

## Navigating Pakistan's Economic Landscape: Challenges and Future Prospects

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### Abstract

Pakistan's financial troubles were inevitable. The country has a high inclination for imports, with domestic demand contributing 90% to GDP while domestic manufacturing constitutes only 10% of the economy. Exports are stagnant because manufacturers, mostly in textiles, have remained underinvested, uncompetitive, and isolated from global or regional supply chains. Fiscal deficits are endemic, exacerbated by the lack of progress in enhancing exports. The World Bank's report “Pakistan @ 100: Shaping the Future” attributes weak governance as a significant factor behind the fiscal deficit. Pakistan's poorly regulated financial system facilitates tax evasion, significantly contributing to the growing fiscal deficit. Furthermore, for decades, leaders have betrayed the people's trust by looting the country's wealth. The government must hold these individuals accountable according to the law. It is crucial for the government to end the rampant exploitation of power and authority that plagues Pakistan.

**Keywords:** Economy, Features, problems, consequences, Pakistan

The economy of Pakistan is classified as a developing economy. It is the 24th-largest in terms of GDP based on purchasing power parity (PPP) and 46th largest in terms of nominal GDP. As of 2023, the country has a population of 232 million people. According to the International Monetary Fund (IMF), on per capita income basis, Pakistan ranked 161st by GDP (nominal) and 138th by GDP (PPP). Pakistan is currently undergoing a process of economic liberalization, including the privatization of all government corporations, which

is aimed at attracting foreign investment and decreasing budget deficits. However, the country continue to face the challenges of rapidly growing population, high illiteracy, corruption, political instability, a hostile neighborhood and heavy foreign debt. Different books and articles analyzed to questions answered. Qualitative study design with the combination of an analytical type of research is used in this research study.

### Introduction

The economy of Pakistan, despite has attained a substantial rate of growth and some important structural changes over the years, is still an agrarian economy by its very nature. A predominant rural society with majority of its inhabitants is depending upon its agricultural sector and sub-sectors for its livelihood. Another notable feature of Pakistan's economy is its socioeconomic set-up-a small feudal class, comprising hardly 5% of the total population owning more than 90% of the total land resources. This class has also a strong hold over the economy as whole because of its wealth potential and thus fully enjoys the status of a privileged ruling class. The entire political and economic system revolves round the vested interests of this class. (Talbot, 2007) The economy as a whole, according to its almost six decades performance, still contains most of the ingredients of a typical under-developed economy and political imbalances. Due to its various drawbacks it is still unstable in its character

### Problems of the Economy of Pakistan

The economy of Pakistan is confronting a number of complicated problems. These problems are, in fact, those obstacles which have entrapped the economy in a vicious circle of poverty and stagnation. Of these, some most important problems are being discussed in the following paragraphs: (Medison, 2007)

1. Heavy Pressure of Unproductive Population: Pakistan has one of the highest growth rate of population in the world. At global level Pakistan, in this regard, is the 6th largest country of the world. Among the 37 low-income countries, Pakistan has emerged third populous country after China and India. The population of Pakistan is growing at the rate of about 1.9% per an um (Economic Survey 2020-2022); adding more than 2 million people every year. Economy as a whole, on the other hand, growing at an average rate of 6.4 per cent annually, which is mostly swallowed by the growing population. The population is not only retarding the economy in quantitative terms but coming also in the way of its development in qualitative terms. Thus, due to a heavy pressure of population the economy is not developing up to expectations The high growth rate of unproductive population is receiving its heavy toll in the

form of low standard of living, the lowest literacy ratio, low performance of the labour force and low return of developmental efforts.(haider,2012)

2. Low Standard of Living: Standard of living is also a crucial problem the economy has to face with. Low standard of living is responsible to a great extent, to low standard of efficiency of the people because it does not help in developing the inner abilities of the people. High standard of living increases the efficiency of the people y improving their capability of brain and heart. In Pakistan low standard of living is not allowing the economy to develop at its due pace.

3. Extremely Unequal Distribution of Wealth: Extremely unequal distribution of wealth is another crucial problem for which the economy has to pay a lot of in form of inefficiency of its various sectors. The biggest sector of the economy, i.e., the agricultural sector is particularly mention able in this regard. Near about 90% of the total agriculture land is owned by 5% of the total rural population. Twice, efforts have been made to change the complex pattern with the help of implementation of land reforms but any drastic change could not take place so far.(iqbal,2012)

4. Lowest Rate of Capital Formation: Pakistan has a very low rate of capital formation. It is mainly due to low saving rate which ultimately leads to low investment rate in the country. The rate of national savings in Pakistan is around 20% of GDP which significantly falls short of the requirements.

To increase the saving rate, a number of saving schemes have been introduced in the country. Of them, Defence Savings Certificates, National Deposits Certificates, Khas Deposit Certificates, Premium Savings Certificates, Special Savings Accounts, Mahana Amdani Accounts, Prize Bonds, WAPDA Bearer Certificates and NIT Units, etc. are mention able. But due to low per ca pita income of the majority of the people, inflationary trend, social attitude of the people towards the social values, unequal distribution of wealth etc., the saving ratio is not increasing up to required level.(iqbal,2012)

5. Deteriorated Balance of Payments: Pakistan's balance of payments position, with exception of only two years of fifties, has been quite unfavourable so far. Many causes could be held responsible for this deteriorated situation. Of them, the outstanding one is the agrarian nature of the economy. Pakistan, being a developing country, has to import a large number of capital goods, oil and many other invisible services in exchange of its agricultural produce which is 70% of its total exports. The peculiar feature of imports is that their prices

have increasing trend while the exports have decreasing trend. The deficit gap in balance of payments is mounting almost every year.

6. Mismanagement of the Economy: Pakistan, being a developing country, not only has inadequate economic resources but the available resources are also not utilized appropriately. Mismanagement of economic resources is a common practice in almost every field. According to an official estimation, every year economic resources of worth Rs. 40 billion are criminally wasted. Performance of various factors of production in different sectors of the economy has been badly affected due to mismanagement evils like misuse of economic resources, corruption, bribe and favouritism etc.(Murtaza,2007)

7. General Unemployment: Under-employment and general unemployment is another problem the economy generally has to face with. Out of the total population more than 70% is depending upon agricultural sector for her livelihood. But, agriculture itself is capable to provide employment to its dependents at the most for seven months in a year. In a country where only 30% of the total population is taking active part in economic activities such partly unemployment of the majority of the people is a very serious problem, which in turn creates many other economic and social problems.

8. Agricultural Backwardness: The economy being an agrarian should play very crucial part in the development of the economy. But it is not developed so far to that extent to be fully helpful to support the other sectors in their developing process. There are many causes which could be held responsible for the poor performance of agricultural sector. Of them, the most vital are (i)defective land tenure system, (ii)water-logging, salinity and soil erosion, (iii)limited use of agricultural machinery, chemical fertilizers and pesticides, (iv)inadequate irrigation facilities, (v)inadequate agricultural financing facilities, (vi)destruction caused by floods and insects invasion and (vii)fragmentation and sub-division of land. All these problems cause damage to the efforts which are made to develop agricultural sector.(Murtaza,2007)

9. Industrial Backwardness: Industrialization occupies paramount importance in developing an economy in its real sense. Pakistan's industrial sector is in developing stage so far. This crucial sector is sharing hardly 26% annually to the GDP. After almost six decades of constant struggle, the country could gain self-sufficiency only in textile industry's products. Cement industry, sugar industry, chemical fertilizers industry, woollen textile industry and vegetable ghee industry are in developing stage. The key industries like iron and steel industry, electronics industry, and electric industry, are in initial stage. The

industries which involve latest technology like computer industry and micro-chips industry are yet to be established.

10. Existing of Parallel Economy: In Pakistan, like many other developing countries, along with the regular economy, the irregular economy and black economy also exist and both constitute the parallel economy. Irregular economy encompasses all those trading and commercial activities which are being performed at a large scale without issuing sale receipts by the sellers and those transactions which are kept outside the banking system. These activities include smuggling, dealings in narcotics and profiteering through hoardings etc. The income which is generated through these illegal activities are not reported formally to the income tax, customs, excise and State Bank and thus remain unaccounted. To an estimation, more than Rs. 50 billion black money is in circulation in the country. In every big city Markets are openly trading in smuggled goods. The dealers of parallel economy do not pay their due legal share of income tax, custom duty, and excise duty and corrupting these departments with bribe. (Talbot, 2013)

11. Burden of Foreign Debt and Debt Servicing: Accumulation of foreign debt including debt servicing has led to another severe problem. As a combined result of maturity of loans contracted earlier and expiry of grace period of the current loans has increased manifold. The severity of the problem can be tested from this bitter fact that during 2003-2004 the outstanding external debt was almost 37.8% of the GDP and debt servicing shared more than 18% of the foreign exchange earnings.

12. Political Instability and Disappointing Role of Bureaucracy: The economy is also suffering a lot in one way or other from political instability in the country. Bureaucrats and all official-holders are enjoying the power and privilege that their colonial masters did not have. By all accounts, the concept of accountability and responsibility has lost its worth. Most of the politicians are too preoccupied with attempting to get a ministry. They remain totally unaffected by the real issues that affect the economy.

13. Inadequate Economic Infrastructure for Development: Economic infrastructure comprises of three sectors. They are:

(a) Public utilities which include power, telecommunication, piped water supply, sanitation and sewerage, solid waste collection and disposal and piped gas,

(b) Public works include roads and major dams and canal work for irrigation and drainage, and

(c) Other transport sectors include urban and inter-urban railways, urban transport, ports and water-ways and airports.

Our economic infrastructure is limited, and perhaps even of primitive nature at various places of the country. (Talbot.2007)

Main Features or Characteristics of the Economy of Pakistan

Economy of Pakistan, despite having almost six decades of development planning experience, is yet an underdeveloped economy. In this regard, it has almost all those characteristics which can also be focused in the other under developed economies of the world. Some of the most prominent characteristics of the economy of Pakistan are of the following nature:

1. Generally Poverty-Ridden: The economy in general is poverty-ridden. Poverty is reflected vividly in its low per ca pita income. Poverty does not reflect only by low per ca pita income but also by many other indicators; such as poor health, clothing, shelter and lack of education and medical facilities. Majority of the population is living in extremely bad conditions, 60% of population, particularly in rural areas, does not have access to clean drinking water, and more that 30% has no sanitary waste disapproval facility. Due to poor nutrition, unclean water, poor education, in-informed parents and lack of ammunition etc., the high mortality rates are negatively effecting the human resources of the country.

2. Over-Ridden by Mass Illiteracy: The economy being dis embarrass by mass illiteracy, is not performing well at all. Almost all its sectors are suffering from all those disadvantages which are the ultimate result of illiteracy. The type of education being imparted is totally Ill-suited to the actual requirements of the country. Hardly 2 to 2.5 per cent of the GDP is spent on education which is even less than that of percentage which is usually spent in most of other developing countries.

3. Dominant Formal Agrarian Character: The economy is an agrarian in its very. character. Two-third of the total population is living in rural areas and their main occupation is agriculture which itself is in developing stage. It is being carried on in old and out-dated methods of production. Almost 90% of total land area is possessed by 5% population which is consisting of big landlords, zamindars, wadairas and jagirdars, is fully enjoying all the blessings of a privileged class. Besides, agricultural sector, so far, has been concentrating to specialize in production of raw material like cotton and rice for export purpose. This attitude could not help in attaining self-sufficiency in main food

stuff-wheat, which has to be imported almost every year at the cost of the import of other necessities.(heider,2011)

4: Dualistic Character: The economy, instead of playing any uniform character in different parts of the country, is playing a dualistic character. In urban areas it is functioning as market economy. Real money and credit money are playing freely their due role. Contrarily, in rural areas it is functioning as a subsistence economy; backward in nature, mainly suitable to agriculture-oriented activities. Barter system is playing a substitute role for monetary system. This dualistic character of the economy is not conducive to healthy economic progress.,

5. Under Severe Pressure of Over-Population: The economy being under severe pressure of over-population is not showing good performance. Population is increasing rapidly at a rate of 1.9 per cent every year. Life expectancy is also shorter which means comparatively a smaller fraction of the population is available for functional labour force.

6. Non-Conductive to Develop Natural Resources: The natural resources sector of the economy is also under-developed for most of the resources are either UN-utilized or under-utilized. The contribution of natural resources towards GDP hardly comes to 1.4 per cent. Country is not deficient in natural resources in the absolute sense. It is, in fact, lack of required latest technology, technical know-how and deficiency of appropriate skilled man-power and non-availability of capital, causing to be non-conductive to develop natural resources.(levi,2002)

7. Non-Conductive to Create Employment Opportunities: The economy, due to its backwardness, is not playing a dynamic role in creating employment opportunities for there is a vast open unemployment. Open unemployment is existed in urban areas as a result of increasing urbanization and gradually spreading education. Industrial sector which can absorb open unemployment in urban areas is not expanding along with the growth of the labour force, for a number of reasons.

8. Economically Backward: According to economic point of view, the economy is backward almost in all its sectors. Agricultural sector, the backbone of the economy, is yet in developing state. Only, so far, service sector has shown reasonable progress. Its energy resources sector is still beyond expectations. Natural resources sector is almost in stagnation. Specialization in occupation and trade is still limited.

9. Non-Conductive to Capital Formation: The economy being a capital-poor or low-saving and low-investing is not playing a conducive role in capital formation. Consequently, the rate of gross investment is not more than 18.1

per cent of GDP in 2003-2004 as against 25-30 per cent in developed countries. Such low rate of growth of capital stock is hardly enough to provide help to rapidly growing population. The root cause of this deficiency is extreme inequality in the distribution of incomes. In fact, large savings are possible only when the rich class saves 3 to 5 per cent per year. Unluckily, the rich class prefers to invest their savings in unproductive channels i.e. election campaign, or purchasing real estates, gold and jewellery in the country and investment in foreign money markets.

10. Technologically Backward: The economy is also in backward state according to technology point of view which is reflected from high cost of production despite low money wages. Mass illiteracy and inadequacy of skilled labour are two main hurdles in spreading latest technology in the economy. (murtaza,2007)

Consequences of Rapidly Increasing Population on the Economy of Pakistan  
It is the population which provides labour force to explore the mysteries of nature as well as utilize the man-made machinery and houses, clothes, roads, water supply, electricity, luxuries, and what not. This means that rising population opens the avenues of growth, industrialization and extended markets. But on the other hand, population growth has led to create so many economic and social problems of various dimensions which are affecting the performance of different sectors of the economy of Pakistan. Of them, most crucial problems are being focused in the following paragraphs:

1. Momentum of Vicious Circle of Poverty is not Slowing Down: The economy being a resources cor strain, poor, capital-scarce and labour-abundant is exposed to almost all the ill consequences of vicious circle of poverty. Though, so far, eight Five-Year development plans have been accomplished, yet the per capita income is not more than \$ 652 in 2004. Whatever has been gained through developmental efforts swallowed up by rapidly increasing population. Majority of the population is still living at sub-standard. In fact, rapidly increasing population is nullifying the efforts being made to get rid of consequences produced by vicious circle of poverty. Poverty breeds large number of children which increases poverty further which stimulate the vicious circle of poverty.

2. Economic Development Efforts are Adversely Affected: Rapidly growing population is adversely affecting the economic development efforts in following ways:



(a) Rapid population growth is making the choice more scarce between higher consumption at present and the investment needed for higher future consumption. Economic development depends largely upon investment, which is very limited in the country. The rapid population growth is further retarding it for future consumption.

(b) Rapid populating growth is also tending to over use the country's natural resources, particularly the case when the majority of the people are depending on agriculture for their livelihood. With rapidly increasing population, agricultural holdings is becoming smaller and unproductive to cultivate.

(c) With rapidly growing population, it is becoming difficult to manage the adjustments relating to economic and social changes.

(d) Urbanization trend is creating various problems such as housing, power, water and transport etc. besides the threaten of permanent environmental damage.

3. Tending to Retard Per Capita Income: Rapidly growing population is also tending to retard per capita income in following four ways:

By increasing the pressure of population on land.

(b) By leading to a rise in cost of consumption goods on account of scarcity of the needed commodities.

(c) By leading to a decline in the formation of capital, for with increasing in family members, expenses are also increasing.

(d) Whatever increases in national income is taking place is nullified by the increase in population.

4. Tending to Retard Standard of Living: Rapidly increasing population is leading to an increased demand for food products, clothes, houses, etc. But their supplies are not increasing accordingly due to the lack of many factors, like raw-materials, capital and skilled labour. Consequently, their costs and prices are rising which in turn inducing to raise the cost of living of the masses. This is bringing down further the already low standard of living.

5. Tending to Retard Agricultural Development Efforts: Agricultural sector, the mainstay of the economy, is also getting affected by the rapidly increasing population. Nearly 68% of total population is living in rural areas having agriculture as its main occupation. With rapidly growing population, the land-man ratio is disturbing. Pressure of population on land is increasing but the supply of land is inelastic. Therefore, it is adding to unemployment and thus reducing per capita productivity further. As the number of landless workers is increasing, their wages are falling. Low per capita productivity is causing to

reduce the propensity to save and invest. As a result, the use of improved techniques and other improvements on land are not taking place according to actual needs. Capital formation in agricultural sector is badly suffering and the economy, which as a whole, is bagged down to the minimum level.

6. Tending, to Retard Employment: A rapidly increasing population is also plunging the economy into mass unemployment. With increase in population, the proportion of workers to total population is also rising. But the lack of complementary resources is not helping to expand jobs accordingly. Consequently, with the increase in labour force, unemployment is increasing. A rapidly increasing population is causing to reduce incomes, savings and investment. The capital formation is retarding and job opportunities are reducing, thereby increasing the unemployment.

7. Tending to Retard Social Infrastructure: Rapidly growing population demands large investments in social infrastructure and necessitates diversity of resources from directly productive assets. Due to scarcity of resources, it is not possible to arrange adequate educational, health, medical, transport and housing facilities to entire population: The quality of these services instead improving is going down gradually. The rapid increase in school-age population and the increasing number of labour force entrants, is putting greater pressure on educational and training facilities which is retarding improvement in the quality of education. Similarly, rapid rate of increase of population is retarding the problem of improving the health of population.(iqbal,2012)

8. Tending to Lay a Heavy Burden on the Economy: Due to rapidly increasing population, larger percentage of the total population is merging as a lower age-group of 1-15 years which is proving a heavy burden on the economy. This situation is causing to reduce productivity and incomes. Consequently, wages are not increasing in relation to profits and rents, thereby increasing income inequalities.

9. Tending to Retard Capital Formation: Rapidly increasing population is also retarding capital formation. For, as population is increasing, per ca pita available income is declining. People are require to feed more children with the same income. It requires more expenditure on consumption which results in further fall in the already low savings and consequently in the level of investment. Public savings and capital formation is also declining as a result of rapidly growing population.

10. Leading to Environmental Damage: Rapidly growing population is also leading to environmental damage. Scarcity of land pushing a large number of

people to ecologically sensitive areas such as hillsides and tropical forests. It is resulting in cutting of forests for cultivation and this is leading to environmental damage. Further, the pressure of rapid growth of population is forcing people to get more food for themselves and for their livestock, and as a result, they are preferring to over cultivate the semi arid areas. Besides, such a high population growth is forcing to migrate a large numbers of people to urban areas with industrialization. This is resulting in severe air, water and noise pollution in cities.(Talbot,2013)

### Conclusion

Several actions can be taken to address Pakistan's fiscal and economic issues and provide pave the road forward such as strengthening tax administration and broadening the tax base by bringing more individuals and businesses into the tax net. It is crucial to promote economic documentation to increase revenue collection, diminish the informal economy, fight tax evasion, and boost tax collection methods through automation and digitization. To lessen reliance on external borrowing and manage the present debt burden successfully, a strong debt management strategy is also urgently needed.

Additionally, to encourage investment and job creation, it is crucial to make doing business easier by streamlining regulations and removing administrative roadblocks. Additionally, it is crucial to take action in key industries like manufacturing, information technology, and agriculture. By reducing bureaucratic red tape and streamlining regulatory processes, the ease of doing business is increased. It is also crucial to support public-private partnerships and collaborate with foreign organizations for advice and knowledge.

It is also crucial to improve our institutional capacity and governance & justice frameworks by implementing transparency, accountability, and efficiency in public financial management. It is also crucial to continue putting into practice effective anti-corruption measures and enforcing strict penalties for corrupt practices.

It is also essential to have a thorough and varied approach to adequately solve Pakistan's economic and governance issues as stated above. To execute reforms, enhance income collection, and ensure efficient resource allocation for long-term economic growth and development, this calls for coordinated efforts by the government, corporate sector, civil society, and international partners, It is also important to increase trade prospects, promote economic cooperation, and entice foreign investment, Pakistan should establish an independent institution and provision of one window facility to actively participate in regional and

global economic integration activities, and to pursue bilateral trade deals while taking part in regional forums like CEPC, the Belt and Road Initiative (BRI), Shanghai Corporation, and nations in Central Asia and the Middle East, and most importantly to attract Overseas Pakistanis for their economic participation and investment.

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