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Economic Development of Pakistan: Evolution Factors

Assessing the current status of Pakistan's economy, one should take into account a number of internal and external factors that determine the development of the national economy. We should take into consideration the demographic potential of Pakistan, the geopolitical position of the country at the junction of the regions of South Asia and Central Asia, Southeast Asia, the proximity of the Middle East to its oil-producing states, the level of military expenditures etc. At last one must take into account the nuclear potential of Pakistan and its strained relations with India, as well as the substantial costs of combating terrorism both within the country and in the fight against external terrorism.

The economy of Pakistan in the last 5 years (2012–2017) is developing at a relatively stable rate – at 4.2 per cent per year on average. While the commodity producing sector of the economy showed mixed dynamics so as the growth of agricultural production fluctuated at the level of 2.3 per cent in average, and of the industrial sectors in the range of 4 per cent. So, the above-mentioned average annual growth rates for 5 years was mainly provided by expanding the services sectors (almost 6 per cent per year), which is the main absorbent of Pakistan's rapidly growing population. Population Census in May 2017 the total popupulation was 208 millions.

In accordance with National Accounts statistics of national accounts, agriculture unites crops, livestock (it provides 60 per cent of the contribution to the total agricultural added value), forestry and fisheries and provides about 20 per cent of GDP. The industry covers mining & quarrying, manufacturing, construction, electricity generation & distribution & gas distt. – its general contribution to GDP is also about 20 per cent. The services sectors (60 per cent of GDP) includes wholesale & retail trade, transport, storage and communication, finance & insurance, housing services (ownership of dwellings), general government services and some other private services.

Table 1

Main macroeconomic data of selective countries of the world in 2016.

Country	Population as per 1.01.2017 (million)	Per capita income (US$)	GDP growth rates (per cent)	GDP, (billion US$)
USA	325	57220	2.5	18558
China	1340	8240	6.5	11383
Japan	127	34871	1.0	4428
India	1330	1710	6.6	2289
Russia	146	7742	-0.5	1133

Country	Population as per 1.01.2017 (million)	Per capita income (US$)	GDP growth rates (per cent)	GDP, (billion US$)
Pakistan	208	1462	5.3	304
Bangladesh	164	1401	6.6	229
Sri Lanka	21	3990	6.4	85
Nepal	29	761	3.8	22
Maldives	0.4	9281	3.9	4

As above data shows, the main countries of South Asia showed quite high economic growth rates in 2016, i.e. India, Bangladesh, Pakistan, Sri Lanka at the level of 5–6 per cent. Even in Nepal, relatively stable growth rates have been achieved at the level of 4 per cent.

Probably the growth rates of Pakistan could be overestimated to some extent by official statistics (with the aim to show the state of the economy in pink tones), but most likely it is insignificant. According to experts from the World Bank and IMF working on a permanent basis in Pakistan, the main macroeconomic indicators published by the government of Pakistan correspond largely to the true state of affairs in the country's economy. Moreover, the IMF team of experts conducts a detailed monitoring of the state of the economy twice a year to determine the possibility of providing economic assistance to Pakistan. In 2016, the three-year term for the IMF tranche of Pakistan for a total sum of $6.4 billion expired, and Pakistan again appealed to this international body for another loans.

Three major obstacles stand in the way of accelerating Pakistan's economic development.

The first and the main problem is the acute shortage of electricity for both the normal functioning of all industrial and commercial enterprises and for normal life of the people (in view of the daily loadshedding for 4–8 hours, and sometimes for 10–12 hours). According to the Federal Ministry for Water and Power, the current power generation, as of April this year, from all sources, was 12.6 thousand MW against a demand of 17.1 thousand MW. It means that electricity shortfall soars past 4.5 thousand MW.

Nawaz Sharif, having won elections in 2013, promised to fundamentally solve this challenge by 2018, realizing that if the promise is not fulfilled, he will lose his votes in the general elections in 2018. The energy problem is solved by construction new ones and modernizing the existing Hydro and Thermal power stations and nuclear power plants. This is done with substantial financial assistance from the ADB, the IMF, and the World Bank. The renewable sources of energy such as wind and solar are used to an insignificant extent. As far as CASA-1000 and TAPI pipeline are concerned I am considering them as semi-fantastic projects due to the poor political situation in Afghanistan.

The second problem is the extremely low level of tax collection, massive evasion from direct taxation and, as a consequence, an acute shortage of funds to cover the growing costs of servicing domestic and foreign debt (external debt is 80 billion dollars), military expenditures and economic development. The overall tax-to-GDP ratio in Pakistan is one of the lowest in the world – 10 per cent, the task is to increase this parameter by 2018 to 13 per cent. It should be noted that the relatively small budget deficit shown above is not so much related to the balance of the budget itself as to the objective impossibility to increase its expenditure part due to difficulties with increasing its revenue side.

The third problem is the high growth in expenditures on combating terrorism and extremism. According to the assessments of Pakistani experts, about $3 billion is spent directly for these purposes each year (some part of which is compensated by the Coalition Support Fund operating in the US). According to the Finance Minister Ishaq Dar, the country's total losses due to terrorist attacks (direct and indirect, including losses due to the reluctance of national and especially foreign investors to invest in the Pakistani economy) amounted to $9.2 billion in 2015, $5.6 billion in 2016 and $118 billion totally since 2001.

In addition, the wide red-tape of the governance and the corruption, as well as incomplete implementation of the privatization program are a deterrent to economic growth. Although Pakistan is gradually improving its Corruption Perceptions Index, according to Transparency International the country was ranked 144 in 2005, 134 in 2011 and 116 in 2016, but nevertheless, so far this negative factor significantly impedes the development of Pakistan economy.

Three main factors allow Pakistan to remain "afloat" in economics and to some extent in politics are significant foreign aid and Workers' remittances. And the third positive point is China-Pakistan Economic Corridor (CPEC) as well.

Pakistan gets external assistance from leading international financial organizations (International Monetary Fund, World Bank, Asian Development Bank, Islamic Development Bank etc.) as well as on a bilateral basis (mainly from Muslim oil-producing countries, China, some EU countries, USA). According to Pakistani experts, in 2013-March 2017 Pakistan received aid in various forms for a huge amount of $26 billion. Of these, $6.4 billion was provided by the IMF, $4.5bn bonds from the international capital market, the World Bank provided $4.4 billion, Islamic Development Bank – $2.7 billion, Asian Development Bank – $2.4 billion and China – about $3 billion.

Remittances have been growing annually and amounted to $19 billion in 2016 (which is almost equal to Pakistan's export). Most of them received from Muslim oil-producing countries, primarily from Saudi Arabia (30 per cent of total remittances) and the UAE (22 per cent). The importance of the migration of part of Pakistani population to the Arab countries, as well as to Europe and North America, is also determined by the social factor. This is the way to reduce unemployment and underemployment in Pakistan (now an official unemployment is 6 per cent of labor force), and the way to avoid the possibility of a social disturbances due to a partial outflow of the unemployed part of the country's population abroad.

An important factor of Pakistan economic growth will be the China-Pakistan Economic Corridor (CPEC), created within the framework of New Silk Road. It will connect the Gwadar port with the Chinese city of Kashgar in the Xinjiang Uygur Autonomous Region and will combine a network of roads and railways with oil and gas pipelines and a powerful energy system. It will include also several Free Economic Zones. Initially, the total cost of the project was estimated at $46 billion during the visit of Chairman of China Xi Jinping in April 2015 in Pakistan, then this sum increased to $55 billion, and in April 2017 it increased to a huge amount of $62 billion.

To improve the energy situation in Pakistan only Chinese companies will be investing $35 billion in 19 power projects which will generate more than 12 thousand MW of electricity under the CPEC. The total length of the corridor is 2400 km with branches of highways to the main cities of the country – Karachi, Islamabad, Lahore, etc., and it will directly pass through Quetta. As a result, the total length of the CPEC will be approximately 3500 km.

According to Chinese experts, the completion of the CPEC project will increase GDP growth by 3 per cent (up to 8 per cent), but I believe that the additional growth rate will not exceed 1 per cent, not 3 per cent. Now the modernization of Gwadar port, which is in lease by China Overseas Ports Holding Company. is coming to the end. Gwadar port has been already turned into a powerful modern deep-water port with a turnover of over 1 million tons. In the long-term perspective it is planned to increase the turnover up to 300 million tons. The expansion of the high-mountain Karakorum Highway, the construction of Lahore-Karachi Motorway, Sukkur-Lahore highway, a number of hydro and thermal power stations, wind and solar stations have already begun.

Army Chief General Qamar Bajwa declared about 15 thousand newly-created Special Security Division, charged with the security of Chinese personnel on CPEC and projects throughout the country. The Division consists of nine army battalions (9.2 thousand personnel) and six civil armed forces wings (4.5 thousand personnel), which have been raised at a cost of over Rs5 billion.

And, of course, Pakistan's trade with China, which already amounts to $18 billion, will actually increase. Moreover, the modernization of the Gwadar port will facilitate and expand trade directly between Pakistan and Muslim oil-producing countries, as well as with the countries of European Union and North America. And it will make possible to reduce the constantly growing negative trade balance that reached $35 billion in 2017.