

## CSS - 2019

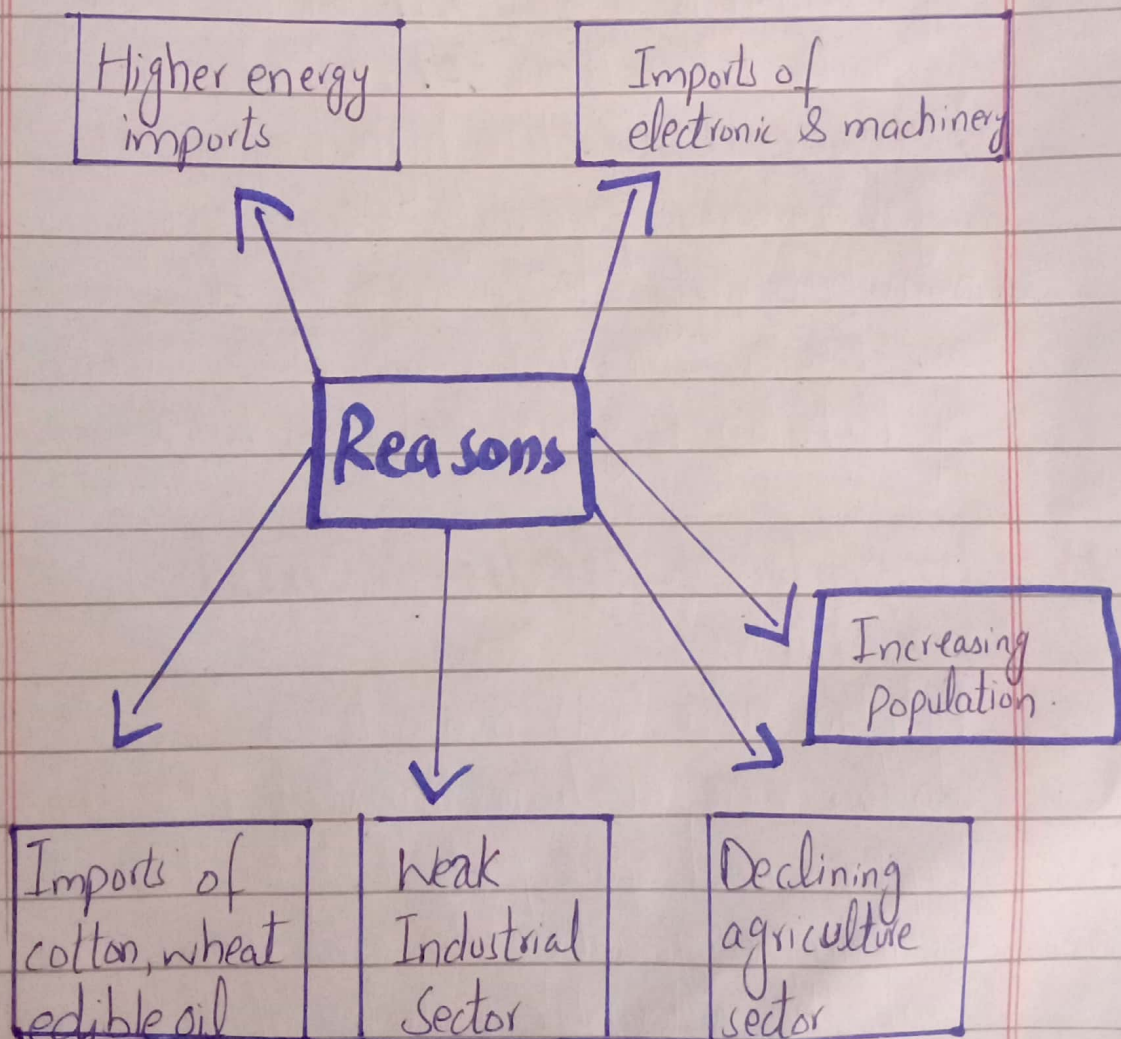
What major economic challenges are being faced by Pakistan? What recommendations do you suggest to deal with these issues.

### 1. Introduction:-

There could be two major economic challenges in any country. Trade deficit (balance of payment crisis) and Budgetary / fiscal crisis. Pakistan faces both problems. Pakistan's fiscal policy is not without its challenges. Persistent fiscal deficit and debt, compounded by global and domestic factors, have posed significant hurdles over the past two years. The country's fiscal accounts have been strained by unprecedented expenditures and moderate revenue growth. Moreover, Import compression policies and a contraction in industrial sector have also been hindered revenue generation efforts. Therefore, there is an urgent need of remedial measures to fix the fiscal crisis of Pakistan.

## 2. Trade Deficit is the major economic challenge is faced by Pakistan:-

Trade deficit is the major challenge in the economy of Pakistan. In the fiscal year-2023 the total exports were 36 billion dollars while the total imports were more than 80 billion dollars. The trade deficit was 44 billion dollars.



# Reasons Of Trade Deficit:-

## 1) Higher energy imports:-

In the year 2022-23 the total energy imports were **more than 23 billion dollars**. More than 17 billion dollars were imported of crude oil and refined oil and rest of 6 billion imported of LNG and coal. The energy imports of Pakistan is overall **25%** of the total imports. More than **50%** imports are **hydrocarbons**. The higher imports of hydrocarbons primarily because of overwhelmingly dependency of electricity on Diesel, LNG and coal. **60%** electricity of Pakistan is generated from hydrocarbons.

## 2) Imports of electronics and machinery:-

Pakistan since 2015 more than 3 billion dollars were electronics imported. Mobiles, Laptops and spare parts. Pakistan has also been importing automobiles and their spare parts. The automobile industry of Pakistan

is mostly based on assembly units not for manufacturing and spare parts being imported from Japan, China and South Korea.

Furthermore, a long list of cars and other machinery being imported from Abroad. In the last 10 fiscal year, more than 5 billion dollars were spent in the imports of electronics and other machinery.

### 3) Cotton, Wheat, and Edible Oil are the key imports:-

In the beginning of the 21 century more than 35% of total cotton need of Pakistan were imported. Mostly from Central Asia, Afghanistan and Egypt. Pakistan has been the major importer of wheat from Russia and Ukraine. One of the major importer of edible oil especially palm oil from Malaysia and Olive oil from Spain and Italy. The minimum 7-8 billion dollars.

### 4) Weak Industrial sector has resulted more imports and lesser exports:-

Textiles remained the backbone of the exports of Pakistan. But majority exports

either raw material or half finished goods. Before 2000, Pakistan was the major exporter of cotton. But 2000 onwards, the export was thread, unstitched clothes, it was not value added goods. The textile industry from Pakistan primarily shifted to Bangladesh from 2007 till 2013. Food industry is not value added goods. Meat, Milk, Fish etc were export as a half finished goods not value added products. Resultantly, the industrial sector of Pakistan remained persistently weak. Whether textiles, surgical equipments, food, and other Pakistani products could not compete with those of India and Bangladesh because production cost has been high in Pakistan because of expensive electricity. Last but not least the dollar shortage resulted decline in the industrial productivity. The industrial sector is the major contributor to increase the exports and it has been weak in Pakistan. That's why, Pakistan's imports are more and exports are less.

## 5) Declining agriculture sector has resulted increasing trade deficit:-

Traditionally, agriculture has been the backbone of the Pakistan's economy. More than 23% contribution to the GDP of Pakistan in the past but now around 20%. More than 60% of <sup>rural</sup> **rural population** directly or indirectly linked with agriculture. The major crops are <sup>cotton,</sup> wheat, rice, sugarcane and vegetables are onion, green chilies etc and fruits are mango, tomatoes, watermelon and livestock are meat and milk. In the 21st century, the substantially decline of agriculture sector has been started.

Till 2000, Pakistan was export cotton and also cotton met the local textiles industries. <sup>In the export,</sup> Pakistan also the major exporter of onion, lady fingers, tomatoes but now these products are imported.

There are multiple factors for this decline.

Floods and water shortage has been primarily, reduction in the canal system, converting from <sup>sugar</sup> cotton to sugarcane, focus on more water consuming crops, the urbanization of agriculture land and such

more factors for the decline of agriculture. Resultantly, the <sup>export of</sup> agriculture has been decline in one hand and imports has tremendously increases on the other hand.

### 6) Increasing Population:-

One of the major reason <sup>for</sup> increasing trade deficit. In 1998, the total population was 140 million. In 2024, the total population is more than 242 million. It means that the demand of <sup>commodities</sup> commodities are increase which the local industry and agriculture sector could not met. Resultantly, increasing the imports and as a result, more and more trade deficit.

### 3. Budget Deficit is one of the major challenge faced by Pakistan:

Budget deficit is a persistent problem. In the FY- 2022-23 the total collection was 4.1 trillion Pkr and the total expenditure was 8.4 trillion. The shortfall was 4.3 trillion.

# Reasons of Budget Deficit:-

## 1) Flawed Taxation system resulted lesser collection:-

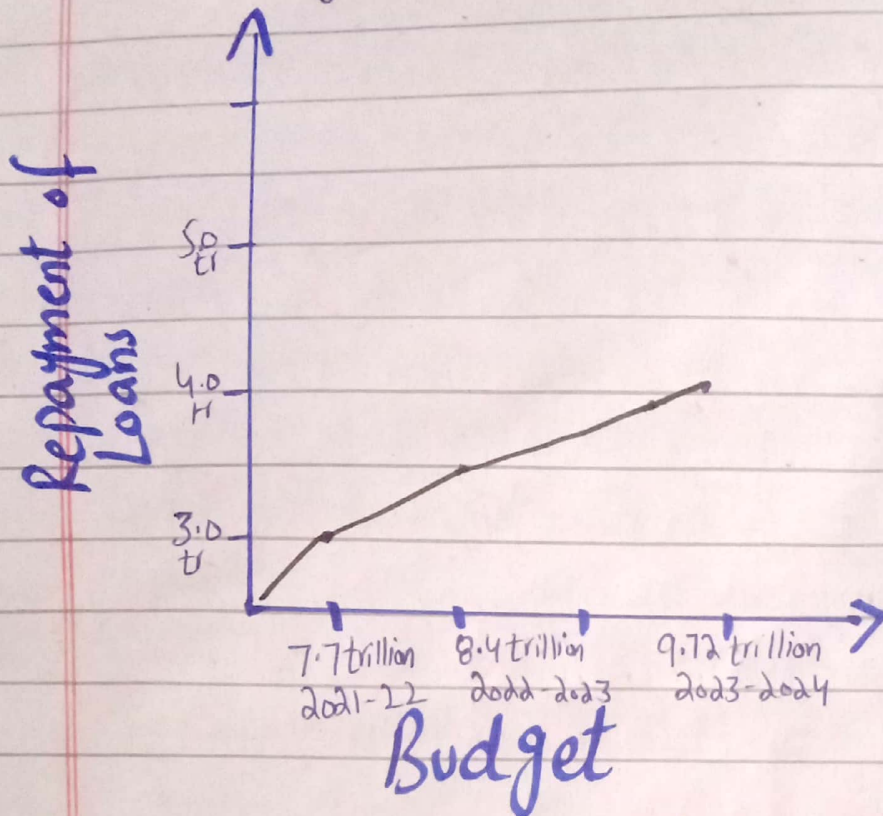
One of the major source of collection for any government are taxable and non-taxable revenues. But the major source of tax budget for any state is tax collection. and tax collection is high in those countries where not only growing economy but also documentation. According to IMF, 35% economy of Pakistan is not documented. When business are <sup>enough</sup> small units, <sup>to be hindered</sup> so the owner try to not register and document them and when business are big <sup>enough</sup> units then the owner always try to register them partially. Real estate, Retailers and industry owners <sup>are</sup> same doing that, small entities are normally not registered at all and large entities are partially registered.

## 2) Repayment of Loans along its interest:-

One of the major problem of budget collection is heavy allocation of repayment of



loan along its interest.



In year 2023-2024, the total expenditure is 9.72 trillion PKR while 4 trillion allocated for repayment of loans. In year 2022-2023, the total expenditure was 8.4 trillion while 3.8 trillion was allocated for repayment of loans along its interest.

35% to 38% budget allocated for repayment of loans along its interest.

3) Subsidies, Pensions has been increasing the burden over the Budget.

In 2022-23, the 1.6 trillion total subsidies given in the electricity, gas and oil.

More than 200 billion were spent on Benazir Income Support and other social activities. but major ~~en~~ chunk were spent on state owned enterprises. PIA was given more than 70 billion, 23 billion given to railway and 16 billion to steel mill Karachi. 34 different enterprises were spent more than 700 billion pkr. Furthermore, 700 billion pkr spent on pensions in which 160 billion were spent on civilian retired employees and more than 500 billion on military retired employees. The subsidies and pensions were spent 2.2 trillion.

#### 4) Defense spending also a financial constraint:-

Pakistan has multiple security threats it has allocate a sizeable defense spending.

In 2024, defense budget is 2.2 trillion pkr. In 2023, defense budget 1.6 trillion pkr. Keeping in mind, weak economic and budgetary deficit, heavy defense

spending pressurize the economy of Pakistan.

#### 4. Implications of these Challenges:-

##### 1) Increasing balance of payment crisis or dollar crisis:-

The government sells and purchases commodities. Sells are less and purchases are more. In the fiscal year 2022-23, Sells are 36 billion dollars and 80 billion dollars are purchases. So, 44 billion dollars were moved out of Pakistan that occurs dollar shortage in foreign accounts and current account of Pakistan.

In June 2022, the total dollar reserve was 27 billion dollars and In July 2023, it has been decline to less than 8 billion dollars. The cause of this decline was trade deficit.

##### 2) Increasing dependency on loans:-

The imports are more than double of overall exports. In 2022-23, the trade

deficit was 44 billion dollars and 27 billion dollar was remittance. The shortfall was more than 16 billion dollars. To overcome this shortfall, government has no option except to acquire loan. The loan accompanied on the basis of conditionalities. **For example** IMF demands reduction in the subsidies, increase the ratio of the taxes, increase the price of electricity, gas and oil, devaluation of pkr and so on. In the last two years, due to these IMF conditionalities, higher inflation occurs in Pakistan.

### 3) **High inflation causes socio-political instability:-**

IMF demands to increase the price of electricity, oil and gas, it indicates high inflation in the country. People started protests overall the country. These protest challenges the writ of state and cause socio-political instability in the country. Resultantly, declining the economy of Pakistan and increase fiscal crisis and debts.

## 5. Recommendations for these Challenges:-

### 1) Acquire more loans:-

The economy of Pakistan reached to a state where it could easily default on accounts of a balance of payment crisis or dollar crisis. Therefore, essentially it has left minimum options and one of the option is acquire more loans that is the reason that government of Pakistan has been outreaching IMF again and again. Islamabad has also been requesting its ally countries like Qatar, Saudi Arabia, UAE, China not only to delay the return of due loans but also to provide more loans. But loan is not permanent solution it stuck the economy in the vicious circle of death trap.

### 2) Adopt Protectionist measures:-

Protectionism means impose heavy duties on the imports of foreign products. These makes the imports more expensive and their demand decreases. In the year 2022-23

more than three thousand foreign products were heavily taxed by the government of Pakistan especially in the ~~part~~<sup>imports</sup> of luxury goods, but this is not the permanent solution. Because World Trade Organization and IMF always ~~dischix~~ discourage the protectionism measures. Countries, the products which being heavily taxed. They retaliate the protectionist measures.

### 3) Increase in the industries:-

No economy can turn from import base to export base until and unless it does not focuses on industrialization. Therefore, Pakistan must focuses on the industrial sector especially textile industries. In the years 2020, 2021, 2022, government take steps to promote textile industries. It increased the exports from 13 billion dollars to 20 billion dollars. The imports of mobiles also reduced from 3 billion dollars to 1.4 billion dollars. These primarily measures because of the reforms of respective industrial sectors. The government <sup>should</sup> adopt such type of measures to promote

industrial sector of Pakistan and transform the economy from import based to export based. CPEC also has lifeline for the economy of Pakistan.

#### 4) Increasing the agriculture production:-

Agriculture could turn around the economy of Pakistan by planting olive oils. Pakistan can not only cut the 4 billion dollar imports but also export the edible oil by incentivizing the local farmer. There is every possibility of reviving and expanding the cotton production. In the 2021-22, overall 17.1% growth in cotton production, 12.1% growth in potatoes and 6.1% in wheat. Bumper crops wheat, rice, cotton were attained Pakistan in 2021-22. Resultantly, rise in agriculture sector <sup>would</sup> not only in the cut of imports but also increase in exports.

#### 5) IT could turn around the trade imbalance with no time:-

India earn **130 billion** dollars and Bangladesh more than **11 billion** dollars in IT exports in the year 2021-22. But Pakistan's export in IT sector only **3 billion** in the same year. To increase IP IT exports, Pakistan should focus on the call centers, startup and establishment of IT sector. To increase the export, Pakistan must focus on IT sector.

## 6) Tax Reforms:-

Pakistan government gives two major reforms. Track and trace system in the industrial sector and secondly point of sales system was introduced in the retailers. These initiatives increase the tax collection. **In the year 2021-22 the tax collection** increase from 4.7 trillion to 6.1 trillion PKR and in 2024 9.78 trillion PKR. So, these type of reforms must need to be extended or expanded in other industries like wood industry, private hotels, shopkeepers so that more increase (occurs) in tax collection occurs.



## 7) Increase foreign investment:-

Pakistan must need foreign investment to boost up their economy. The government of Pakistan started **Special Investment Facilitation Council (SIFC)**, which facilitates the foreign investors to invest in Pakistan in agriculture, industrial and different sectors. It is a good initiative that promotes foreign investment. In 2024, Saudi Arabia announce to invest 25 billion dollars in different sectors of Pakistan and UAE announce 10 billion dollars to invest in Pakistan. Such initiatives must need to focus and promote foreign investment. Resultantly, it rise the economy of Pakistan.

## 6. Conclusion:-

In conclusion, no doubt Pakistan faces different economic challenges such as Trade deficit, Budget deficit, Inflation, Repayment of loans and so on. But still, Pakistan have many solutions to overcome these challenges by promoting agriculture,

industry, foreign investment, IT sector,  
business and reforms in tax collection. These  
\*~~That~~\* initiatives must boost up the  
economy of Pakistan and also helpful  
to overcome these challenges.

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