

ECONOMY OF PAKISTAN: Challenges & Prospects

Outline:

1 Introduction.

Pakistan's economy at crossroads
Thesis Statement: Pakistan is facing numerous economic challenges including trade deficit, inflation, energy and water crisis, tax evasion and unemployment. These challenges can be tackled with right strategies such as by reducing imports-export gap, ensuring political stability, investing in human capital, and broadening the tax bases.

2 Economic Challenges:-

2.1: Import-export gap

A Reduced exports and increased exports.

B Shutdown of many industries
C Industries and services are
 shifting due to internet **shut**down.

2.2 Rising Inflation.

A High prices of essential
 goods and services.

B High electricity charge.

2.3: Unemployment

A Shutting down of industries
 renders many people unemployed

B It leads towards brain
 drain.

C Increased social crimes.

2.4: Energy and water crisis:

A Pakistan is facing energy
 and water shortages.

B Energy crisis is leading
 towards deindustrialization.

C Increased prices for consumers.

2.5 Tax evasion and low tax bases.

A A significant portion of economy
 remains undocumented.

B It causes budget constraints.

C Government ~~are~~ resort to

borrowing

3

Prospects of Economic Crisis:

3.1 - Reduce imports

A Pakistan should promote industrialization.

B We should adopt "make in Pakistan" approach.

C Agricultural modernization will also help to increase exports.

3.2 - Ensure political stability.

A Ensure political stability and continuity of policies.

B Make environment, effective for investment.

C Reduce corruption.

3.3 : Revenue enhancement.

A Broadening the tax bases.

B Eliminating tax evasion

C Reducing corruption.

3.4 - Human Capital Development.

Investing in human capital of Pak.

Prioritizing education and skill development.

Promoting vocational training, and bridging the gap between academia and industry.

4 Conclusion.

Essay

Today, Pakistan confronts multiple challenges with varying intensity.

Some of these challenges are multidimensional and complex, that will take many years to overcome.

Unfortunately, some of these challenges are self-inflicted by the power houses that have caused a widespread socio-economic damage to this country. Among all these issues the poor economy remains the chieftain of all. Pakistan is facing a range of economic issues that have significant implications for its development and

Stability. There are some other countries that are facing the economic challenges. But they are dealing with it successfully. Pakistan being a developing country is unable to deal with these challenges. Pakistan's economy is facing some serious challenges including trade deficit, inflation, energy and water crisis, tax evasion and unemployment. Some critical and honest efforts are required to address these issues such as, by reducing imports- import gap, ensuring political stability, investing in human capital and broadening the tax bases.

Starting with the economic challenges, the foremost challenge is the import-export gap.

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We are a nation who excessively rely on the imports. we prefer to use even the basic goods and services of foreign countries. Pakistan's trade deficit is **\$1.9 Billion** in oct 2024. Our imports are increasing and exports decreasing gradually. As Pakistan is facing energy crisis as well, so due to energy shortage, and high electricity costs, the industries in Pakistan are being shut down. For instance, Nishat, Toyota and Koh-e-noor are among the industries that either stopped or decreased their production due to high electricity costs. So as a result of this we have to rely more on the foreign goods

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and services. Moreover, the repeated internet shutdown further exacerbated the situation. Many industries and services are shifting from Pakistan due to internet shutdown. Pakistan government should be well aware of the fact that any country can lose **Rs 1.3 billion** in a 24-hour internet shutdown. So in this way, our own poor policies are damaging the country's economy. Over the past few weeks, more than 150 services have been shifted to India and UAE due to unnecessary shutdown of internet. Even Pakistan has a highest young population. There are many young freelancers in Pakistan who can contribute

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to our economy. According to Goldman Sachs Report; "Pakistan could be world's Sixth largest economy by 2075 because of highest young population."

But instead of using their potential, our government's policies are compelling them to move to another countries. So all these factors collectively contribute to our import export gap.

Secondly, the rising inflation is also another big challenge that we are facing today. Energy crisis, high energy cost, and deindustrialization are the factors which are responsible for the high prices of essential goods and services. From July 2023

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to March 2024, the inflation rate reached to an average of 27.96%. So inflation ~~has~~ hampers the economic development to a great extent. Moreover, the Russia-Ukraine and Hamas-Israel war also contributed to the high inflation. For Pakistan, being a developing country, with staggering economy, these conflicts has effected the country's economy very badly. Inflation affects the living standards of people and the economy as well. It is also another reason behind the shutdown of industries. Now there is some improvement in the inflation rate as in Aug-2024 it dropped to a record low of 11%. But still

inflation is another big reason of the economic crisis.

Moving forward with the challenges, another economic crisis that the country has been facing since the last few years is unemployment. As Barack Obama said; A good economy is about more than just a growth, it's about creating jobs and opportunities for all." Unfortunately we lack in this. Already the state is failed to increase the employment and the internet shutdown made the situation even more worse. Internet shutdown causes many freelancers and IT experts to shift to another countries. As due to internet shut

down, they can't continue their work. Even the multinational online market place for freelance services "Fiverr" warned the people to and made several accounts in Pakistan "unavailable" due to internet disruption. It affected many freelancers in Pakistan and as a result they moved to UAE. Moreover the industries' shutdown also make the situation more worse. Some very renowned brands decreased their production in Pakistan and some even stopped the production and shifted their services to another countries rendering many people jobless here in Pakistan. So, if we want to

stabilize our economy, we should make the environment effective for our people so they can contribute to the economy.

Yet another menace, the energy and water crisis is also damaging the economic development of country. Water crisis is a kind of crisis that adversely affects our economy and well being. As a famous quote depicts this reality;

"Thousands have lived without love, but not one without water."

Even the reason behind our water crisis, is not merely the shortage of water, but our poor management of the water resources. We could not manage these resources as they

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Should be managed. As the former Governor of State Bank of Pakistan, Dr. Ashraf Hussain once said that; "We do not have a water crisis; we have a failure of governance with regard to water issue".

We are far behind in the maintenance of water structure infrastructure, water conservation technologies and recycling of waste-water.

As a result of our own negligence, we are left with water crisis. As per IMF, "Pakistan's per capita annual water availability has reduced from 1500 cubic meters in 2009 to 1017 cubic meters in 2021". It is further estimated that by 2025, it will fall to 274 million acre-feet, while the resources remain the same

at 191 MAF. So, we are facing water shortage. The country's population is increasing rapidly and water resources are declining as well. So this is the sign of worry for a country which is already entangled in economic crisis. Apart from water crisis, the country is also facing serious energy crisis. The country has not made substantial investment in building more power plants or upgrading existing infrastructure to meet the energy demands. Even it is not as that the country is unable to produce sufficient energy, but we are not able to manage the energy that is being produced. According to Pakistan's Economic

Survey, the installed electricity generation capacity reached 42,131 MW which is sufficient to fulfill our energy demands. But there are problems in transmission and distribution of electricity.

The loss of electricity due to poor transmission and distribution is 33%, which is highest in South Asia.

Even due to poor management, the flagship project CPEC could not provide us the benefits that it supposed to provide.

Under CPEC, the country has managed to built some new power plants but still we are facing energy shortages, load-shedding and expensive electricity.

So, collectively these crisis are hampering our economy

as many industries stopped their production and some of them even shifted to other countries, because of an energy crisis.

last but not the least, another challenge that is hampering the country's economy is tax evasion and low

tax bases. A significant portion of our economy remains undocumented and

as a result we have low tax bases. A

great number of people in the country are

not paying taxes. AS

FBR chairman recently acknowledged

that not even wealthiest

5% of population are

paying the taxes they

owe. So this situation leads

to increased pressure on

the tax-payers. The already

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burdened class is extra-burdened. This is unfair to the citizens who are paying taxes already. Moreover it further reduces the revenues which ultimately causes budget constraints.

The government is left with reduced fundings for public goods and services.

Tax evasion further undermines the policy decisions. Moreover,

when the government is left with less revenues

then it has to resort to borrowing. AS recently,

Pakistan is again seeking

to get another loan

from IMF. So it undermines

the honour and integrity

of the nation. Hence

tax evasion is another

evil for the country.

These economic challenges demonstrate that some serious and honest efforts are needed to curb these problems.

Firstly, the country should focus on reducing imports and increasing exports. It is needed to reduce the import-export gap in order to reduce trade deficit. To achieve this, Pakistan should promote industrialization. It needs to solve the energy crisis so that not only new ~~est~~ industries will start here but also the industries that are shifting to another countries and has shut down will be functional again in Pakistan contributing to exports of the

Country. Moreover, Pakistan should also adopt "make in Pakistan" approach. For this the people have to change their mindset, so that they do not rely on the foreign products but they prefer the locally made goods and services. Recently, amid ~~the~~ Gaza genocide many Islamic countries are boycotting the Israeli products. So Pakistan can take this opportunity as a golden chance by making goods and services in the country. It will result in increased exports and decreased imports. Lastly, as Agriculture accounts for around 20-25% of Pakistan's total exports, so agricultural modernization is another solution and need of

the hour. Country should now focus on productivity enhancements, and supply chain improvements to make this sector better.

Secondly, political stability should be ensured and it will result in the economic stability.

Political stability will ensure the continuation of policies and CPEC projects will also be completed at a faster rate. Moreover

political stability will also improve the security of the country. The

improved security will increase

the investor's confidence. Recently

we witnessed that almost

12 Chinese companies a

were willing to invest in

CPEC Phase II projects

but because of

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Poor security situation, political instability and political polarization, these companies are now hesitating to invest in the Pakistan. So, political stability is necessary to make an environment effective for investment.

One more thing to do is the revenue enhancement.

The government should concentrate on broadening the tax bases. The government has set up a target of to collect tax

revenues of 13 trillion in FY 2024-25, which is more than 40% of the last fiscal year. It is a good initiative but the crucial efforts are needed to achieve the target. A major portion of the

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entire population does not
pay the tax. It
should be the first
priority of the state
to bring the people
under tax circle. Taxes
play an important role
in the economy's
development. AS the Finance
Minister of Pakistan
stated that;

**"Countries cannot be
run on charity but
taxes"**

Higher tax revenues
will allow us to
get salvation from
IMF provisions loans and
it will be a great
boost to the economy.
Furthermore we should
also reduce the corruption,
and elite privilege that
costs us \$17.4 Billion of

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Pakistan's economy. So, by reducing the corruption and increasing tax revenues, the country can move out of these economic challenges.

Finally, another step the state needed to take is human capital development.

The government should invest in human capital development. Education and skill development should be prioritized. Some initiatives are needed to encourage the people to get education. The people should also be motivated to get vocational education that will help them to learn different skills and they will be able to participate in ~~the~~ increasing the

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exports Moreover the state
should bridge the gap
between academia and industry.
So the industrial sector
will also improve and
it will lead to
increased exports