PAKISTAN

Pakistan’s economic freedom score is 55.0, making its economy the 131st freest in the 2019 Index. Its overall score has increased by 0.6 point, with higher scores for judicial effectiveness and property rights outpacing declines in monetary freedom and fiscal health. Pakistan is ranked 32nd among 43 countries in the Asia–Pacific region, and its overall score is below the regional and world averages.

Although some aspects of economic freedom have advanced modestly in Pakistan in recent years, decades of internal political disputes and low levels of foreign investment have led to erratic growth and underdevelopment. Excessive state involvement in the economy and inefficient but omnipresent regulatory agencies inhibit private business formation. Lack of access to bank credit undermines entrepreneurship, and the financial sector’s isolation from the outside world slows innovation. The judicial system suffers from a serious backlog and poor security, and corruption continues to taint the judiciary and civil service.

BACKGROUND: Created during the partition of India in 1947, Pakistan remains a relatively unstable democracy threatened by sectarian and terrorist violence. Former cricket star Imran Khan became prime minister after his Pakistan Tehreek-e-Insaf (PTI) party won a plurality in the July 2018 election on promises of job creation, new housing, and economic reforms. Tensions with India increased after Pakistan-based militants attacked an Indian air base in 2016 just after a goodwill visit by Indian Prime Minister Narendra Modi. Political and social instability hinders economic development. Textiles and apparel account for most export earnings, but much of the economy is informal, and underemployment remains high. China has pledged over $60 billion in infrastructure and energy investments in a “China–Pakistan Economic Corridor.”

ECONOMIC FREEDOM SCORE

55.0

(▲ UP 0.6 POINT)

REGIONAL AVERAGE (ASIA-PACIFIC REGION)

60.6

WORLD AVERAGE

60.8

RELATIVE STRENGTHS:

Government Spending and Tax Burden

HISTORICAL INDEX SCORE CHANGE (SINCE 1995):

-2.6

CONCERNS:

Government Integrity and Financial Freedom

FREEDOM TREND

QUICK FACTS

POPULATION:

197.3 million

UNEMPLOYMENT:

4.0%

GDP (PPP):

$1.1 trillion

INFLATION (CPI):

4.1%

5.3% growth in 2017

FDI INFLOW:

$2.8 billion

5-year compound annual growth 4.3%

PUBLIC DEBT:

67.2% of GDP

$5,358 per capita
Protection of property rights is weak. Although technically independent, the judiciary is subject to influence from extremist groups and high-ranking political officials. Courts are slow, outdated, and inefficient. Corruption, including bribery, extortion, cronyism, nepotism, patronage, graft, and embezzlement, is so pervasive in politics, government, and law enforcement that the public has come to regard it as normal.

The tax system is complex despite reforms to cut rates and broaden the tax base. The top personal income tax rate is 30 percent, and the top corporate tax rate has been cut to 30 percent. The overall tax burden equals 12.4 percent of total domestic income. Over the past three years, government spending has amounted to 20.3 percent of the country’s output (GDP), and budget deficits have averaged 5.1 percent of GDP. Public debt has risen to 67.2 percent of GDP.

Progress in improving the entrepreneurial environment has been modest. The cost of completing licensing requirements is still burdensome. A large portion of the workforce is underemployed in the informal sector. The government’s 2018–2019 budget increased spending on subsidies for the construction sector and for such items as food (especially sugar), power, water, and textiles by 36 percent.

The combined value of exports and imports is equal to 25.8 percent of GDP. The average applied tariff rate is 10.1 percent. As of June 30, 2018, according to the WTO, Pakistan had 66 nontariff measures in force. Excessive state involvement in the economy and restrictions on foreign investment are serious drags on economic dynamism. About 25 percent of adult Pakistanis have access to an account with a formal banking institution.