



THE ECONOMY OF
PAKISTAN

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COMPARATIVE ECONOMIC SYSTEMS

PART I

FORCES INFLUENCING OUTCOMES***Economic System*****A Brief History**

Throughout the early 20th century, as India struggled for independence from the British Empire, the nation's Muslim minority felt increasingly isolated from the large Hindu and Sikh population.¹ Tensions quickly rose between the two religious groups. By 1940, the Muslim League, a political organization formed to protect the interests of Islamic Indians, began calling for a separate nation for Muslims if independence was achieved.² When Britain finally agreed to grant India its independence in 1946, Prime Minister Clement Attlee was reluctantly forced into partitioning the country under pressure from Muhammad Ali Jinnah, the leader of the Muslim League.³ Thus, the region was separated into two nations, India and Pakistan, and granted independence in 1947.

Anywhere from 12 to 15 million people migrated to their respective sides, the Muslims to Pakistan and Hindus to India. Disdain over the borderline drawn by British bureaucrats resulted in an outbreak of violence along the partition. Within two months of independence, the two newly formed countries went to war over the hotly contested region of Kashmir, a bevy of natural resources located in the Himalayan Mountains.⁴ Two years later, the United Nations imposed a cease fire in 1949, leaving the conflict unresolved and a solidifying Kashmir as a source of contention between India and Pakistan to this day.⁵ This messy process of Pakistani independence has imposed great influence on the nation's political and economic climate over the course of its 71 year life. It has pushed a culture of militancy and corruption in the political system. Most of all, the economy has long been comprised of a mixture of poverty stricken families and wealthy bureaucrats. These factors play a pivotal role in how Pakistan's economic system has grown since its birth in the 20th century.

1 *Pakistan* (Encyclopedia Britannica). <https://www.britannica.com/place/Pakistan>

2 *Pakistan Profile* (BBC). <https://www.bbc.com/news/world-south-asia-12966786>

3 *Faith, Fury and Fear*, Monica Sarkar (CNN). <https://www.cnn.com/2017/08/08/asia/india-pakistan-independence-timeline/index.html>

4 *Pakistan: History* (Commonwealth). <http://thecommonwealth.org/our-member-countries/pakistan/history>

5 *Faith, Fury and Fear*, Monica Sarkar (CNN). <https://www.cnn.com/2017/08/08/asia/india-pakistan-independence-timeline/index.html>

Pakistan's Fluctuating Economic System

It is imperative to understand Pakistan's roots in order to truly frame its economic growth and political structure. Following its independence, the country pursued a capitalist economic system that emphasized private ownership. However, with poor political management and constant power shifts, Pakistan's aims of achieving a democracy have been slow to materialize.

In 1958, just ten years after the country's independence, martial law was declared by General Ayub Khan. As a result, the economy was run at the helm of state, with key industries nationalized and major infrastructure developments financed by the government.⁶ Although, Pakistan returned to political rule in 1971, military dominance became a theme in its history. Nearly half of its 71 years have been under martial law.⁷ This includes an eleven-year period from 1977 to 1988 under General Zia ul-Haq and another period from 1999 to 2008 after a coup by General Pervez Musharraf. Under these militant leaders, Pakistan's economy was characterized by harsh suppression of labor efforts, poor investment in human capital, and high state involvement.⁸ It was not until the 1990s that Pakistan began encouraging privatization of industry, while political stability was not realized until 2008. Still, not one Prime Minister has successfully completed a full five year term in office, a symbol of Pakistan's chronic leaderships issues.⁹

Today it operates as a mixed economy, with many of its major firms still at the behest of the state.¹⁰ Despite its tumultuous past, Pakistan has maintained high levels of economic growth, establishing it as the 25th largest economy in the world based on GDP at Purchasing Power Parity.¹¹ However, the country continues to struggle from gross mismanagement and poor fiscal policy. These problems permeate every aspect of the Pakistani economy, responsible for many of the challenges that it continues to face today.

6 *Pakistan* (Encyclopedia Britannica). <https://www.britannica.com/place/Pakistan>

7 *Imran Khan's First Test*, Jeffrey Gettleman (The New York Times). <https://www.nytimes.com/2018/08/04/world/asia/pakistan-economy-imran-khan.html>

8 *Pakistan* (Encyclopedia Britannica). <https://www.britannica.com/place/Pakistan>

9 *Imran Khan's First Test*, Jeffrey Gettleman (The New York Times). <https://www.nytimes.com/2018/08/04/world/asia/pakistan-economy-imran-khan.html>

10 *Pakistan* (Encyclopedia Britannica). <https://www.britannica.com/place/Pakistan>

11 *Pakistan* (CIA World Factbook). <https://www.cia.gov/library/publications/the-world-factbook/geos/pk.html>

Economic Policies

International Trade

Trade is an important part of Pakistan's overall economy, as the cumulative value of its exports and imports are worth 25 percent of the country's GDP.¹² Its two largest trading partners in 2017, United Kingdom and United States, are reflective of its geopolitical history. These two partners make up over one quarter of Pakistan's exports, remaining among the few nations with which it maintains a trade surplus.¹³ Textiles and apparel account for over half of all of Pakistan's exports as the country has developed into a major manufacturing center for clothing, sporting goods, leather goods, carpets, cotton, and yarn.¹⁴ In addition, vegetable products such as rice, wheat, and fruits account for another 12 percent of exports, while other animal, mineral, and food products make up the remainder. Imports consist largely of machines, minerals, chemicals, and metals for fixed assets and industrial use.¹⁵ These valuable commodities are in large part what drive the Pakistani economy.

Chronic Deficit

In 2018 alone, Pakistan's exports grew by 12.6 percent, a significant improvement after three years of decline. However, this increase is by no mistake. Since 2003, Pakistan has suffered from a major trade deficit, resulting in the government utilizing tariffs to slow its imports.¹⁶ According to The Heritage Foundation, Pakistan had an average applied tariff rate of 9.5 percent in 2018. Its focus on limiting imports over the past year has caused a decrease in its "Trade Freedom" score in the annual Economic Freedom Index.¹⁷ Pakistan imposes regulatory duties as high as 20 percent on goods that it hopes to push domestically, such as fish, sugar, and even opium.¹⁸

It's clear that the current administrative goal is to restrict imports and incentivize exports in hopes of shrinking its \$18 billion deficit, but these attempts may have damaging effects on Pakistan's economy, especially in its already struggling energy sector.¹⁹ The country has historically faced energy shortages

12 *Pakistan Economy* (The Heritage Foundation). <https://www.heritage.org/index/country/pakistan>

13 *Pakistan Balance of Trade* (Trading Economics). <https://tradingeconomics.com/pakistan/balance-of-trade>

14 *Pakistan* (CIA World Factbook). <https://www.cia.gov/library/publications/the-world-factbook/geos/pk.html>

15 *Pakistan Exports, Imports, and Trade Partners* (Observatory of Economic Complexity). <https://atlas.media.mit.edu/en/profile/country/pak/>

16 *Pakistan Overview*, (World Bank). <http://www.worldbank.org/en/country/pakistan/overview#1>

17 *Pakistan Economy* (The Heritage Foundation). <https://www.heritage.org/index/country/pakistan>

18 *Pakistan Customs Tariff* (Federal Bureau of Revenue). <http://download1.fbr.gov.pk/Docs/2018817158749999PakistanCustomTariff2018-19-CH1-99.pdf>

19 *Imran Khan's First Test*, Jeffrey Gettleman (The New York Times). <https://www.nytimes.com/2018/08/04/world/asia/pakistan-economy-imran-khan.html>

due to its reliance on imported petroleum. Choking these imports for the sake of closing the deficit may have devastating results.²⁰ What might save Pakistan's economy from floundering as a result of these efforts is its recent relationship development with China. For the past six years, China has operated as Pakistan's largest import partner, contributing the most to its deficit.²¹ However, recent infrastructure developments have increased the flow of its exports to China by 2 percent, making it Pakistan's second largest export partner.²² If exports from Pakistan to China continue to grow, there is a possibility that the country will see a shrinking deficit. For now, that deficit unfortunately continues to widen.

Labor Freedom

During Pakistan's agricultural and manufacturing growth period in the 1960s, labor organizations flourished, especially in the province of East Pakistan. More than 1,000 different labor groups represented the nation's workers, most of which were organized within individual enterprises rather than for entire industries.²³ However, after the 1971 Civil War, when East Pakistan separated to become Bangladesh, only a few hundred labor unions remained.²⁴ All of these trade groups became housed under the Pakistan National Federation of Trade Unions. Six years later, they were heavily suppressed under the military regime of General Zia ul-Haq. This severely limited any attempt at organizational efforts and stunted the development of rights such as job security, pensions, or social welfare.²⁵

Since 2005, Pakistan's labor freedoms have decreased dramatically. Groups such as the Cato Institute and Heritage Foundation have cited major concerns for worker's rights.²⁶ The UN has additionally partnered with Pakistan to improve its problems with child labor.²⁷ Workers hold little bargaining power due to high levels of unemployment and only major industry unions, such as cotton and textiles, have maintained any influence.²⁸ The overall picture remains bleak, as labor courts hold a strong bias for employers and regular labor inspections are simply dismissed by officials.²⁹ Labor rights in Pakistan

20 *Pakistan* (CIA World Factbook). <https://www.cia.gov/library/publications/the-world-factbook/geos/pk.html>

21 *Pakistan Balance of Trade* (Trading Economics). <https://tradingeconomics.com/pakistan/balance-of-trad>

22 *Pakistan Exports, Imports, and Trade Partners* (Observatory of Economic Complexity). <https://atlas.media.mit.edu/en/profile/country/pak/>

23 *Pakistan* (Encyclopedia Britannica). <https://www.britannica.com/place/Pakistan>

24 *Bangladesh War*, Mark Dummett (BBC). <https://www.bbc.com/news/world-asia-16207201>

25 *Pakistan* (Encyclopedia Britannica). <https://www.britannica.com/place/Pakistan>

26 *The Human Freedom Index 2017*, 280 (Cato Institute). <https://object.cato.org/sites/cato.org/files/human-freedom-index-files/2017-human-freedom-index-2.pdf>

27 *Child Labour in Pakistan* (International Labour Organization). <https://www.ilo.org/islamabad/areasofwork/child-labour/lang--en/index.htm>

28 *Pakistan* (Encyclopedia Britannica). <https://www.britannica.com/place/Pakistan>

29 *Pakistan Economy* (The Heritage Foundation). <https://www.heritage.org/index/country/pakistan>

are heavily lacking due to governmental passivity and commercial exploitation, leaving much room for improvement.

Industrial Regulation

Having only begun its shift toward privatization in the last few decades, much of the market in Pakistan still remains either state-owned or highly regulated. Strict laws on the media prevent the dissemination of negative information regarding the state.³⁰ For much of its history, Pakistan's banking industry has been nationalized under The State Bank of Pakistan. There has been an increasing trend in private banks, however the State Bank still retains overall control and ensures the availability of Islamic banking services that abide by Sharia law.³¹ Other industries such as energy, agriculture, transportation, manufacturing, and communication fall under government control or heavy regulation.³² Many of the regulations imposed by the Pakistani government are inefficient and wrapped up in heavy, omnipresent bureaucracy. This has created a very poor climate for business growth and prevents entrepreneurship through administrative obstacles and onerous licensing processes.³³

There is hope for the country, as the World Bank's 2019 Ease of Doing Business Index ranks Pakistan at 136th out of 190 countries, an improvement over its previous rank of 147th. This is largely due to the elimination of significant red tape involved in starting a company.³⁴ However, the central government's historic reluctance to ease regulations or relinquish control over industries has become one of the major roadblocks to Pakistan's economic growth. Fortunately, over the past few years, the government has delegated more control to provincial governments in arenas such as agriculture, education, and healthcare.³⁵ Pakistan must continue to follow this trend, implementing reforms that create a better business environment with less autocratic control or cronyism.

30 *The Human Freedom Index 2017*, 281 (Cato Institute). <https://object.cato.org/sites/cato.org/files/human-freedom-index-files/2017-human-freedom-index-2.pdf>

31 *Pakistan* (Encyclopedia Britannica). <https://www.britannica.com/place/Pakistan>

32 *Federal Footprint*, 21-26 (Government of Pakistan). http://www.finance.gov.pk/publications/state_owned_entities_fy_2013_14.pdf

33 *Pakistan Economy* (The Heritage Foundation). <https://www.heritage.org/index/country/pakistan>

34 *Economy Profile Pakistan*, 104 (Doing Business 2019). <http://www.doingbusiness.org/content/dam/doingBusiness/country/p/pakistan/PAK.pdf>

35 *Pakistan Overview*, (World Bank). <http://www.worldbank.org/en/country/pakistan/overview#1>

Economic Factors

Overview of Economic Development

When Pakistan first achieved its independence in 1947, its economy was primarily agrarian. Over time, as the population and economy grew, it became necessary for the agricultural industry to adopt the technological resources necessary to increase the efficiency of food production. Under the military government of Ayub Khan, Pakistan began investing substantially in new farming technologies like chemical fertilizer, advanced irrigation systems, and gene science for seed selection. As a result, the agricultural economy grew considerably throughout the 1960s in what is called the Pakistani “Green Revolution.”³⁶ The infrastructure built to process the major commodities produced by the agriculture industry laid the groundwork for Pakistan to begin exploring other industries as well. With surpluses in cotton, it quickly started capitalizing on textiles manufacturing.

However, the 1971 Civil War wreaked havoc on the nation, causing significantly slower economic growth and even a short period of decline following Bangladeshi independence.³⁷ Under military rule again in the 1980s, Pakistan nationalized manufacturing and other major industries, propping up GDP with massive military investments.³⁸ By the time Pakistan began privatizing industry again in the 1990s, the heavy manufacturing and agricultural work force was able increase output considerably. Making use of cheap labor, high unemployment, and low labor freedoms, Pakistan began creating inexpensive products for export.³⁹ It then solidified bilateral trade relations with the United States, United Kingdom, and other major markets, causing growth to skyrocket in the early 2000s. However, Pakistan’s internal economy still remains largely informal and import reliant. It especially struggles due to its unskilled workforce, lack of foreign direct investment, poor education, crumbling infrastructure, and low health investments.⁴⁰ Now, Pakistan is addressing these major problems and attempting to reconcile its chronic trade deficit in order to stimulate the domestic economy, revitalize exports, and reach economic stability.

36 *Pakistan* (Encyclopedia Britannica). <https://www.britannica.com/place/Pakistan>

37 *Pakistan Profile* (BBC). <https://www.bbc.com/news/world-south-asia-12966786>

38 *Pakistan* (Washington Post). <https://www.washingtonpost.com/wp-srv/world/countries/pakistan.html?nav=el>

39 *Pakistan* (Encyclopedia Britannica). <https://www.britannica.com/place/Pakistan>

40 *Pakistan Overview*, (World Bank). <http://www.worldbank.org/en/country/pakistan/overview#1>

Governance

The influences of British rule and the Indian governmental system remain apparent in Pakistan's own governance. After a long and turbulent history with many drafted constitutions, the nation is presently set up as a Federal Parliamentary Republic.⁴¹ Formally known as the Islamic Republic of Pakistan, the government is predominantly democratic, but it takes a number of its cues from Islamic tradition.

Pakistan elects officials through democratic means using a representative vote based on population.⁴² The government houses a bicameral legislature, or Parliament, made up of the 342 members in the National Assembly and 100 members in the Senate.⁴³ The Prime Minister serves as head of government, selected by the National Assembly, and holds the most political authority. Meanwhile, the President serves as chief of state, a nominal position similar to that of the British Monarchy. It includes ceremonial duties such as signing laws into effect, appointing ministry positions, and commanding the military. The President and Prime Minister must be Muslim.⁴⁴ Each administration serves 5 year terms, with a limit of two consecutive terms.⁴⁵

The Supreme Court of Pakistan is composed of 16 judges and one Chief Justice, each appointed by the President and serving until 65. The judicial branch also includes multiple district courts for civil and criminal cases across the country.⁴⁶ While Pakistan follows a system of common law, it demonstrates a strong influence of Islamic Sharia Law, which was instituted under the military regime of the 1980s.

It is clear that Pakistan houses a blend of both regional and British influence on its government. Sharia Law influences demonstrate its similarity to other regional governments, while the role of the President very closely resembles that of Britain's Queen. Pakistan's governmental system often provides the illusion of a balance of powers through its framework, however in practice the executive branch maintains much of the control, especially exercising power through its ministries. This has caused numerous issues with corruption, preventing Pakistan from maintaining the political stability necessary to implement a developed economy.

41 *Pakistan* (CIA World Factbook). <https://www.cia.gov/library/publications/the-world-factbook/geos/pk.html>

42 *Government in Pakistan* (Commonwealth Network). <http://www.commonwealthofnations.org/sectors-pakistan/government/>

43 *Pakistan* (CIA World Factbook). <https://www.cia.gov/library/publications/the-world-factbook/geos/pk.html>

44 *Government in Pakistan* (Commonwealth Network). <http://www.commonwealthofnations.org/sectors-pakistan/government/>

45 *Imran Khan Confirmed as Pakistan Prime Minister* (BBC). <https://www.bbc.com/news/world-asia-45219455>

46 *Pakistan* (CIA World Factbook). <https://www.cia.gov/library/publications/the-world-factbook/geos/pk.html>

Corruption

Pakistan's government has been wrought with corruption since it achieved its independence in 1947, failing to maintain more than a decade of relative political stability until 2018. As a result, Pakistan's economic system remains largely inhibited by corrupt power through the court system, executive branch, and military.

The Heritage Foundation sites major concerns with the justice system especially, noting issues concerning intimidation.⁴⁷ The World Justice Project's measurement of corruption perceptions indicates the Pakistani people's high level of distrust for the government and institutions. Many believe the criminal justice system is the most corrupt body, as 32 percent claim that most or all justices take part in some level of corruption. The most distrusted institution is by far the police, operating heavily off of a system of bribery. An astonishing 73 percent of Pakistani's believe police are involved in corruption, while 60 percent report having to pay law enforcement officials to receive assistance.⁴⁸

Even more telling, Transparency International's 2017 Corruption Perceptions Index ranks Pakistan at 117th out of 180 countries, scoring in line with nations like Niger and Egypt.⁴⁹ As recent as 2017, major allegations of corruption and scandals against Pakistan's then Prime Minister, Nawaz Sharif, resulted in his resignation and jailing.⁵⁰ Other public officials have been suspected of major extortion, embezzlement, nepotism, and other corrupt practices.⁵¹ Most alarming is Pakistan's involvement with terrorist and radical groups. The Pakistani military has gone so far as to provide direct aid and intelligence for these groups like the Taliban in order to hedge against its worries of anti-Pakistan militants in Afghanistan.⁵² Overall, Pakistan has demonstrated significant levels of government and institutional corruption, heavily impacting its economic and foreign policy.

47 *Pakistan Economy* (The Heritage Foundation). <https://www.heritage.org/index/country/pakistan>

48 *The Rule of Law in Pakistan*, 6 (World Justice Project). https://worldjusticeproject.org/sites/default/files/documents/Pakistan_Report_2017_Final-Online%20Version-Reduced.pdf

49 *Corruption Perceptions Index 2017*, 5 (Transparency International). https://www.transparency.org/news/feature/corruption_perceptions_index_2017

50 *Pakistan Profile* (BBC). <https://www.bbc.com/news/world-south-asia-12966786>

51 *Pakistan Economy* (The Heritage Foundation). <https://www.heritage.org/index/country/pakistan>

52 *Why Pakistan Supports Terrorist Groups*, Vanda Felbab-Brown (Brookings Institute). <https://www.brookings.edu/blog/order-from-chaos/2018/01/05/why-pakistan-supports-terrorist-groups-and-why-the-us-finds-it-so-hard-to-induce-change/>

Freedom

Freedom is relatively hit or miss in Pakistan, but overall economic freedom is quite low, especially concerning property rights and business operations. The country has heavily restrictive licensing processes and powerful judicial oversight.⁵³ Pakistan's issues with property rights stem from its high levels of corruption, as land grabbing and discriminatory inheritance laws make land retainment unpredictable.⁵⁴ Of course, Pakistan's mixed and largely informal economy does allow for relatively free consumption, however, supply-side growth is heavily inhibited by its heavy government oversight.⁵⁵ The Heritage Foundation categorizes Pakistan as "Mostly Unfree" with a ranking of 131st out of 186 countries.⁵⁶

Key freedoms to a democracy and growing economy are also lacking, especially the freedom of movement and speech. It is not uncommon for authorities to restrict Pakistani's ability to relocate for supposed security reasons. Meanwhile, speech protections are minimal, as the government has been known to prosecute and even sentence to death individuals who share allegedly blasphemous content online.⁵⁷ Many of the rights outlined in Pakistan's constitution provide formal freedoms, but they are rather arbitrarily allotted in practice. Among the nation's few steps toward freedom is the Transgender Persons Act passed in 2018, which granted Transgender individuals formal state recognition of their chosen identity.⁵⁸ Overall, Pakistan ranks quite low in both human and economic freedom indicators, holding a rank of 127th out of 159 countries according to the Cato Institute's 2017 Human Freedom Index.⁵⁹ Many problems certainly stem from this tight control of the market and populous, issues that are likely among the chief causes of its economic difficulties.

Human Capital & Education

One of the areas in which Pakistan lacks the most is its investment in human capital, specifically through education, skills, and training. According to the World Bank, Pakistan is among South Asia's worst performers in terms of human development.⁶⁰ While the country's educational enrollment rates

53 *Pakistan Economy* (The Heritage Foundation). <https://www.heritage.org/index/country/pakistan>

54 Pakistan (Freedom House). <https://freedomhouse.org/report/freedom-world/2018/pakistan>

55 *Pakistan* (CIA World Factbook). <https://www.cia.gov/library/publications/the-world-factbook/geos/pk.html>

56 *Pakistan Economy* (The Heritage Foundation). <https://www.heritage.org/index/country/pakistan>

57 Pakistan (Freedom House). <https://freedomhouse.org/report/freedom-world/2018/pakistan>

58 *Pakistan Passes Historic Transgender Rights Bill*, Sasha Ingber (NPR). <https://www.npr.org/sections/thetwo-way/2018/05/09/609700652/pakistan-passes-historic-transgender-rights-bill>

59 *The Human Freedom Index 2017*, 280 (Cato Institute). <https://object.cato.org/sites/cato.org/files/human-freedom-index-files/2017-human-freedom-index-2.pdf>

60 *Pakistan Overview*, (World Bank). <http://www.worldbank.org/en/country/pakistan/overview#1>

have increased since 2008, a slight decline in 2017 has indicated possible sliding. There also remains a massive disparity along gender lines. Primary education enrollment rates for females fell to 71.4 percent in 2017, compared to males at 83.71 percent. Enrollment rates amongst secondary school students are considerably worse, approximately 50 percent for males and 40 percent for females.⁶¹ This gender disparity has massive effects upon Pakistan's economy and culture, limiting its number of skilled workers and solidifying women as economically dependent.

Recent reforms undergone by the Pakistani government have attempted to change the educational and skill problems across the country. After the country passed its 18th Constitutional Amendment in 2010, power over education was delegated to individual provinces. This allowed for a more nuanced approach to education, especially with more revenue flowing into the provinces through Pakistan's National Finance Commission.⁶² During the 2017-2018 fiscal year, the province of Punjab boasted an enrollment increase of 1 million students and as many as 100,000 additional teachers hired since 2016.⁶³ Pakistan's poorest province, Balochistan, received over \$34 million from the World Bank's Global Partnership of Education. This has gone to revitalizing the province's school system by hiring over 1,000 new teachers, building new schools, and upgrading old ones.⁶⁴ Much of the government's focus is on science and mathematics in an attempt to feed its service sector, which makes up about a quarter of its GDP and employs a fifth of its labor force.⁶⁵ Still, with a 73 percent literacy rate amongst 15 to 24 year-olds, Pakistan has far to go before amassing a highly skilled workforce.⁶⁶

Pakistan has also made efforts to provide training, especially in Punjab, where the government set a goal of training 2 million youths in 2 years. This may be a rather lofty goal, however, especially considering that much of the skills taught within these programs are divorced from market needs. To close this gap, the government has begun signing partnerships with industry leaders for its training courses, resulting in a 62 percent employment rate amongst those trained.⁶⁷ Even so, Pakistan faces

61 Pakistan (UNESCO). <http://uis.unesco.org/en/country/PK>

62 *Pakistan Overview*, (World Bank). <http://www.worldbank.org/en/country/pakistan/overview#1>

63 *Pakistan is Home to the Most Frenetic Education Reforms in the World*, Karachi and Lahore (The Economist). <https://www.economist.com/briefing/2018/01/04/pakistan-is-home-to-the-most-frenetic-education-reforms-in-the-world>

64 *Pakistan Overview*, (World Bank). <http://www.worldbank.org/en/country/pakistan/overview#1>

65 *Pakistan* (Encyclopedia Britannica). <https://www.britannica.com/place/Pakistan>

66 Pakistan (UNESCO). <http://uis.unesco.org/en/country/PK>

67 *Pakistan Overview*, (World Bank). <http://www.worldbank.org/en/country/pakistan/overview#1>

a major poverty problem that continues to cripple its workforce.⁶⁸ With its continued reliance on agriculture, many families face the choice of sending their children to school or using them in the fields. The low quality of teachers and resulting poor test scores have left many parents skeptical that schooling is even worth the loss labor at home.⁶⁹ It is clear that Pakistan has much to overcome in training its workforce. Although the state provides compulsory education for all children under 16, it remains questionable as to the reach, quality, and impact of this education on the workforce, leaving Pakistan largely reliant on its unskilled industries.

Resource Endowments

Pakistan has a number of natural resources that contribute heavily to the country's economy. Amongst its most notable resources are its heavy repositories of limestone, which have enabled Pakistan to emerge as one of the world's top 20 producers and top 5 exporters of cement. It is also home to a number of metals, including copper, gold, and iron. It ranks 3rd in world for production of iron oxide and is responsible for a substantial amount of global barite exports as well.⁷⁰ Pakistan also contains large reserves of coal, especially throughout its mountainous regions in the north. Unfortunately, the national coal industry has traditionally operated below capacity due to the roughness of the terrain in these regions and difficulty accessing these areas for mining.⁷¹

One of Pakistan's most precious resources is its available farm land. Over 25 percent of the country contains arable land, but only 1 percent is used for permanent crops and 6.5 percent for pastures. Much of its land remains unused and prime for further cultivation. There is no doubt that Pakistan has the capacity to capitalize on its land resources, as the agricultural industry already employs the largest portion of its labor force.⁷² It accounts for the production of Pakistan's major export commodities like rice, sugarcane, cotton, leather goods, and beef.⁷³

68 *Pakistan's New Poverty Index* (United Nations Development Programme). <http://www.pk.undp.org/content/pakistan/en/home/presscenter/pressreleases/2016/06/20/pakistan-s-new-poverty-index-reveals-that-4-out-of-10-pakistanis-live-in-multidimensional-poverty.html>

69 *Pakistan is Home to the Most Frenetic Education Reforms in the World*, Karachi and Lahore (The Economist). <https://www.economist.com/briefing/2018/01/04/pakistan-is-home-to-the-most-frenetic-education-reforms-in-the-world>

70 *2013 Minerals Yearbook: Pakistan*, 22.2 (US Geological Survey). <https://minerals.usgs.gov/minerals/pubs/country/2013/myb3-2013-pk.pdf>

71 *Pakistan* (Encyclopedia Britannica). <https://www.britannica.com/place/Pakistan>

72 *Pakistan* (CIA World Factbook). <https://www.cia.gov/library/publications/the-world-factbook/geos/pk.html>

73 *Pakistan* (Encyclopedia Britannica). <https://www.britannica.com/place/Pakistan>

Since the 1980s, Pakistan has participated in large scale oil drilling. It also houses abundant natural gas reserves, many of which are located along the Punjab and Balochistan border. Despite its growing production of natural gas, Pakistan still struggles with major energy shortages.⁷⁴ Because demand simply outpaces supply, much of its oil and gas remains imported, leaving the country vulnerable to economic shifts in energy prices. Domestically, the industry is heavily regulated under the Ministry of Petroleum and Natural Resources, which has financed a number of gas and oil pipelines connecting Pakistan's major cities. Unfortunately, those in less developed areas continue to struggle from shortages and the country's overall resource allocation remains rather poor.⁷⁵

Physical Capital

In terms of physical capital, one of Pakistan's most important assets is agricultural and manufacturing equipment. In the country's early development, its physical capital remained largely imported. Over time, however, Pakistan has significantly grown its domestic production of necessary machinery. Between 2009 and 2010 alone, Pakistan's manufacturing of engineering products experienced a 6 percent increase.⁷⁶ Now the country domestically produces over five times what it imports in machinery. Its production of tractor units, for example, increased by an impressive 8.5 percent during the 2017-2018 fiscal year. Much of Pakistan's investments in physical capital are through licensing agreements with firms in the United States or China. These same countries are among its greatest import partners for physical capital. A third of Pakistan's imported machinery comes from the United States.⁷⁷ In addition, China, the European Union, and Belarus make significant contributions. Overall, as Pakistan has grown, so has its independence in generating the physical capital necessary for its economy to thrive, helping insulate it from global externalities.

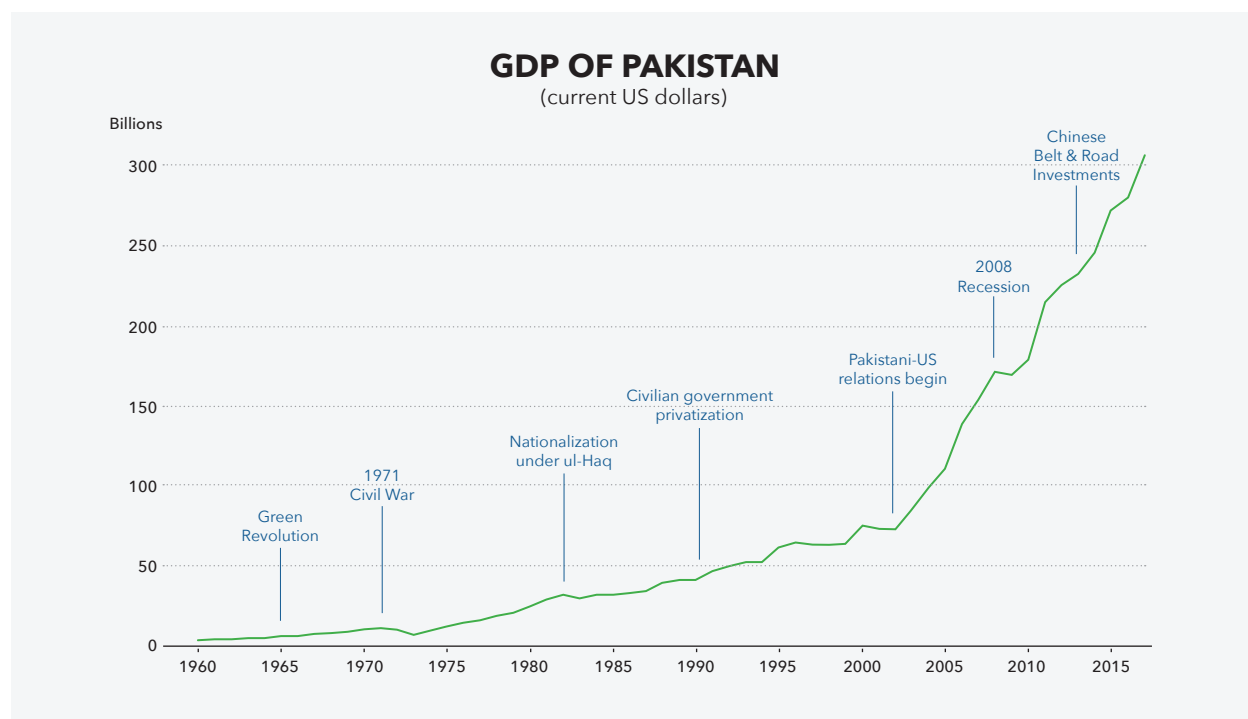
74 *2013 Minerals Yearbook: Pakistan*, 22.2 (US Geological Survey). <https://minerals.usgs.gov/minerals/pubs/country/2013/myb3-2013-pk.pdf>

75 *Pakistan* (Encyclopedia Britannica). <https://www.britannica.com/place/Pakistan>

76 *Manufacturing*, 41 (Government of Pakistan). http://www.finance.gov.pk/survey/chapter_10/03_manufacturing.pdf

77 *Pakistan Country Commercial Guide* (Export.gov). <https://www.export.gov/article?id=Pakistan-Agricultural-Machinery-and-Equipment>

PART II

ECONOMIC OUTCOMES & PERFORMANCE***GDP & Economic Growth***

As of 2017, Pakistan had a nominal GDP of \$305 billion, placing it at 173rd in the world in terms of output. However, using GDP at Purchasing Power Parity, Pakistan's economy tells a different story. Pakistan's GDP at Purchasing Power Parity in 2017 was \$1.06 trillion, making it the 25th largest economy in the world.⁷⁸

Recent Growth

Over the past few years, Pakistan's economy has felt high growth, spiking at 5.8 percent annual GDP growth in 2018, its highest increase in over a decade.⁷⁹ Much of that growth has been due to Pakistan's recent influx of foreign direct investment from two major players: The International Monetary Fund and China. The IMF has contributed to restructuring much of the Pakistani government's fiscal policy, while China has poured money into Pakistan's infrastructure. New infrastructure and better spending

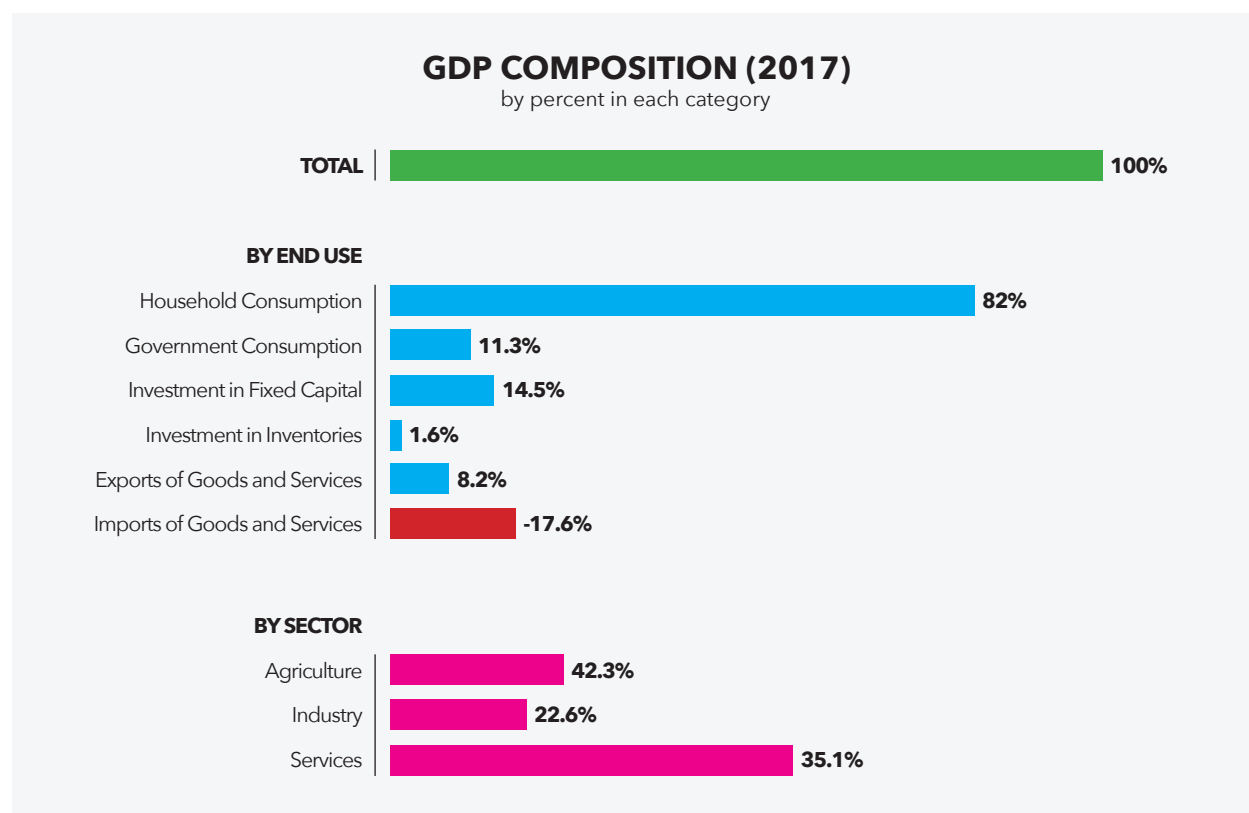
⁷⁸ *Pakistan* (CIA World Factbook). <https://www.cia.gov/library/publications/the-world-factbook/geos/pk.html>

⁷⁹ *Pakistan's Economy Goes from Bad to Worse*, Faseeh Mangi (Bloomberg). <https://www.bloomberg.com/news/articles/2018-05-13/pakistan-s-economy-seen-slowing-for-first-time-in-six-years>

has led to massive growth in overall output and exports.⁸⁰ Currently, GDP is projected by Pakistan to reach 6.2 percent in 2019, although most economists expect it to decline as a result of rising debts.⁸¹

Measurement of GDP

Pakistan's consumer economy is largely informal in areas such as retail trade manufacturing, community services, construction and transport. In fact, the informal economy employs an estimated 73 percent of workers outside of the agriculture industry.⁸² Some of this economic activity goes unrecorded when computing GDP in Pakistan, as the country formally divides its economy into three sectors: agriculture, industry and services. These sectors are then further divided into smaller subgroups that capture the various categories of economic activity in the country, excluding criminal and black market activity.⁸³ It's possible that Pakistan's GDP is underestimated given the number of retail products and services that remain undocumented, especially those taking place informally in street markets and rural areas.



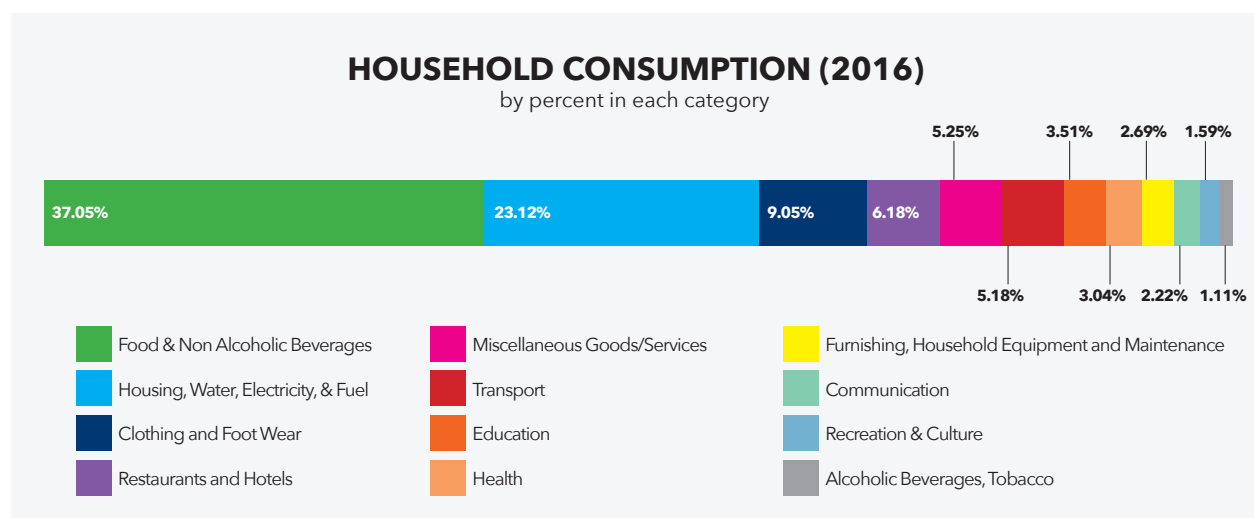
Source: CIA World Factbook

80 *China's Trillion Dollar Plan to Dominate Global Trade* (Vox). <https://www.youtube.com/watch?v=EvXROXiIvQ>

81 *Pakistan's Economy Goes from Bad to Worse*, Faseeh Mangi (Bloomberg). <https://www.bloomberg.com/news/articles/2018-05-13/pakistan-s-economy-seen-slowng-for-first-time-in-six-years>

82 *Informal Economy in Pakistan* (International Labour Organization). <https://www.ilo.org/islamabad/areasofwork/informal-economy/lang-en/index.htm>

83 *Gross Domestic Product of Pakistan* (Government of Pakistan). <http://www.pbs.gov.pk/sites/default/files//tables/Table-4.pdf>



Source: Pakistan Household Integrated Economic Survey

Household Consumption

The vast majority of Pakistan's GDP consists of household consumption, accounting for 82 percent in 2017.⁸⁴ This is misleading, however as Pakistan does not have a healthy domestic consumer economy. Food and non-alcoholic beverages make up 37 percent of household spending. Housing, electricity, gas, and other energy related products accounted for 23 percent. In total, approximately 60 percent of household spending in 2017 was on necessities, while only about 14 percent was spent on luxury goods.⁸⁵ This does not lend itself to a strong consumer economy, as demand remains dominated by staples. Energy, one of the major household consumption staples, is also largely imported. Pakistan's oil and natural gas production is simply not sufficient for the growing population. This is a major weak spot, as Pakistan relies on foreign energy to drive its economy, leaving it vulnerable to fluctuating petroleum prices and instances of scarcity.⁸⁶

Other Factors of GDP

Other major components of GDP include government consumption (11.3 percent) and investment in fixed capital (14.5 percent).⁸⁷ The government is one of Pakistan's major employers, as services such as public administration, defense, construction, and public utilities employ about one-fifth of the national workforce.⁸⁸ Fixed capital investments include agricultural tools, manufacturing equipment, and other

84 *Pakistan* (CIA World Factbook). <https://www.cia.gov/library/publications/the-world-factbook/geos/pk.html>

85 *Household Integrated Economic Survey* (Government of Pakistan). http://www.pbs.gov.pk/sites/default/files//pslm/publications/hies15-16/TABLE_15.pdf

86 *Pakistan Balance of Trade* (Trading Economics). <https://tradingeconomics.com/pakistan/balance-of-trade>

87 *Pakistan* (CIA World Factbook). <https://www.cia.gov/library/publications/the-world-factbook/geos/pk.html>

88 *Pakistan* (Encyclopedia Britannica). <https://www.britannica.com/place/Pakistan>

physical capital necessary for Pakistan's major industries. These major sectors, manufacturing and government services, are two of the most important contributors to Pakistan's overall economy, apart from agriculture.

Exports

Approximately 8.2 percent of Pakistan's GDP is in exports, 58 percent of which are in textiles and 12 percent in vegetable products.⁸⁹ Although the country has many other exports such as mineral products and animal hides, it primarily focuses on these two areas. This major focus on textile products, like household linens, and vegetable products, like rice, leave the country extraordinarily vulnerable to changing global demand.⁹⁰ With nearly 10 percent of GDP left up to international exports in only two key product areas, changes abroad in economic activity put Pakistan's own economy at risk.

Reliance on Partnerships

In addition to being heavily reliant on particular export and import commodities, Pakistan's GDP and overall output is also at the mercy of its largest trade partners and investors. Based on 2018 data, a third of Pakistan's exports were to the United States, Germany, and China. Meanwhile, China alone accounted for a third of all of Pakistan's imports.⁹¹ These partnerships, while extremely beneficial to the Pakistani economy, also threaten its stability. Pakistan's historic periods of economic growth and decline have largely been due to political upheaval, power changes, and the policies that come with them. The Green Revolution of the 1960s under Ayub Khan, the 1971 Civil War, and the 1990s civilian government all made a major impact on Pakistan's economic performance. However, the two periods of most prolonged growth in its economy were a result of foreign partnerships, not domestic changes.

Relations with the United States

Between 2002 and 2008, Pakistan's GDP grew by more than 130 percent.⁹² A large contributor to that growth was a partnership established between the United States and Pakistani leader Pervez Musharraf. Musharraf took control in a military coup in 1999. Although Washington objected to the coup originally, Musharraf's cooperation in the war on terror following the attacks on 9/11 prompted

89 *Pakistan Exports, Imports, and Trade Partners* (Observatory of Economic Complexity). <https://atlas.media.mit.edu/en/profile/country/pak/>

90 *Pakistan* (CIA World Factbook). <https://www.cia.gov/library/publications/the-world-factbook/geos/pk.html>

91 *Pakistan Exports, Imports, and Trade Partners* (Observatory of Economic Complexity). <https://atlas.media.mit.edu/en/profile/country/pak/>

92 *Pakistan GDP* (World Bank). <https://data.worldbank.org/indicator/NY.GDPMKTP.CD?locations=PK>

friendlier relations between the countries.⁹³ After helping crack down on the Taliban in the early 2000s for its associations with al-Qaeda along the Afghani border, the United States began looking toward increased trade relations with the country. By 2003, they signed the Trade and Investment Framework Agreement, allowing for a bilateral trade forum that meets regularly.⁹⁴ As a result, the United States quickly became Pakistan's number one trade partner, now accounting for 15 percent of all exports.⁹⁵ Pakistan's reliance on the United States was demonstrated by its sudden drop in GDP and slow recovery following the 2008 Recession.⁹⁶ Even though the United States played a major role in establishing the Pakistani economy, it has left it open to international downturns. While the exports to the US still outnumber any other trade partner, Pakistan has since built a new relationship that is changing its economic growth even more.

Chinese Investment & The International Monetary Fund

After Xi Jinping became president of China in 2012, he announced plans for the most ambitious infrastructure projects in history: the Belt and Road Initiative.⁹⁷ Meanwhile, Pakistan's economy was floundering with some of the lowest growth rates it had experienced since the 1990s.⁹⁸ Chief among Pakistan's issues has traditionally been its low influx of foreign direct investment, as the domestic market is lacking, the Pakistani Rupee is a volatile currency, and its financial markets are amongst the world's worst performing.⁹⁹ Without investment, Pakistan lacked two major resources: strong human capital and reliable infrastructure.

As a result of its poor economic conditions and detrimental human development issues, Pakistan began working with the International Monetary Fund in 2013 to restructure its spending and invest in human capital.¹⁰⁰ At the same time, China saw Pakistan for its strategic location in South Asia and began investing heavily in infrastructure developments across the nation. While the IMF's aims were to stabilize Pakistan, China's investments were far less humanitarian. These investments came in

93 *Pakistan* (Encyclopedia Britannica). <https://www.britannica.com/place/Pakistan>

94 *Pakistan Trade Agreements* (Export.gov). <https://www.export.gov/article?id=Pakistan-Trade-Agreements>

95 *Pakistan Exports, Imports, and Trade Partners* (Observatory of Economic Complexity). <https://atlas.media.mit.edu/en/profile/country/pak/>

96 *Pakistan GDP* (World Bank). <https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?locations=PK>

97 *China's Trillion Dollar Plan to Dominate Global Trade* (Vox). <https://www.youtube.com/watch?v=EvXROXilpvQ>

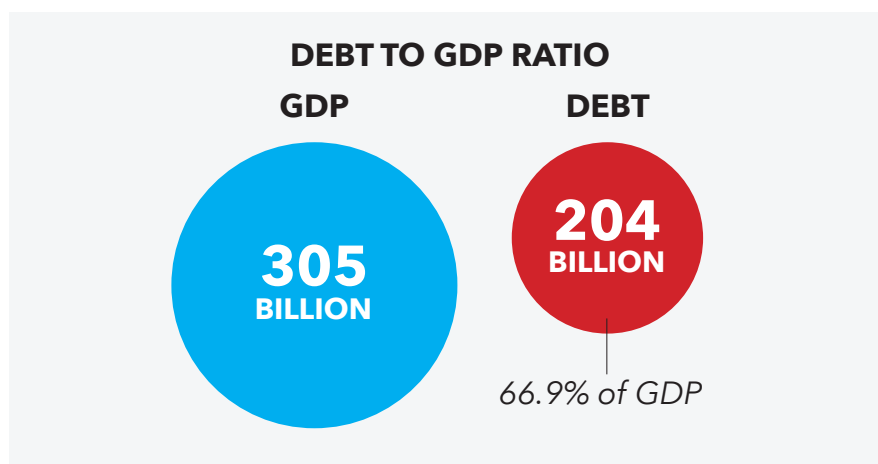
98 *Pakistan GDP* (World Bank). <https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?locations=PK>

99 *Pakistan's Economy Goes from Bad to Worse*, Faseeh Mangi (Bloomberg). <https://www.bloomberg.com/news/articles/2018-05-13/pakistan-s-economy-seen-slowing-for-first-time-in-six-years>

100 *Pakistan: The Realities of Economic Reform*, Jeffrey Franks (International Monetary Fund). <https://blogs.imf.org/2013/12/19/pakistan-the-realities-of-economic-reform/>

the form of loans at commercial interest rates and lacked the labor and environmental regulations of western lenders. To date, China has invested \$62 billion, one fifth of Pakistan's nominal GDP, in seaports, highways, railways, and pipelines.¹⁰¹ While this infrastructure was much needed to stimulate the Pakistani economy, especially by allowing more avenues for international trade, they have placed unsustainable debts on the Pakistani government.

These investments have allowed Pakistan's economy to once again grow at impressive rates, but the IMF has indicated that Chinese lending practices, which clearly generate more profit for China, must stop before any aid will be provided.¹⁰² It is likely that Pakistan's GDP will begin slowing in growth as the country steps away from further infrastructure developments with China. Its current aim is to reduce its mounting debt, which has reached over 60 percent of GDP, 80 percent of which is financed by Chinese state-owned banks.¹⁰³ Pakistan has a low overall tax burden of 12.6 percent of domestic income.¹⁰⁴ Its tax base is a miniscule 1.2 million tax payers out of its population of 207 million.¹⁰⁵ In order for Pakistan to retain its GDP growth numbers while also stabilizing its domestic economy, the IMF will have to conduct a major overhaul in government fiscal responsibility.



Source: CIA World Factbook

101 *Traveling 60,000 KM Across China's Belt and Road*, Jacob Mardell (Center for Strategic and International Studies). <https://reconnectingasia.csis.org/analysis/entries/traveling-60000km-across-chinas-belt-and-road/>

102 *Imran Khan's First Test*, Jeffrey Gettleman (The New York Times). <https://www.nytimes.com/2018/08/04/world/asia/pakistan-economy-imran-khan.html>

103 *China's Belt and Road Initiative* (Center for Global Development). <https://www.cgdev.org/article/chinas-belt-and-road-initiative-heightens-debt-risks-eight-countries-points-need-better>

104 *Pakistan* (CIA World Factbook). <https://www.cia.gov/library/publications/the-world-factbook/geos/pk.html>

105 *Pakistan's Economy Goes from Bad to Worse*, Faseeh Mangi (Bloomberg). <https://www.bloomberg.com/news/articles/2018-05-13/pakistan-s-economy-scen-slowing-for-first-time-in-six-years>

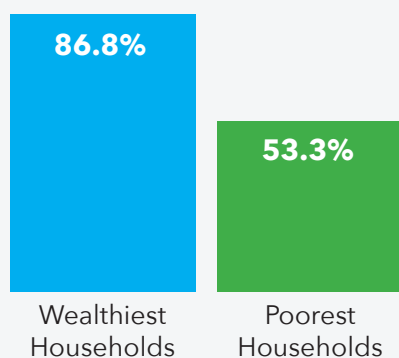
Living Standards & Income Distribution

Unemployment

Unemployment in Pakistan has continued at about 5.9 percent for the past three years.¹⁰⁶ This may seem rather moderate, but behind the figure is a host of problems in the country. Economic growth is heavily outpaced by population growth. Since 1998, Pakistan's population has grown by 57 percent, reaching 207 million in 2018.¹⁰⁷ In order to meet the labor force demands of that growth, the UN estimates that Pakistan must generate 1.3 million more jobs every year.¹⁰⁸ However, that level of job growth is simply not occurring, especially with mounting national debts, causing a crisis in poverty, inequality, health, and employment.

This growing population has also caused GDP per capita to grow at a rather slow rate in comparison to overall GDP. In 2017, Pakistan's real GDP growth rate reached 5.4 percent. Meanwhile, GDP per capita grew to \$5,400, an increase of only 3.8 percent.¹⁰⁹ This level of population growth mixed with Pakistan's lack of foreign direct investment and slow job growth has left unemployment a chronic issue in the country.

FEMALE EMPLOYMENT RATE



Pakistan has one of the lowest female labor force participation rates in South Asia – 32%

Source: UN Women

Pakistan's employment issues are especially divided by gender. The country has one of the lowest female labor participation rates in the region, with women only comprising 32 percent of the total

¹⁰⁶ *Pakistan Unemployment Rate* (Trading Economics). <https://tradingeconomics.com/pakistan/unemployment-rate>

¹⁰⁷ *A Disaster in the Making* (Washington Post). https://www.washingtonpost.com/world/asia_pacific/a-disaster-in-the-making-pakistans-population-has-more-than-doubled-in-20-years/2017/09/08/4f434c58-926b-11e7-8482-8dc9a7af29f9_story.html?utm_term=.10ee011f3b0d

¹⁰⁸ *Pakistan Needs to Generate 1.3m More Jobs Every Year* (The Express Tribune). <https://tribune.com.pk/story/1716529/2-pakistan-needs-generate-1-3m-jobs-every-year-undp-report/>

¹⁰⁹ *Pakistan* (CIA World Factbook). <https://www.cia.gov/library/publications/the-world-factbook/geos/pk.html>

labor force.¹¹⁰ In addition, wealthier women experience significantly higher rates of unemployment. According to a UN Women study, Pakistan's richest women had unemployment rates of 86.8 percent, while rates for the poorest women were 53.3 percent.¹¹¹ The country must continue to invest more in training, education, and job opportunities for women in order to tap into its available work force. While infrastructure developments are impactful, human capital can go much farther.

Pakistan also faces a major issue with underemployment. In 2015, over 45 percent of those employed worked less than 35 hours per week and were in search of further work.¹¹² Because so many jobs perpetuate underemployment, government positions are among the most desired for Pakistanis. Unlike many other positions, they offer sufficient hours, pay, and job security.¹¹³ Apart from the government and services sector, agriculture accounts for two-fifths of all workers. Meanwhile, the industry sector captures only 19 percent.¹¹⁴ Many of these jobs rely heavily on youth participation, as a third of the labor force and more than half of the 207 million person population is under the age of 24.¹¹⁵ It's clear that Pakistan needs job creation and more skilled workers to solve its problems with unemployment. Otherwise it will continue to struggle with a growing labor force and shrinking number of jobs.



Four out of every ten Pakistanis experience
MULTIDEMENSIONAL POVERTY

Source: United Nations Development Programme

Poverty

Poverty remains a major issue throughout Pakistan. According to the Asia Development Bank, over 29.5 percent of the population lives below the poverty line.¹¹⁶ Over the past decade, Pakistani officials have fought to reduce the nation's poverty levels, resulting in a decrease of 16 percent in those living below the poverty line between 2004 and 2015. However, a report by Pakistan's Ministry of Planning,

110 *Pakistan GDP* (World Bank). <https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?locations=PK>

111 *Turning Promises into Action*, 152 (UN Women). <http://www.unwomen.org/-/media/headquarters/attachments/sections/library/publications/2018/sdg-report-gender-equality-in-the-2030-agenda-for-sustainable-development-2018-en.pdf?la=en&vs=4332>

112 *Percentage Distribution of Underemployed Persons* (Government of Pakistan). http://www.pbs.gov.pk/sites/default/files//Labour%20Force/publications/lfs2014_15/t28-pak.pdf

113 *Pakistan* (Encyclopedia Britannica). <https://www.britannica.com/place/Pakistan>

114 *Pakistan* (CIA World Factbook). <https://www.cia.gov/library/publications/the-world-factbook/geos/pk.html>

115 *Percentage Distribution of Civilian Labor Force* (Government of Pakistan). <http://www.pbs.gov.pk/sites/default/files//Labour%20Force/publications/lfs2013-14/t08-pak-fin.pdf>

116 *Poverty in Pakistan* (Asian Development Bank). <https://www.adb.org/countries/pakistan/poverty>

Reform, and Development in conjunction with the United Nations Development Programme revealed that nearly 4 out of every 10 Pakistanis lived in multidimensional poverty in 2016.¹¹⁷ These levels of poverty are extremely uneven across the nation, as massive disparities exist between urban rural areas. The urban poverty rate is approximately 9.3 percent, while in rural areas it hovers at a high 54.6 percent.¹¹⁸ Even in developed cities, an astounding 45 percent of the urban population lives in slums.¹¹⁹ These high levels of poverty have acted as a drain on Pakistan's economy, preventing effective internal growth. Families lack the income necessary to stimulate domestic consumption. Based on Pakistan's Housing Integrated Economic Survey, 37 percent of household income was spent just on food and non-alcoholic beverages in 2016. Only about 6.75 percent was spent on recreation and miscellaneous goods and services.¹²⁰ In order for Pakistan to continue developing, it must create a healthier, more educated, and more financially secure population.

Income Inequality

It is difficult to find reliable measures of inequality in Pakistan from federal sources. The most recent GINI Coefficient measured 30.7 in the year 2013, a moderate level of income inequality, comparable to that of Switzerland.¹²¹ About 40 percent of national income goes to the top 20 percent of wage earners, while the lowest 10 percent of earners only see about 4 percent of national income.¹²² In terms of consumption, the wealthiest 20 percent in Pakistan spend seven times more than the poorest 20 percent.¹²³ This income inequality also shows itself in educational arenas. Over 60 percent of students from wealthy Pakistani communities complete school. For the poorest families, that number is below 10 percent.¹²⁴ There is also a sharp divide between genders, as 98 percent of women from a rural background lack access to education.¹²⁵ This degree of inequality in Pakistan has established an economic system made up of a both wealthy families and numerous poverty stricken households. It is one of the main drivers of Pakistan's lacking skilled workforce and will continue to hurt human development if left unaddressed.

117 *Pakistan's New Poverty Index* (United Nations Development Programme). <http://www.pk.undp.org/content/pakistan/en/home/presscenter/pressreleases/2016/06/20/pakistan-s-new-poverty-index-reveals-that-4-out-of-10-pakistanis-live-in-multidimensional-poverty.html>

118 *Pakistan's New Poverty Index* (United Nations Development Programme).

119 *Pakistan - Income Share Held by Lowest 20%* (Trading Economics). <https://tradingeconomics.com/pakistan/income-share-held-by-lowest-20percent-wb-data.html>

120 *Household Integrated Economic Survey* (Government of Pakistan). http://www.pbs.gov.pk/sites/default/files//pslm/publications/hies15-16/TABLE_15.pdf

121 *Pakistan* (CIA World Factbook). <https://www.cia.gov/library/publications/the-world-factbook/geos/pk.html>

122 *Pakistan - Income Share Held by Lowest 20%* (Trading Economics). <https://tradingeconomics.com/pakistan/income-share-held-by-lowest-20percent-wb-data.html>

123 *Rising Inequality in Pakistan*, Murtaza Talpur (The Express Tribune). <https://tribune.com.pk/story/1509963/rising-inequality-pakistan/>

124 *Pakistan is Home to the Most Frenetic Education Reforms in the World*, Karachi and Lahore (The Economist). <https://www.economist.com/briefing/2018/01/04/pakistan-is-home-to-the-most-frenetic-education-reforms-in-the-world>

125 *Turning Promises into Action*, 152 (UN Women). <http://www.unwomen.org/-/media/headquarters/attachments/sections/library/publications/2018/sdg-report-gender-equality-in-the-2030-agenda-for-sustainable-development-2018-en.pdf?la=en&vs=4332>

Health

Chief among Pakistan's worst performance indicators is its national health. Transparency International has logged numerous complaints against Pakistan's state-run healthcare system concerning poor quality, unsanitary conditions, backlogging of patients, and absenteeism of doctors. Although the country has banned private clinics, doctors often abandon their posts in public hospitals to work in more lucrative private practices. In addition, hospitals lack rudimentary amenities for patients and necessary resources like ambulances.¹²⁶ After contacting the Ministry of Health, Transparency International sparked improvements in the system, including the enforcement of physician attendance. However, it is likely that Pakistan, if left unchecked, will continue to spiral into disastrous healthcare mismanagement.



Source: UNICEF & CIA World Factbook data

The World Bank has also criticized Pakistan for its poor nutritional health, as 45 percent of children under the age of five experience impaired growth and development.¹²⁷ The 2016 under-five mortality rate reached 78 per 1,000 children.¹²⁸ In addition, Pakistan has an infant mortality rate of 50 deaths per 1,000 live births and a total life expectancy of only 68 years as of 2018.¹²⁹ Over one third of the population lacks access to sanitation facilities, while 14 percent of the population practices open defecation.¹³⁰ Pakistan is in critical need of major improvements in order to maintain a healthy standard of living for its people. It spends less than 3 percent of GDP on health and nutrition, ranking of 187th out of 192 countries in health expenditure.¹³¹ In order for Pakistan to have a healthy economy, it must first have a healthy populous, which will require a major overhaul in government policy. Unfortunately, with Pakistan's present debt issues and fiscal mismanagement, it seems unlikely that these conditions will improve in the near future.

126 *Real Lives, Real Stories: The Asia Pacific Region*, 7 (Transparency International). https://www.transparency.org/whatwedo/publication/real_lives_real_stories_the_asia_pacific_region

127 *Pakistan Overview*, (World Bank). <http://www.worldbank.org/en/country/pakistan/overview#1>

128 Country Profiles: Pakistan (UNICEF) <https://data.unicef.org/country/pak/>

129 *Pakistan* (CIA World Factbook). <https://www.cia.gov/library/publications/the-world-factbook/geos/pk.html>

130 Country Profiles: Pakistan (UNICEF) <https://data.unicef.org/country/pak/>

131 *Pakistan* (CIA World Factbook). <https://www.cia.gov/library/publications/the-world-factbook/geos/pk.html>

Performance Measurements

Efficiency

Pakistan's economic system is historically filled bureaucracy and inefficiency. Like most developing economies, its rise has consisted mostly of extrinsic growth, relying on the discovery of new resources or opening of trade to bolster its economy. Growth during the green revolution required imported technology. Growth in the early 2000s required external relations with the United States. Growth in the last five years has required an influx of investment from China and the International Monetary Fund. Pakistan's reliance on outside forces to push its economy is not sustainable. It is questionable if the economic development the country has seen over the last 71 years would exist had it not been for global forces.

While Pakistan has continually grown in its ability to produce more, it has not grown intrinsically to make more out its current resources. Its growth has been largely from improving static efficiency, or its ability to allocate resources to produce more in one area while simultaneously producing less in another. For example, it has investing heavily in textiles manufacturing but neglecting skilled service positions, growing its efficiency in one area at the expense of the other. Every economic shift in Pakistan's history has required the use of new inputs, whether foreign technology or international aid. It has yet to master the ability to use its present inputs in a more effective major. An efficient Pakistan would require decreased regulatory practices, enforced individuals freedoms, spending on human capital over infrastructure, incentives for research and development, and investments in sustainable jobs.

Stability

Pakistan's economic stability was largely nonexistent until recently. Because economic and political systems are tied at the hip, Pakistan's economy has a history wrought with as many challenges as its political one. The disparaging economy following the 1971 Civil War and the nationalization of industry under its militant leaders are good examples of this relationship. However, nothing stands out more as a threat to Pakistan's economic system than its hyper-reliance on foreign markets and investment. Because so much of the Pakistani economy is wrapped up in exports, primarily focused on two major goods (textiles and vegetables) in three major economies (the US, Germany, and

China), its stability relies on the demand for these goods and health of its trading partners' economies. Imported oil effects the energy sector. Imported machinery effects the manufacturing sector. Imported investments (from the IMF and China) effect human development and infrastructure.

It is also difficult to ignore its geopolitical location in an area wrought with radical terrorist cells and violent extremism, which threatens the safety and stability of the country as a whole. Pakistan's reluctance to work with the United States against the Taliban was in large part due to the Taliban's ability to keep anti-Pakistan Afghani sentiments in check. Overall, Pakistan's stability exists at the whims of its contemporaries. In order for it to reach a point of stable economic growth, it must cultivate intrinsic growth through better fiscal policy and diversification of industry.

Viability

In its present state, Pakistan cannot continue to grow without incurring unsustainable debt or irreprehensible poverty and inequality. With its growing population, slowing rate of job creation, poor national health, and state of poverty, Pakistan will not be able to maintain its growth metrics in GDP without massive aid. Its current mixed system based on an informal retail and trade market, heavily government sponsored services sector, and export reliance manufacturing or agricultural industry, Pakistan's economic system will not last. Much of the change for Pakistan begins with its institutional corruption, then trickles down into policy and private business.

With more than half of its population below the age of 24, Pakistan must build a sustainable future that will break from its unstable past. Otherwise, its current system of petty bribery, bureaucratic backscratching, and industrial cronyism will collapse under widespread poverty, health crisis, massive debt, and stagnant unemployment. Pakistan's economic system has changed continually over the course of its 71 year life. There is no reason it cannot begin changing for the better. That change should come in the form of education, sanitation, healthcare, foreign investment, and overall economic reform. Without these things, it will be doomed to economic failure.

PART III

REGRESSION ANALYSIS

The goal of this regression is to understand how variables related to health impact GDP per capita in Pakistan. Because reliable data on national health expenditure and other included variables in the analysis were not available for much of Pakistan's history, outputs will be calculated using observations since 2003.

Variables

In order to understand the impact of health quality in Pakistan on its per capita GDP, this paper explores an analysis using four key variables:

Current Health Expenditure Per Capita (current USD)

It is intuitive to assume that a higher rate of national healthcare spending on a per person basis will result in better overall health quality, leading to a healthier labor force and a higher GDP per capita.

People Practicing Open Defecation (% of population)

Open defecation rates serve as a good measurement of health and sanitation related standards of living. Predictably, the higher rates of open defecation, the poorer living standards, and the lower GDP per capita.

Incidence of HIV (% of uninfected population ages 15-49)

Higher incidence of HIV is evidence of poor overall national health conditions and likely to negatively impact GDP per capita.

Immunization, DPT (% of children ages 12-23 months)

Immunization rates for diphtheria, pertussis, and tetanus may have an impact on the health of children and, by extension, productivity. Considering that nearly a third of Pakistan's labor force is under 24, higher immunization rates should yield higher GDP per capita.

Results

GDP PER CAPITA					
ordinary least squares regression					
Variable	Coefficient	Std. Error	T-Ratio	P-Value	
Constant	969.73600	33.477000	28.970	2.18e-09 ***	
HealthExpendPerCap	7.34589	0.591080	12.430	1.64e-06 ***	
OpenDefecationRate	-2.52450	0.591541	-4.268	0.0027 ***	
HIVIncidence	1125.06000	408.686000	2.753	0.0249 **	
DPTImmunization	-1.52314	0.331386	-4.596	0.0018 ***	
R²: 0.980307		Mean Dependent Var: 1030.557		S.D. Dependent Var: 71.25650	
Adjusted R²: 0.970460		Sum Squared Residual: 1199.896		S.E. of Regression: 12.24692	
P-value: 2.45e-07		F(4, 8): 132.0889			

Data Source: World Bank

Regression Equation:

$$\text{GDPperCap} = 969.736 + 7.34589(\text{HealthExpendPerCap}) + -2.52450(\text{OpenDefecationRate}) + 1125.06(\text{HIVIncidence}) + -1.52314(\text{DPTImmunization})$$

The results of the regression reveal that 98 percent of GDP per capita is explained by the given variables (R-squared of 0.98). Each variable has some level of statistical significance, with "HIVIncidence" having the least (p-value of 0.0249). The most significant variable was "HealthExpendPerCap" (p-value 0.00000164). This is expected considering higher health spending on an individual basis is likely to result in better overall standards of living and a healthier labor force. According to the coefficient of "HealthExpendPerCap," a \$1 increase in per capita health spending can result in a \$7.35 increase in GDP per capita. It's clear that increased health spending is likely to positively impact per capita GDP. Being one of Pakistan's worst performance indicators, there is much room for improvement in this realm.

The rate of open defecation is also rather statistically significant (p-value 0.001). This variable serves as a reflection of both health standards and poverty in Pakistan, as lack of access to sanitation

facilities is normally associated with low income groups. With this in mind, it makes sense that "OpenDefecationRate" holds a negative correlation in predicting GDP per capita. Based on the regression, every additional percentage point in the rate of open defecation results in $-\$2.52$ in GDP per capita. By investing in better health and sanitation facilities, it is likely that Pakistan will experience better living standards and economic output.

DPT immunizations and HIV incidence have rather unusual correlation coefficients. "DPTImmunization" has a negative correlation while "HIVIncidence" has a positive correlation, the opposite of what one might expect. This suggests that less immunizations and more HIV infected individuals will result in a higher GDP per capita. It's possible this is a statistical anomaly, as DPT immunizations hold a positive (although not statistically significant) correlation with GDP per capita when conducting a univariate analysis. However, both of these variables are measured as a percent of the population or a derivative of population, such as children. Assuming the number of HIV infected individuals remains constant, a lower population would result in a higher incidence rate. At the same time, a lower population results in higher GDP per capita. Therefore, a higher incidence rate seemingly causes a higher per capita GDP because of the effect of population on both variables. The same is true for DPT immunizations. Because of this phenomenon, these two variables may not accurately reflect a relationship with GDP per capita.

Pooled Regression

GDP PER CAPITA (POOLED)

ordinary least squares regression

Variable	Coefficient	Std. Error	T-Ratio	P-Value
Constant	5008.9700	3770.75	1.328	0.1908
HealthExpendPerCap	10.0256	0.437029	22.94	1.81e-26 ***
OpenDefecationRate	-118.3650	54.0841	-2.189	0.0339 **
HIVIncidence	-1930.8700	1442.98	-1.338	0.1876
DPTImmunization	12.0631	33.9112	0.3557	0.7237
PakistanHealth	-84.4129	41.7939	-2.020	0.0494 **

R²: 0.980307

Mean Dependent Var: 1030.557

S.D. Dependent Var: 71.25650

Adjusted R²: 0.970460

Sum Squared Residual: 1199.896

S.E. of Regression: 12.24692

P-value: 2.45e-07

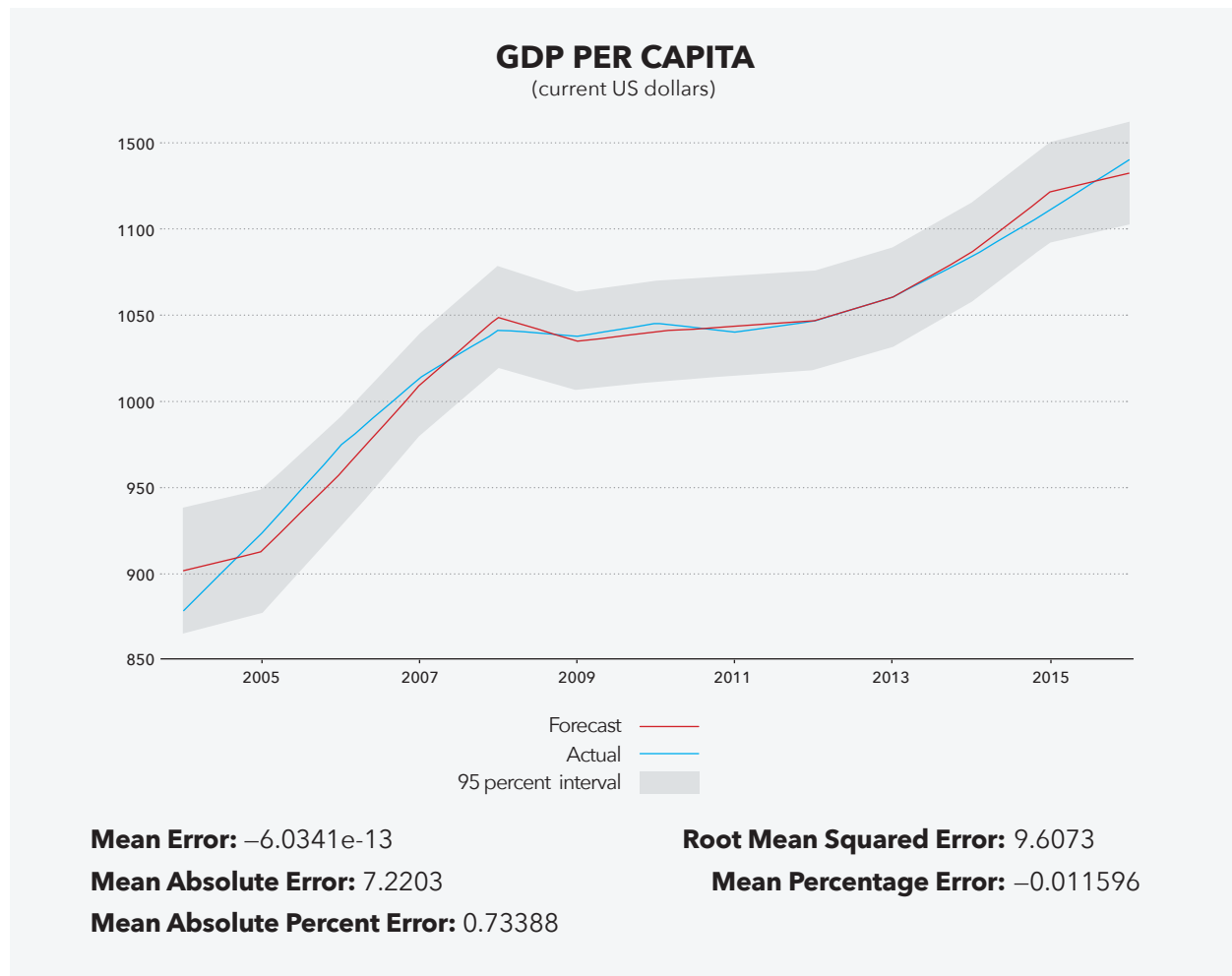
F(4, 8): 132.0889

Data Source: World Bank

In order to identify how Pakistan compares internationally, a pooled ordinary least squared regression was conducted using data from 74 different countries on the same four variables. In addition, a dummy variable for Pakistan was created, then multiplied by health expenditure per capita to create a new variable (PakistanHealth). This variable only includes data on Pakistan's health expenditure, while all other countries hold a value of zero. By running a pooled OLS regression with this new variable, one might expect to find a negative correlation between Pakistan's performance and pooled GDP per capita.

The results of this regression verified exactly that. Pakistan's health expenditure was negatively correlated with pooled GDP per capita, meaning that following the same spending patterns as Pakistan would result in decreased GDP per capita. In other words, Pakistan has poor health expenditure and defecation rates in relation to the rest of the world. In order for Pakistan to grow its own per capita GDP and standards of living, it must look to health spending that resembles other nations, investing more in its people.

Forecasting



Data Source: World Bank

Using the equation developed from the original regression, Pakistan's GDP per capita can be calculated with relative accuracy. The result is a forecast with a Mean Error small enough to reflect no major bias, a low MAE of 7.22, and a very high MAPD of 73 percent. Based on these error metrics, the equation is somewhat accurate in predicting the general trend of GDP per capita but has reasonable room for error. This is an indication that the selected variables do indeed explain GDP per capita rather well.



Photo: Brookings Institute

CONCLUSIONS

Pakistan has had a tumultuous history filled with political unrest, religious tension, and economic fluctuation. From a fledgling agricultural economy, to a nationalized industrial state under military rule, to a struggling democracy tainted by corruption and scandal – Pakistan has seen its share of changes over the past 71 years. However, thanks to globalization and geopolitics, Pakistan has developed partnerships with global powers like the United States and China, boosting its economic growth and transforming it into an important international player. While it has the means for success at its disposal, Pakistan must first reform its onerous business policies, stamp out its inefficient bureaucracies, and liberalize its stance on personal and economic freedoms.

Most of all, Pakistan must begin fostering growth in human capital, investing in education, health, and social programs that promote a stronger and more capable workforce. There is no playbook for how Pakistan should approach its future economic aspirations, as the factors that effect its system are invariably different from those effecting other economic systems. However, it must take advantage of its present political stability to establish a state of economic prosperity with the help of its global allies. If it can accomplish this, then the nation has a positive outlook for the future. Pakistan is not held captive by its difficult past, but instead held responsible for its future, as its economic efficiency, stability, and viability are capable of transforming into something uniquely powerful.

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