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July 14, 2023

Question #4

Explain the problem and performance of major sector of economy and discuss the contemporary economic challenges in Pakistan in light of these problems and performance.

Answer.

Introduction:

Pakistan has a paralyzed economy. According to new survey of budget deficit 2.95% to 12.2% of GDP. Due to which tax to GDP ratio is one of the lowest in the world. On the other hand elite class and industrialist mostly not giving proper tax. Due to this problems with performance occurred. Similarly these performance has lots of challenges in the economy.

Problem - Performance

Challenges

Growing population ↔ Human capitals
Weak Economy ↔ Digital Economy
Political Instability ↔ Political Governance
Lack of Investment ↔ Investment Policy and climate
Reliance on foreign policy ↔ Increase Engagements

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Growing population:

Pakistan is the home of 220m people. By 2050 it will be 350m, that is 50% of the country population. On yearly 2% increase in population that is the highest in south Asia.

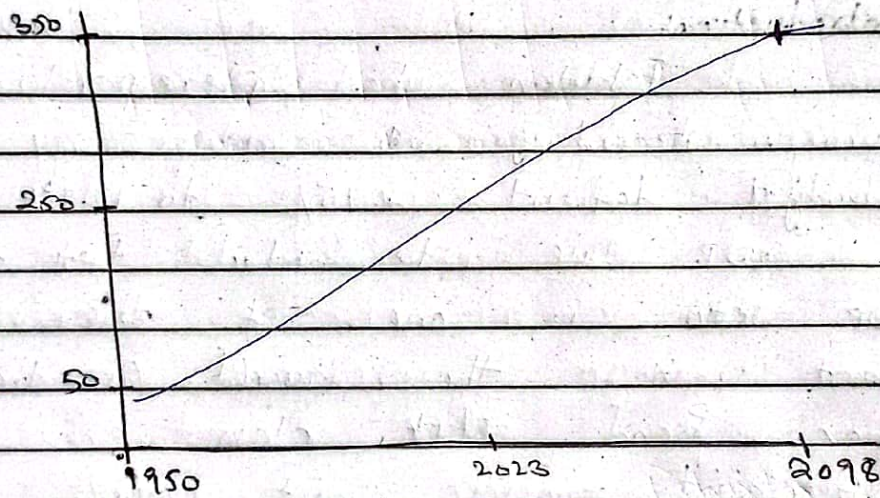


Figure 1: Pakistan Total population
Source: Population Statistics

Weak economy:

Pakistan debt to GDP ratio is one of the highest in the world. In 2022 country debt 73.5% of GDP. In result education, healthcare and infrastructure all areas are compromised. In 2023 Foreign exchange reserve at \$38,

that is lowest in the scale.
 Similarly inflation rate is 36.47%.
 that is all time higher

Political Instability / Uncertainty:-

The major era of Pakistan was under the military rule.

With political parties has lots of clashes with one another.

Due to this unstable civil government economy colapes gradually. As economy is directly proportional to political stability in the country. Because business plan, foreign investments, confidence of people all contact with political stability in country.

Lack of Investments:-

Previous year, Pakistan investment to GDP ratio was below 15%. According to graph it is all time lower in the scale. Without investment economy boost-up is not possible. Specially country like Pakistan. According to Graph:

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Net Foreign Direct Investment Inflow (% of GDP)

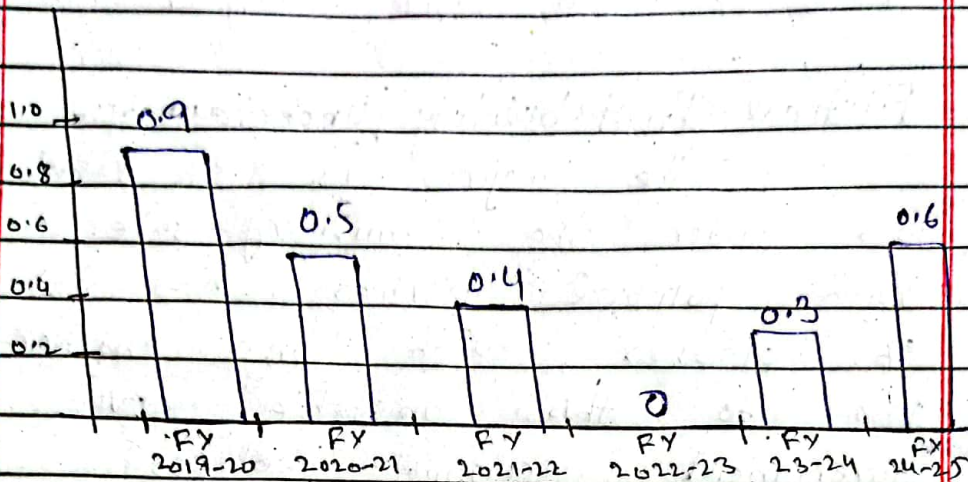


Figure 2: Net Foreign Investment Inflow
Source: Macro Pakistan

Reliance on Foreign Aid:

Pakistan can achieve only \$16.74 B foreign aid in the year 2022. This year was very un-predictable due to this informal economy, Governance problem, corruption, energy crisis are at its extreme. Other side of the story aid comes only with the conditions of Good Governance and sustainable development.

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South Asia average.

Digital Economy:

Pakistan has potential to generate \$60 Billion by 2030 with the help of digital economy. By adoption of web 3.0 technologies over the next 20 year. These opportunities to unlock can increase estimate income of \$100 Billion.

Political Governance:

These challenges are hard but need to start by clear separation of parliament and cabinet. Reduce number of cabinet members. Use technology in elections by electoral reforms. Direct elections for senate. More power to local government. Convert federal ministries to provinces according to 18th amendment.

Economic Governance:

Revamp the colonial bureaucratic structure by service hierarchies and

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inter-governmental transfer. Try to avoid competent local boards, from political conflicts.

Investment Policy and Climate:

Pakistan has potential for foreign direct investment of US \$ 2.8B annually, similarly unexplored of US \$ 2.5B can be secure by regulatory framework of federal, provincial and local government system.

International Cooperation:

Increase economic, political and culture engagement with organisation of Islamic conference. Try to exchange trade with Arab Nations. Similarly contribute in international peace and security.

Conclusion:

Pakistan economy has issues related to growing population, weak economy, political instability. Lack of investment, reliance on foreign policy can be managed by human capital, digital economy, political governance, investment policy and climate, increase engagements with other countries.