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Daronomics: The Dynamics of Economic Dependency in Pakistan

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Abstract: An economist from Pakistan named Dr Ishrat Hussain created the word "daronomics" to describe the complicated connection between economic and political affairs in Pakistan. It stands out for its weak economic growth, sizable population, and complicated political system. Daronomics basically refers to Ishaq Dar's way of dealing with the economy of Pakistan. Daronomics refers to the valuation of local currency by artificially controlling the exchange rates. Daronomics has a significant impact on Pakistan's economy. The paper explores the linkage between economic dependence and foreign policy and identifies the problems in these two leading sectors of the state of Pakistan. This paper is based on data from secondary sources, including academic studies, journalistic sources, and reports from local, national, and international institutions and organizations. The research found that daronomics had been a critical term to Pakistan's dependency on foreign financial support.

Key Words: Daronomics, Pakistan's Economy, Economic Policies, Gross Domestic Product (GDP), Economic Dependency, Pakistan' National Currency, Foreign Policy and Economic Dependence

Introduction

"Daronomics" refers to the complex relationship between politics and economics in Pakistan's economy. The complex relationship between economics and politics in Pakistan's economy is referred to as "daronomics." Weak economic conditions, a sizable population, and a convoluted political structure define daronomics. Due to its economic dependence, Pakistan is influenced by these variables, which in turn affects its foreign policy.

One of the main issues that Pakistan faces is its bad economic conditions that directly impact foreign policy. There is a substantial informal sector and a low per capita income in the nation. Additionally, it depends a lot on imports, making it susceptible to outside shocks. Another element that adds to Pakistan's economic dependence is its vast population. The population of a country is expanding quickly, which strains its resources and makes it challenging to produce work. Pakistan's economic dependence is partly a result of its complicated political structure. Political unrest and military takeovers have a history in the nation. Long-term economic reforms have become more challenging for the administration to accomplish as a result (Hussain, I., 2013).

The foreign policy of Pakistan has been negatively impacted by its economic dependence. Economic dependency made it difficult for Pakistan to shape its consistent foreign policy according to the national interests of the state and the people. Moreover, Pakistan faces a lot of law and order difficulties due to the war on terror and has become an ally of the US in the Afghan war, which is regarded as a main source of foreign investment and aid that benefits Pakistan economically (Waqas, 2017). Another major power is China under BRI China made a heavy investment in the infrastructure and energy sectors in Pakistan.

Numerous researchers and scholars have contributed to the daronomics and how it affects

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Pakistan's dependence on foreign policy. For instance, Ishrat Hussain contends that in Pakistan, daronomics have sparked a "vicious cycle" of economic dependence and political instability. Daronomics is a significant obstacle to Pakistan's economic progress and independence in foreign policy, according to all of these scholars. They propose different solutions and remedies to overcome the problem. Pakistan's economy has to undergo long-term changes in order to grow and lessen its dependence on outside investment and help. Pakistan should pursue a more autonomous foreign policy that isn't restricted by the demands of its major financial backers. Corruption and instability in politics are two of the root causes of daronomics in Pakistan. Based on what we've learned from the available literature, daronomics is not an issue with a simple answer. Pakistan must reshape its long-term economic policy and economic growth framework to overcome the reliance on foreign aid and investment and reshape an independent foreign policy.

Research Question

What are the current trends of daronomics in Pakistan?

Research Methodology

This research paper draws on a synthesis of secondary sources, such as government and non-government institutions' documents, academic studies, and news articles. The information was compiled from a wide range of resources, including digital libraries, government portals, and Internet databases. The authors use a theoretical framework informed by research in international relations, development studies, and political economics. This theoretical framework sheds light on the intricate interplay between Pakistan's domestic and international policies.

Ishaq Dar Economic Policies from 2013 to 2018

As Finance Minister Ishaq Dar main economic policies revolve around the valuation of local currency. He controlled the local currency under the REPO agreement between central and commercial banks. He is a strong proponent of an overvalued exchange rate due to the negative implications of depreciation for inflation. The exchange rate was artificially controlled by dumping dollars in the market. There was an artificial increase in the supply by getting loans and floating the money in the market. This floating of money was not sustainable in the long run. Ishaq Dar was the Finance Minister from 2013 to 2018. In this time period, Dar took multiple initiatives regarding financial activities. The main focus was to increase exports for this provide tax viewers for exporters, subsidies for the industries, and establish export zones. Another action in his tenure was to reduce the trade deficit. For this, he imposes taxes on imports and extra tariffs on luxurious items. Due to these measures, the difference between imports and exports was reduced.

In addition, Ishaq Dar focused on cutting government spending and increasing the tax revenue from the previous years. As a result budget deficit declined from 8.2%of GDP in fiscal year 2012-13 to 4.6% of GDP in 2017-18. In dar tenure, the debt to GDP ratio reduced from 63.5% in FY2012-13 to 58.7% in 2017-18. In Dar's tenure as finance minister, there is a rupee reverse mechanism established. (REPO) reverse repurchase agreement is a financial transaction I'm which the central bank sells security to the private and commercial banks with the agreement to repurchase them. Basically, REPOs throw liquidity into the financial system. The State Bank of Pakistan uses REPO to regulate and manage the flow of currency and interest rates.

State Bank of Pakistan annual report fiscal year 2017-18:

- The growth rate in Dar tenure is 5.8%. Inflation in 10.2% in 2012-13 and declined to 5.8% in fiscal year 2017-18.
- Trade deficit reduced from 20.3$ billion in 2012-13 to 12$ billion in FY 2017-18.
- In a contest of budget deficit declined from 8.2% of GDP in 2012-13 to 4.6% of GDP in 2017-18 and the debt to GDP ratio reduced by 5.2% from 63.5% in 2012-13 to 58.7% in 2017-18 (State Bank of Pakistan, 2018)

Economic Policies Leading Up to and Including 2013

The economic system of Pakistan was in trouble before 2013. There was a serious shortage of foreign investment, a huge budget imbalance, and high inflation. The armed rebellion of the Taliban and the ongoing conflict in Afghanistan were both major security concerns for the nation (Hussain, I., 2013).

Nawaz Sharif was voted in as Pakistan's prime minister in 2013. In order to maintain economic growth and increase national safety, Nawaz Sharif's government initiated a number of measures. Some of the measures used to address the budget imbalance were as follows: Tightening fiscal policy by decreasing expenditure and boosting taxes.

- The government has made it simpler for companies to operate by cutting administrative burdens and decreasing levels of corruption.
- The government has financed infrastructure projects including new highways, electricity plants, and water irrigation systems.
- Security has increased as a result of government efforts to eliminate the Taliban and rebuild fences on Durand line with Afghanistan.

The economy of Pakistan has greatly improved as a result of these changes. From 2013 to 2018, the annual rate of increase in the country's GDP was above 5%. Both inflation and the deficit shrank (Ministry of Finance, 2018). There was also a notable rise in investment from abroad. However, the economic advantages made under Nawaz Sharif's tenure were not maintained. Imran Khan was voted in as Pakistan's prime minister in 2018. Khan's regime has had trouble keeping the economy stable and growing at the rapid rates seen under its predecessor.

Economic Policies Leading After 2018

When elected in 2018, Imran Khan's government made many economic commitments, including cutting the deficit, boosting the business climate, and enticing international investors. It has been said, however, that government economic plans are inconsistent and poorly executed. Imran Khan's government prioritized narrowing the budget gap as an economic policy priority. Budget cuts and tax hikes were responsible for this success on the part of the government. The government's budget cutbacks, however, have been criticized for unfairly impacting the poor and the vulnerable. The poor and middle class have borne a disproportionate share of the expense of the government's tax hikes, which has prompted more criticism. The Imran Khan government prioritized fostering a more favorable business climate. By streamlining laws and cutting down on corruption, the federal government made it simpler for companies to function. Political unrest and a weak economy, however, have hindered the government's attempts to improve the business climate.

Foreign investment has been a problem for the Imran Khan administration, as well. Foreign investors are wary of the country due to its economic woes, which include high inflation and a huge current account deficit. Foreign businessmen have found it challenging to conduct business in Pakistan because of the government's contradictory policies. The economy of Pakistan has struggled under the leadership of Imran Khan because of these reasons. Inflation has increased, and the current account deficit has worsened, while the country's GDP growth rate has decreased. In addition, the Pakistani rupee's value versus the dollar has plummeted.

Key economic metrics for Pakistan during Imran Khan's government are as follows:

- Economic growth is projected to be 3.9% in 2018–19, 2.1% in 2019–20, 0.4% in 2020–21, and 5.7% in 2022–23.
- Inflation rate: 7.5% in 2018/19, 12.3% in 2019/20, 11.9% in 2020/21, and 13.8% in 2021/22.
- For the 2018–19, 2019–20, 2020–21, and 2021–22 fiscal years, the current account deficit is projected to be -5.6%, -5.7%, -4.9%, and -4.5% of GDP, respectively.

Economic policy and performance metrics have been a mixed bag during the Imran Khan administration. There has been some improvement in the business climate and the government's efforts to reduce the budget deficit. The administration has had difficulty luring foreign investors, and the economy has suffered as a result. Because of this, Pakistan's economy is now experiencing a lot of difficulties. The country's current account deficit is quite significant and inflation is very high. A debt crisis has also hit the nation hard (World Bank: Pakistan's economy slows down while inflation rises amid catastrophic floods, 2022).

Economic Policies in PDM Government

Pakistan's economic reliance on other countries is a complicated problem with a long history. The coalition PDM government, which ruled Pakistan from April 2022 to October 2023, made considerable headway towards lessening this reliance, but much more work is still to be done. One of the primary priorities of the PDM government was to lessen Pakistan's dependency on imports. To attain this purpose, the government enacted a range of measures, including raising tariffs on imported products, offering subsidies for indigenous manufacturers, and encouraging exports. These strategies were somewhat successful in lowering Pakistan's import bill. However, the Pakistan trade imbalance remained high, accounting for a claimed 5% of GDP in 2023. In addition, the PDM government made some headway in lowering Pakistan's debt burden. The debt-to-GDP ratio of the government is lesser than previous year from 75% in 2022 to 72% in 2023. However, the country's debt load remained enormous, and it remained largely reliant on foreign loans (Asian Development Bank and Pakistan: Fact sheet, 2023). Furthermore, the PDM administration initiated attempts to diversify Pakistan's economy. The government poured money into innovative businesses like information technology and renewable energy. It also encouraged agriculture and tourism. These approaches of the finance minister (Ishaq Dar) were somewhat successful in diversifying Pakistan's economy. Pakistan's economy still relies on the textile and agriculture sector for exports.

Pakistan's National Currency and Its Methods of Valuation

The exchange rate methods have become the standard practice for evaluating the Pakistani rupee. One way to accomplish this is to see how the rupee stands up against other currencies, such as the dollar. The foreign currency market's exchange rate is set by the interplay between supply and demand. There are two methods of valuation of currency, one PPP (purchasing power parity) and the second REEP (real effective exchange rate)

Purchasing power parity (PPP) is the method to determine the value of the Rupee. This method is basically used to evaluate the cost of living in Pakistan and compare it with other countries. The PPP approach operates on the premise that a given currency unit should be equivalent in buying power across nations. On the other hand, in real effective exchange rate (REER) method is also used to determine the value of the Pakistani rupee. The relative pricing of products and services in Pakistan and its trade partners are used to calculate and evaluate through REER. When compared to the exchange rate approach, the REER method provides a more accurate valuation of the Pakistani rupee.

Foreign Policy and Economic Dependence

Economic dependence of Pakistan has

directly linked with foreign policy. The major economic donor has a direct impact on foreign policy, and policymakers shape the foreign policy according to the guidelines of these donors. When a state has economic reliance on another other then definitely the other countries have to impose the will and influence over the state's foreign policy.

Due to the financial condition, Pakistan is unable to shape a free and autonomous foreign policy. For example, Pakistan has closer ties with the US because of the aid and trade with the US, and because of the financial needs of Pakistan US has direct involvement in state affairs, especially foreign policy. In the context of foreign policy that shape Pakistan faces lots of compromises. China, on the other hand, has invested considerably in Pakistan's infrastructure and energy industries under the BRI, yet Pakistan's relationship with China has been questioned (Raza, 2022).

Pakistan's foreign policy has been inconsistent because of the country's economic dependence. The Kashmir issue is one example that has caused tension between Pakistan and India. Pakistan has, however, tried to mend fences with India before in an effort to increase commerce and investment between the two countries.

Foreign Policy Influence of Pakistan's Economic Donors

Economic contributors to Pakistan have a tremendous influence on the country's foreign policy. Some of the major contributors and their impact on Pakistan's foreign policy are as follows:

United States: As the major economic contributor to Pakistan, the United States has a big impact on the foreign policy of that nation. Every year, the United States contributes billions of dollars in aid to Pakistan, which is used to support a number of programs, including counter-terrorism, economic growth, and humanitarian assistance. In exchange, the US anticipates cooperation from Pakistan on a number of foreign policy matters, including the fight against terror and the Afghan War (Waheed, 2017).

China: China is another significant source of foreign aid for Pakistan. China has made significant investments in Pakistan's energy and infrastructure sectors. China anticipates help from Pakistan in return, especially in regard to the Belt and Road Initiative (BRI)(Raza, 2022).

Saudi Arabia: Pakistan and Saudi Arabia have long-standing strong ties. The enhancement of Islamic principles and the fight against terrorism are joint goals of the two Muslim-majority nations. Over the years, Saudi Arabia has given Pakistan a lot of financial support and has made considerable investments in the Pakistan economic system. Especially with regard to the Middle East, Saudi Arabia has a huge impact on Pakistan's foreign policy. To back its engagement in Yemen, for instance, Saudi Arabia has put pressure on Pakistan (Raza, 2022).

UAE: Furthermore, in recent years, the UAE and Pakistan have become close. The UAE is a significant investor in the economy of Pakistan, and the two nations have a close economic relationship. In addition, the UAE has generously donated money to Pakistan, especially after natural calamities. Especially with regard to the Middle East, Pakistan's foreign policy is significantly influenced by the UAE. To maintain its boycott of Qatar, for instance, the UAE has put pressure on Pakistan (Raza, 2022).

International Monetary Fund: IMF is a multinational institution that offers financial support to nations who are having economic problems. The IMF has recently given Pakistan a number of loans. In exchange, the IMF expects Pakistan to carry out economic changes that would support economic stability. Due to their potential to influence Pakistan's ties with its creditors and donors, these changes often have a considerable effect on the nation's foreign policy.

World Bank: Another international organization that offers financial support to poor nations is the World Bank. The World Bank lends to Pakistan for a number of initiatives, including infrastructure building, education, and the healthcare sector. The World Bank expects Pakistan to make changes in return that would enhance economic governance and reduce poverty. The foreign policy of Pakistan may be significantly impacted by these developments as well. Pakistan also gets financial support from a number of additional nations and organizations in addition to the aforementioned contributors. However, the biggest funders and those that have the most influence over Pakistan's foreign policy are the United States, China, International Monetary, and World Bank.

Conclusion

The paper concludes that agronomics is mostly to blame for the economic dependence of Pakistan. The country's vast population and sluggish economy have forced it to rely on outside assistance and investment. This has allowed other nations to influence Pakistan's foreign policy, including the United States, China Saudi Arabia, and International Institutions. The paper also concludes that Pakistan's foreign policy has suffered as a result of the country's economic dependence. It has hindered Pakistan's ability to implement a unified foreign strategy and act in its own self-interest. Pakistan's import expenses have been rising more quickly than its export revenues, which has resulted in a worsening trade deficit. Additionally, the growing debt-to-GDP ratio in Pakistan has made the nation more sensitive to outside shocks. The study's final finding is that Pakistan's economy is highly concentrated on a few major industries, rendering it susceptible to declines in those industries. In order to minimize its economic reliance on others, the paper contends that Pakistan must decrease its imports and increase its export bill, lessen its debt load, and expand its economy. In order to build a more secure and competitive economy, the paper also makes the case that Pakistan has to upgrade its infrastructure and educational system. To put it another way, Pakistan should stop placing all of its eggs in one basket. To become less dependent on a small number of important sectors, it must diversify its economy. In order to build a more stable and competitive economy, it also has to lower its debt load and enhance its infrastructure and educational system.

Pakistan must address the root causes of its underlying issues in order to overcome both its economic dependency and its foreign policy limitations. There are some hurdles in the way of economic growth, like corruption in the energy sector, a lack of economic diversity in different sectors like IT, and insufficient investment in human capital. By diversifying its economy, putting money into healthcare and education, and fighting corruption, Pakistan may minimize its need for foreign assistance and increase its independence in foreign policy. Pakistan relies on investments rather than aid and loans to train and provide skills to its workforce. Develop long-term economic policies and move towards independent foreign policy.

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