeted tax.

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For instance, the current tax to GDP ratio is 3.2% which is even low from Bangladesh and India. Furthermore, most of the Pakistan's economy is undocumented. According to IMF, "30% of Pakistan economy is not documented."

In this way, many industries, shopkeepers, laboratories and wood companies avoid taxes, leading to low revenue generation. <sup>which are mostly un-</sup>

Similarly, by using different tactics by the mentioned industries, tax is unevenly



collected which creates frustration among the tax-payers. Along with tax evasion, addicting to foreign aid is another issue in Pakistan's economy. Historically, Pakistan has remained addicted to foreign aid. For instance, since independence, Pakistan was showered with aids from the western bloc, as it was the era of cold war. After the end of cold war, Pakistan remained benefited from war on terror, in terms of foreign aid. Unfortunately, after when aid from the west declined, Pakistan, which had already getting bailouts from IMF, started getting more and more bailouts from IMF. For example, currently, in 2014, Pakistan got 26th bailout of 7 billion dollars from IMF Pakistan. In



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addition, IMF bailouts are always accompanied with strict terms and conditions. Such as, IMF bailouts of 2002-03 were conditioned to the removal of subsidies on petrol, diesel and electricity which resulted in price hikes which adversely affected industries and household consumers.

Similarly, Pakistan has been trapped in vicious cycle of foreign debt.

But, Pakistan's economic growth is not in a strong position to reservice these debts. It has been opting for more loans from friendly countries like China, K.S. Arabia and UAE, to pay its debts. In this way debt on Pakistan is getting high and most of the government revenue is spent on reservicing of it. As foreign debt is paid in dollars, this results in depletion of dollar reserves leading to many economic issues, specifically, balance of payment crisis and depreciation of Pakistani rupee. Fourthly, gender disparities are also contributing to the economic issues of Pakistan. In Pakistan, there are limited education opportunities and more an opportunity for girls and boys. 53% of them are girls. This condition, gap along with skill gap for girls.

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is happening the girls to get employed in high paying institutions. Also, with having no skills minimize girls opportunities as compared to boys in the employment sector. Furthermore, there are lower labor participation and limited choices for females. For instance, only 20% of women in Pakistan work, mostly in urban areas. In addition, females have limited choices in services sector, they are expected to work only as a teacher, nurse and as a housemaid. That is why females, are who are more than half of Pakistan population are just burdening the economy. Moreover, Pakistan's vulnerability to natural disasters is also putting its economy in difficult position. Pakistan is among the top ten most vulnerable countries to climate change. In particular, floods and droughts caused severe damages to infrastructure, and the cost of rehabilitation was also huge. In case of 2010 floods, an estimated 14-20 million people were affected and nearly 1.1 million



homes were damaged or destroyed. The floods lasted for almost six months and caused 9.7 billion dollars in damage. Similarly, in 2022, Pakistan again witnessed horrific floods submerging one third of the country. These floods destroyed or damaged nearly 1 million houses along with bridges, roads, schools and hospitals causing 14.8 billion dollars of damage. Furthermore, natural disasters, floods in particular and adversely affected agriculture and industrial sector in Pakistan. For example, in 2010 floods, on a 1.6 million acres of cultivated land were damaged leading to losses in crops such as cotton, wheat and sugarcane. Also, transportation networks were destroyed resulting in disruption of supply chains. Along with vulnerability to natural disasters, Pakistan's economy is also suffering from extreme income inequality. Pakistan's economy and politics has been dominated by the feudal lords, particularly in Punjab and Sindh. They have created a system in which they are the masters of

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of the economic structure of Pakistan as most of the land and major industries belong to them. Similarly, they are also playing active role in politics, either directly and or indirectly and try to maintain the status quo. In addition, extreme inequalities in the economic structure of Pakistan is diminishing the middle class. Middle class, in every society, has remained the more hard-working class and has remained major contributor to the revenue in terms of work force and taxes. In Pakistan, traditionally middle class consisted of 35% of Pakistan society but it is now being wiped out due to extreme income inequalities. Notably, the uncertain political environment is worsening the economic challenges of Pakistan as political stability is closely linked with the economic stability of a country. Since its inception, military in Pakistan has remained a dominant actor in politics. They enjoy such dominance for many reasons



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such as; weak political leaders and most particularly due to our aggressive neighbors, specially India. Historically, military overthrow civilian government three times. For a long time there has not been direct military interference in politics in Pakistan but behind the doors they determine the major decisions and policies of the civilian governments. Similarly, they are always accused of manipulating electoral processes. Furthermore, resultant, such uncertain environment demotivated foreign investors from investing in Pakistan. Furthermore, traditionally, in Pakistan no government had been remained able to complete its 5 years terms for many seasons. In such environment investors and business communities face hardships as priorities of <sup>of country</sup> government are sometime different from that of the other. In addition to that, challenging security situation in Pakistan is also contributing to economic crisis. Pakistan is facing a new wave of terrorism after the takeover of Taliban in Afghanistan. In fact, for instance, TTP has been motivated



by the example set by Afghan Taliban showing resilience to <sup>the</sup> world power. Secondly they are enjoying safe heaven in Afghanistan and are conducting attacks inside Pakistan. Moreover, Taliban are not going to take any action against them, even at the cost of trade barrier with Pakistan. Furthermore, foreign nationals are facing security threats in Pakistan, particularly the Chinese nationals. Recent Chinese workers in Dasu, Besham and in Karachi were attacked by terrorists. Such conditions are giving a perception that Pakistan is not safe for foreigners which is hampering foreign investment. Along with this, to tackle security challenges, military expenditures are getting high, as more than 80% of budget of Pakistan is spent on military expenditures. In such situation economic growth in Pakistan is impossible. Unfortunately, Pakistan is facing drastic economic issues due to high trade deficit, tax



evasion, foreign and addiction,  
 income inequality and many  
 more. These issues have severe  
 impacts. Immediate solutions are  
 required to tackle these  
 economic challenges in the  
 form of enhancing exports,  
 investing in human capital  
 and encouraging tourism with  
 many more. First comes enhance-  
 ment of exports. This is possible  
 by adopting protectionist  
 policies. For instance, the  
 government has to impose  
 more tariffs and imported goods.  
 This will encourage the  
 local <sup>domestic</sup> markets against the  
 expensive and attractive  
 foreign commodities. and will  
 result in creating more revenue.  
 Also, exports can be enhanced  
 by increasing domestic production  
 with efficient quality to  
 compete globally. Consequently,  
 by adopting these measures,  
 trade deficit could be  
 overcome. Secondly, investing in  
 human capital can also  
 contribute to economic growth.  
 Such as; developing projects  
 and initiatives to work  
 on the skills and technical



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Education of the people so they can perform in adverse types of institutions and can contribute to the economic growth. Similarly, Pakistan's tourism potential can also play a role to drive the economy on a prosperous path. Tourist destinations in Pakistan require to be propagated throughout the world. This will lead to influx of tourists to the tourist spots. Furthermore, infrastructure of Pakistan is too poor and is in need of improvement, especially at tourist spots. This will make it easy for tourists to get easy access to the destinations. Resultantly, this will enhance tourism and will lead to economic prosperity. Fourthly, tackling security challenges can also help in halting economic deterioration. Adopting intelligence based operations can help to overcome terrorism. As an illustration, intelligence based operations help to minimize human



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human loss and require limited finances. On the other hand addressing grievances of marginalized communities can also help to overcome security issues as most of the terrorists are recruited from such communities as in case of Balochistan Liberation Army. In addition, rehabilitating the people affected by military operations is also necessary in this context, as they can develop feelings of enmity with states if left over in worst conditions. In summary, it is evident that Pakistan has been suffering from trade deficit, tax evasion, addiction to foreign loans, income inequalities, security challenges and political uncertainty. This can be recovered by enhancing exports, encouraging tourism. Government in Pakistan is spending more while generating less, collecting minimum amount of taxes and is overly dependent on foreign loan. Similarly, there is a huge gap between the rich and the poor and



political uncertainty is putting more fuel on the fire. On the other hand such challenges could be overcome by adopting rational economic policies such as encouraging tourism, promotion domestic products globally and tackling terrorism. Economy is the <sup>primary</sup> determinant of a country's prosperity. Now, Pakistan has to realise the challenges it has been facing and has to adopt rational and growth enabling <sup>economic</sup> policies in order to sail the boat out of the storm.

