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B#402

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Q. Discuss the major Challenges facing Pakistan's economy and suggest remedial measures?

## Introduction:

Since the inception of Pakistan in 1947, Pakistan's economy is marred by multiple challenges that continue to cause hindrance to complete actuallization of Pakistan's economic potential despite vast resources and huge youth potential. These challenges include trade deficit, budget deficit, balance of payment crisis, flawed taxation system, over-reliance of loans especially from IMF and loss-making state owned enterprises. Although these challenges are decade-long, they can be resolved by adopting some stringent measures timely. These measures include privatisation of loss-making SOEs, export diversification and value adition, employing efficient tax collection system, strealining regulatory frameworks and breaking the cycle of dept trap.

## Chalenges facing Pakistan's economy

### 1- Budget deficit

Pakistan's expenditures are higher than country's total revenue or budget. This leads to decrease in public spending developments, hurdles in fulfillment of necessary expenditures. Budget deficit is caused by low export value, poor collection of taxes and unnecessary expenditures of government departments and public official which collectively strain the already fragile economy of Pakistan.

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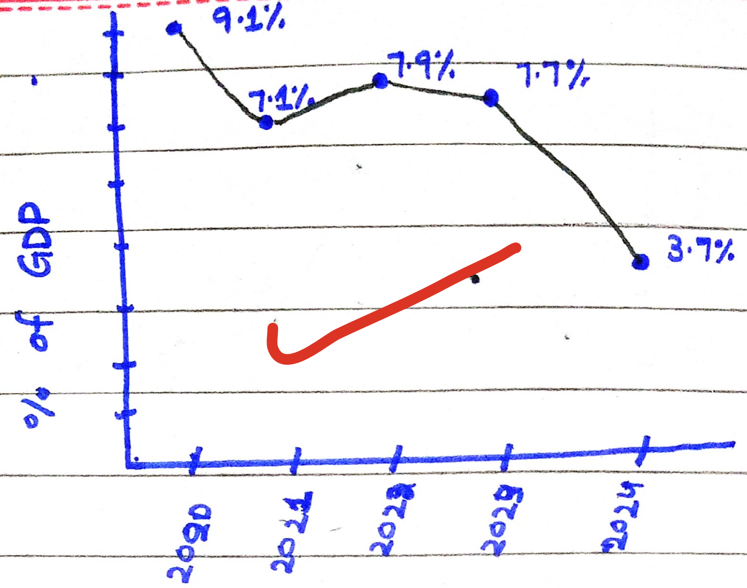


Fig: Pakistan's budget deficit as % of GDP

## 2. Trade deficit

Trade deficit occurs when a country's imports outweigh the exports. Pakistan's export sector is heavily reliant on **textile exports** which make up around **60%** of its exports. Narrow export base and low or poor value addition plague the economic revival of Pakistan. Pakistan has to import a wide number of products from USA, China, Saudi Arabia, Qatar Europe to fulfill its food demands.

add sources against your references/stats.

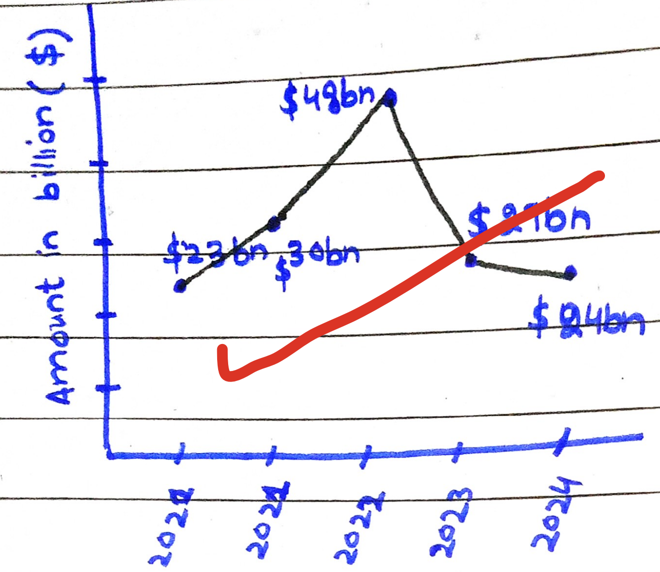


Fig: Pakistan's trade deficit over last five years

## 3- Balance of payment crisis

Balance of payment crisis is faced by a country when outflow of money is higher than inflow of money. Pakistan excessively depends on remittances for its foreign reserves and imports more than it exports. This leads to dollar crisis in Pakistan. Moreover, due to heavy reliance on external debts Pakistan has to pay back

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back in dollars which also bleeds its poorly growing economy.

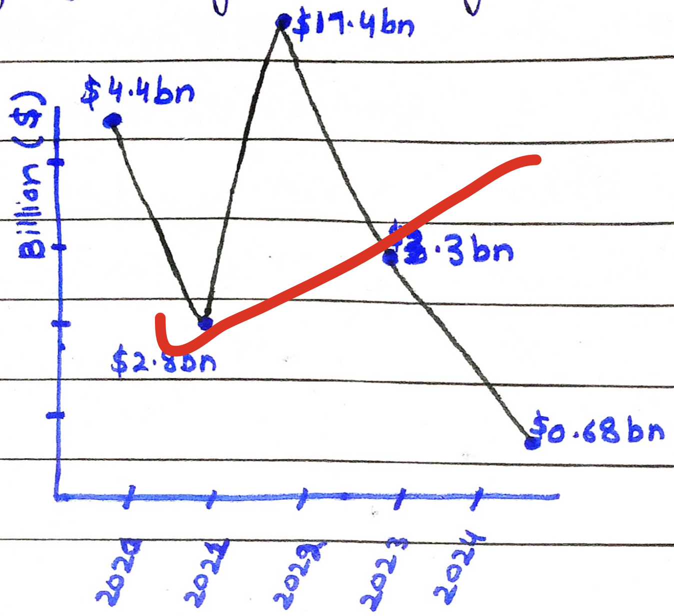


Fig. Current account deficit of Pakistan over last five years

4- Flawed taxation system

Flawed taxation system of Pakistan is another problem faced by Pakistan that is causing hindrance to achieving its full potential. According to Finance Ministary of Pakistan, Pakistan's tax-to-GDP ratio is 10% only. Only a small portion of Pakistan population pays taxes while elites and agricultural seator enjoy enormous tax exemption This not only burdenise the poor class but also lead to lesser tax collection and ultimately lesser amount of total revenue generation by Pakistan.

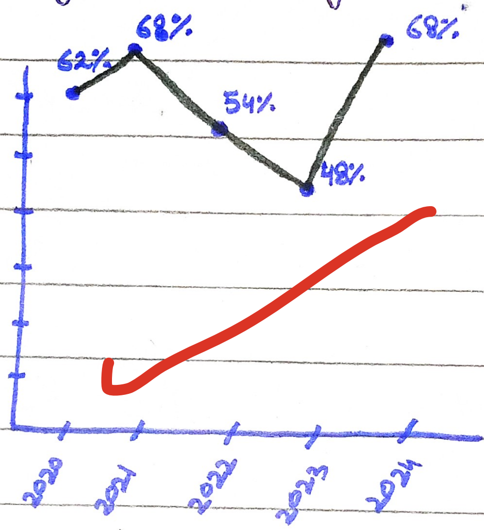


Fig: Percentage contribution of taxed revenue in total revenue generation of Pakistan over last five years

5- Over-reliance on loans

Pakistan relies heavily on loans, both external and internal in order to fulfill its expenditures, pay debts and

and import goods. These loans often come with stricter conditions such as cutting public expenditure, subsidies and lowering developmental budget. These actions lead to public discontent and spikes in inflation, contributing futhur to slower economic growth.

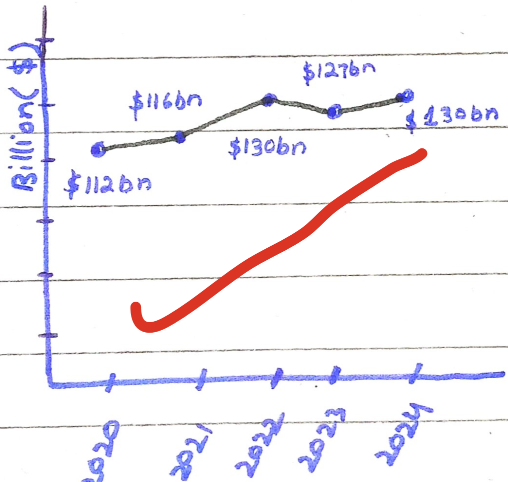


Fig: Pakistan's external debt over last five years

6- Loss-making state-owned enterprises

Pakistan is running various loss-making

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organizations which make an annual loss of $4.1 bn due to corruption, outdated infrastructure, and inefficiency. Those loss-making SOEs include National Highway Authority, Pakistan International Airlines, Quetta Electric Supply Company and Peshawar Electric Supply Company among others.

## Remedial measures for Pakistan's economy

### 1. Privatization of SOEs

Privatization of loss-making governmental organization that are a real burden for the economy of Pakistan would lead to efficiency and effectiveness of the enterprises, decrease corruption and energize the economic growth of Pakistan. Privatization of Karachi Electric and Muslim Commercial Bank are the success stories that can be followed by pakistan for it down-trodden economy.

2. Export diversification and value addition

Pakistan's export base is very narrow and offers very little to growing economies of China, USA and Europe. By increasing its export base through introducing a wider range of in-demand products and services, Pakistan can achieve its goals of economic prosperity. Moreover, value addition rather than just exporting raw materials is also a way to economic uplifting.

3- Efficient and robust tax collection system

By increasing tax base of Pakistan Pakistan can generate huge amount of revenue reducing its dependence on

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on foreign and domestic loans for survival. This would furthur lead to public support if corruption from tax-collecting bodies including FBR is reduced by bringing honest and efficient leadership in these systems. Tax reforms, if adopted properly, can change the course of the country from economic meltdown to economic boom.

4. Streamlining regulatory frameworks

Red tape or bureaucratic hurdles are a major issue in economic growth. These unnecessary paperworks, permits and approvals hinder the growth of new industries in the countries and divert foreign direct invesments to business-friendly countries. In this matter **Special Invesment Facilitation Council (SIFC)** provide its **one-window operation**, reducing red tap and unnecessary delays in startups. These startups would contribute to economy not only by job creation, export diversification but also boosting tax contribution; leading to win-win situation for Pakistan's economy.

## 5- Breaking the cycle of dept trap

As Pakistan relies on debts to pay its previous debts, this keeps the country entrapped in vicious debt cycle. Breaking this cycle is the only way out. It can be done by increasing revenue collection through direct and indirect taxes, widening export base, allowing business-friendly environment to attract foreign direct investments and encourage local industries to contribute by providing subsidies and tax cuts. **39-40%** of Pakistan's budget turns to paying **debts** annually and saving this amount can add much to Pakistan economy.

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## Conclusion:

Pakistan's economy is plagued by multiple challenges including budget and trade deficits, BoP crisis, lower export and tax base, among others. Solving these issues through privatization of SOEs, expanding tax net, diversifying exports and providing good business environment can help Pakistan prevent economic failure and emerge as a global example in economic sector.

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good attempt!!!

improve the references part/source.