

Economic Crisis in Pakistan: Challenges and Prospects

1-) Introduction. Plz substantiate ur introduction.

2-) Challenges of Economic Crisis in Pakistan

- a-) Meager Foreign exchange reserves.
- b-) Increasing current account deficit.
- c-) Dependence on International Financial Institutions.
- d-) Low Foreign Direct Investment.
- e-) Client Politics, Rampant Corruption.
- f-) Stagnant small and medium enterprises.
- g-) Illiteracy. The biggest hurdle in producing a well trained work force.
- i-) Torn social fabric of the state.

3-) Prospects of Economic Crisis in Pakistan

- a-) Political awareness translating into political will.
- b-) A robust foreign policy centered on mutual cooperation to achieve trade viability.
- c-) Policy initiatives to reduce dependence on loans.
- d-) CPEC as the harbinger of economic stability.
- e-) Continuation of Democracy laying framework of a stable political structure.

f-) Burgeoning middle class auguring well for prosperity

g-) Advancement in Education and Research

i-) Policy initiatives keeping public concerns at the center.

Once termed the future Asian tiger, Pakistan today faces an unprecedented economic crisis. Never has before this country witnessed such a precarious economic meltdown. In today's world economic stability is prerequisite for independent decision making in international arena. India, for instance, is making decision (what suits best to its interests) regarding foreign relations, solely on the basis of its economic stability. Pakistan, on the other hand, has to take a lot of things into consideration while deciding its foreign relations. The economic instability of Pakistan is emanating from a number of factors. In other words, there are a number

of challenges of economic crisis in Pakistan. These challenges are so complex and intertwined that one leads to another, ~~and~~ creating a economic turmoil. Meager 'Foreign Exchange Reserves', for instance, results in current account deficit, which ultimately leads to dependance on International financial institutions. This starts a vicious cycle, and as a result the social fabric of society is torn apart. However, the situation is not as bleak as it appears. ~~to be~~ There are certain prospects indicating that this crisis will subside, provided that certain steps are taken in true spirit. Therefore, it is true that there are challenges of economic crisis in Pakistan. On the other hand, there are also prospects and indicators that the ongoing crisis will surely subside by.

On this modern world, the economic muscles of a state is evaluated on the basis of its foreign exchange reserves. In fact,

an abundance of foreign reserves indicates economic stability. Likewise, meager foreign reserves, as is the case in Pakistan, illustrates economic turmoil. Moreover, in today's dollar-based economy, a state with low foreign reserves sends a signal to other states that the purchasing power of that particular state is dwindling. As a result, the state falls a prey to the machinations of international players. For instance, Pakistan has to act according to the instructions of the US due to its dependence on US foreign aids. Largely because foreign reserves of Pakistan stand at 10.7 billion dollars, currently, according to State Bank of Pakistan. Thus, it is one of the challenges of economic crisis in Pakistan.

As a result of dwindling economic reserves, current account deficit increases. Pakistan's current account deficit stands

at 1 billion dollars, according to the State Bank of Pakistan. This indicates that the state is spending more than it is earning. Furthermore, with this increasing current account deficit, the state defaults on its foreign and domestic loans. Even the state gets short of funds to run its day to day affairs.

For instance, the capacity payments which are due to Independent power producers in Pakistan are epitome of this argument. These capacity payments linger on and create a cycle of circular debt. To overcome this, the state has to rely upon foreign loans. This illustrates that current account deficit is a challenge of economic crisis in Pakistan.

Both these challenges, when get out of hand compel the state to seek the help of international financial institutions i.e. IMF. It is said that, no lunch is free in business. Similarly,

this ~~form~~ help comes with a package of structural adjustment policies.

No doubt according to the mandate of IMF the policies are for the betterment of recipient state's economic structure. However, in case of

Pakistan, these policies have resulted in a disaster. Pakistan, for example, has taken twenty three bailouts

from IMF upto now. Unfortunately, neither the bailouts nor the

adjustment policies have proven to be beneficial. On the

contrary, these bailout packages have caused perpetual dependance

on IMF. Consequently, further exaggerating the economic crisis.

Moreover, countries of global south, like Pakistan, have low of funds to sponsor infrastructure and developmental projects. They look towards global north for funds and investment. However, with the ongoing economic crisis in the state foreign

direct investment has declined substantially. Unfortunately, the loans Pakistan seeks every now and then are unable to rejuvenate the economic base. With a weak economic base Pakistan is unable to attract foreign direct investment. According to the State Bank of Pakistan in 2024 only 1.9 billion dollars are invested by foreign investors in Pakistan. It demonstrates that decline in FDI is another grave challenge of Economic Crisis in Pakistan.

Work on transition of ideas from one passage to another one

Client politics and rampant corruption are acting as a catalyst in the ongoing economic crisis. The state depends on foreign aid and loans to run its day to day affairs. However, massive corruption, mostly pecuniary embezzlements, have destroyed the economic fabric of the state. The money allocated for projects goes into the pockets

of corrupt officials and other middlemen. Malika Lodhi, in her book, 'Pakistan beyond the crisis state' contends that, client politics and rampant corruption have never allowed the state to stand on its foot. This illustrates that corruption coupled with client politics is a challenge of economic crisis.

Another significant challenge of economic crisis is stagnant sector of small and medium enterprises. Small and medium enterprises are considered as backbone of the economic structure of a state. For instance, in a book named 'How Asia Works', it is illustrated how small enterprises - like textile industry - in Bangladesh have helped to bring economic stability in Bangladesh. However, in Pakistan, myopic policies of the government have marginalized

this sector. Moreover, the ongoing energy crisis have also played its part in destroying this fragile sector. While the energy crisis is another manifestation of economic crisis, nevertheless, it indicates that these small enterprises can never set their foot in production or service sector. Consequently, the stagnation of small enterprises is directly linked to ongoing economic crisis.

~~Illiteracy~~ is another ~~manifestation~~ of the ongoing economic crisis. A state where 40% of its population lives below the poverty line, a 53% literacy rate is an expected outcome. Most of the people living in the state cannot afford to send their children to schools. Resultantly, these illiterate people produce a unskilled labour force. Pakistan Labour productivity annual growth

is only 1.3%, according to the Economic Transformation Database. This illustrates the fact that most of the labour in Pakistan is untrained and unskilled.

Hence, representing another challenge of economic crisis.

~~All these factors when combined, form the social fabric of state.~~ This is evident from the ongoing political chaos as well as the secession politics going on in the state. Moreover, the surge in terrorism as well as religious intolerance also play their part in straining the fabric of society. It is true to utmost extent, that social problems are widely linked to economic problems. For instance, the rise of 'Baloch Liberation Army' and resulting terrorist attacks, according to Zahid

Hussain, is a result of decades of socio-economic stagnation in Balochistan - Moreover, the surge in religious intolerance is also widely associated with economic crisis in the state - Zahid Hussain in his article reported that, 'People of Pakistan are frustrated'. Thus, the torn social fabric is another challenge as well as manifestation of economic crisis in the state.

There are a variety of challenges of economic crisis in Pakistan. However, there are also certain prospects that contends that this crisis will end.

The first and foremost prospect is the increasing political awareness in population as well as the politicians that is translating into political well-being. The people of Pakistan have started to question the authorities regarding their rights.

This is evident from the surge in protests and political debates that is going on from sometime. The representatives, which are chosen by the people to propagate their voices to the parliament, are becoming aware of the fact that they are answerable to the masses. Moreover, the rise of digital platforms and social media have given a new forum to people to present their grievances in front of their representatives. This has created a sense of responsibility and political will in politicians. Thus, increasing political awareness is a prospect of economic crisis in Pakistan.

In addition to increasing political awareness, or more precisely as a result of increasing political awareness, the state has made formulated a foreign policy centered on mutual cooperation

to achieve trade viability - According to Maleeha Lodhi, the foreign policy of Pakistan has shifted from 'geostrategic' to 'geoeconomic'. This is evident from the fact that recently, the Prime Minister has made bilateral trade agreements with KSA, UAE and China. Moreover, the contemporary coercive diplomacy with Afghan Taliban is also centred on the goal to achieve stability in the region, so that economic crisis can end. Thus, the shift in foreign policy is a prospect of economic crisis in Pakistan.

Furthermore, the state is also taking initiatives to reduce its dependence on loans. For instance, recently, the state has revised its contracts with independent power producers. This policy initiative reiterates state commitment to reduce its dependence on loans, as the

major chunk of states income goes into circular debt financing, standing at PKR 3.8 trillion currently. Moreover, the privatization initiative, though suggested by IMF, are also centered around the this goal. Therefore, it is true to advocate that the state is attempting to reduce its dependence on loans, a prospect of economic crisis.

Moreover, to cater the menace of low FDG, CPEC is a harbinger of economic stability. According to Ahsan Iqbal, 65 billion dollars will come into Pakistan in the form of Foreign direct investment and loans amid the development of CPEC. Furthermore, the commitment and policy initiatives that the state have^{been} showing for a year, clearly demonstrates the political will to attract

Ur content is quite relevant

FDJ: As the President of China said that, 'CPEC is a game changer for Pakistan'. It is true in letter and spirit, if CPEC continues to develop at current pace, surely the end of this economic crisis is at hand. This is so, because it will rejuvenate the economic base of the state. Resultantly, a strong economic base makes the investor trust the state more while investing. Thus, it can be said that CPEC is a prospect of economic crisis in Pakistan.

Additionally, the continuation of democracy and the smooth transfer of power, twice indicates the stability of political structure. This political stability is the core of economic stability. Moreover, this smooth flow of power will surely end client politics. In addition to it, the establishment of democracy will inculcate checks and

balances in the system. These checks and balances will hamper the rampant corruption mechanisms embedded deep in the system. For instance, the Corruption perception index rank of Pakistan improved from 140th position to 133th position, from 2022 to 2024. This demonstrates that smooth transition of power as well as establishment of democracy are prospects of economic crisis in Pakistan.

Furthermore, the burgeoning middle class auguring economic stability is another prospect of economic crisis. The rise of digital platforms like Daraz, Foodpanda, Uber and UpWork have provided people with a opportunity to earn living with a little investment. This servicing industry serves as small enterprises. As the middle class rises, more and

more people come in the bracket of individuals with sufficient purchasing power to stimulate the stagnant economy. Moreover, the state is also doing things in its capacity to encourage this servicing industry. For instance, the recent announcement by incumbent Chief Minister Punjab to provide Free internet facility to the residents to Lahore is based on this initiative. Thus, it is fair to state that the burgeoning middle class is a prospect of economic crisis.

The recent advancement in science and technology is another prospect of economic crisis. The state has recently launched initiatives to enhance the educational structure and capacity of Pakistan. The Chief Minister of Punjab has called for strict implementation of Punjab Free and Compulsory

Education Act, 2014'. Moreover, another initiative under the name of 'Training Need Assessment' to assess the training needs of teachers, though boycotted yet a positive initiative, affirms government commitment in delivering standard education. Furthermore, the establishment of research institutes in the higher education facilities is also worth mentioning. All this indicates that advancement in education and research are prospects of economic crisis.

In the same way, certain policies have also been formulated by the state to mend the torn social fabric of state - Terrorism, militancy, religious intolerance, poverty and illiteracy, coupled together, are the menaces that torn the fabric of society. Recently, the state has payed heed to all of these. For example, the Government of Pakistan has launched 'Azme - Istekham' an intelligence

over, another name of ' to assess teachers, though initiative, ment in tion. Furthermore, ch institutes facilities is this indicates education and economic

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based operation to curb the rising surge of terrorism. According to the Prime Minister of Pakistan, the State launched intelligence based operation, specifically, to prevent mass displacement. In the past, it was seen that full fledged military operations caused displacement of masses. This displacement resulted in exacerbation of poverty and illiteracy, further worsening the situation. Hence, such initiatives by the government demonstrates the prospects of economic crisis.

In a nutshell, it is fair to state that, though there are a lot of challenges of economic crisis, yet these challenges are coupled with prospects also. While there is meager foreign exchange reserves, there is also a political will to bring stability. In the same way, if there is decrease in Foreign direct investment,

there are also ongoing projects, like CPEC, to stimulate the economy. Robust measures are, however, necessary to end this crisis for good. The need of the hour is to focus on reforms and institution building. No doubt, the state is working at the peak of its capacity to bring the economic crisis under control. However, a more robust approach is required. To sum it up, the challenges of economic crisis are large and the prospects are also evident, but, more vigorous framework is required to end this crisis for good.

Command over basic language is fine