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377

Pak Affairs

Q. NO. 2

Major Economic Challenges Facing

Pakistan and Strategies for Sustainable

Economic Growth and Development:

Introduction:

→ Pakistan faces a series of complex economic challenges that have hindered its development trajectory and constrained its potential for sustainable growth. These challenges are multifaceted, involving;

- (i) Fiscal deficits,
- (ii) Structural weaknesses,
- (iii) Governance issues, and
- (iv) external vulnerabilities.

This comprehensive analysis identifies seven

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major economic challenges and proposes strategic responses to foster sustainable economic growth and development.

Major Economic Challenges Facing Pakistan:

→ Following are the major economic challenges facing Pakistan;

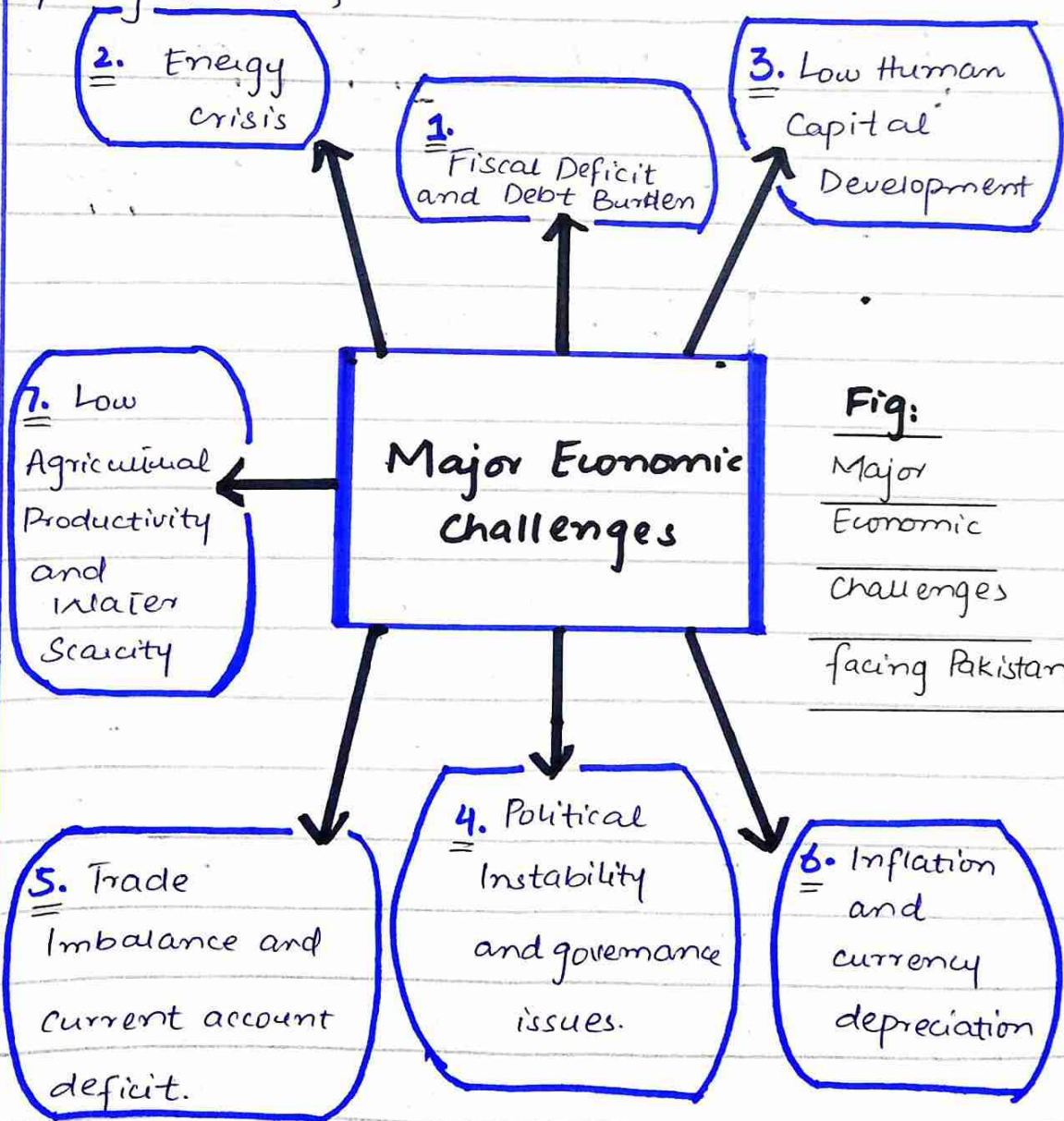


Fig:
Major Economic Challenges facing Pakistan.

Explanation:

(1) Fiscal Deficit and Debt Burden due to low tax revenues and high public spending:

→ Pakistan's fiscal deficit remains persistently high due to a combination of low tax revenues and high public spending. The debt burden, which includes both domestic and external debt, has increased significantly. According to IMF, Pakistan's debt-to-GDP ratio is projected to be around 75.1% for the fiscal year 2023, far exceeding sustainable levels. This high level of debt constraints fiscal space, limits development spending, and raises the risk of default.

(2) Energy crisis due to lack of investment in energy sector and out-dated infrastructure:

→ The country faces a chronic energy crisis characterized by frequent power outages, insufficient generation capacity and over-reliance

on imported fuels. The Institute of Strategic Studies Islamabad (ISSI) notes that Pakistan witnessed acute energy crisis during the summer months from May-August 2023. The electricity shortfall widened to 7,000 megawatts with demand rising to 28,200 megawatts, while the power supply was 21,200 megawatts. The lack of investment in energy sector and outdated infrastructure further exacerbate these problems.

(3) Low Human Capital Development Index with poor education and health outcomes.

→ Pakistan has one of the lowest human development index (HDI) in South Asia, with poor education and health outcomes. Inadequate public spending on education and health care leads to a lack of skilled labor, which is critical for economic growth and competitiveness. According to Education Secretary Waseem Ajmal Chaudhry, literacy rate of Pakistan stood at 59.13% in 2022-2023. This illustrates how dire the situation is.

(4) Political Instability and Governance

Issues have eroded investor confidence
and stifled economic reform efforts:

→ Political instability characterized by frequent changes in government, military interventions, and weak institutional frameworks, has undermined economic policymaking. The Pakistan Institute of Legislative Development and Transparency (PILDAT) emphasizes that governance issues, including corruption and bureaucratic inefficiencies, have eroded investor confidence and stifled economic reform efforts.

(5) Trade Imbalance and Current Account Deficit due to structural imbalance:

→ Pakistan's trade deficit has been widening due to a structural imbalance between exports and imports. The country relies heavily on imports for machinery, energy, and consumer goods, while exports remain stagnant, largely concentrated in low value added sectors like textiles. According to State Bank of Pakistan (SBP), Pakistan's current account

deficit is \$681 million in FY 2023-2024, making economy vulnerable to external shocks.

(6) Inflation and Currency Depreciation have eroded purchasing power and increased cost of living:

→ High inflation rates, driven by supply-side constraints, fiscal deficits, and currency depreciation, have eroded purchasing power and increased cost of living. The SBP has frequently highlighted the need for monetary stability and inflation targeting as crucial for maintaining economic stability. The depreciation of Pakistani rupee against major currencies has further contributed to inflationary pressures.

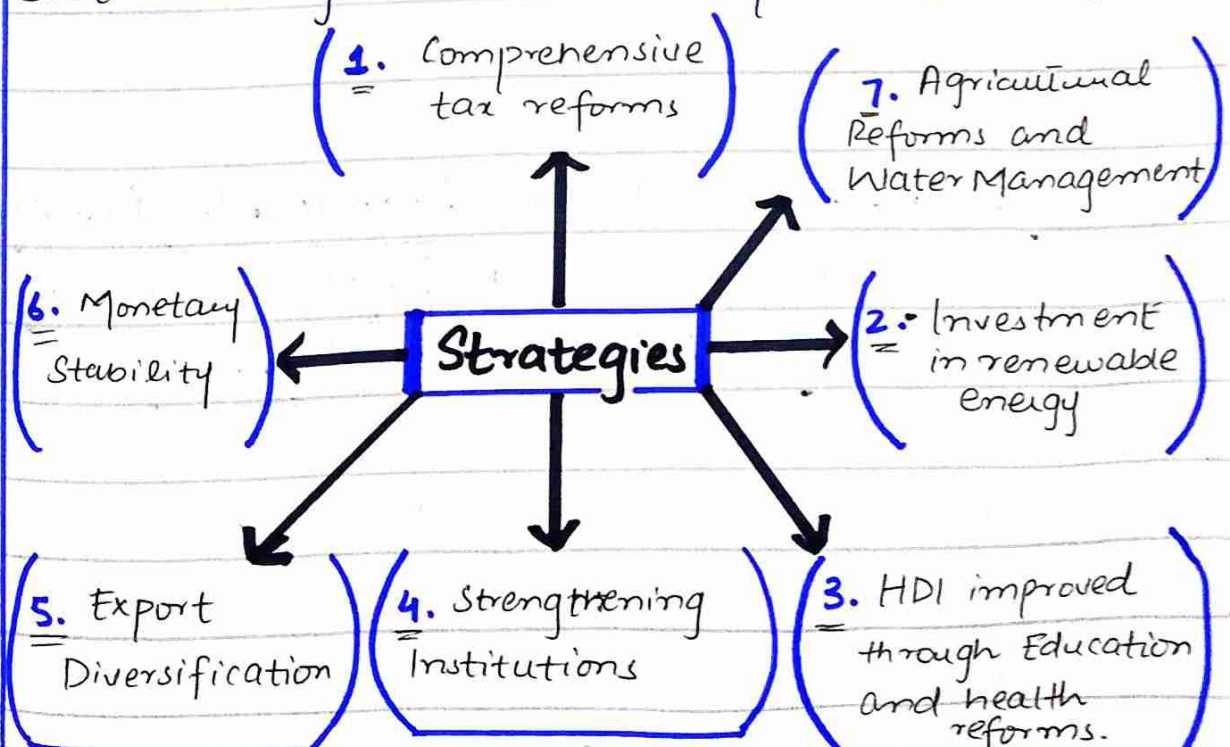
(7) Low Agricultural Productivity and Water Scarcity threatens food security and rural livelihoods:

→ Agriculture, which employs a large portion of the workforce, suffers from low productivity

due to outdated farming techniques, inadequate access to credit, and water scarcity. The Pakistan Council of Research in Water Resources, (PCRWR) warns that Pakistan could face absolute water scarcity by 2023 if current trends continue, further threatening food security and rural livelihoods.

Strategies for Sustainable Growth and Development:

→ To counter these challenges, Pakistan needs a multi-pronged approach that addresses both immediate concerns and long-term structural issues. Following are the strategies to achieve sustainable growth and development;



(Fig: Strategies for Sustainable Growth.)

Explanation:

(1) Comprehensive Tax Reforms and Broadening the Tax Base to tackle the fiscal deficit:

→ To tackle the tax deficit, Pakistan needs to implement comprehensive tax reforms aimed at broadening the tax base and increased revenue collection. Reducing tax exemptions, enhancing tax administration efficiency, and incorporating the informal economy into the tax net are significant steps to be taken. The goal should be to increase the tax-to-GDP ratio from the current low level of around 9.2% to at least 14% in the medium term.

(2) Investment in Renewable Energy and Upgrading Infrastructure to stabilize energy supply:

→ Addressing the energy crisis requires significant investment in renewable energy sources, such as solar, wind,

and hydroelectric power. Public-Private partnerships (PPPs) could be instrumental in attracting investment for infrastructure upgrades and new projects. Additionally, improving the efficiency of existing power plants and reducing transmission losses would help stabilize energy supply.

(3) Human Capital Development through Education and Health reforms:

→ Increasing investment in education and healthcare is essential to build a skilled workforce. Moreover, there should be a substantial increase in public spending on education, aligned with UNESCO recommendations, and healthcare infrastructure should be improved. Vocational training programs should be expanded to enhance employability, especially for the youth, and align skills development and market needs.

(4) Strengthening Institutions and Promoting Good Governance for economic stability and growth:

→ Enhancing governance and reducing corruption

corruption are critical for economic growth and development. Comprehensive civil service reforms to ensure meritocracy, transparency, and accountability are recommended.

Strengthening institutions like judiciary and anti-corruption bodies will help restore investor confidence and create a conducive environment for economic activities.

(5) Promoting Export Diversification and Enhancing Competitiveness:

→ Pakistan must diversify its export base beyond traditional sectors like textiles and rice.

Encouraging high-value-added industries, such as information, technology, pharmaceuticals, and engineering goods, can reduce dependency on a few sectors or markets. Therefore, it is suggested to implement policies that support innovation, improve quality standards, and reduce the cost of doing business to enhance global competitiveness.

(6) Monetary Stability and Inflation Control to ensure economic stability:

→ To combat inflation and stabilize the currency, the SBP should continue its prudent monetary policy stance, including inflation targeting and maintaining adequate foreign exchange reserves. Therefore, it is advised that coordinated fiscal and monetary policies are necessary to manage inflationary expectations and ensure economic stability.

(7) Agricultural Reforms and Water Management to enhance agricultural exports and counter water scarcity:

→ Modernizing agricultural sector through the adoption of modern technologies, efficient irrigation method and access to credit is crucial for increasing productivity. It is recommended to invest in water management infrastructure, including the construction of small and large dams, to mitigate the effects of water

scarcity. Promoting high-value crops and improving supply chain logistics would also enhance agricultural exports.

Conclusion:

→ Thus, Pakistan's economic challenges are deep-rooted and multi-faceted, requiring a strategic and sustained effort to overcome them. By addressing the fiscal deficit, energy crisis, human capital development, governance issues, trade imbalance, inflation, and agricultural productivity, Pakistan can pave the way for sustainable economic growth. Incorporating comprehensive approach that balances short-term policy actions with long-term structural reform is the need of the hour. Only through concerted efforts and effective implementation of these strategies can Pakistan achieve its full economic potential.