

What ails Pakistan's Economy? The Problems beyond Coronavirus

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Abstract

This working paper considers the structural challenges that confront the Pakistan economy beyond the immediate impositions of contending with Covid19 (coronavirus). Using a general thematic approach, the paper seeks to look beyond the urgent preoccupations of Covid19 to grapple with the important considerations in terms of longer-term economic hurdles that must be systematically addressed in the years to come.

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Introduction

Globally, the economic impact of COVID-19 is being considered far more devastating than any of the financial crises the modern world had faced up till now. The coronavirus has brought global economies, developed and underdeveloped alike, to a near-standstill. With global growth outlook already slashed by economists, the fear that COVID-19 would lead to a global recession in 2020 is becoming a reality, and as an example, Bloomberg Economics envisages that the coronavirus could cost the world economy a lost output of \$2.7 trillion.¹

From the halted income because of decreased trade and remittances to the additional financial crunch in the form of relief packages, the impact of the coronavirus pandemic upon Pakistan economy is going to be an acute one. The Asian Development Bank has projected that Pakistan economic growth is to slow down to 2.6% in 2020 following COVID-19 outbreak amongst other factors. The signs of economic fallout amid the danger are already visible with Pakistani Rupee slashing against dollar² stock exchange ravaging³ and foreign investment divesting.⁴ Very detailed aggregate expenditure macroeconomic forecasting by the Centre for Aerospace & Security Studies (CASS) finds that the impact on Pakistan will be considerable across numerous fronts.⁵

According to Pakistan Institute of Development Economics, following the COVID-19, the economy is projected to face a GDP loss of up to 4.64% in the worst-case scenario. These projections are however based only on trade disruptions while other related factors like lock-down, FDI, remittances, tourism and aviation were not considered.⁶ While one thing is clear that the road to economic recovery is going to be a hard one in the wake of this crisis,⁷ the question remains that is it the coronavirus pandemic that would

¹ Orlik, Tom, Rush, Jamie, Cousin, Maeva, and Hong, Jinshan. "Coronavirus Could Cost the Global Economy \$2.7 Trillion" Bloomberg Economics. <https://www.bloomberg.com/graphics/2020-coronavirus-pandemic-global-economic-risk/>

² Ahmed, Ali. "US Dollar Takes Massive Stride Against Pakistani Rupee." Business Recorder. Last modified March 25, 2020. <https://www.brecorder.com/2020/03/25/583361/us-dollar-takes-massive-stride-against-pakistani-rupee/>.

³ "Weekly Review: Stocks Continue to Be Ravaged Amid Covid-19 Dangers." Pakistan Observer. Last modified March 30, 2020. <https://pakobserver.net/weekly-review-stocks-continue-to-be-ravaged-amid-covid-19-dangers/>.

⁴ Hanif, Usman. "In Pakistan, Economists Press for Policy Easing Amid COVID-19 Crisis." The Express Tribune. Last modified April 3, 2020. <https://tribune.com.pk/story/2189689/2-pakistan-economists-press-policy-easing-amid-covid-19-crisis/>.

⁵ Chohan, Usman. "Forecasting the Economic Impact of Coronavirus on Developing Countries: Case of Pakistan" CASS Working Papers on Economics and National Affairs. EC016UC. 2020.

⁶ Haider, Mehtab. "Covid-19: Economy May Face GDP Loss of Up to 4.64 Percent." The News International. Last modified April 1, 2020. <https://www.thenews.com.pk/print/637732-covid-19-economy-may-face-gdp-loss-of-up-to-4-64-percent>.

⁷ Chohan, Usman. "A Post-Coronavirus World: 7 Points of Discussion for a New Political Economy." CASS Working Papers on Economics and National Affairs. EC017UC. 2020.

be the ultimate reason of the hardships that are coming our way or are there other factors that have played their part?⁸

With that in mind, this working paper considers the structural challenges that confront the Pakistan economy beyond the immediate impositions of contending with Covid19 (coronavirus). Using a general thematic approach, the paper seeks to look beyond the urgent preoccupations of Covid19 to grapple with the important considerations in terms of longer-term economic hurdles that must be systematically addressed in the years to come.

The Headwinds Against the Macroeconomy

Pakistan, a country that is home to fertile lands as well as mighty mountain ranges, blessed with abundant natural resources and human capital, not to mention its central geostrategic importance, nevertheless continued to struggle with a cash-starved economy. Pakistan's economic growth trajectory throughout history had been a roller coaster ride with occasional booms and busts. The booms particularly were linked to the flow of foreign capital in form of aid, evident in the three military tenures in the '60s '80s and 2000s wherein Pakistan was the epicenter of international attention owing to its strategic significance in the ongoing international conflicts.⁹ Since the '90s Pakistan witnessed a sharp decline in its growth rates, significantly lagging behind its South Asian counterparts.¹⁰

The country generally underperformed in almost all economic indicators and habitually found itself in macroeconomic crises. With a nominal GDP per capita ranking of 157 in the world¹¹, the economic challenges encountered by the country were all too obvious. The downward trend of its growth rate, massive devaluation of the rupee, hovering inflation rates, and decreasing domestic demand even before the pandemic reveals the gloomy state of country's economy.¹² As per the World Bank's prediction, Pakistan economic growth that was already a dismal 3.3% in 2019, was further bound to decelerate to around 2.4% in Fiscal Year 2020.¹³

As stated by UNCTAD, Pakistan will be among the hardest hit developing countries by the economic shockwaves of the pandemic because of high capital outflows, lost export earnings due to falling

⁸ See also Chohan, U.W. (2020d). The Coronavirus Impacts on the World Economy. Indus News. Interview. March 22.

⁹ Khan, M. A., and A. Ahmed. "Foreign Aid-Blessing or Curse: Evidence from Pakistan." *The Pakistan Development Review* 46, no. 3 (Winter 2007), 215-240. <https://www.pide.org.pk/pdf/PDR/207/Volume3/215-240.pdf>.

¹⁰ Husain, I. "Pakistan's Economy and Regional Challenges." *International Studies* 55, no. 3 (2018), 253-270. <https://ishrathusain.iba.edu.pk/speeches/New/PakistaniEconomy-and-Regionalchallenges.pdf>.

¹¹ Countries by Projected GDP Per Capita 2020." StatisticsTimes.com | Collection of Statistics and Charts. Accessed April 6, 2020. <https://statisticstimes.com/economy/countries-by-projected-gdp-capita.php>.

¹² Chohan, U.W. (2020e). Corona-capitalism. The Nation. March 23.

¹³ Ahmed, A. "Pakistan Economy to 'languish' at 3pc or Less in 2020: World Bank." Business Recorder. Last modified January 9, 2020. <https://www.brecorder.com/2020/01/09/560322/pakistan-economy-to-languish-at-3pc-or-less-in-2020-world-bank/>.

commodity prices and currency depreciations.¹⁴ Evident is the fact that the country's economy was already very vulnerable.

Tracking the Challenges

Even before the coronavirus outbreak had not brought the human and financial suffering,¹⁵ Pakistan despite its immense economic potential, continued to struggle. The economy was already on the verge of a recession. Although the COVID-19 would serve as a major reason in the instability that follow, it wouldn't be the only one. The instability of growth patterns historically can be linked to myriad structural constraints that have become associated with the country's economy and are have continued to worsen over time. A brief overview of these challenges is presented below.

Weak Financial Position/ Fiscal Management:

The issue with the coronavirus crisis is that in case it is prolonged it will eventually lead to a significant increase in government expenditures. Slowing down tax collection; rising inflation; dropping consumer savings, it will further slowdown the economy.¹⁶ These issues were a nuisance for Pakistan economy even before the pandemic. The fundamental problem associated with the country's economy is its weak financial position/ fiscal management.¹⁷ The economy of Pakistan has historically been run on three major deficits or gaps; the current account deficit (CAD) or the trade gap, the budget deficit or the fiscal gap and the saving-investment gap.¹⁸ These high deficits pose monumental challenges to every incumbent government which continues to exacerbate with each passing tenure. Hence when the PTI government complained of inheriting historic high debts and deficits, it was justified in its claims.¹⁹

Pakistan's economy can be characterized as import- and consumption-oriented. Because of the weak industrial base of the country and low-value addition in its products, the share of exports in the balance of payments has over time dwindled, while that of imports has mounted.²⁰ This increased reliance on foreign resources has led to a recurring negative balance of payments and has brought the country to the danger of default. The economic survey of Pakistan 2018-19 showed that the current account deficit of the country amounted to a staggering 20 billion dollars.²¹ It was under such circumstances that the

¹⁴ Reuters. "Pakistan Will Be Among Hardest-hit Economies by Coronavirus Crisis, Says UN Report." DAWN.COM. Last modified March 31, 2020. <https://www.dawn.com/news/1545267>.

¹⁵ Chohan, U.W. (2020d). The Coronavirus Impacts on the World Economy. Indus News. Interview. March 22.

¹⁶ Rana, Shahbaz. "Coronavirus May Cause \$61m Loss to Pakistan: ADB." The Express Tribune. Last modified March 7, 2020. <https://tribune.com.pk/story/2171093/1-coronavirus-may-cause-61m-loss-pakistan-adb/>.

¹⁷ Chohan, U.W. (2019h). Fiscal Sustainability: A Historical Analysis of Pakistan's Debt Conundrum. Centre for Aerospace and Security Studies (CASS). CASS Working Papers on Economic and National Affairs. ECO05UC.

¹⁸ Chohan, U.W. (2018c). The Roles of Independent Legislative Fiscal Institutions: A Multidisciplinary Analysis. UNSW, Canberra, Australia.

¹⁹ Chohan, U.W. (2019e). Comparative Case Studies: Contrasting Two Budget Institutions. SAGE Publications.

²⁰ Chohan, U.W. (2018c). The Roles of Independent Legislative Fiscal Institutions: A Multidisciplinary Analysis. UNSW, Canberra, Australia.

²¹ "Pakistan Economic Survey 2018-19." | Ministry of Finance | Government of Pakistan |. Accessed April 6, 2020. https://www.finance.gov.pk/survey/chapters_19/Economic_Survey_2018_19.pdf.

current government resorted to harsh economic stabilization measures as evident from the federal budget. Although the government has managed to bring down the current account deficit, 64 percent in first quarter of the fiscal year 2020, it mainly happened due to strict import policy instead of growth in exports.²²

With the rapidly growing population and ever-increasing expenditure demands, successive governments have struggled to finance the country's expenses mainly because of low revenue generation.²³ The latest annual economic survey has listed the country's budget deficit to be 2.3 trillion rupees²⁴ i.e. 8.9% of GDP, the highest ever in the country's history. The tax-revenue generating bodies (the FBR or the provincial authorities, for instance) have faced grave limitations in formulating a substantive tax policy that would appropriately widen the tax net. They have thus been able to draw upon an indigenous capacity to fund national expenditure requirements. The difference that had occurred between government revenues and spending had almost always been financed by the governments through sources such as external borrowing or printing of money²⁵, both which have ultimately entangled the country in the debt conundrum and the related challenges of high inflation and decreased investment.

National savings and investment, which are key macroeconomic variables that influence the stability and growth of an economy, are also lagging in Pakistan.²⁶ Although high inflation rates make it difficult for people to save due to reduced purchasing power, Pakistan's savings and investment statistics are still fairly low as compared to other Asian economies.²⁷ While in China, the savings rate is 50% and in India's it is 30%, an average Pakistani save about 15% and spends 85% of his income. Hence in Pakistan, enough money is not available domestically to drive the investments that would funnel effective growth.²⁸ If we are to achieve effective and sustainable growth, an important area of focus must be to increase our savings. However, again high inflation rate makes people unable to save.

²² Iqbal, Shahid. "Current Account Deficit Shrinks Massive 64pc." DAWN.COM. Last modified October 19, 2019. <https://www.dawn.com/news/1511700>.

²³ Chohan, U.W. (2019c). *Documentary Research: Positing Innovations in a National Budgeting Process*. SAGE Publications.

²⁴ "Pakistan Economic Survey 2018-19." | Ministry of Finance | Government of Pakistan |. Accessed April 6, 2020. https://www.finance.gov.pk/survey/chapters_19/Economic_Survey_2018_19.pdf

²⁵ Rashid, Mudassar, Muhammad A. Farooq, and M. N. Nawaz. "Government Borrowing and Macroeconomic Dynamics of Pakistan Under New Keynesian Framework." *Papers and Proceedings*, 2019, 547-566. <https://www.pide.org.pk/psde/pdf/AGM33/papers/Dr%20S%20M%20Naeem%20Nawaz.pdf>

²⁶ Nasir, Shahbaz, Mahmood Khalid, and Amir Mahmood. "Saving-investment Behavior in Pakistan: An Empirical Investigation." *The Pakistan Development Review* 43, no. 4 (Winter 2004), 665-682. <https://www.jstor.org/stable/41261020>.

²⁷ Chohan, U.W. (2020b) *The Trouble with Economics*. Daily Times. January 25.

²⁸ Nakhoda, Aadil. "Hot Money Flows - Looking Beyond Temporary Relief in Pakistan." *The Express Tribune*. Last modified December 16, 2019. <https://tribune.com.pk/story/2118454/2-hot-money-flows-looking-beyond-temporary-relief-pakistan/>.

Suboptimal Public Spending

Another formidable challenge that the Pakistani economy has faced is the suboptimal public spending that has been carried out by the successive governments. The structure of spending has remained mismanaged and flawed in the sense that lower yield, but politically visible projects are given priority over the ones that would generate maximal value for the public. For example, as being proven now, the neglect of socio-economic development in spending policies is currently making our fight against COVID-19 a tougher one.²⁹ The shortage of medical equipment like Personal Protective Equipment (PPE) for health workers and ventilators for the patients show no efforts were put to prepare healthcare infrastructure for pandemics.

Let us take another contemporary example of the incumbent government's allocation for the development budget in the first half of the current fiscal year. It has disbursed 55% of the allocated development budget of Rs701bn in the first two fiscal quarters. However, under projects such Prime Minister's *Youth and Hunarmand Programme*, allocation to the power sector or to the development of newly merged tribal districts of Khyber Pakhtunkhwa have received merely 15, 17 and 18 percent of their allocated shares respectively. By contrast, the release of 72pc of the allocated fund to the National Highway Authority had been approved.³⁰ Water infrastructure as a case of neglect is yet another prime example. As reported by the Indus River System Authority (IRSA), Pakistan dumps approximately \$21 billion worth of water into the sea each year due to the lack of a comprehensive water conservation system.³¹ Despite acute water and power shortages, the usage of our national hydroelectric endowment has been a moot point for the past 50 years. Correspondingly, in Pakistan, most of the power production takes place from the imported furnace oil. This costly energy had adversely affected the local manufacturing industry. The rising cost of production due to expensive electricity, made the local goods uncompetitive hence making the industrialists shift their business to more business-friendly economies like Bangladesh and China.³² Likewise, small scale manufacturers turned who couldn't afford to shift their businesses turned into importers and traders. Had there been considerable importance given to the hydroelectric infrastructure development, the economy wouldn't have to witness these losses.

²⁹ Chohan, U.W. (2020d). The Coronavirus Impacts on the World Economy. Indus News. Interview. March 22.

³⁰ Kiani, Khaleeq. "Half-yearly Uplift Spending Rises to 55pc of Allocation." DAWN.COM. Last modified January 23, 2020. <https://www.dawn.com/news/1529994>.

³¹ Guramani, Nadir. "Pakistan Dumps \$21bn Worth of Water in the Sea Each Year: IRSA." DAWN.COM. Last modified November 2, 2017. <https://www.dawn.com/news/1367885>.

³² Rana, Parvaiz I. "Textile Units Are Relocating to Other Countries'." DAWN.COM. Last modified January 18, 2017. <https://www.dawn.com/news/1309098>.

Poor Human Development

Pakistan ranks 152 out of 189 countries in the Human Development Index (HDI) ranking, and its HDI score of 0.56 is lower even than the South Asian average of 0.634.³³ The Human Development Report 2019 ranks Pakistan among countries with medium human development, having insufficient progress concerning health conditions, education statistics, and living standards. As of now, the Global Health System Index team has branded Pakistan as one of the most vulnerable countries to a global pandemic like COVID-19. These predictions were made using the GHS Index and global flight data. Pakistan with the GHS score of a mere 35 out of 100 hence found itself in the most susceptible state.³⁴

After multiple experiments undertaken in the ambit of laissez-faire and capitalism, economic experts have finally come to a consensus that growth without development is not sustainable.³⁵ As discussed earlier, public spending in Pakistan gravitates towards short-term measures, but it callously ignores the ingredients of long-term success.³⁶ Human capital formation, as indicated by the educational spending nationally, remains one of the lowest in the world with approximately 2% of GDP³⁷. While in the future, the race is towards a knowledge economy, in Pakistan one does not see any comprehensive strategy and scarcely the political will to generate one. If Pakistan is to compete or even for that matter survive in the globalized world of 21st century economics, it must prepare its workforce for the future. In contrast, 35% of the budget of the country's prime higher education body, the Higher Education Commission (HEC), was cut in 2019³⁸ despite the ruling party's promise to increase the education funding and invest in people.

The Bulky Government Sector

Similarly, another daunting issue that has negatively impacted the economic development is the size of the public sector.³⁹ Although there exists a negative correlation between government size and its efficiency, Pakistan maintains a large bureaucracy that is in many ways a vestige of its colonial past and not suitable for grappling with either macroeconomic trends or local-level issues. This bulky government puts the pressure of salary bills and pensions on the revenue and further restricts fiscal space for

³³ *Human Development Report, Inequalities in Human Development in the 21st Century*. UNDP, 2019. http://hdr.undp.org/sites/all/themes/hdr_theme/country-notes/PAK.pdf.

³⁴ LePan, Nicholas. "Ranking Global Pandemic Preparedness." Visual Capitalist. Last modified March 21, 2020. <https://www.visualcapitalist.com/global-pandemic-preparedness-ranked/>.

³⁵ Chohan, U.W. (2020). *Reimagining the Public Manager: Delivering Public Value*. Routledge, UK.

³⁶ Chohan, U.W, and Jacobs, K. (2017b). Public value as rhetoric: a budgeting approach. *International Journal of Public Administration*. 41 (15), 1217-1227

³⁷ "Pakistan - Public Spending on Education, Total (% Of GDP) - 1971-2017 Data | 2020 Forecast." TRADING ECONOMICS. Accessed April 6, 2020. <https://tradingeconomics.com/pakistan/public-spending-on-education-total-percent-of-gdp-wb-data.html>.

³⁸ Amin, Tahir. "HEC Chief Urges PM to Restore Higher Education Sector's Budget." *Business Recorder*. Last modified October 23, 2019. <https://www.brecorder.com/2019/10/23/536922/hec-chief-urges-pm-to-restore-higher-education-sectors-budget/>.

³⁹ see Chohan, U.W. (2017a). Independent Budget Offices and the Politics-Administration Dichotomy. *International Journal of Public Administration*. 41 (12), 1009-1017

development projects in the country.⁴⁰ Although this is not to suggest that the government needs to be irrationally shrunk,⁴¹ there is much room for the public sector to be reformed along the lines of public value creation, i.e. with a view to government channeling a value-seeking imagination in service of the pressing needs of the people.

Disrupted Local Governance

Devolution of power is an essential element of good governance in many (although not all) contexts.⁴² Thankfully with 18th amendment, Pakistan took its first step towards it. As evident from the effective response of the provinces like Sindh and Khyber Pakhtunkhwa to the coronavirus pandemic, the vitalness of the phenomenon was vindicated.⁴³ Nonetheless, Pakistan had been most unfortunate in the regard that the local government system of the country could not strengthen due to the vested interests of the power elites.⁴⁴ The tyranny of feudalism in rural parts of the country is immense and harks back to what thinkers such as Marx and Lenin would have found prevalent two centuries ago. The bigwigs in politics and bureaucracy in their quest to preserve the status quo have ultimately curbed the effective exercise of democratic mandates that would be complemented by systemically effective governance. In addition, there are challenges associated with any federated model whereby the delegation of authority and the decentralization of power either face or create impediments in the optimum allocation of national resources. This in turn mirrors the disproportionate generation of revenues across the nation, where the single city of Karachi alone accounts for more than a third of the taxes in the country, despite having less than a tenth of the total national population as its urban residents. Although the 18th Amendment was thought by some to be an important milestone in decentralization, the delegation of authority to the lowest tier still faces political bottlenecks.

Flawed Justice System

Where the issue of whether to grant bail to the under-trial prisoners (UTP) in the wake of COVID-19 crisis because of overcrowded jails or not remained a burning issue for the judiciary and rightly highlighted the flaws in our judicial system, similar such challenges have since long negatively impacted the economy.⁴⁵ Although the nonexistence of quality control regulations and consumer protection remained key

⁴⁰ Jamal, Nasir. "Too Many Pensions, Not Enough Money." DAWN.COM. Last modified October 22, 2018. <https://www.dawn.com/news/1440433>.

⁴¹ See Chohan, U.W. (2017b). The Presidentialisation Thesis and Parliamentary Budget Offices. Parliamentary Affairs. 70(2), 361-376.

⁴² See debates in Chohan, U.W. (2019a). Public Value and Budgeting: International Perspectives: Routledge.

⁴³ Younus, Uzair. "Coronavirus Hits Pakistan's Already strained Economy, and Its Most Vulnerable" Atlantic Council. Last modified March 31, 2020.

⁴⁴ Jamil, Rehan R. "Making the State Local: The Politics of Decentralized Governance in Pakistan." A-id. Last modified July 30, 2018. <https://www.a-id.org/2016/10/03/making-the-state-local-the-politics-of-decentralized-governance-in-pakistan/>.

⁴⁵ See judicial public value in Chohan, U.W. (2019a). Public Value and Budgeting: International Perspectives: Routledge.

hindrances to welfare of consumers in the country, the lack of effective business dispute resolution mechanism poses a great challenge to the safety and stability of small businesses.⁴⁶ Business investment in Pakistan is significantly reduced because of the lengthy resolution mechanism as cases are dragged on for years. Ultimately, the money gets parked in non-productive sectors like real estate (trillions of potential investment money is buried in DHA and Bahria plots) with no output to the economy. The government seriously needs to reconsider its approach towards the commercial courts if it wants to bring the stagnated money in circulation.

Economic Warfare of Major Powers

Looking at the wider horizon, Pakistan's geostrategic position has proven to be both a curse and a blessing for it.⁴⁷ Its geostrategic and political alignments, on one hand, made it the recipient of multilateral grants from the US and its allies in the past and also today in form of an investment stimulus program of the scale of the China-Pakistan Economic Corridor (CPEC).^{48,49} On the other hand, its geostrategic location has made it an easy target of economic warfare of the great powers by use of international financial institutions such as the World Bank and IMF, not to mention thuggish bodies such as the FATF where nefarious foreign political interests run rampant.⁵⁰ The repeated falling of Pakistan in the list of monitored jurisdictions of the FATF, despite repeated efforts to curb money laundering and terrorist financing, speaks volumes of the manipulation that persists in its dealings. Such international bodies play an important role in international finance, wielding particular influence on foreign investors' (mis)perceptions about countries. In the case of Pakistan, the FATF's grey-listing costs the country an estimated \$10 billion annually.⁵¹ FATF has however granted an unexpected relief to Pakistan amid the pandemic as Pakistan which needed to submit its performance report by April 20 has been given a grace period of five months.⁵² IMF too has hinted to consider Pakistan's request for financial assistance under

⁴⁶ Ahmed, Shakeel. "Pakistan's Special Commercial Courts to Help Solve Business Disputes." Samaa TV. Accessed April 6, 2020. <https://www.samaa.tv/news/2019/10/pakistans-special-commercial-courts-to-help-solve-business-disputes/>.

⁴⁷ Shah, Hania. "Pakistan's Geographical Location: a Curse or a Blessing in Disguise?" Daily Times. Last modified October 12, 2019. <https://dailytimes.com.pk/481707/pakistans-geographical-location-a-curse-or-a-blessing-in-disguise/>.

⁴⁸ See discussion in Chohan, U. W. (2018a). What is One Belt One Road? A Surplus Recycling Mechanism Approach. In Chaise, J. and Gorski, J. (eds.). The Belt and Road Initiative . Brill Nijhoff: Netherlands.

⁴⁹ See Chohan, U. W. (2018b). The Political Economy of OBOR and the Global Economic Center of Gravity. In Chaise, J. and Gorski, J. (eds.). The Belt and Road Initiative . Brill Nijhoff: Netherlands.

⁵⁰ See Chohan, U.W. (2019b). The FATF in the Global Financial Architecture: Challenges and Implications. CASS Working Papers on Economics & National Affairs, EC001UC (2019).

⁵¹ Ibid.

⁵² "FATF Grants Unexpected Relief to Pakistan Amid Pandemic." DAWN.COM. Last modified April 8, 2020. <https://www.dawn.com/news/1547318/fatf-grants-unexpected-relief-to-pakistan-amid-pandemic>

the Rapid Finance Instrument facility to ensure urgent direction of funds to the most affected sectors including social protection and the healthcare system.⁵³

The Large Informal Economic Base of the Country

The international financial institutions are, however, sometimes justified in their apprehensions regarding Pakistan's economy. For example, the FATF's concerns about Pakistan's large informal economic base is corroborated by the fact that (at the very least) 35% of country's GDP wallows in informality.⁵⁴ A key element of this is the spatial proliferation of encroachments in the country.⁵⁵ The Hawala or Hundi system are indicative in this regard, and they have thrived in the country since very long because of both negligence of the vested-interest authorities and the direct resistance of a greedy and unruly private sector. This unregulated system on one hand may be easing money laundering and terrorist financing, but on the other it also forestalls the much-needed formal economic growth. Remittances, which constitute 7% of GDP, are a key asset for Pakistan, and the country substantially depends on them as a source of foreign exchange. However, because of the cumbersome banking process and exchange rate issues, many expatriates also choose to send money through this very channel.⁵⁶

The Hovering Political Instability

There was a time when Pakistan was considered amongst the most attractive countries for the investment, an emerging market *par excellence*. However, the sad unfolding of endogenous and exogenous events, including a spell of terrorism and poor law and order situation, had shattered the country's image. Although Pakistan has been extremely successful in vanquishing the obscurantist forces of extremism/ terrorism, the scars of the post-Afghan War period have yet to fully heal. That preceding political instability still looms over the investment climate, and there is yet a need for things to take time to improve, particularly with regards to long-term investment. This is important to mention because the majority of the foreign investment that has flown in since the second half of 2019 is "hot money"⁵⁷ that can whimsically leave at a moment's notice. Pakistan is paying an extortionary interest rate at present

⁵³ Khan, Mubarak Z. "IMF Hints at Helping Pakistan to Fight off Corona Impact." DAWN.COM. Last modified March 28, 2020. <https://www.dawn.com/news/1544351>

⁵⁴ "70 Pc of Pakistan's Economy is Informal, Which is of High Concern: PBIF." The Nation. Last modified February 6, 2019. <https://nation.com.pk/06-Feb-2019/70-pc-of-pakistan-s-economy-is-informal-which-is-of-high-concern-pbif>.

⁵⁵ See Tauhidi, Amna and Chohan, Usman W., Encroachments & the Mystery of Capital: A Pakistani Context (March 17, 2020). Available at SSRN: <https://ssrn.com/abstract=>

⁵⁶ Ahmed, Ashfaq. "Pakistan Receives Record Inflow of Remittances in December Despite Prevailing Illegal Money Sending Channels." Gulf News. Last modified January 13, 2020. <https://gulfnews.com/world/asia/pakistan/pakistan-receives-record-inflow-of-remittances-in-december-despite-prevailing-illegal-money-sending-channels-1.68961922>.

⁵⁷ Zaidi, Erum. "Foreign Investment in Govt Securities Surpasses \$711 Million." The News International. Last modified November 15, 2019. <https://www.thenews.com.pk/print/568873-foreign-investment-in-govt-securities-surpasses-711-million>.

just to park these few billions, and those steep returns will have to be met in due course.⁵⁸ Although there is a logic to building a buffer of foreign exchange to cushion future adverse situations, the price that Pakistan is paying for flimsy hot money may be coming at too dear a cost. Data released by State Bank of Pakistan in March showed that in the wake of coronavirus pandemic, Foreign investors pulled out almost one-sixth of their investments in treasury bills and Pakistan Investment bonds. A whopping \$600m of hot money left the country in first twelve days of march.⁵⁹

The Menace of Climate Change

A recent yet most consequential challenge that has dawned upon Pakistan more generally and its economy in particular is the specter of global climate change.⁶⁰ All those who went on to say that COVID-19 is the nature's revenge against the ecocidal proclivities of man⁶² are somewhat justified as there is indeed proof that nature is getting a breather in the wake of the pandemic. While the pandemic continues to rage economies and lives, the lockdowns are temporarily cleaning the air. While Pakistan contributes a whimsical 0.8% to the global greenhouse gases emissions, yet it is one of the major victims of global climate change. Pakistan has been placed on the fifth spot in the list of countries most vulnerable to climate change during the year 2020 by Germanwatch in its Global Climate Risk Index. It further indicates that the government was not taking enough measures to deal with the challenges and risks posed by climate change.⁶³

In the last decade alone, the already fragile economy of Pakistan suffered economic losses worth \$3.8 billion due to climate change. Today, all economies globally are vulnerable to the effects of climate change as it impacts the productivity in the agricultural, manufacturing and services sectors. However, the developing countries, especially those dependent upon the climate sensitive sector of agriculture are most prone to the risk. ⁶⁴ The severity of impact is more on Pakistan as agriculture is the backbone of its economy, contributing around 20% of the national GDP and employing about 43% of the country's

⁵⁸ See Chohan, U.W. (2019h). Fiscal Sustainability: A Historical Analysis of Pakistan's Debt Conundrum. Centre for Aerospace and Security Studies (CASS). CASS Working Papers on Economic and National Affairs. ECO05UC.

⁵⁹ Hussain, Fayaz. "Over \$600m of 'hot Money' Leaves Country in 12 Days." DAWN.COM. Last modified March 13, 2020. <https://www.dawn.com/news/1540501>.

⁶⁰ See Adil, Ameera and Chohan, Usman W., Climate Change as Socioeconomic Threat: International Perspectives (February 26, 2020). CASS Working Papers on Environmental Security, 2020. Available at SSRN: <https://ssrn.com/abstract=3544582> or <http://dx.doi.org/10.2139/ssrn.3544582>

⁶¹ Nazar, Sualiha. "Pakistan's Big Threat Isn't Terrorism—It's Climate Change." Foreign Policy. Last modified March 4, 2016. <https://foreignpolicy.com/2016/03/04/pakistans-big-threat-isnt-terrorism-its-climate-change/>.

⁶² Vallianatos, Evaggelos. "Nature's Revenge: Climate Change and COVID-19." CounterPunch.org. Last modified March 19, 2020. <https://www.counterpunch.org/2020/03/20/natures-revenge-climate-change-and-covid-19/>.

⁶³ Abubakar, Syed M. "Pakistan 5th Most Vulnerable Country to Climate Change, Reveals Germanwatch Report." DAWN.COM. Last modified January 16, 2020. <https://www.dawn.com/news/1520402>.

⁶⁴ Akram, Naeem, and Abdul Abdul. "Climate change: A threat to the economic growth of Pakistan." *Progress in Development Studies* 15, no. 1, 73-86.

workforce. Extreme weather events like droughts and floods along with changing crop patterns are damaging the agriculture sector extensively.⁶⁵

Deliberating on Opportunities

The economy of Pakistan faces no inherent shortage of opportunities for growth and public value creation.⁶⁶ There are plenty of areas that had remained untapped and can be effectively utilized to strengthen the country's economy. From channeling our natural endowments to tapping our human resource potential, the possibilities are manifold. Important movements such as CPEC are giving impetus to that development momentum, but must be seized upon early on, and more so at the same time as bitter pills are being administered to remedy structural problems. A few of the opportunities that have come knocking on the doors of Pakistan are listed below:

Political Will toward Meaningful Reforms

While it has been debated that the challenges confronting the economy abound, let us acknowledge that finally there is a stronger recognition today of the economic problems. On one hand where the incumbent government has rolled out the largest social assistance program in nation's history to protect the poor and vulnerable from the COVID-19 crisis⁶⁷, it had also declares meaningful economic reforms to be its top agenda⁶⁸ and is currently making several "hardcore" adjustments and undertaking stabilization measures.⁶⁹ The efforts towards austerity, fiscal adjustment, monetary tightening, and documentation of economy are all difficult pills to swallow. Yet these are the sorts of remedial measures that might just correct the course given how wayward our development trajectory was become. In the past, such steps were avoided in favor of short-term interventions, but these addressed the symptoms rather than the causes. The notable international financial institutions including IMF, WB and ADB also appreciated the incumbent government's steps to bring reforms and economic stability in the country.⁷⁰ If the current government succeeds in implementing these policies effectively, they would ultimately end the circle of uncertainty that ever so often returns to haunt the economy and curtails its long-term development orientation.

⁶⁵ Ali, Sajjad, and Ying Liu. "Climate Change and Its Impact on the Yield of Major Food Crops: Evidence from Pakistan." *MDPI*, 2017. <https://doi.org/10.3390/foods6060039>.

⁶⁶ See Chohan, U.W. (2019a). *Public Value and Budgeting: International Perspectives*: Routledge.

⁶⁷ Saifi, Sophia. "Pakistan Rolls out Largest Social Assistance Program in Nation's History to Tackle Covid-19." CNN. Last modified April 10, 2020. https://edition.cnn.com/world/live-news/coronavirus-pandemic-04-09-20/h_cb489db5166406849663f419393cc5d8.

⁶⁸ "Economic reforms top agenda of PTI govt: Ali Zaidi." *Customs Today*. Last modified September 18, 2019. <https://customstoday.com.pk/economic-reforms-top-agenda-of-pti-govt-ali-zaidi/>

⁶⁹ Kiani, Khaleeq. "Half-yearly Uplift Spending Rises to 55pc of Allocation." *DAWN.COM*. Last modified January 23, 2020. <https://www.dawn.com/news/1529994>

⁷⁰ Sherani, Tahir. "Pakistani Delegation Briefs IMF, WB and ADB Officials on Economic Measures in Meetings." *DAWN.COM*. Last modified October 19, 2019. <https://www.dawn.com/news/1511739/>

The Tourism Potential of Pakistan

Since the COVID-19 outbreak, worldwide tourism has come to a halt. Nonetheless, there remains a silver lining that it would boost exponentially once the pandemic ends, as evident from China where large number of people flocked to tourist sites after lockdown ended. With its twin benefits of generating foreign exchange as well as employment, tourism sector act as a key force for economic development worldwide and can also become an enabler for Pakistan economy. Tourism industry is one of the major contributors to the GDP of South Asian states with an average contribution of 5 to 7%. South Asia alone generates an average of 40 billion dollars annually through tourism in which Pakistan's share is less than one percent. Its neighbor, India, alone gets 70% of it followed by Sri Lanka and Maldives.⁷¹

Pakistan, blessed with scenic landscapes, rich culture, and hospitable people has every potential to become a tourist attraction. Pakistan is also fortunate to home revered pilgrimage and historical sites hence making it a religious and archeological tourist attraction too. Unfortunately, due to poor law and order situation in the country, the tourism industry could not flourish in the past. However, now as the security situation has changed, the industry can pay its fair share in boosting the economy. Events like the opening of Kartarpur Corridor and the United Kingdom relaxing its travel advisory to Pakistan would further help encourage tourism in Pakistan. To bank upon tourism potential, substantive tourism policy needs to be formulated that improves tourism infrastructure, creates an enabling environment for the tourists as well as advertise the tourism opportunities of the country. Moreover, significant attention needs to be given to the sanitation and upkeep of the tourist sites as they are essential in preserving the splendor of the tourist destinations along with leaving a pleasant impact upon the tourists. No tourist would like to invest his money in visiting disordered and untidy sites.⁷²

Youth Population as the Demographic Dividend

Even before covid-19 European states were in state of humanitarian crisis needed because of the natural population decline. States like Germany needed an educated workforce to keep the state machinery running. Now with COVID-19, the problem would further exacerbate and would ultimately need more human capital. Whereas many industrialized and developed world countries are suffering from an aging population, Pakistan has the largest youth population in its history with 64% of its population is below the age of 30. Currently Pakistan has a dependency ratio 65.7% that is more than half of the working part. This means that at the moment the pressure on the existing workforce is high. Nonetheless, Pakistan's is expected to have a high proportion of working age group (15-64) by 2050. This working group proportion will serve as a positive factor for the economy as along with enhanced

⁷¹ Abbas, Andleeb. "Tourism Economy – a Potential Undiscovered." Business Recorder. Last modified April 20, 2019. <https://fp.brecorder.com/2019/04/20190408462337/>.

⁷² Shakeel, Muhammad. "How to Promote Tourism in Pakistan | RGT." Rehman Travel Blog | Explore Pakistan | Travel Guide. Last modified September 27, 2018. <https://blog.rehmantravel.com/how-we-can-promote-pakistani-tourism/>.

productivity, it would decrease the high dependency ratio i.e. more working people would be there to provide for the children and the old. This window is projected to close by 2050 hence it should be used in time.⁷³ Hence the youth bulge in Pakistan, although a real-time challenge because of the high rate of illiteracy and unemployment, can be a blessing in disguise. It can serve as a demographic dividend if trained and empowered in due course of time.⁷⁴ Young people are fast learners and hence with appropriate skill-based training, they can be made an asset for the future not just for Pakistan but for the world too.

Female Labor Force

Insofar as the gender gaps cost economies some 15% of GDP, women's engagement in economic activity has proven to boost growth and development worldwide.⁷⁵ The example of Japan two generations ago and Bangladesh today demonstrate this. In the latter's case, Bangladesh's positive economic performance over the last decade was in no small part linked to the increased entry of women in the workforce, to the tune of 2 million new women labor market participants. On the contrary, Pakistani women's entrepreneurship rates are counted among the lowest in the world, and their labor market participation is also disconcertingly low at only 24% of the total labor force (despite evidently accounting for half of the population). The female employment rate in Pakistan is a paltry 4%, and an IMF study estimated that Pakistan's GDP would increase by 30% if women's labor force participation rates become equivalent to male participation rates.⁷⁶ The women in Pakistan are hence another opportunity for the country.

The China Pakistan Economic Corridor (CPEC) Phase Two

Although there are fears that CPEC might fall victim to the COVID-19 pandemic with China being forced to slowdown the investments in CPEC projects⁷⁷, the concerns were warded off by the foreign office nevertheless accepting there might be a temporary dip.⁷⁸ CPEC is naturally of paramount importance in bringing in capital to stimulate the Pakistani economy,⁷⁹ and the \$62 billion investment project is not just

⁷³ *Framework for Economic Growth*. Pakistan Institute of Development Economics, 2020. <https://pide.org.pk/pdf/Framework-for-Economic-Growth-Pakistan.pdf>.

⁷⁴ "Demographic Dividend." UNFPA Pakistan. Last modified December 15, 2017. <https://pakistan.unfpa.org/en/topics/demographic-dividend-5>.

⁷⁵ "Facts and Figures: Economic Empowerment." UN Women. Accessed April 7, 2020. <https://www.unwomen.org/en/what-we-do/economic-empowerment/facts-and-figures>.

⁷⁶ "Pursuing Women's Economic Empowerment", International Monetary Fund, May 2018.

⁷⁷ Dabo, Mohamed. "Pakistan Bank Fears CPEC Might Fall Victim to Coronavirus." Retail Banker International. Last modified April 9, 2020. <https://www.verdict.co.uk/retail-banker-international/news/pakistan-bank-fears-cpec-might-fall-victim-to-coronavirus/>.

⁷⁸ APP. "CPEC to Go Ahead Despite Corona Pandemic: Qureshi." The News International. Last modified March 21, 2020. <https://www.thenews.com.pk/print/632243-cpec-to-go-ahead-despite-corona-pandemic-qureshi>.

⁷⁹ Chohan, U. W. (2018b). The Political Economy of OBOR and the Global Economic Center of Gravity. In Chaise, J. and Gorski, J. (eds.). The Belt and Road Initiative . Brill Nijhoff: Netherlands.

a strategic game-changer but an economic fate-changer for the region and particularly for Pakistan.⁸⁰ As the first phase of the project has been concluded with the successful completion of major infrastructure and energy projects, which have effectively mitigated the country's power and infrastructure woes, CPEC's Phase 2 brings about much higher hopes with it.⁸¹ The country which is currently struggling with low investment and high unemployment, CPEC Phase 2 would turn out to be an economic lifesaver,⁸² so long as private sector involvement is proactive and value-creating opportunities are keenly seized. The second phase is expected to open windows for industrial cooperation, employment generation for the locals, development of agriculture as well as trade. It is in this phase that technology transfer and investment in the social sector are expected, the much-anticipated developments for improving the country's economic condition.

Conclusion

There is a need to look beyond the coronavirus outbreak towards what really ails Pakistan, in a dispassionate glance over a longer horizon. While one is inclined to link the coming woes for the economy to the COVID-19 pandemic, there is increasing evidence that they are also linked to a lack of coherent and long-term socio-economic policies besides inefficient governance. Nevertheless, the verdict on Pakistan's future economic outlook should remain bright, with the caveat that reforms and bitter pills must be taken now despite the temptations to kick the can down the road and seek political expediency. With its status as one of the "youngest" countries in the world, in terms of its high fecundity rates and its large cohort of young people (60%+ of the total population), Pakistan faces a pressing need to channel this youth bulge into productive activities that serve the public and improve society. It is also a collective responsibility of ours to galvanize the public towards meaningful economic lives and financial inclusion, so as to do justice to the aspirations of such a large youth cohort. The greatest opportunity for Pakistan, then, lies in addressing the aforementioned challenges systematically, collectively, and in a timely fashion.

⁸⁰ "CPEC Not Just Game but Fate Changer: PM." The Express Tribune. Last modified August 30, 2016. <https://tribune.com.pk/story/1172309/cpec-not-just-game-fate-changer-pm/>.

⁸¹ "CPEC's Second Phase Can Put Pakistan's Economy Back on Track." The Express Tribune. Last modified September 9, 2019. <https://tribune.com.pk/story/2052518/2-cpecs-second-phase-can-put-pakistans-economy-back-track/>.

⁸² See Chohan, U. W. (2018a). What is One Belt One Road? A Surplus Recycling Mechanism Approach. In Chaise, J. and Gorski, J. (eds.). The Belt and Road Initiative . Brill Nijhoff: Netherlands.

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