



English Essay :

Economy of Pakistan-challenges and way forward

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49th & 50th common



A General Introduction



The economy is the start and end of everything. You can't have successful education reform or any other reform if you don't have a strong economy. -David Cameron

In contemporary world, strong economy is a must but Pakistan is grappling with multiple political and economic crises. Pakistan's rupee is one of the world's worst-performing currencies, the country's foreign exchange reserves are abysmally low, and it has been unable to attract much-needed foreign investment.

Pakistan Currently faces issues like Taliban resurgence, decreased FDI, Low FER, Political Instability, inflation , stagnant exports and rising imports. Still, Pakistan's economy holds potentials to rise and resist to any default/bankruptcy unlike Sri Lanka. The strength of the economy of Pakistan lies in having two major bordering economies, good remittances, emerging new sectors like IT and E-commerce and reaching out new export destinations.

There are myriad of reasons due to which Pakistan's economy faces multiple challenges; still, with practical steps, and exploiting the potentials that exist in the economy, Pakistan's economy will march on the path of progress.

Major Economies of the world

Rank ↕	Country ↕	↕ GDP in billion \$	
1	 United States	22,996.1	
2	 China	17,734.1	
3	 Japan	4,937.4	
4	 Germany	4,223.1	
5	 United Kingdom	3,186.9	
6	 India	3,173.4	
7	 France	2,937.5	
8	 Italy	2,099.9	
9	 Canada	1,990.8	
10	 South Korea	1,798.5	
42	 Pakistan	346.3	1,538

Major exporting fields(2021-22 SBP report)

Exports were \$35.5 billion

Imports \$80.51bn

Pakistan gdp for 2021 was \$346B

Major Exports are:

- Textiles, clothing: 19% of total exports
- Cotton: 12%
- IT Services exports (Games, Softwares/apps, freelancing)
- Cereals, Copper, Sports goods

Major Imports are:

- Fuels and oils. ...Electrical Equipment. ...Machinery. ...
- Iron and Steel. ...
- Pharmaceutical Products. ...
- Animal and Vegetable Oils. ...
- Plastics. ...
- Chemicals

Overview of Different Sectors' share in GDP

- **Services Sector 59.5%**
- **Agriculture 20%**
- **Industrial 20.5**

Major Issues/challenges in Pak Economy

1) Twin Deficits: Fiscal Deficit, Current Account Deficit

Fiscal Deficit: Govt Spending > Earning (2.5% of GDP) 2021

CAD: Imports > Exports (\$17b 2021-22)

(source: Economic Survey of Pakistan 2021-22)

Major Issues/challenges in Pak Economy

2) Circular Debt

According Central Power Purchasing Authority (CPPA), circular debt is Rs 2500 billion by March 2022. Circular debt is equivalent to

5 percent of Pakistan's GDP

What Exactly is Circular Debt:

Circular Debt

- **GENCOs:** Power Generating companies provide electricity to distribution companies
DISCOs
- **DISCOs** give it to consumers, like household, agriculture and industrial Sector
- What if these consumer do not pay, or do electricity theft while 17% of electricity is already lost in line losses.
- Pakistan's electricity theft, meter tampering, line losses are 30%.
- When the Consumers do not pay, power distribution companies can not pay power generation companies and they can't buy fuel. (60% from oil or gas)
- Payment to power Generation companies is in US dollars, so it multiplies whenever rupee depreciates

Major Issues/challenges in Pak Economy

3) Foreign Debt

- **Total External Debt is \$130b, (it takes 40% of the budget for its repayment and debt servicing/interest payment every year) (SBP report)**
- **Other issue is, due to recurring borrowing from IMF, SBP policies or Budget FBR targets like taxation is set as per the conditions of IMF.**
- **Political Instability, FATF grey listing and IMF conditionalities serve as a major hurdle and often result in inflation.**

Major Issues/challenges in Pak Economy

4) Inflation and Rupee Depreciation due to low FER

- \$15b (WB report Sep 2022)
- As per Mifta Ismail, Pakistan needs \$40b for next 12 months.
- floods in Pakistan recently already caused \$20b loss cumulatively
- Pakistan's currency is rapidly losing value owing to low FERs
- In previous governments, Rupee was not maintained on open market floating exchange rate rather than fixed exchange rate artificially maintained which all at once stressed economy and reserves.

Major Issues/challenges in Pak Economy

5) Taxation problem

- As per ADB report, only 1% Pakistanis Pay taxes
- Most of the tax revenue comes through indirect taxation ie 60%
- Amnesty, Tax evasion, Corruption in relevant departments is the major causes
- As Per Maliha Lodhi, (Pakistan Beyond the Crisis State) “Pakistan has to tax and must tax equatably and effectively. Income earned in any economic venture should be subject to taxation. There should be no Sector of the Economy untaxed”.

Major Issues/challenges in Pak Economy

6) Political Instability : FDI

- Political instability results in a poor economic performance
- FDI is discouraged.
- In India FDI is \$82b , in Pakistan less than \$5b in 2021
- Major reason is Political instability, Ease of doing business poor rating,

Major Issues/challenges in Pak Economy

7) Poverty, Unemployment and recurring floods

- Poverty rate in Pakistan in 29% , Covid situation worsened it to about 39%

(IMF)

Unemployment rate is 5%

Floods of 2010 and 2022 resulted in Massive financial Loss

Climate Change affected agricultural output adversely,

Major Issues/challenges in Pak Economy

8) Resurgence of TTP, and Neighbouring Afghan Crisis

- After Afghan Taliban captured Kabul, TTP resumed its attacks on the soil of Pakistan. Several attacks in erstwhile FATA districts and Swat has been observed. Sectarianism is holding ground in Pakistan. It poses another threat to further exacerbate situation for Pakistan's economy.

Major Issues/challenges in Pak Economy

9) CPEC and antagonism of INDIA and US

10) Russia-Ukraine Conflict

- Inflation, world food crisis is the outcome so far from this conflict
- Pakistan imports food items from Ukraine which further increased food prices.

Potentials in Pak Economy/Way Forward

- 2 Bordering Countries (India, China) have combined Economic Might of \$20T but Pakistan trades so little with them. Their combined imports are around \$3tr, and Pakistan's contribution is not even one per cent of this. Just China has \$2tr imports.
- Focusing on Transit Trade
- As Per PIDE report Vertical Development in Urban Centres can fetch heavy investment, create jobs etc
- Switching to renewable Energy (50% import bill on oil)
- Diversifying Exports and export Destinations ,Africa, CARS, S.America

Potentials in Pak Economy/Way Forward

- As per ADB 2020 report, Pakistan can increase its TAX reforms from 12% to 20% by making some reforms
- Pakistan is currently ranked low in Ease of Paying Taxes 179th while 108 in ranking of Ease of doing Business, if reformed, will boost the economy automatically
- As per World Travel and Tourism Council, Pakistan's tourism industry can fetch \$8b by 2025. India is already earning \$30 billion Dollars.
- CPEC completion will strengthen Pakistan's Economy (responding to US-India anti-cpec Propaganda, GB provisional provincial Status)

Potentials in Pak Economy/Way Forward

- Pakistan's 60% population consists of Youth, Business and employment opportunities can result in large demographic dividend
- Re-negotiating with IPPs/Power generation companies
 - payment in PKR
 - Usage of electricity, not capacity basis

Thank You