

“What are The Economic Challenges Pakistan is Confronting for Burgeoning its Economic Development”

Mr. Zia Ur Rehman

M.Phil. in Islamic Studies with Specialization in The Field of Islamic Economics.

The Institute of Islamic Studies, The University of Punjab Lahore Pakistan.

Email Id: ziadogerkasur450@gmail.com

Aneeqa Waheed

M.Phil in Islamic studies

University of the Punjab Lahore

aneeqawaheed123@gmail.com

Abstract:

Economics is the coherent study of how scarce and scant resources are apportioned to accomplish the interminable yearning of consumers; we can say economics is the cognition to tackle unfettered aspirations with precise resources. One of the pre-requisite and vital components that drive and trigger the burgeoning of a state is the development and blossoming in the economic sector, which creates new job opportunities and facilitates an improved quality of life that includes increased access to opportunities created by economic growth for existing and future residents. Between 1960 till 1990 Pakistan is one of the top ten fast-growing countries with an annual average growth rate of 6 percent. The structure of the economy was also transformed during this period with the share of agriculture coming down from 50 percent to 20 percent. The subsequent 25 years have, however, brought about a significant decline in growth rates, and in more recent seven years, it has lagged other South Asian countries. This research paper aims to highlight the prevailing economic challenges the country is confronting, which include the banking system amalgamated with hefty interest, gyrating inflation, an escalation in the poverty rate, massive devaluation of the Pakistan rupee against the dollar and other major world currencies, increasing foreign loans, surging up of fuel oil prices, and curtailing up of the foreign currency reserves. The country's primary problem and obstacle is the inability to raise domestic resources for financing development. The tax-to-GDP ratio remains low, and this means excessive reliance on foreign flows, which will also be discussed in the paper. As a result of the economic deterioration in Pakistan, the ratio of unemployment also boosts which is a burden on the backbone of the country's economy, which will also be chewed over in this paper. Concluding the topic, it will be discussed how the Islamic Republic state of Pakistan will overcome its economic crisis by keeping both the current contemporary plan of action proposed by economists and Islamic strategies and approaches in the light of the Quran and Sunnah of The Prophet Muhammad P.B.U.H under consideration to amplify the economic growth of the country. The Qualitative Archival method will be used for the collection of data. Chicago Manual 2017 will be used for writing the paper.

Keywords: Economic development, Economic Crisis, Economic strategies

Introduction:

Economics is the name of not only an art but in fact, it is a complete system of life, a complete code of life around which all obligatory and mandatory aspects of human life revolve. Not only to this extent, the blooming, progress, and burgeoning of a state also depend on it. So, we can say that economics serves as a backbone in the expansion and evolution of a country. Economics is a vital department in human life without which the survival of humanity is nonviable. The corridors of earning, as well as the ways of living and livelihoods, are completely dependent on the acquisition of economics. In short, economics provides enlightenment to mankind to spend their life in a happy and disciplined manner.

Dictionary Definition of Economics:

Maa'sh (معاش) is the word used for economics in the dictionary of Arabic. This word is basically derived from the root word (عاش) which literally means to survive or to live. Some other researchers also have the opinion that this word is derived from the word (ع-ي-ش) which means food, livelihood, and survival.

According to Imam Ragib Asfahani, the definition of Al'aish is:

“Al'aish (العيش) is the name of that specific life that exists among the beasts. This word is specific in contrast to the word Al'Hayat (الحياة). Which is used for both beasts and Angels. Similarly from the word (العيش),

there originates another word Al'ma'aisha (المعيشه) which means commodities of life necessary for the survival of humanity¹.”

Another renowned Scholar Abu Manzoor Alafriqi says:

“The meaning of the word Al'Aa'ish(العيش) is life. It basically originated from the Arabic word (عيشته) which means those sources which are used as an essential ingredient to spend life².”

According to another renowned scholar Ferozabadi:

“Economics is the name of certain commodities of life upon which the survival of life depends, and they are used as a vital source for the living of mankind³.”

Terminological Definition of Economics:

Economics is basically an English word derived from the Latin word “**Oiko Nomos**” which means household rules. In the German Language, it is named “**Politische konomie**”. In the French language, it is known as “**economie politique**”⁴.”

In the Encyclopedia of Social Sciences the definition of Economics is illustrated as:

“**Economics deals with a social phenomenon center on provision for the material needs of an individual and of the organized group**”⁵.”

Interpretation of Economics by Muslim Scholars:

The Muslim philosophers and theologians wrote numerous books in which they debated the exact implementation of the definition of economics.

Shah Wali Ullah Rehmatullah wrote:

“In a society where the exchange of goods, the financial cooperation of the individuals of society as well as explaining the wisdom of sources of income debated is named as economics⁶.”

Ibn e Khaldun Wrote:

“The efforts and endeavors one made to earn basic necessities of life are named as economics⁷.”

According to Maulana Hifz ul Rehman Sewhari:

“Economics is defined as the study which can be utilized to discover new resources of life, which can be used for upgrading the living standards of humanity. It is also a study which helps in the proper utilization of these resources and preventing them from wasting and damage which if done may prove havoc to the Humanity⁸.”

The opinion of Mufti Taqi Usmani related to economics is:

“Economics is the study which can be opted to consume resources in a beneficial manner so that their exploitation can be minimized⁹.”

Interpretation of Economics by Non-Muslim Scholars:

According to Adam Smith:

“Economics is a study of wealth¹⁰.”

Alfred Marshal wrote:

“Economics is the study of man's action in the binary business of life, it inquiries how he gets his income and how he uses it¹¹.”

Professor Robbins explained the wisdom of economics in these words:

“Economics is a science which studies human behavior as a relationship between end and scarce means with alternative uses¹².”

From the above discussion, it is evident that the study of economics is basically how one can discover natural resources and how they can be properly utilized for the development and evolution of humanity. The acquisition of this knowledge also helps mankind to prevent the deterioration and wasting of these resources which if done may prove fatal and havoc for Humanity.

Significance of Acquisition of Economics:

The need and significance of economics are evident from the fact that no work in this universe can be managed without the use of money. The more the consumption of money in a righteous way the better the quality of life and facilities. A person has to face economic challenges since his inception in this world and to overcome these challenges he must acquire knowledge and tactics to tackle them which can only be provided in the domain of economics. To spend a balanced and healthy life the acquisition of knowledge of economics is mandatory.

The subject of economics is also mentioned in the Holy Quran. Allah Subhan wa Talah Stated in the Holy Quran:

وَمَا مِنْ دَابَّةٍ فِي الْأَرْضِ إِلَّا عَلَى اللَّهِ رِزْقُهَا وَيَعْلَمُ مُسْتَقَرَّهَا وَمُسْتَوْدَعَهَا كُلٌّ فِي كِتَابٍ مُبِينٍ¹³

“And there is no creature on earth but that upon Allah is its provision, and He knows its place of dwelling and place of storage. All is in a clear register.”

Allah the Almighty has ordered mankind to strive their lives in the earning of basic commodities of life so that they can actively participate in the worship of life.

وَجَعَلْنَا النَّهَارَ مَعَاشًا¹⁴

“And made the day for livelihood.”

Aims of Acquisition of Study Economics:

The following are the aims and objectives of the acquisition of the study of economics.

- ✚ Professional Information
- ✚ Professional Performance
- ✚ Selection of Profession
- ✚ Professional Communication
- ✚ Individual Economical Trait
- ✚ Proper Utilization of Resources
- ✚ Earning Capacity of the Consumers

The Economic Challenges Pakistan is Confronting for Burgeoning its Economic Development:

A challenge is basically a hurdle and acts as an obstacle to the growth and development of any person or any nation. A state can face multiple economic challenges if its economic planning and implementation are not efficient and coherent. There are five basic challenges that act as a hurdle in the economic development of a nation which is as follows:

- ✚ What to produce and in how much amount
- ✚ How to produce
- ✚ For whom to produce
- ✚ To which extent the resources can be used efficiently

- ✚ Is the Economic development-boosting?

The Major Causes of Economic Deterioration:

There are two major causes that act as the root of the economic crisis of the country.

- ✚ Splendid Human desires and aspirations.
- ✚ Meagerness of Resources.

Categorization of Economic Challenges:

The Economic Challenges are broadly classified into two categories.

- ✚ Microeconomic issues
- ✚ Macroeconomic issues

Microeconomics issues:

In this category of economics, the issues are dealt with at an individual or societal level. In this economic setup, the individual aspects of the economy are being analyzed and dealt with to solve the problems and challenges.

Macroeconomic issues:

Macro means on a larger scale. In this field, the collective aspects of a state economy are being debated like

- National Saving
- Collective Investment
- Gross Domestic Products (GDP)
- Inflation
- Unemployment
- Individual Labor Market
- The Production Capacity of the Economical infrastructure
- Collective Production
- Consumer Individual Attitude
- Availability of Resources¹⁵

Contemporary Economic Challenges Facing Pakistan:

There is almost a consensus that the economic challenges facing Pakistan can be largely categorized as

- ✚ Irregular distribution of wealth.
- ✚ An escalation in the Poverty Rate.
- ✚ Lockage of Capitalism
- ✚ Banking System amalgamated with hefty interest.
- ✚ Gyrating Inflation
- ✚ Massive devaluation of the Pakistani Rupee against major world currencies.
- ✚ Increasing Foreign Loans.
- ✚ Surging up of fuel oil prices.
- ✚ Curtailing up of the foreign exchange reserves.
- ✚ Inability to raise domestic resources for financing development.
- ✚ The tax-to-GDP ratio is low.
- ✚ Excessive reliance on Foreign Resources.

Lockage of Capitalism:

The System of Capitalism acts like a Parasite on the economy of Pakistan. Due to this lockage, the economic development in the country is deteriorated and is collapsing. This system of Capitalism is non-realistic and against the nature of homospapiens. The Holy Quran strongly condemns this system of accumulating money in the hands of a few authorities. Allah the Almighty says in the Holy Quran:

¹⁶ وَالَّذِينَ يَكْنِزُونَ الذَّهَبَ وَالْفِضَّةَ وَلَا يَنْفِقُونَهَا فِي سَبِيلِ اللَّهِ فَبَشِّرْهُمْ بِعَذَابٍ أَلِيمٍ.

“And those who hoard gold and silver and spend it not in the way of Allah - give them tidings of a painful punishment.”

Furthermore, it is stated in the Quran:

الَّذِي جَمَعَ مَالًا وَعَدَّدَهُ. يَحْسَبُ أَنَّ مَالَهُ أَخْلَدَهُ. كَلَّا لَيُنْبَذَنَّ فِي الْأُخْطُمَةِ¹⁷.

“Who collects wealth and [continuously] counts it. He thinks that his wealth will make him immortal. No! He will surely be thrown into the Crusher.”

In the Holy Quran, the Capitalistic system is denoted as the system of ancient Poharos and Qaroon, who accumulates all their wealth in their own hands and stop serving it for the welfare of humanity.

Scholar Abdul Hamid quoted:

“The Capitalistic system is based on such materialistic, freedom and one-sided utility ideologies due to which welfare of society is impossible and non-viable. From the whom of materialism selfishness and self-projection evolve. These feelings ultimately diminish the feelings of love, brotherhood, and respect from society resulting in catastrophic effects. Unending competition begins in society which ultimately serves havoc to the poor compartment of society. A person is self-centered and is unable to feel the pain and agony of other companions in society. Such a society impregnated with selfish and careless people is unable to develop economically though, abundant resources are available for them or not. They are unable to take advantage of them, which in its own sense is misery itself¹⁸.”

Increasing Foreign Loans:

Foreign debt is simply money that the government owes to other countries or private individuals and organizations that belong to other countries. Almost every country in the world borrows money from other developed countries to boost their economic development. Between 1960 till 1990 Pakistan is one of the top ten fast-growing countries with an annual average growth rate of 6 percent. The structure of the economy was also transformed during this period with the share of agriculture coming down from 50 percent to 20 percent. But from the last recent years, the debt servicing amount of Pakistan is very high therefore a large portion of government revenue is lost to pay interest on the principal. The Pakistani external debt reached 126.3 billion United Nations dollars in December 2022, compared with 126.6 billion US Dollars in the previous quarter. Pakistan's total foreign debt is forty-seven billion US dollars which is a very huge amount. If this number is distributed across the population of Pakistan, each Pakistani currently owes 82.627. Despite owing a lot of money to other countries, a lot of countries still manage to be financially stable because the same countries are net creditors, meaning that they are owed more money than they owe to others. This is not the case with Pakistan. A country that is unable to pay its debt goes into default, like what has happened recently in Argentina, Greece, and Zimbabwe. On various occasions, Pakistan has been close to defaulting but has been saved by last-minute emergency loans. This dependence of Pakistan on foreign loans throws the country into a debt trap which means the state must borrow more money to pay off the loans it already owes. So, a very low amount of government revenue is lifted for developing works and for the welfare of citizens, so GDP growth is low which results in low economic growth and development¹⁹. The following is the chart that shows the level of Pakistan's Foreign debt ratio as compared to other countries.

Pakistan's foreign debt compared with the highest debtors

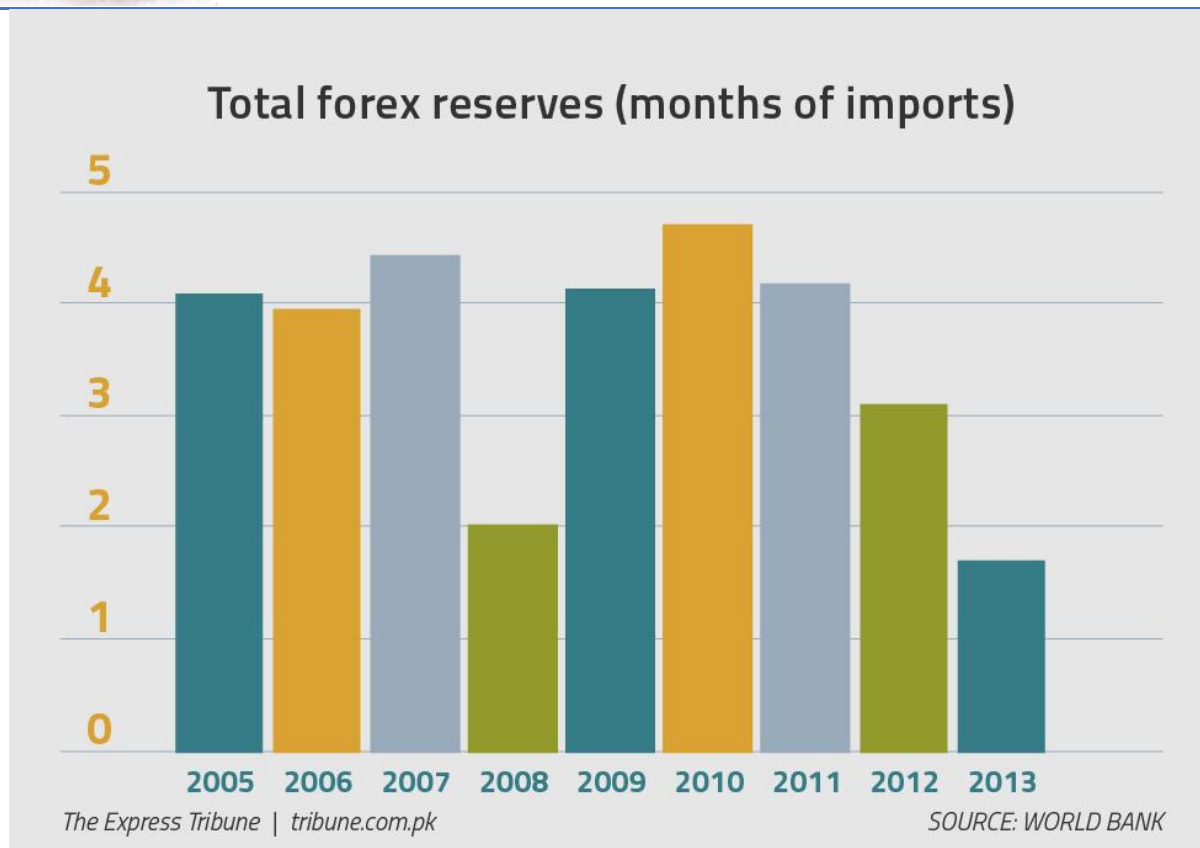


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SOURCE: CIA FACTBOOK
The figures above are from 2013

Curtailing up of the foreign exchange reserves:

Foreign exchange reserves are the foreign currency a country stocks, to make payments to other countries. This payment is mostly made to import things from other countries in the world. While countries keep a host of currencies, the most common is the American Dollar. Currently, the foreign reserves of Pakistan are scarce and scanty. Recent Statistics in 2014 show that in 2013 Pakistan hardly have enough money to pay for six weeks' worth of imports. This fact is one of the major reasons why Pakistan must borrow. In fact, the country's economy is in such a deteriorating state that the government of Pakistan took out 6.6 billion Us Dollars from IMF in 2013. This loan was distributed over a time of three years, but still, the foreign exchange reserves of the country are curtailing²⁰.



According to recent statistics in February 2023, the foreign currency reserves of the state are continuously decreasing. The reserves have continued to deplete for the past 18 months period due to previously elevated import payments, low export earnings, and a slowdown in the inflows of workers' remittances. The central bank reported that the foreign reserves held by the country stood at 8.5 billion US Dollars by February 2023 which is an alarming situation²¹.

Gyrating Inflation:

Inflation is the other name for a general increase in the prices of products in a country. When the economy of a country is in the collapsing phase the inflation rate in that country also boosts. Due to the economic instability in the country, in the year 2021, the inflation rate of the country was 9.5%. As the condition of the economy further degenerates the inflation rate was 13.4% in 2022 according to the survey of the State Bank of Pakistan. In March 2023 the inflation rate exceeds 31.5%, with 17.1% inflation dominating in the urban areas and 21.5% in the rural areas²². In January 2023, The Pakistan Bureau of Statistics mentioned in a report that the average inflation rate in January 2023 was 27.5%. The Inflation rate of food items and beverages was 34.58%. The Inflation rate for clothes and footwear was 8.6%. Furthermore, the inflation rate for housing, water electricity, gas, and other fuels was 26.3%. Health was 2.8%, education 3.8% and transport was 6%. This is an alarming situation for the country's economic stability²³.

ITEMS	RATIO OF INFLATION
Food items and Beverages	34.58%
Clothes and Footwear	8.6%
Housing, Water, Electricity, Gas, and other fuels	26.3%

Health	2.8%
Education	3.8%
Transport	6%

The following graph demonstrates the inflation rate fluctuation in the country:



Surging up of fuel oil prices:

Oil is becoming one of the most important indicators of economic development in a country. No country can boost its economy with oil. This is especially true for the countries that do not have their own oil reserves. Unfortunately, Pakistan is also among those countries that do not have their own oil wells. Pakistan meets only 20% of its oil demand. The remaining 80% of oil consumption is satisfied by importing oil from foreign countries. The country imports in the form of crude oil and refined petroleum products. Around the world, crude oil prices have been boosted due to the political conflict in Iran and Venezuela. As a result of the military invasion between Russia and Ukraine, Russia cannot sell its oil to the world. Russia as the world's third-largest oil reserve country, the world encounters the biggest demand-supply gap due to the ban. The covid pandemic in 2019 and the Flood disaster in 2022, raise taxes on petroleum products in the country. In recent months rapid devaluation of Pakistani rupees against other major world currencies and the abolishment of government subsidies have raised petroleum prices to a high record of 237.43 on September 2022 and it is continuously increasing till today. Political instability is also a major cause of the rise in petroleum prices in the country²⁴.

The tax-to-GDP ratio:

Tax to GDP ratio is the country's tax revenue ratio related to the country's Gross domestic product (GDP) that determines the country's government's control of the economic resources. Tax revenue means the total revenue collected by the country's government from the people. First, the decade of the 1990s was a lost decade as far as Pakistan's economic development was concerned. Frequent political changes and lack of continuity in policies, poor governance, and the last May 1998 developments had together created very difficult economic conditions in the country by October 1999. Per Capita economic growth rates had slid to 1 – 1.5 percent Investment rates had declined from 20 to 15 percent of GDP, poverty had doubled from 17 to 34 percent, the external debt had doubled from \$ 18 billion to \$ 36 billion, debt servicing had risen to a level where it claimed 56 percent of revenues, fiscal deficits were averaging about 6 percent of GDP, Development expenditures, particularly on education and health, were curtailed by one half from 6 percent

of GDP to 3 percent²⁵. Currently, the tax to GDP ratio in Pakistan fell to 4.4% from 2022-2023 from 4.8% and the country has failed to meet up a double-digit tax-to-GDP ratio in the past twenty-two years.

Years	Tax to GDP Ratio
2018-2019	8.7
2019-2020	8.4
2020-2021	8.5
2021-2022	9.2

Unemployment:

Unemployment is basically defined as the ratio of labor which is without work but intended to do work and seeking it. Due to economic instability, the ratio of unemployment boost in the country can be illustrated in the table given below²⁶:

Years	Unemployment Rate	Increase
2020-2021	4.35%	0.05% Increase from 2020
2019-2020	4.30%	0.7% Increase from 2019
2019-2018	3.54%	0.54% Decline from 2018
2018-2017	4.08%	0.16% Increase from 2017

Solutions and Suggestions:

- ✚ Development of Good Infrastructure.
- ✚ Enhance the Trading System.
- ✚ Discovering More Natural Resources so that they can be utilized to increase the Import and export of the country.
- ✚ Revising Economic policies of the country according to the current challenges.
- ✚ To Reduce Inflation, the government can increase taxes such as income tax and VAT and cut spending. This improves the Government's budget situation and helps to reduce demand in the economy. Both these policies reduce inflation by reducing the growth of aggregate demand.
- ✚ Petroleum prices may be reduced by a decrease in the consumption of oil within the country for example The Government should increase the number of public transport vehicles with high security. Decrease in consumption= Decrease in Demand= Decrease in price.
- ✚ To boost the value of the Country's currency following steps will be taken:
 - No development work should be carried out on external loans.
 - Develop local investment plans.
 - Reduce Government bills, payments, and payroll.
 - Introducing major work in the private sector.
 - Sell Foreign exchange assets and buy their own currency.
- ✚ Implementation of the Zakat System and Circulation of Wealth.
- ✚ Providing more job opportunities decreases poverty as well as unemployment rates. Implementation of Islamic Trading systems like MUZARBA, and MUSHARIKA, to launch Islamic Banking in true form.
- ✚ Increase the literacy rate of Pakistan to tackle the economic crisis.

- The Research Methodology used is the Qualitative Archival Method for the collection of data.
- Chicago Manual 2017 is used for Paper Writing.

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