



PAKISTAN'S ECONOMY OVERVIEW AND CURRENT, BIG CHALLENGES TO PAKISTAN ECONOMY (A STUDY)

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ABSTRACT

The present research paper aims to study on Pakistan economy and current big challenges to Pakistan economy. A stable economy of any country plays an important and vital role in any nation's collective prosperity and development. In Pakistan some of the areas are economically backward and underdeveloped. The economy of Pakistan has been undergoing a stabilization phase since the last three years. The restoration of macroeconomic stability is and necessary to provide the platform for generating growth, jobs, and improving the quality of life of the people.

KEYWORDS: Pakistan Economy, Gross Domestic Product, Per Capita Income, Imports and Exports, Energy and Water Crisis



1. PAKISTAN ECONOMY AN INTRODUCTION

Pakistan economy is the 26th largest economy in the world in terms of purchasing power parity (PPP), and 41st largest in terms of nominal Gross Domestic Product (GDP). The population of Pakistan is over 200 million (the world's 6th-largest). The Gross Domestic Product (GDP) per capita is \$4,993 ranking 133th in the world. However, the undocumented economy of Pakistan is estimated to be 36% of its overall economy, which is not taken into consideration when calculating per capita income. Pakistan is a developing country and is one of the Next Eleven, the eleven countries that, along with the BRICs, have a potential to become one of the world's large economies in the 21st century. However, after decades of war and social instability, as of 2013, serious deficiencies in basic services such as railway transportation and electric power generation had developed. The economy is semi-industrialized, with centres of growth along the Indus River. Primary export commodities include textiles, leather goods, sports goods, chemicals and carpets.

Pakistan's economy growth poles are situated along the Indus River; the diversified economies of Karachi and major urban centers in the Punjab, coexisting with lesser developed areas in other parts of the country. The economy has affected and suffered in the past from internal political disputes, a fast-growing population, mixed levels of foreign investment. The foreign exchange reserves are bolstered by steady worker remittances, but a growing current account deficit – driven by a widening trade gap as import growth outstrips export expansion – could draw down reserves and dampen GDP growth in the medium term. Pakistan is currently undergoing a process of economic liberalization, including privatization of all government corporations, aimed to attract foreign investment and decrease budget deficit. In 2014, foreign currency reserves crossed \$18.4 billion which has led to stable outlook on the long-term rating by Standard & Poor's.

2. OVERVIEW OF PAKISTAN ECONOMY

The brief overview of Pakistan Economy in simple terms, In 1947, The population of

Pakistan was 30 million people with per capita income of 100\$. Agriculture accounted for almost 50% of economic output with hardly any manufacturing, as all industries were located in India. Therefore, it was unable to feed 30 million people and was dependent on PL-480 imports from the USA. From thereon, Pakistan has come a long way. Today with 170 million people, our per capita income in 2008 was 1000\$ which was ten times more.

Pakistan is the third largest exporter of rice in the world and producing enough food grains to feed its people. 3 million tons of rice is exported every year by Pakistan which is surplus to our requirements. Pakistan is also one of the five major textile producing countries in the world. So if we measure in relation to where we were vis-à-vis structure of economy, agriculture has come down from 50% to 20%. Therefore, out of total national income, agriculture's contribution is just 20%, but instead of being deficient in food production, we are actually surplus and that is what productivity means i.e. by using the same land you produce more from the same inputs, that is how economic growth takes place. Agriculture is not only crops, within agriculture there has been a significant change. Livestock, dairy, mutton, beef, poultry and similar other products is 50% of agriculture output in Pakistan. Pakistan also produces third largest quantity of milk in the world. So within agriculture sector, there is a change i.e. major crops are only 36% of agriculture value added and 14% are minor crops, fisheries, orchards, fruits and vegetables. Thus, we are moving in a direction where the same land and same resources are being used more efficiently in order to produce more. As a contrast, agriculture is only 2.5% in the US having a population of 300 million, out of which they not only feed the entire population, but also export to the rest of the world. Therefore, it is important to understand that when it is said that agriculture is producing/contributing more, it is the productivity of agriculture rather than the share of agriculture in GDP. Manufacturing and industry now account for 25% of the income; when we recall there was not even a single industry worth its name at the time of partition. So if we look where we were and where we are, I think the justification for Pakistan in terms of betterment of economic conditions of Muslims in this part is very strong. But where we have failed is that we have not lived up to our potential.

In 1969, Pakistan exports of manufactured goods were higher than the combined exports of Indonesia, Malaysia, Philippines and Thailand. In 1960's Korea emulated Pakistan in its five years planning process. The tragedy is that even a country such as Vietnam which was completely devastated by the war has now overtaken Pakistan. Ten years ago, India which was way behind Pakistan (till 1990's) is now way ahead. As an economist and student of globalization, the biggest challenge is: how can we organize ourselves to reach that position where at least we can be running not at the nine second a mile but at least ten second a milrace which is going on in the global economy. Ten more important challenges facing Pakistan's economy are deliberated in the succeeding paragraphs.

Decades of internal political disputes and low levels of foreign investment have led to slow growth and underdevelopment in Pakistan. Agriculture accounts for more than one-fifth of output and two-fifths of employment. Textiles account for most of Pakistan’s export earnings, and Pakistan’s failure to expand a viable export base for other manufactures has left the country vulnerable to shifts in world demand. Official unemployment was 6.6% in 2013, but this fails to capture the true picture, because much of the economy is informal and underemployment remains high. Over the past few years, low growth and high inflation, led by a spurt in food prices, have increased the amount of poverty. As a result of political and economic instability, the Pakistani rupee has depreciated more than 40% since 2007. The government agreed to an International Monetary Fund Standby Arrangement in November 2008 in response to a balance of payments crisis. Although the economy has stabilized since the crisis, it has failed to recover. Foreign investment has not returned, due to investor concerns related to governance, energy, security, and a

slow-down in the global economy. Remittances from overseas workers, averaging about \$1 billion a month since March 2011, remain a bright spot for Pakistan. However, after a small current account surplus in fiscal year 2011 (July 2010/June 2011), Pakistan’s current account turned to deficit in the following two years, spurred by higher prices for imported oil and lower prices for exported cotton. Pakistan remains stuck in a low-income, low-growth trap, with growth averaging about 3.5% per year from 2008 to 2013. Pakistan must address long standing issues related to government revenues and energy production in order to spur the amount of economic growth that will be necessary to employ its growing and rapidly urbanizing population, more than half of which is under 22. Other long term challenges include expanding investment in education and healthcare, adapting to the effects of climate change and natural disasters, and reducing dependence on foreign donors.

3. RECENT DECADES IN PAKISTAN ECONOMY

The Gross Domestic Product (GDP) of Pakistan at market prices estimated by the International Monetary Fund (IMF) with figures in millions of Pakistani Rupees are shown in the following chart.

Year	GDP	Exchange in US\$	Inflation Index 2000=100	Per Capita Income as Percent of USA
1960	20058	4.76 Pak Rupees		3.37
1965	31740	4.76 Pak Rupees		3.40
1970	51355	4.76 Pak Rupees		3.26
1975	131330	9.91 Pak Rupees		2.36
1985	569114	16.28 Pak Rupees	30	2.07
1990	1029093	21.41 Pak Rupees	41	1.92
1995	2268461	30.62 Pak Rupees	68	2.16
2000	3826111	51.64 Pak Rupees	100	1.54
2005	6581103	59.86 Pak Rupees	126	1.71
2014		100.55 Pak Rupees	195	

Chart 1.

Graphically Gross Domestic Product GDP is shown in the following fig.

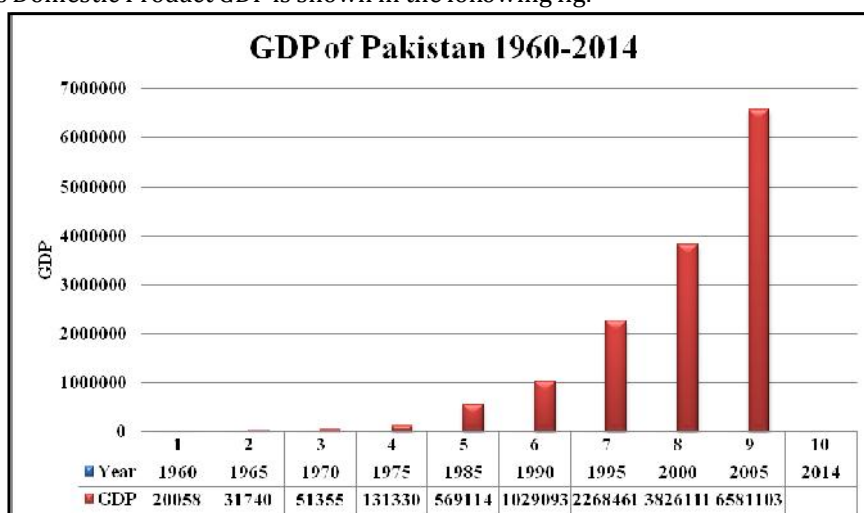


Fig. 1

Per Capita Income from 1960-2014 is shown in the following fig.

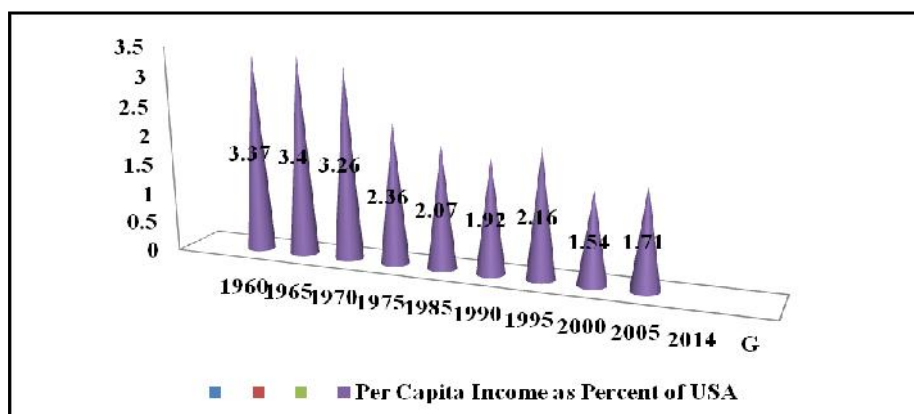


Fig.2

4. PAKISTAN ECONOMIC COMPARISON 1999-2015

Pakistan economic comparison from 1999-2015 is shown in following chart:

Indicator	1999	2007	2008	2009	2015
Gross Domestic Product GDP	\$75 billion	\$160 billion	\$170 billion	\$185 billion	\$272.136
GDP PPP	\$270 billion	\$475.5 billion	\$504 billion	\$545.6 billion	\$928.43 billion
GDP Per Capita Income	\$450	\$925	\$1085	\$1250	\$1513
Revenue Collection	Rs. 305 billion	Rs. 708 billion	Rs. 990 billion	Rs. 1.05 trillion	Rs. 2.65 trillion
Foreign Reserves	\$1.96 billion	\$16.4 billion	\$8.89 billion	\$17.21 billion	\$17.7 billion
Exports	\$8.5 billion	\$18.5 billion	\$19.22 billion	\$18.45 billion	\$30.414 billion
FDI	\$1 billion	\$8.4 billion	\$5.19 billion	\$4.6 billion	\$0.709 billion
External Debt & Liabilities	\$39 billion	\$40.17 billion	\$45.9 billion	\$50.1 billion	\$56 billion
Poverty Level	60%	43%	37%	29%	17%
Literacy Rate	45%	53%	59%	61%	58%
Development Programs	Rs. 80 billion	Rs. 520 billion	Rs. 549.7 billion	Rs. 621 billion	Rs. 758 billion

Chart.2

5. CHALLENGES TO PAKISTAN'S ECONOMY

Following are the big challenges to Pakistan economy with details:

1. Save Less and Consume More:-

We save less and consume more for example; from 100 rupees of our national income, we consume 85 rupees and save only 15 rupees, which means the amount of money which is available to invest for economic growth. Because to grow by 6%, you need at least 24-25% investment rate - and if you want to rely on domestic savings, your saving rate should be 25. China's saving rate is 50%, so this is the contrast as to why we are in serious difficulty because as a nation this is a problem which we have to recognize. We have to at least double on savings rate otherwise we will remain dependent on foreign sources.

2. Import and Export:-

Pakistan import more and export less, from 2007-2008, 80% of our imports were financed by our export earnings. This ratio has come down to only 50%, it may go up to 60% but a gap of 40% of financing needs in order to keep with the import level still exists. As a nation we prefer to use even the basic commodities of foreign countries rather than locally manufactured goods. No nation which strives to preserve its honour must go through this particular route. The lower is this gap between our export earnings and expenditure on imports - and that can be achieved only by expending our exports; our reliance on external sources would be reduced.

3. Our Shares are shrinking in the World Trade:- In 1990, Pakistan's share was 0.2% of the world trade. After 20 years it has come down to 0.12% in a very buoyant world economy. World trade has been growing faster as compared to the world output. India in the same period had doubled its share from 0.7% to 1.4%, while Pakistan is going the other way and that is the reason why exports/imports imbalance is increasing. We are not taking advantage of the opportunities which a buoyant world economy is providing. Pakistan is stuck with only a few commodities - textiles, leather, rice, sports, goods and the surgical goods. We have not entered the markets for more dynamic products. All our exports are to a few markets - the USA, EU and the Middle East. So this narrow export base and very limited geographical spread are not allowing us to expand our share. Unless we improve the quality of our products, go out and do the marketing abroad, invest in research and development, the prospects do not look promising. That is why we are lagging behind other countries which from way back are over taking Pakistan.

4. Energy and Water Crisis:- Another big challenge to Pakistani economy is energy and water shortages. With the losses of KESC from the point it has generated to the point they realize the billing is 45%, so 55% people are paying for those who are stealing the electricity. The Government of Pakistan out of its own limited resources is paying 200 billion rupees every year as subsidies for electricity. Our industry has disadvantage that they get the orders from foreign countries but they cannot execute the orders because there are electricity outages. Pakistan have silting of dams, but no additional dams have been constructed since Tarbela in 1974. Pakistan have water course losses of about 20-25%. The influential land lords are able to take greater share of water from the canals as compared to poor farmers. With the climate change taking place with all the glaciers in Himalayas which are going to melt, Pakistan is going to have difficulties in future due to global warming.

5. Business Doing Cost is very High:-

Pakistan is ranked among the bottom half of the rankings of the countries where cost of doing business is quite high. It is not high for any particular reason but because of our bureaucracy totally sitting on their seats without taking actions or decisions in time. Unless there is some pressure or incentive for them, the normal businesses particularly the small and medium businesses have serious problems at the hands of bureaucracy. Lack of coordination among various government agencies, innumerable laws and regulations that are antiquated and outdated have proved to be serious impediments. Labour laws, inspections by multiple agencies, the delays in the court system, infringement of intellectual property rights and evasion of taxes by competing firms in the informal sector have rendered some of the well established firms unprofitable, or the feasibility of starting near ventures questionable.

6. Governance Implementation and Weaknesses:-

In Pakistan, if we glance on policy documents of various governments on education, agriculture, health, trade policy etc, and look at the same policy 40 years ago and the problems, there is hardly any significant record of implementation of those policies or plans over this period. We produce five years plans and all kinds of medium term frameworks, but it is the poor governance and implementation that are the weak links in getting things done. Unless we strengthen civil services and bring about a merit based system of recruitment, promotion, performance evaluation, compensation, disciplinary action, etc, we will not be able to see any difference in the quality of governance. Orders are given

by the higher ups but they are not carried out; summaries are approved, but they remain buried in the files and therefore; whether it is education, health, water supply, revenue or law and order, you can pin down the problem to the governance issues. Unless we fix the governance issue, the economy is not going to take off at the speed which is required.

7. Political Stability, Law and Order/ Security:-

The overall arching theme is that for a robust economy Pakistan have political stability, law and order and security. The Armed Forces of Pakistan deserve gratitude for what they have done in Malakand Division, Swat and Waziristan to bring about stability as far as the law and order situation is concerned. The sooner the country is gotten rid of this image of political instability, poor law and order situation and insecurity, whereby investors from all over the world hesitate in coming to Pakistan and invest, we will not be able to make any progress in this country. In 2007, Pakistan was one of the most favourite countries among the international investor community. A thirty year piece of paper was floated which was a bond for Pakistan to be paid in 2037 and Pakistan got four times over subscription at a price which was only 300 basis points above the US treasury. Very few countries can claim to have that kind of credibility with international fund managers. However, in two years time we have missed that boat. Therefore, it is imperative that we resume the journey which has been interrupted by nurturing a stable, secure and peaceful political environment.

6. CONCLUSION & SUGGESTIONS

1. Technology Use:- The technology is spreading very quickly like a wild fire. How many people five years ago could have thought that even in a small towns and villages of Pakistan, one would access to mobile telephones. 95 million Pakistanis have mobile phones today. You can use this technology in order to provide them banking services, information on climate/weather, agriculture extension, health, education etc. It is a powerful tool which can leapfrog a lot of time which we have wasted. Using technology particularly the information/communication technology for the betterment of social and economic problems of Pakistan is something which needs to be done but it cannot be done the way we have compartmentalized this into different ministries. A more holistic and comprehensive approach that deploys technology for poverty reduction has to be put in place.

2. Need to Building up Human Capital-

There is no substitute to building up human capital. Private sector, public sector, NGOs, local communities, philanthropists etc, all here to put their hands on deck

and participate in making sure that every child goes to school. Every high school graduate has some technical and vocational skill or goes for higher education. Unless we build up human capital, we are just going to be left behind because the world economy is going to be a knowledge based economy. It is not an economy where you memorize material or reproduce that in the exam and forget about it - that is no longer the case. One has to acquire the knowledge and use it in order to apply to problem solving. This is a new paradigm where human capital is as important as machinery and equipment. Pakistan lags behind other countries in the institutions, infrastructure and incentives for human capital formation. We have no choice but to accelerate the pace to catch up with others.

3. Young Labour Force:- Pakistan is one of the few countries which has a young labour force which can be harnessed for its own and global economy. Japan, Europe, USA and after 2050 China are going to have aging population where the ratio of old to young people is going to increase. India and Pakistan are two countries where the ratio of younger people to the older ones is going to increase. If we tool these young men and women properly, we increase the female labour force participation, give them skills and knowledge, they can become the labour force for the rest of the world. This will give a big boost to Pakistan's own economy. In 2001, worker remittances were less than a billion dollars; today we have almost 7-8 billion dollars. Now this can be multiplied by three or four times if we have educated labour force i.e. skilled labour force going for overseas employment. This is also a way to create employment opportunities because if you have large number of younger people coming to labour force and you don't have job opportunities for them you can have social upheaval. Therefore, it is imperative to create employment opportunities for them and one of the avenues is to train them in the kind of the skills which are needed not only by the national economy but also by the international economy.

5. Devolution and Decentralization of Governance:-

As the population of Pakistan is increasing, one cannot govern Pakistan sitting in Islamabad, Karachi, Lahore, Peshawar or Quetta. One has to devolve powers, decentralize and delegate authority, provide resources to the local/district governments so that they can take decisions at their own. Those decisions would be very much in accordance with the requirements and the needs of those communities. Sitting in Islamabad one cannot visualize what is needed in Chaghi or Loralai, but the people in Loralai and Chaghi know exactly whether

they need water, fertilizers or fruit processing industry. Let us devolve powers to the people at the grassroots level and there would be much better allocation and utilization of resources. There must, however, be accountability of the local governments by the provincial governments and of provincial governments by the federal government but not interference or usurpation of powers. If we do that, then a lot more can happen with same amount of resources which are being wasted today, and the economic growth rate can be raised from 6-7 percent average to 8-9 percent annually.

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