

## Question:

Identify the major economic challenges faced by Pakistan and provide recommendations to address these issues.

## Answer:

### Introduction:

Economic stability serves as the foundations upon which a country's sovereignty and prosperity stand, thereby manifesting a nation's fate worldwide. The absence of economic stability has been a significant culprit, making the country dance to foreign's tune. In this regard, developing countries like Sri Lanka, Egypt and Ethiopia have been entangled in the web of economic crisis. Unfortunately, Pakistan is no exception to this. Pakistan faces serious economic challenges such as tax evasion, energy crisis, unemployment and poverty, weak governance and corruption, high cost of doing business, inefficient infrastructure and educational gap. Nevertheless, the government has seized a financial

package from the IMF to pull the country out of vicious cycle of economic crisis, it still reforms in abovementioned sector

## A Bird's eye view of Pakistan's economy:

Before exploring the challenges faced by the economy of Pakistan it is imperative to look at the country's current economic condition. Ironically, Pakistan's economy has taken a downward trajectory. Over the past few decades, Pakistan's economic growth has ~~slowed~~ <sup>gone through a period of relative growth and stagnation</sup>. For instance in 1960s, Pakistan was economically strong but in 1970s, economic growth slowed. Currently, the country is in abyss of severe economic crisis. According to World Bank report, 2023 "Pakistan's economy slowed sharply in fiscal year 2023, with real GDP estimated to have contracted by 0.6%."

## Economic Challenges of Pakistan:

### 1) Tax Evasion:

Tax evasion is considered a significant challenge to economy. An

economic blow is seen when the elite <sup>class</sup> and retailers evade tax. According to the Federal Board Revenue (FBR) report 2023, "The tax evasion rate of 35% among affluent class alone resulted in a significant decline of 75 billion rupees in tax revenue." Tax evasion is a significant obstacle to stable economy. Only 1.5 million out of more than 200 million people in Pakistan pay tax.

## 2. Energy Crisis:

Pakistan has faced severe energy shortages and an inadequate power infrastructure leading to power outages and hindering industrial productivity. The energy industry in Pakistan is in crisis due to the lack of energy output unable to meet the rising demands of people. The Asian Development Bank published a white paper in 2019 claiming that "Pakistan is an energy insecure country."

## 3. Unemployment and poverty:

Unemployment and poverty

remain persistent issues in Pakistan's economy. About 58.7 million people dwell below the poverty line. Although, Pakistan faces many energy challenges, unemployment might be one of the dangerous that leads to slow economic growth and also a high brain drain.

#### 4. Weak governance and corruption:

Weak governance and corruption have been longstanding issues in Pakistan. A country cannot grow unless the issues of weak governance and corruption are not resolved. According to the latest report of Transparency International, Pakistan has been ranked at 42 among the most corrupt nations of the world.

#### 5. High cost of doing business:

Numerous problem and hurdles in the way of starting a new business, such as delay in communication, centralized decision-making, lack of loyalty, lengthy registration procedures and lack of skilled

labour force make it unaffordable and expensive for the investors to start a business. This is a serious barrier to economic growth.

## 6. Infrastructure deficiencies:

Pakistan's infrastructure is relative poor by international standards. Inefficient infrastructure including transportation networks, ports and telecommunication limits trade and economic development. According to state Bank of Pakistan the estimated loss to Pakistan due to poor infrastructure is about 4 to 6% of its GDP.

## 7. Education and skill gaps:

Pakistan faces serious educational crisis. About 26 million children are out of school. Poor education and lack of Technical skills contribute to the poor economic growth. Asian countries such as South-Korea, India and China have achieved significant growth due to educational reforms.

## Recommendations to address economic challenges

### 1. Curbing the fiscal deficit:

The most urgent is curbing the fiscal deficit. This involves instituting an equitable and simplified tax system, bringing untaxed and undertaxed sectors into wider revenue net, ending exemptions and ensuring tax compliance.

### 2. Resolving Energy crisis:

Resolve energy crisis by either transitioning to renewable energy sources or ensuring a steady supply of energy through fossil fuels.

### 3. Poverty alleviation:

Poverty alleviation programmes should be initiated to address the underprivileged classes of society. This involves strengthening the social safety programmes such as BTSP and Seht Card.

#### 4. Good Governance:

Improving governance by combating corruption through enhanced transparency and effective accountability laws. There is a sheer need to curb corruption at all levels. The institutions of NAB and FIA should be made powerful to curb corruption.

#### 5. Business-friendly environment:

The government should act as facilitator to promote business growth. The economic plan should aim to establish a single business regulatory framework. This can be achieved by making the Special Investment and Facilitation Council (SIFC) effective and ending red tape by providing one-window services.

#### 6. Investment in Infrastructure:

The government should invest in physical infrastructure to improve the delivery of services and goods. One better option for government to <sup>attract</sup> investment in infrastructure is

to involve private sectors in this venture. Therefore, the government should work out a long-term strategy to ensure an efficient infrastructure to promote economic growth.

## 7. Investment in human capital:

An economy cannot grow unless the government invests in human capital, in its people. Better educational policies are needed to bring out of school children to school and institutions should focus on teaching technical skills.

## Conclusion:

In conclusion, despite serious economic challenges of Pakistan, some hope is there. To break free from perpetual crisis, reforms in various sectors such as <sup>in</sup> FBR, NAB, FIA, in education sector etc. are needed. By drawing up pragmatic solutions, Pakistan can move towards stability and prosperity. The road ahead may be daunting, but with political will and decisive action, the country can overcome its economic challenges once for all.