

Critically discuss that why Pakistan's economic growth continues to be 'Balance-of-payments' constraint which is one of the core cause to keep the foreign exchange reserve long-term under pressure. Do you think that Pakistan's export performance remains the most relevant long-term challenge to alleviate the balance-of-payment constraints for sustained economic growth and explain radical structural reforms to improve export performance.

1) Introduction:

Faiz Ahmed Faiz once said about Pakistan's future,

opened  
for Pa

ent

Home  
new  
for

"it will just go on  
and on like this"

The words of Faiz Ahmed Faiz  
reiterate perfectly here. Since after  
creation, Pakistan has been facing  
the same challenges, however, in different  
forms. As ill luck would have it, no government  
has succeeded to introduce such

**structural reforms** that bring  
out Pakistan from the vicious cycle of  
challenges. In the contemporary decade,  
Pakistan is entangled in the challenge  
of 'Balance of payment' crisis.

Due to balance of payment of  
crisis, Pakistan has not been only  
experiencing the challenge of default,  
but meantime, it is losing its **strategic**  
**location importance in Geo-politics**,  
due to loans from the friendly countries  
in unsustainable way. The words  
of Prime Minister Shehbaz is famous  
in this regard

"Beggars can't be  
choosers"

However, to break this cycle of challenge, Pakistan needs clear and coherent structural reforms, which can only be possible through strong political will.

2-

Brief Overview of what is

Balance of payment and

Pakistan's history through

short glance that how

Balance of payment

increased through different years

(i)

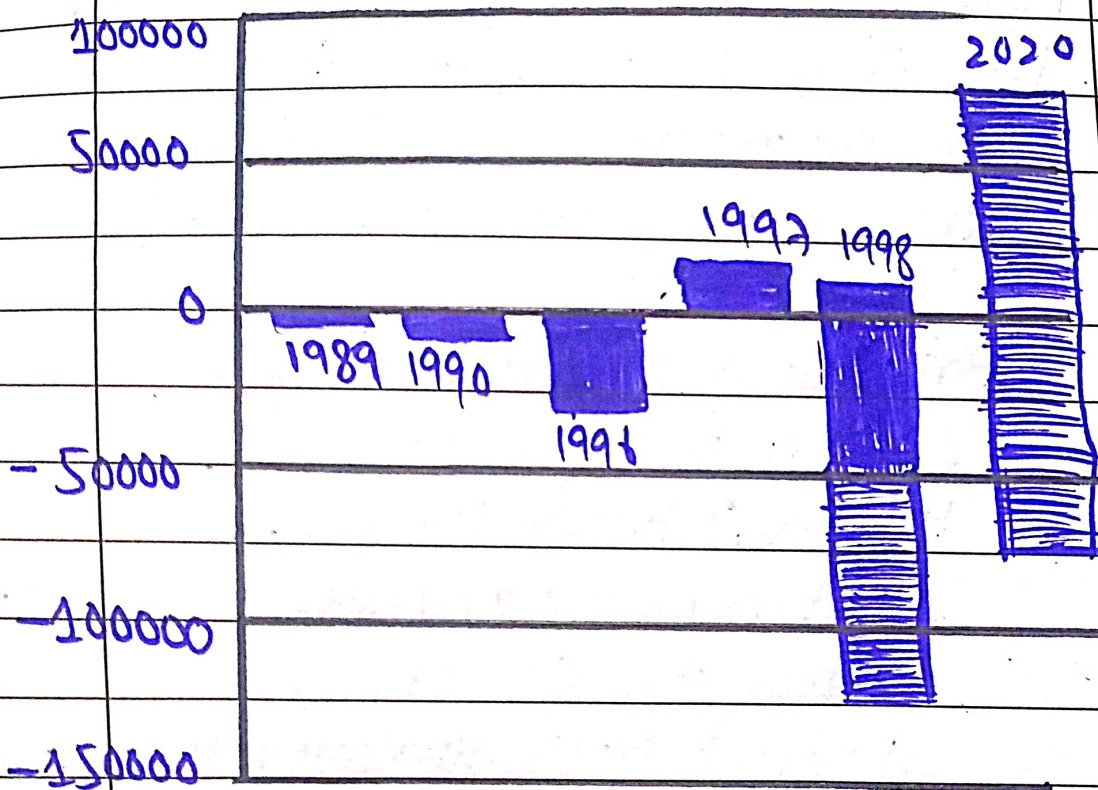
Balance of Payment:

Balance of payment consists of two concepts 'Export' and 'Import'.

When the ratio of export is increased from the ratio of import it is called Balance of payment in surplus.

on the other hand, when the ratio of import increased from the ratio of export it is called balance of payment deficit.

## Balance of Payment



Source: Research Gate

3- Why Pakistan's economic growth continue to be balance of payment constraint?

(i)

Lack of industrial chain is the  
prime reason of Balance of payment  
Deficit:

Due to lack of modern industrial chain, Pakistan has unable to increase the ratio of its exports over imports. As a result, Pakistan feels constraint to import goods and other items from the other part of the world to fulfill the demand and supply chain cycle. Hence, excess amount of import always costs heavy amount of Dollar. As a result, Pakistan gets trapped in the cycle of balance of payment deficit.

(ii)

## Overdependency on few

Sectors over other sectors,

always welcome BOP deficit:

Since after independence, Pakistan has been heavily dependent on few sectors such as, agriculture and textile sector. Due to over reliance on these two sectors, the government has forgotten to expand and diversify its economy. Thus, due to lack of diversification of economy, the government is unable to increase the number of its exports. In contrast, the major world power has keep on diversifying its economy through different ways. For instance, recent report of the IMF, 2023.

"The Russian government has manifested an increase in GDP up to 3%."

Why - this increase has manifested even the war between Russia and Ukraine

is going on? it materialized just because of Russia's manufacturing sector. They have diversified its economy. As a result, they are bearing the loss of war even.

(iii)

Political Parties are  
preferring short term  
considerations over long  
term consideration policies.

Due to incompetent team in ruling government, they always prefer short-term considerations policies over long term considerations.

For instance, their prime objective is always, build Metro station, Laptop schemes, or milk programme in schools, rather than, investing money

in industrial infrastructure development. As a result, our country fall back from the international market in terms of goods supply to the global markets.

(iii)

Over reliance on foreign debt made our country lazy to do some extra efforts:

Almost 23 times, we have visited to IMF for loans. Our government has never realized to break this vicious cycle of loans. Rather than, when ever the government secured fund, they gave congratulations to the public for securing now IMF bill out package. So this behaviour made the public and government made sluggish to do some extra effort to introduce new items in the domestic and international market to maintain our standard in geopolitical world.



(v)

Social unrest and terrorism is also the reason for the BOP deficit:

Due to social unrest the outsiders Pakistani are afraid to invest in Pakistan. They are afraid to build industries. As a result, we are failed to tackle the challenge of BOP.

(vi)

Subsidies has given to ruling class industries, but no major export has manifested from their side

In Pakistan, the ruling class industries are working only for their own interest. The government of Pakistan has given a number of subsidies to the industrial sector. to increase the ratio of export. However, rather than to increase export they are becoming overly dependent on government subsidies.

Recently, the IMF proposed a 9% reduction in subsidies for Pakistani industrial sector.

(vii)

Lack of privatization of sectors and departments which are in loss:

Various sector such as agriculture, PIA and many others are going through loss.

Rather than generating handsome amount of revenue, the government is investing in such sectors. Therefore, the privatization of all sectors are mandatory, which are not helping country in exports.

(viii)

Economic policy is heavy over foreign policy as a result BOP is on its peak.

Incompetent leader always bring disasters rather

than bringing better reforms. When ever our government visited friendly or other countries. They always beg for loans. They have never asked to install such industries, which help Pakistan to sustain its position in geo-politics.

Baltasar Gracian wrote in his book 'The art of worldly wisdom', 'Leader is the one who brings out its country from the cycle of challenges.' However, this factor is missing in Pakistan case.

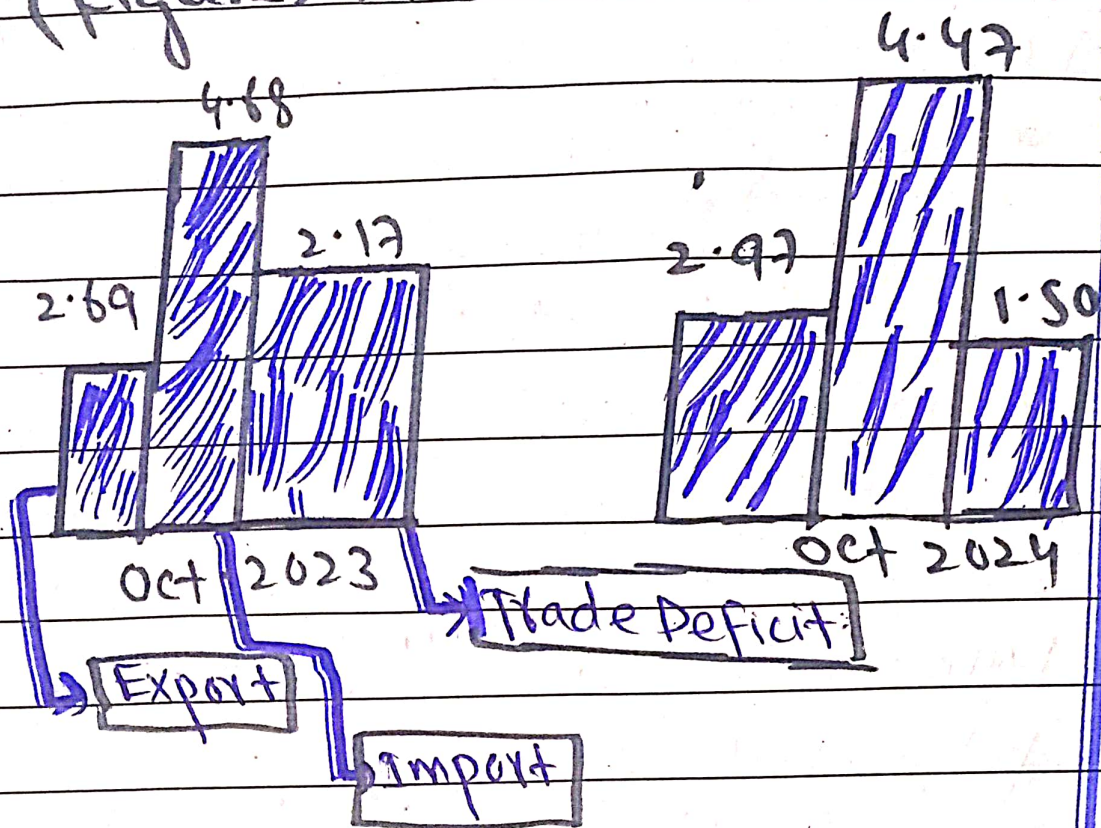
4- Pakistan's export performance remains the most relevant long-term challenge to alleviate the balance of payments constraint  
Economic growth:

The economic growth of a country is all depend on its export rate. If a country is overly dependent on import. How it can be succeeded.

in economic growth.

# Pakistan Trade deficit YoY

(figures in billion USD)



Source:

Business

Recorder

Hence, until, Pakistan <sup>does</sup> not increase its export rate, it is impossible that Pakistan perform better in its economy.

5-

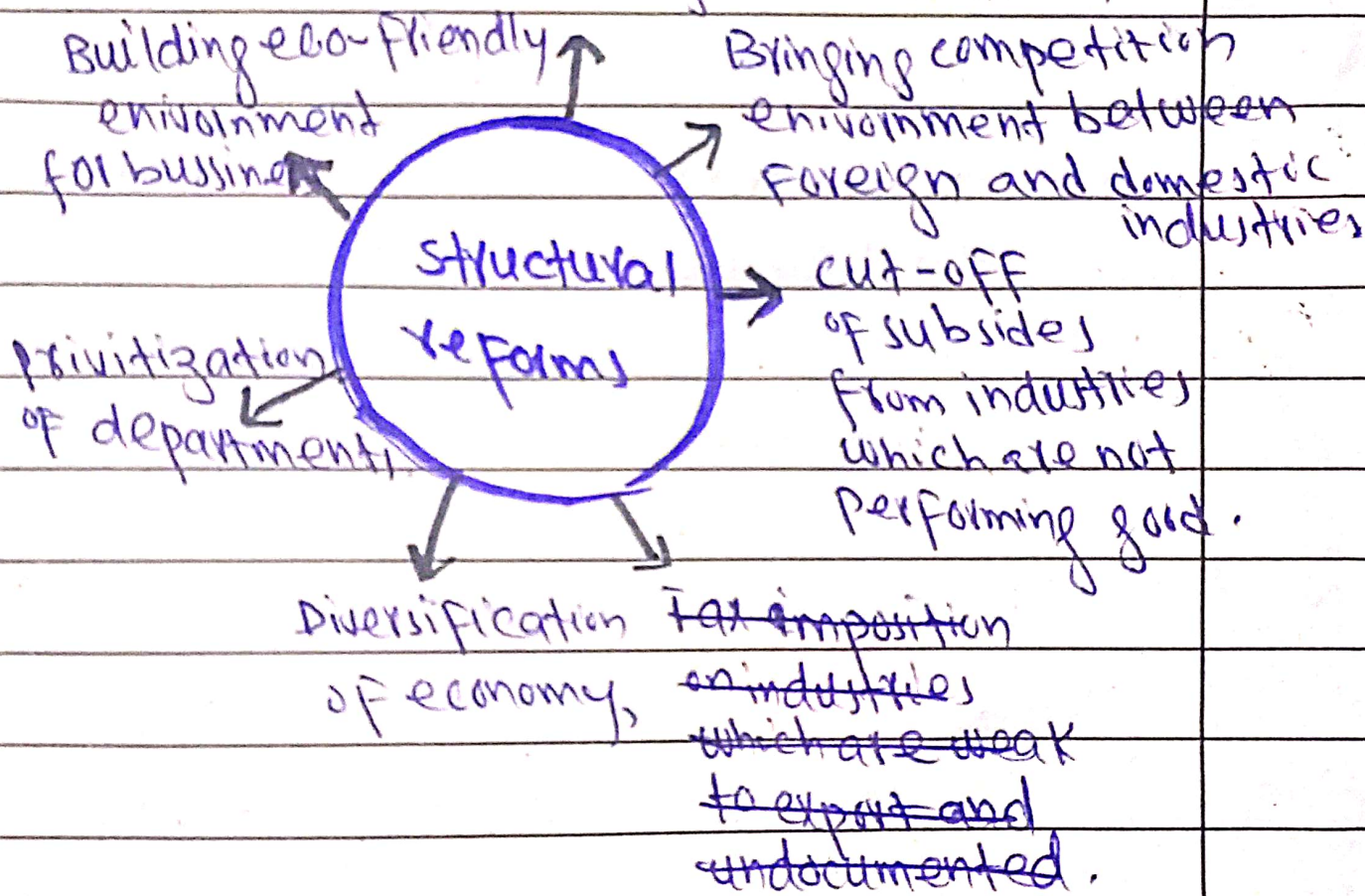
## Radical structural

reforms to improve

export performance

and lessen BOP Deficit:

making industrial chain



(i)

Development of industrial chain to enhance export:

Special amount need to be allocated to build more and more industries to increase the amount of export over import.

(ii)

**Building competitive environment between domestic and foreign industries:**

The government needs to avoid the excess use of protectionism policy and build a competitive environment between foreign and domestic business to make export rate more sustainable.

(iii)

**Cut-off of subsidies from industries, which are not producing items:**

The government needs to cut off the subsidies from all those industries, which are not helping to export materials in international market.

(iv)

Diversification of economy and decreasing reliance from few sectors.

The government needs to diversify its economy. For instance, it can invest in manufacturing industry, technological industry, just like developing worlds are doing so.

(v)

Privatization of sectors which are in loss:

The State owned Enterprises (SOEs) should be privatized that they also help the country in export rather than becoming burden on Pakistan's ill economy

(vi)

### Building Eco-friendly environment for business:

The government needs to make special economic zones for better business environment. By doing it so, Pakistan would manifest an investment from both domestic and foreign entities.

### Conclusion:

Challenges are always a kind of opportunity for any government. The balance of payment deficit is also a better opportunity for the current government to learn from it

and take steps to OF BOP. by st will. B and t imple whic price



and take a coherent and prudent  
steps to resolve the challenge  
of BOP. It could only be possible  
by strong political and citizen  
will. Because without consensus  
and trust, it would be hard to  
implement structural reforms,  
which take time to show its  
fruit.