

# ESSAY MOCK ①

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Topic:-

## PAKISTAN'S ECONOMIC FUTURE:-

### CAN THE COUNTRY ACHIEVE SUSTAINABLE GROWTH

Outline:-

#### 1) Introduction

"Pakistan, today, is stuck in a perpetual debt-fuelled boom-bust cycle. However, there is always light at the end of tunnel; by putting our houses in order and living within our means, the country can finally accomplish its goal of achieving sustainable growth."



DATE: \_\_\_/\_\_\_/\_\_\_

## 2) Current state of Pakistan's Economy?

- a) Boom - Bust Economic growth
- b) Public State Enterprises have done more harm than good
- c) Lack of receipts has led the Center to borrow more
- d) Uncontrollable Pensions and Salaries bill

## 3) Reasons for how Country's Economy got to this point -

- a) Consumption-oriented Economy
- b) Politicization of Public State Enterprises have led to dismal results
- c) Attitude of Free-riding by the Federating Units
- d) Over staffed and bottom-heavy Center



DATE: \_\_\_/\_\_\_/\_\_\_

#### 4) Pathways for realizing Sustainable Economic Growth:

a) Charter of Economy desperately needed.

b) Urgent down sizing of the Federal government

c) Privatization of Public Owned entities

d) Retiring debt and employing debt management techniques.

e) Growth to be led by the Provinces and Private Sector.

f) Devolution of Powers to achieve maximum participation at the Local level.

g) Intermediate cities and unleashing their potential of manufacturing prowess

#### 5) Conclusion



"All is not lost, Pakistan is home to a nation full of resilience, dedication and perseverance. By working together on all fronts (political, fiscal, administrative) the country can reorient itself to achieve a sustainable future that uplifts all."

Pakistan, is home to 241.7 million strong. In 2016-17, the magazine Forbes reported that it was on track to become the fastest growing nation. Moreover, it also predicted <sup>that</sup> by the year 2035, it would become part of the G20. Fast forward to 2025, the country has fallen from grace. It has entered into its 24<sup>th</sup> IMF program and records deficits never seen before. Inflation has made everything out of the reach of the common man. Furthermore, the ~~dollar~~ ~~devaluation~~ Rupee devaluation has forced many businesses to pack up shop. With many multinational companies such as Shell, Telenor cutting their losses and leaving Pakistan.



DATE: \_\_\_/\_\_\_/\_\_\_

The question arises, how did the country reach this point. It can be best explained in one phrase 'decades upon decades of mismanagement.' Poor fiscal policies have led the country to become a consumption-oriented economy. The center today is posting deficits while the units are free-riding and enjoying surpluses. However, all is not lost, as where there is will, there is way. The path to a sustainable future is not easy as it means changing our mindsets at all levels and tiers of the country. Through political will, administrative prowess, tight fiscal control and lastly, public support, the country can reorient itself and finally achieve growth that doesn't end up hurting the economy in the long run.

Pakistan was, once touted to become part of the G20, has now been reduced to asking for alms from the world. Sky-high inflation has forced the common man to limit his meals and expenses. Poor tax collection has forced the Federal governments to borrow more to support its expenses. At the same time, it continues to keep a ballooning pensions and salaries bill on its sheets. Moreover, its lack-lustre attempt at privatization has shown how willing it is to cut its losses. One can definitely say that Pakistan is more poorer than it started.



Pakistan's economy works in two phases: a boom phase and a bust one. The boom phase is when the country starts experiencing rapid growth and spending both at the individual and country goes through the roof. However, this growth is fuelled by debt and foreign money and it is only sustainable till the time, the money keeps coming in. As soon as the money stops, like the ode to joy the economy also ends with a bang. The economy starts to overheat and it eventually collapses in on itself. The World Bank estimates that above 5% growth for Pakistan is harmful as the economy cannot sustain itself. This is where the second phase of the economy kicks in, the bust phase is when manufacturing contracts, spending declines and individual purchase power is sent packing. Debt-fuelled growth can only sustain growth for so long. Yet the country has failed to understand this phenomena, political and administrative powers in a bid to achieve short-term target lead the country into a quagmire from which, return is even the more difficult.

Pakistan, like the rest of the world also has publicly-owned entities. However, unlike the rest of the world, it has failed to properly harness the true potential of those companies. It is an accepted rule that state-



DATE: \_\_\_/\_\_\_/\_\_\_

owned entities<sup>(SOE)</sup> are not profit making entities but they are also not loss-incurring ones too. The country's flag carrier, PIA, has incurred a loss of Rs. 835 Billion (Debt + Operating Loss). The country's steel mill, today, is better off being closed/shut as the losses it makes are unaffordable for the exchequer. The utilities companies and their mismanagement have led to a circular debt of Rs. 5000 B in mid 2022-23. Public-state enterprises eat away more than they contribute. The government's lack-lustre approach in their handling has led to this (to this state). In the 1960s, PIA was name known around the world for its excellent service delivery. Today, no country in the European Union wants it near itself. This is just one example of the numerous departments that have been destroyed due to the mismanagement of the government.

Where SOEs take up a large chunk of exchequer, the country fails to <sup>bridge</sup> increase this by generating more revenue. The current tax-to-GDP ratio of the country is 9% while for a sustainably functioning economy it should be 13%. The country has failed to increase its tax base. Rather, it <sup>has</sup> decided to extract more from the already-burdened salaried class. In some cases, the salaried classes are taxed upto 40-50% (including income and



DATE: \_\_\_/\_\_\_/\_\_\_

other forms of taxation). The salaried give up so much, while they receive so little in services. If one analyses the discrepancies between the salaried class and the retailers, they will realise that only 1% of the retailers give their fair share of taxes. Out of the 3.5 million retailers, only 200,000 give taxes. Chairman FBR (Federal Board of Revenue) admitted this <sup>while</sup> on the panel of Think Fest - Lahore. Later, he said, efforts were being made to increase this number and currently 600,000 have registered themselves. The government has also failed to tax large land-holdings and the real estate sector. It has focused more on taxing the already taxed. These policies have made it uncondusive place to do business and resultantly flight of capital has just increased in the process.

While the federal government has failed to enlarge the taxnet. It has also not given up on its over-staffed and bottom-heavy manpower. In an Establishment Division Annual Report, 2023-24, it was calculated that the majority bulk of people working in Islamabad (Ministries and Line departments) are from Grade 1-16. With numbers reaching as high as 2.6 M<sup>o</sup> while officers in Grade 17-22 make up only 10,000 <sup>or less</sup> in number. The staff employed in the Federal government in these



DATE: \_\_\_/\_\_\_/\_\_\_

grades usually work menial jobs such as drivers, gardeners, naib qasids and so on. These staff not only incur a huge salary bill but also form up the majority of the pension liabilities of the federal government. Every year, the federal government earmarks close to Rs. 4 Trillion for pays and pensions. This could've been <sup>cut</sup> but mismanagement being ripe at every level, it balloons to this day.

The reasons behind this state are far more structural and invasive than one could perceive. Decades of mismanagement require a certain type of expertise. This eventually trickles down the lowest level of the economy, the public individuals and forms the basis for the eventual collapse of the system. Pakistanis have transformed themselves from a production-led economy to consumption one instead. They have politicized the privatization of the SOEs and invoked a sense of free-riding in the fiscal management of the units. Lastly, the countrymen have failed to cut their needs and chose to live and staff <sup>departments</sup> beyond their requirements.

Pakistan, is ranked one of the lowest in terms of productivity by the World Bank. It's economy consumes more than it produces and it has also developed a taste for



DATE: \_\_\_/\_\_\_/\_\_\_

foreign-luxury products. To satisfy itself, the country takes out huge loans to produce and procure such luxury items, but it can only do this for some <sup>limited</sup> time. Every lender has now become aware of this habit and today it has made it extremely difficult to borrow. This is just many of the prices the country has to pay to continue this reckless and unsustainable lifestyle. Developing industry requires time, which unfortunately those at the helm do not have. Short-sightedness and lack of policy of continuity have transformed the country into a consumption <sup>fuel</sup> oriented debt fuelled economy. Pakistan, for the major part of this millenia<sup>n</sup> has lived beyond its means. It has failed to industrialize and expand its economy.

The country also faces a crisis at the SOEs front. Privatization attempts have been stopped due to either politicization or judicial overreach. The country has failed to privatize its flag carrier numerous times. Moreover, the flag carrier is just one of the many examples. Political influence in the SOEs have destroyed the service delivery. Appointees that too political, have wrecked havoc in the internal governance and functioning of the SOEs. Nepotism, fiscal mismanagement, corruption and lack of accountability have all made



once thriving entities into the worst-performing ones. The Railways, <sup>that</sup> the British left, still function as if they are stuck in 1857. The department has been with staff that have only contributed to their own pockets success. All of these departments share a similar story of success and ultimately, failure.

SOEs are not the only free-riding entities in the country. The provinces have also taken up this attitude. After the 13th Amendment, the National Finance Commission award gave more than 50% of all the divisible pool to the provinces. 57.3% of all the Federal divisible pool lands in the provinces budget, while the Centre is left with 42.6% to manage its expenses. This has caused the provinces to generate large surpluses. Punjab generated a surplus of above Rs. 600 Billion for this fiscal year. At the same time, provinces have failed to generate their own pool. They have become complacent to the extent that the majority of their budget planning today depends on Federal receipts. Provinces no doubt carry great weight in federal systems but they should not be completely dependent on federal receipts. This attitude of the units has led to low efforts on part the provinces to generate more revenue and their



DATE: \_\_\_/\_\_\_/\_\_\_

own provincial posts. The bureaucracy, whether at the provincial or federal level, has become too big. The total <sup>allocated</sup> pays for the provincial bureaucracy are higher than the federal budgeted pays. Punjab while having a ~~smaller~~ larger population budgeted close to Rs. 600 B on pays while Sindh having a smaller population budgeted Rs. 500 B for pays. These pays are drawn up mostly for the bottom heavy staff in the provinces where the world is running towards automation, the provincial and federal bureaucracy are content in keeping their castles made out of paper and files. The provinces regularly announce vacancies for posts such as Assistants, Drivers, Stenotypists all while realizing, the country cannot afford such a bloated bureaucracy. Moreover line departments continue to hire such staff as they normally do not make it to the headlines. Today, the country's public offices employ more staff than actual policy makers. It is no surprise then the pension bills explode so much.

However, all is not lost and the country can turn its fortunes around. This requires stakeholder coordination at all levels of the policy matrix. First and foremost, a Charter of Economy is required by all political



DATE: \_\_\_/\_\_\_/\_\_\_

stakeholders. This policy document should also guide the way for various politically damaging decisions. By uniting on the issue of national interests and forsaking party interests, it will become a victory that everyone can claim. For it will not be limited to a single <sup>individuals</sup> (nation), but to the nation as a whole.

The first thing that needs to be done to reverse our course is achieving consensus for the future. (Dr) Pakistan, suffers from political instability and lack of policy continuity. It must be emphasized that political stability bring policy continuity which results in economic stability. Without political stability nothing sustainable can be achieved. For this, a constitutional charter on the economy needs to be signed. The charter should delineate the most important principle that whoever is in power must ensure the continuity of policy. The US political is a beautiful example, whether Republicans or Democrats occupy the white House; policy remains the same. Pakistan also deserves this and requires this intervention. Through this charter party interests can be put to one side as the national interests are prioritized. A stronger nation can result into an empowered and better functioning Parliament.



DATE: \_\_\_/\_\_\_/\_\_\_

The govt. The government has recently taken the downsizing proposal seriously and it has started to reduce ministries and staff as well. In a recent press conference the Finance Minister announced that 150,000 vacant posts have been abolished and 6 ministries have been merged/closed. Moreover, hundreds of posts have been declared as dying cadres. This will eventually result in a saving of Rs. 44 Billion in pays and liabilities. This downsizing needs to be accelerated as the future lies in a minimally-staffed, automation-heavy government. Provinces must also take up this exercise. In June 2024, the Punjab government planned a right-sizing exercise and has also formed a committee to oversee the progress. By implementing artificial intelligence (AI) and other allied technologies, the country can reduce its pays and pensions to create a better managed and well performing government.

SOEs are the third target of this proposal. Privatization has <sup>become</sup> a reality that no one can ignore. Sincere efforts must be applied to offload them off the government balance sheets. The recent PIA privatization fiasco has proven to the nation that the government is not earnest in its efforts.



DATE: \_\_\_/\_\_\_/\_\_\_

This should be reversed and those entities whose losses outweigh their total assets should be completely dumped. Moreover, to ensure that manpower is not wasted or mistreated, future buyers can be told to retain experienced staff while others can be left go through the golden handshake scheme. Lastly, debt management of the companies need to be prioritized. Proceeds of the privatization must be used to retire the debt from the balance sheets and they can also be used to finance the handshake scheme.

Debt management is of utmost importance. The government along with the provinces needs to set up debt management units so that it can be retired at the earliest. For this, both, parliamentary and technical oversight is necessary. This debt unit should be formed under the Council of Common Interests to achieve constitutional <sup>sovereignty</sup> and provincial legitimacy. Along with this, the provinces must propel themselves in the race towards sustainable growth. As Dr. Adil Najam says in his Dawn column, "The Provinces must act as <sup>the</sup> drivers of economic growth. The Centre (or the) does not have the fiscal space to do and ultimately this comes back to the provinces." They should give this attitude of free-riding and along with the private sector, chart out the



DATE: / /

for sustainable growth.

Lastly, local governments need to be empowered both administratively and financially. The true drivers of change, whether economic or political, is at the local level. Through communal participation not only tax receipts but also service delivery will also get better. Local governments in intermediate cities of Pakistan hold the key to the country's success. By improving the level of industry output and upgrading the infrastructure, these cities can propel the country faster and higher than ever before. Through the provision of adequate infrastructure, better service delivery on part of the government and less red-tape, these cities possess the potential to propel the country towards meeting its export goals.

All in all, the journey towards a sustainable economic future is an uphill battle. It will require coordination on all levels of the political sphere and tiers. It will also require great sacrifices to be made in the betterment of the country's future. Rome was not <sup>built</sup> in, <sup>and</sup> similarly so does the turnaround would not happen in a day. It would require



DATE: \_\_\_/\_\_\_/\_\_\_

perseverance, hardwork, dedication and stability. The journey is tough but it is a necessity for the betterment of the country.