ECONOMY:

Economics is the study of how a society uses scarce resources to produce and distribute goods and services.

ECONOMIC SYSTEM:

An economic system is the method used by a society to produce and distribute goods and services by utilizing factors of production.

ECONOMY OF PAKISTAN:

The economy of Pakistan is the 24th Largest in the world in term of Purchasing Power Parity (PPP) and 42nd Largest in term of Nominal gross domestic production. Pakistan has a population of Over 212.2 million (the world’s 5th Largest) , giving it a nominal GDP per capita of $1,357 in 2019, which ranks 154th in the world and giving it a PPP GDP per capita of 5,839 in 2019, which ranks 132nd in the world for 2019. However, Pakistan’s undocumented economy 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 Karachi is the financial centre of Pakistan.

PHASES OF PAKISTAN’S ECONOMY:

The eras of ups and downs of the Pakistan’s economical situation are as follows:

1. FIFTIES ERA 1947-1958 (Government of Liaquat Ali Khan)
2. GROWTH ERA 1958-1969 (Regime of field Marshal General Ayub Khan)
3. NATIONALIZATION AND COMMAND ECONOMY ERA 1971-1977 (Era of President Yahya Khan)
4. THE REVIVALIST EIGHTIES 1978-1988 (Administration of Chief General Mohammad Zia-ul-Haq)
5. THE MUDDLING NINETEES 1988-1999(Democratic Regime)
6. THE REFORMING ERA 1999-2007(Era of General Pervaiz Musharraf)
7. PRIVATIZATION ERA 2008-2013(Era of PPP’s tenure)

SECTORS OF PAKISTAN’S ECONOMY:

Main Sectors of the Economy of Pakistan

• Agriculture Sector (Farming, Fishing and Forestry)

• Industrial Sector (Mining, Manufacturing, Energy, Production and Construction)

• Services Sector (Government activities, Communication, Transportation, Finance and all other Private Economic activities that do not produce material goods)

AGRICULTURAL SECTOR OF PAKISTAN:

Agriculture is considered the backbone of Pakistan's economy, which relies heavily on its major crops. Pakistan's principal natural resources are arable land and water. Agriculture accounts for about 18.9% of Pakistan's GDP and employs about 42.3% of the labor force. The most agricultural province is Punjab where wheat & cotton are the most grown. Mango orchards are mostly found in Sindh and Punjab provinces, making it the world's fourth largest producer of mangoes.

ROLE OF AGRICULTURE IN PAKISTAN’S ECONOMY:

At the time of partition, Pakistan had 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.

CHALLENGES TO PAKISTAN’S ECONOMY:

1. WE CONSUME MORE AND SAVE LESS:

Out of every hundred rupees of our national income, we consume 85 rupees and save only 15 rupees, which means that the amount of money which is available to invest for economic growth and advancement is too little. 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%. India’s saving rate was about the same, but last year they recorded 34% saving rates. China’s saving rate is 50%. We have to at least double on savings rate otherwise we will remain dependent on foreign sources.

2. WE IMPORT MORE AND EXPORT LESS:

Till 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. And being dependent on outsiders, which means that when things are good, one gets financing, and when things are bad one starves for financing. 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. GOVERNMENT SPENDS MORE THAN IT EARNS AS REVENUES: Fiscal deficit is the difference between the revenues which are collected in a year and the total expenditure incurred by the Government. Pakistan’s government takes away 20% of national income as its own. 80% is left in the private sector and 20% in the hands of the government is spent on defense, debt servicing, development on education, health, general administration etc. The revenue generated is only 15% of the GDP at best, and in the worst days it is 12 to 13%. Out of the every rupee of income received by a Pakistani, on average, tax paid is only 9 paisas and 91 paisas remain with the individual. In 2007-2008, Pakistan’s fiscal deficit was more than 7% which means its revenues were only 13% of GDP whereas, expenditures were 20%. Therefore, fiscal deficits have to be financed from somewhere, either by begging the external donors, or the State bank of Pakistan. The financing provided by the State bank of Pakistan is dangerous because it creates high inflation in the economy. In 1999, our Debt to GDP ratio was 100%, which means that the entire national income was pledged as debt. Every single penny was pledged to the creditors. This ratio was reduced gradually and brought down to 50%, an average for all the economies. The reason the fiscal deficit is widening is low revenue collection. This is just not possible. In India, tax GDP ratio is 15% and still they have fiscal deficit. Even, the defense expenditure is only 20% of government expenditure. It is only 4% of GDP, whereas, debt servicing is 7-8% of GDP and almost 40% of government expenditure. Agriculture incomes are exempt, professionals, retailers; wholesalers, transport owners and many other service providers evade taxes by paying a small fraction of what is due.

4. OUR SHARE IN THE WORLD TRADE IS SHRINKING:

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. India in the same period had doubled its share from 0.7% to 6 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 provided. Pakistan is stuck with only a few commodities – textiles, leather, rice, sports, goods and the surgical goods that too, 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.

5. WE BADLY LAG IN SOCIAL INDICATORS:

One of the most glaring weaknesses is that a country like Pakistan that should have had best indicators in literacy, infant mortality, fertility rates, in access to water supply, in primary enrolment ratios has social indicators which are more comparable to Africa rather than to the countries of similar per capita income. Even Tajikistan, which is a very poor country, has better literacy rate and primary enrolment ratios than Pakistan. If we had literacy rate of 100% instead of 55%, then in 2009-2010 our per capita income would have been 2000$ rather than 1000$. Instead of 30 million middle class in Pakistan we would have 60-70 million middle class people; we would have poverty reduced to 15-20%. We have committed to achieve the millennium development goals by 2015 i.e. we will be able to reach 80-85% literacy rate. Because of literacy rates, regional inequalities and primary enrolment ratios, Baluchistan is lagging behind other provinces. There is a direct correlation between regional inequities and backwardness with the level of education.

6. WE FACE ENERGY AND WATER SHORTAGES:

Another challenge we face today is energy and water shortages, and that is not because we are not generating enough electricity or we are not having enough water. 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. Government of Pakistan out of its own limited resources is paying 200 billion rupees every year as subsidies for electricity. Our industry is at a disadvantage that they get the orders from foreign countries but they cannot execute the orders because there are electricity outages. We have silting of our dams, but no additional dams have been constructed since Tarbela in 1974. We have water course losses of about 20-25%. Even after these losses, the water is inequitably distributed. The influential land lords are able to take greater share of water from the canals as compared to poor farmers. Therefore, the productivity of poor farmer is only one ton per acre as compared to 3 tons by large holders. If we provide the water equitably to the small farmer, he would also be able to increase the productivity from one to at least two tons resulting into additional income. With the climate change taking place with all the 8 glaciers in Himalayas which are going to melt, we are going to have difficulties in future due to global warming.

7. COST OF DOING BUSINESS IS HIGH:

Pakistan is ranked among the countries where cost of doing business is quite high, which is 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. Even if we have investors who are welcomed by the federal government, when it comes down to provincial and local governments there are given a run around – the land, water, gas, electricity, road is not available. Lack of coordination among various government agencies, innumerable laws and regulations that are outdated have proved to be serious impediments. Labor laws, inspections by multiple agencies, the delays in the court system, 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.

8. CRISIS OF GOVERNANCE AND IMPLEMENTATION WEAKNESSES:

If we glance on policy documents, and five year plans of various governments on education, agriculture, health, trade policy etc, and look at the same policy forty years ago and the problems, there is hardly any significant record of implementation of those policies over this period. Unless we strengthen civil services and bring about a merit based system of recruitment, promotion, and performance evaluation, 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, unless we fix the governance issue, the economy is not going to take off at the speed which is required.

9. UNCERTAINTY AND UNPREDICTABILITY DUE TO LACK OF CONTINUITY:

The blame game of successive governments whether military or civilian results into abrupt termination of all constructive projects and programs. When these are resumed the cost has escalated three times and it takes several additional years to complete them. In the meanwhile the people of Pakistan suffer because of this lack of continuity. When faced with such unpredictability about the future, the investors are pondering whether they should invest in this country as they are uncertain whether the new 10 government when comes in would stop or alter what the previous government was doing, or adhere to the commitments made to them. Take the example of Higher Education Commission, which was sending 1700 students for PhDs abroad but the new government comes in and suspends the funding of those programs.

10. POLITICAL STABILITY, LAW AND ORDER/SECURITY:

The overall arching theme is that for a stable economy we should have political stability, law and order and security. The Armed Forces of Pakistan deserve gratitude for what they have done in Malakand Division 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, and the investors from all over the world being hesitant 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 favorite 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.

PROSPECTS/SOLUTIONS:

1. CHANGE IN NATIONAL PSYCHE AND MINDSET:

We as a nation are too much cynical, where we find everything wrong in this country. Unless we change our mindset and unless everybody who is doing what he is supposed to do, carries out his or her task with sincerity and honesty, we are not going to go anywhere. We have to do it ourselves individually and collectively. There are no short cuts available. Media is muddying the water by their sensational stories and inviting so called experts who contribute in projecting negative thinking and negative national psyche. Unless we have a positive “can do” mentality, it will be difficult to progress.

B. BUILDING UP OF HUMAN CAPITAL:

There is no substitute to building up human capital. Private sector, public sector, NGOs, local communities, and philanthropists 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. 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.

C. USE OF TECHNOLOGY:

The technology is spreading like a wild fire. Using technology particularly the information/communication technology for the betterment of social and economic problems of Pakistan is something which needs to be done with a more holistic and comprehensive approach to deploy poverty

D. YOUNG LABOUR FORCE:

Pakistan is one of the few countries which has a young labor force which can be harnessed for its own and global economy. If we tool these young men and women properly, we increase the female labor force participation, give those skills and knowledge, they can become the labor 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.

E. GOVERNANCE, DEVOLUTION AND DECENTRALIZATION:

As the population is increasing, one cannot govern Pakistan sitting in Islamabad, Karachi or Lahore. Sitting in Islamabad one cannot visualize what is needed in Chaghi, whether they need water, fertilizers or fruit processing industry. There must, however, be accountability of the local governments by the provincial governments and of provincial governments by the federal government but not interference of powers. If this would be done, the economic growth rate can be raised from 6-7 percent average to 8-9 percent annually.