

Impact of Digitization on Pakistan's Economy

With technological advancement, topics like digitization and digital transformation occupy a massive space in policy discussion forums. This fast-paced change towards a cashless economy significantly influences the way businesses, the public sector, and individuals carry out their financial activities. However, like every change, this too comes with many opportunities and baggage of obstacles.

A digitized system benefits a reduced economic and social transaction cost for firms, the general population, and the public sector. In essence, by digitizing the economy, a shift is made from a low volume-high transaction cost to a high volume-low transaction cost. Such a shift is possible because of the independence of digital transactions from heavy asset infrastructure required for cash printing, transferring, and management.

In addition to being less costly, such a system accelerates the pace of the transactions and makes the process more convenient. This can be further explained by taking Raast as an example. Raast, launched by Imran Khan in January 2021, is an instant and easy-to-use online payment system. These two features of this system are beneficial to encourage users to conduct minor financial transactions frequently. In order to simplify the payment process, this system will also contain a payment directory which will make it easier to access the account holder for frequent payments. Another important initiative by Raast is their soon-to-be-launched merchant scheme. Such a scheme introduced under the banner of an online payment mechanism will uplift the merchants' efficiency and pace of cash flow.

Moreover, the trackable data facility in digital transactions makes the system more transparent. All the recorded financial activities allow the digital system to quickly track the person and the purpose behind the transaction. By doing so, necessary and timely actions can be taken against those held accountable for money laundering and corruption. This is the main reason why Pakistan's Central Bank has initiated a study on introducing Pakistan's digital currency. In an interview given to CNN, SBP Governor Reza Baqir spoke about the benefits of taking such an initiative. According to his statement, a digital currency issued by the Central Bank will give rise to financial inclusion and help the government's fight against money laundering and terror financing.

By analyzing the benefits of digitization at a micro-economic level, we can see that this quick and low-cost mechanism helps firms improve their operational efficiency as they can easily connect to their clients and financial institutions. Another benefit that firms get is improved data record keeping. By recording and tracking financial data, accountability from every worker's part is held intact. At a macro level, digitization improves a country's position in the Global Competitive Index (GCI), which is defined by a set of policies and factors that determine the productivity of a country. At present, Pakistan ranks 110 out of 141 economies. Furthermore, a digitized economy gives off a perception of a skillful and digitally savvy population. This attracts foreign investors to invest in our economy and hence, uplifts our economy.

The quick and economical digital system smooths out the cash transfer process for overseas Pakistanis. Non-resident Pakistanis are attracted to such a cash transfer mechanism. They do not have to visit the bank branches and go through the hassle of paperwork. These previously perceived intangible benefits for overseas Pakistanis came to reality with the initiative of Roshan Digital Bank

Account, a joint effort of SBP with the Federal Government in coordination with commercial banks of Pakistan, which attracted 671 million USD in the first six months. This led to an improvement in the rupee-dollar exchange rate and the foreign country reserves.

With all these benefits, it is essential to flip the coin and look at the shortcomings of digitizing Pakistan's economy. As the digital revolution escalates, dependence on manual labor decreases. In a developing country such as Pakistan, this pushes individuals further into the unemployment trap. In order to cope up with this shift, it is essential to acquire relevant technological skills, be more adaptable and flexible. There will always lie a massive gap between digital advancements and user's digital understanding if efforts are not made to develop and upgrade the skills of individuals. Therefore, this is a call for feasible training institutions to provide laborers with digital awareness and necessary digital know-how.

By further shedding light on this gap, we can conclude that government needs to prioritize where it needs to invest before bringing about such a change in a developing country. A digitized economy will not bring benefits if its population is not literate and digitally savvy. Therefore, the government also needs to invest in education and skill training programs alongside the digital revolution. By not doing so, this change will not boost productivity. However, it will further increase the inequality between literate and illiterate individuals.

Another significant issue is that over 25% of Pakistan's population resides in areas with poor or no internet connection. In the ICT adoption index, Pakistan has been ranked 131, which is 10 positions above the lowest-ranked country. Internet is the most basic digital input required to build a digital ecosystem in a country. Therefore, this again points out the government's wrong investment priority on online payment systems and cash transfers over accessible internet and 4G coverage. Also, with a growing digital economy lies a parallel underground cybercrime economy. As the digital economy grows, special attention needs to be paid to cybercrimes that pose a severe threat to digital transactions. These are enabled by the evolving technology infrastructure and affect privacy, data sovereignty, and data security. It can be overcome by security policies, robust authentication processes, a strong cybercrime force, and frequent regulations and research. To conclude, a digitized economy in Pakistan brings about significant benefits from foreign investments and remittances. However, in a developing country, investment goals should be well prioritized and have long-term benefits.

Bibliography

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