

Q: Analyze the key economic challenges currently facing Pakistan, including issues related to fiscal deficits, inflation, and debt management. Discuss the potential impacts of these challenges on Pakistan's economic stability and growth prospects. Additionally, propose policy measures that could address these economic issues and enhance long-term economic sustainability.

1- Introduction: Economic Challenges Of Pakistan:

Pakistan faced one of the worst economic crises in its history in 2023, with inflation, poverty and unemployment soaring, jeopardizing the lives of millions of people according to Human Rights Watch. It highlights the bleak economic condition of Pakistan. There are plethora of challenges that hampers economic growth in Pakistan, encompassing fiscal deficit, trade deficit, public debt and circular debt. It has multifaceted impacts on the livelihoods

of people of Pakistan such as poverty and low human development. However, by adopting long term policy measures, Pakistan can change the trajectory of its economy towards sustainable economic growth and progress.

2- Economic Conundrums Currently Facing By Pakistan:

Economic Challenges	2024
Fiscal deficit	3.7% of GDP
Current Account Deficit	USD 0.2 billion
Trade deficit	USD 17.7 billion
Inflation	11.8% (June)
Public debt	Rs 67.5 trillion
Circular debt	Rs 2.63 trillion
Tax to GDP ratio	10%

Source: Economic Survey of Pakistan
(2023-24)

2a- Skyrocketing inflation: Low economic growth.
The persistently surging inflation has impeded economic growth. An

FY2023, only 2.4% economic growth occurred according to International Monetary Fund report. Even Bangladesh's GDP growth rate is 6%.

2b- Mounting debt: A never ending vicious cycle of over-reliance on IMF: Dependency theory:

According to dependency theory, the periphery countries are highly dependent on core countries. Similarly, Pakistan is trapped in debt cycle due to dependence on IMF. Currently, the surging public debt on Pakistan is Rs 6.7 trillion. It is one of the biggest hurdles in economic growth.

2c- Exports are declining in relation to imports: Increasing trade deficit:

Pakistan's export market is stagnant with huge reliance on textile sector, which narrowed exports and increased imports. The trade deficit is 17.7 billion dollar, which

has floundered the economic stability.

2d- Fiscal deficit: Depletion of State Bank of Pakistan's foreign reserves:

Every year, Pakistan collects low revenues but expenditures are compounding with each passing year. It has depleted foreign reserves and caused fiscal deficit. Current fiscal deficit is 3.7 percent of GDP. Pakistan has to fill this gap by taking loans of IMF.

2e- Low tax revenues: Lackluster tax culture and tax evasion:

"Tax abuse in the form of tax evasion by the elites has left too many developing countries dependent upon aid"

- Richard Murphy "How Tax Havens Destroy the Economy"

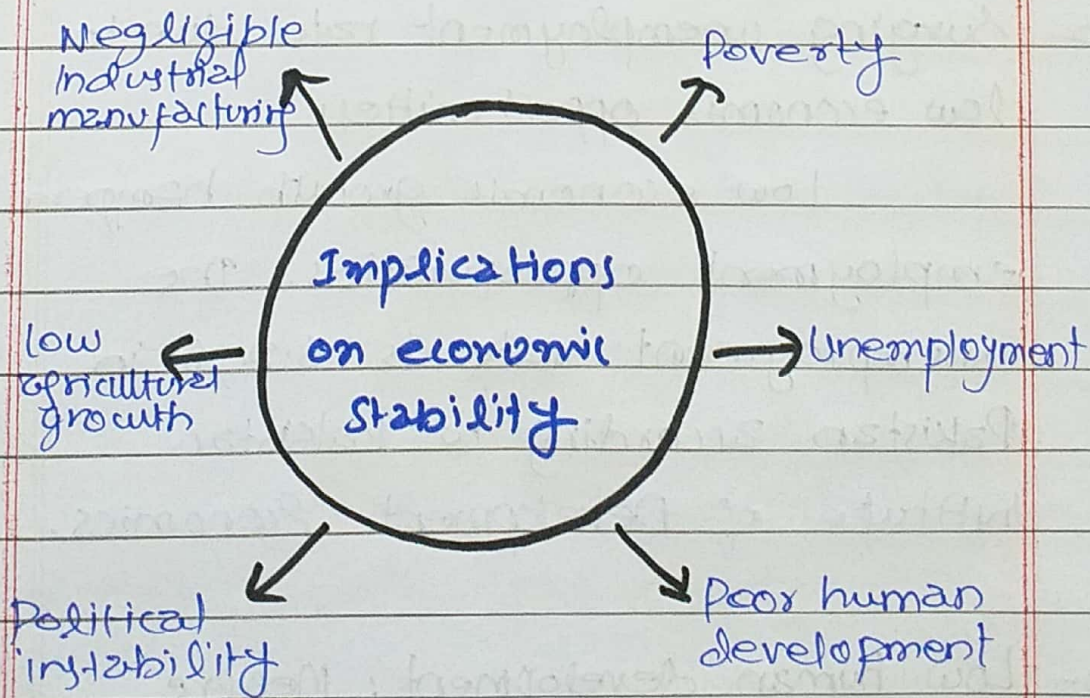
Pakistan receives lowest direct taxes. Almost 60% tax

collection is indirect taxes. It results in low tax revenues, which are only 20 per cent to GDP. Consequently, it further exacerbates current account deficit.

3- Repercussions Of Economic Bottlenecks On Pakistan's Economic Stability:

“ A strong economy is the foundation of a Strong country”

— Lee Kuan Yew, former Prime Minister of Singapore



3a- Rising multidimensional poverty:

Thomas Malthus perspective:

According to Thomas Malthus theory, when resources are scarce and population is large, then famines are rampant. Similarly, poor economic growth has pushed large population of Pakistan into multidimensional poverty. According to UNDP's multidimensional poverty index report 2023, almost 38.3% multidimensional poverty in Pakistan.

3b- Surging unemployment rate due to low economic opportunities:

Low economic growth hampered employment opportunities. The unemployment rate is 6.2% in Pakistan according to Pakistan Institute of Development Economics.

3c- Low human development: Meagre

Public Service Development Fund allocation:

The human development is

Pakistan is very low. Pakistan ranks at 164/193 countries on Human Development Index United Nations Development Program report 2024. It shows bleak picture of human development because Pakistan only allocates 9% budget to development.

3d- Declining agricultural growth: Lack of modern technology use in agriculture due to poor economic growth:

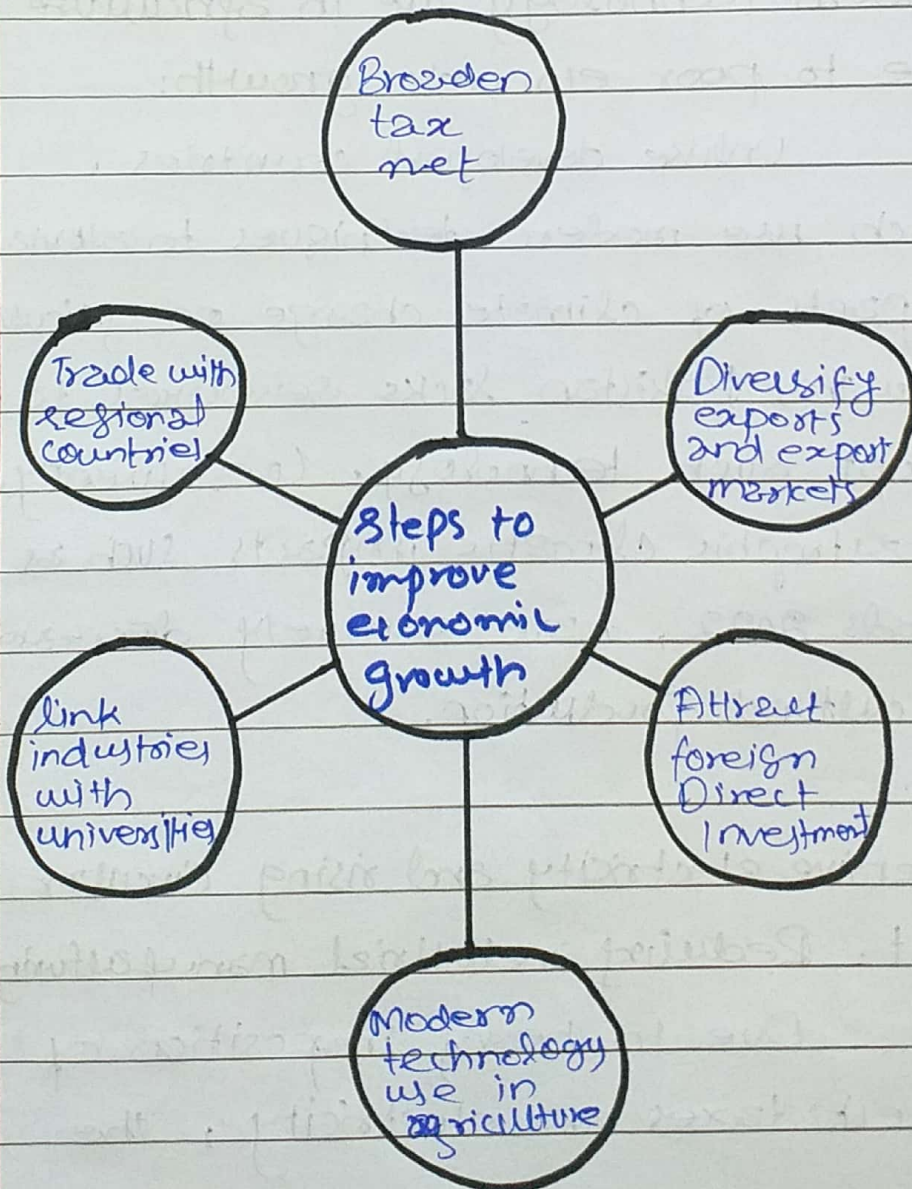
Unlike developed countries, which use modern techniques to alleviate impacts of climate change on agricultural growth, Pakistan lacks resources to adopt such technology. Consequently, catastrophic climatic impacts such as floods 2022, have severely decreased agricultural production.

3e. Expensive electricity and rising circular debt: Reducing industrial manufacturing.

Due to heavy imposition of indirect taxes on electricity, the

industrial productions in Pakistan is severely affected. It losted competitiveness in international markets. For instance, even textile industries have to struggle to increase export in traditional markets.

4- Policy Measures To Address Economic Issues In Pakistan:



4a- Broaden tax net: Strengthen FBR:

Government should take robust actions against non-filers of taxes. Federal board of Revenue should be strengthened to actively engage in tax collection. Moreover, both federal and provincial governments should have single tax collection authority that can improve tax collection through digitization.

4b- Diversify export commodities and export markets:

Pakistan is heavily reliant on textile sector. It should explore opportunities in blue economy, IT, medical instruments and leather. Moreover, more export markets need to be explored.

Case Study of India's export of digital expertise: The IT export of India has surpassed 250 billion dollars according to Bloomberg News report. Pakistan can also emulate India in improving skills in IT sector.

4c- Augment ease of doing business to attract foreign direct investment:

Pakistan can use special Economic Zones under CPEC as an opportunity to create one-window operation for investors.

Case study of China's industrial cluster model: China has boosted its economic growth through establishing SEZs. The Ruzhikai and Fuzizhabad SEZs have potential to follow the same model as China.

4d- Increase collaboration of industries with educational institutions to bring innovation:

Pakistan needs to implement research conducted in universities by enhancing collaboration between industries and these institutions.

Case study of Germany's dual education model: In Germany students practically supply their research in industries. In this way,

many innovative ideas are generated by industries. Similarly, Pakistan can also enhance industrial manufacturing by applying same technique.

4e. Use modern technology in agricultural to enhance production: Artificial intelligence based precision agriculture:

Many new technologies have brought revolution in agricultural countries. Similarly, Pakistan should apply modern techniques such as drip irrigation method, precision agricultural techniques, to increase agricultural production.

5- Conclusion:

Pakistan is encapsulated by plethora of economic challenges, which have multifaceted impacts on economic development in Pakistan. However, comprehensive policies and their long-term implementation can transform the trajectory of economy.

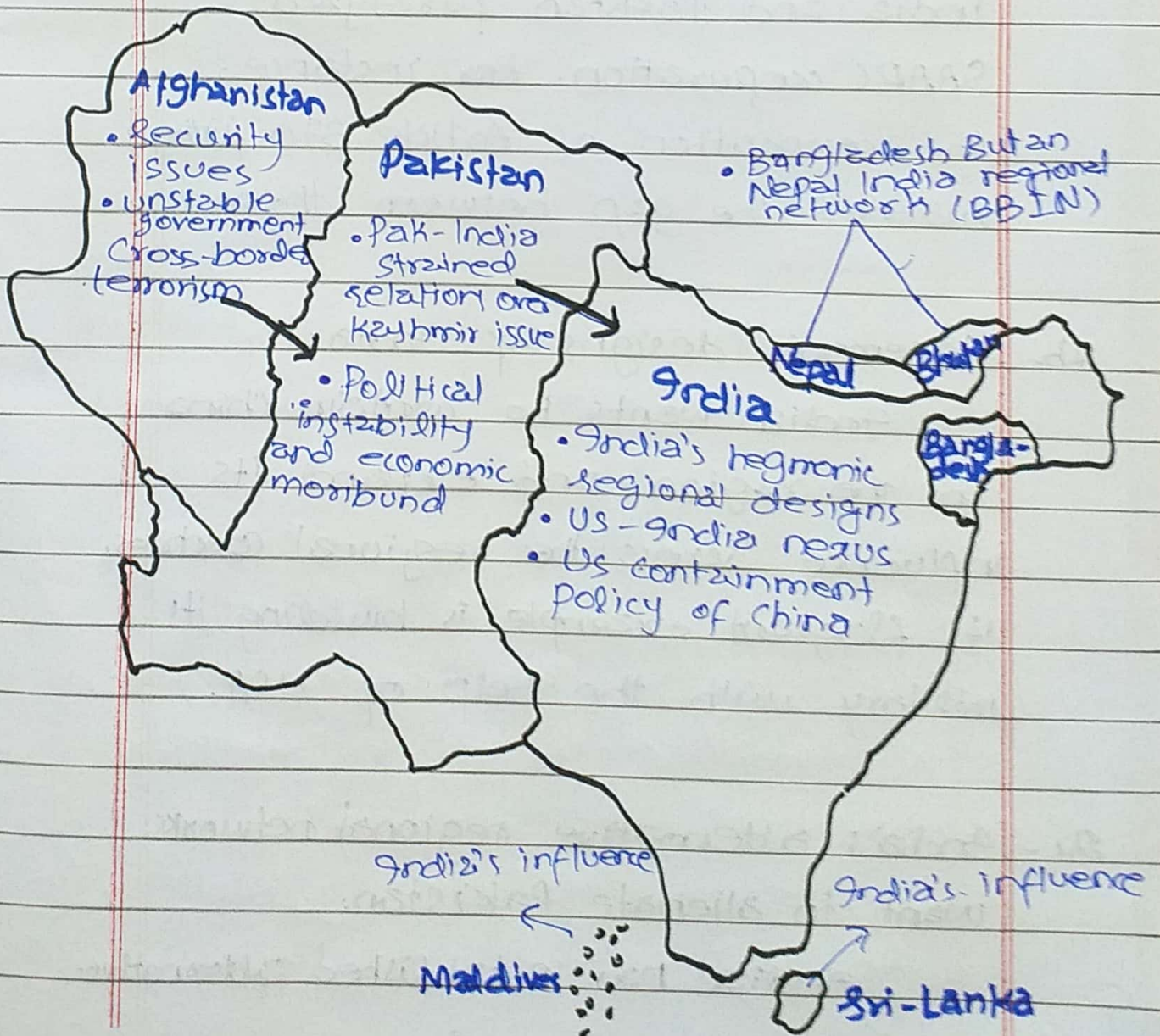
Q: Evaluate the current challenges and opportunities facing the South Asian Association for Regional Cooperation. Considering recent geopolitical developments and intra-regional dynamics, discuss the potential scenarios for the future of SAARC and its role in regional integration and cooperation. What reforms or strategies could be implemented to enhance SAARC's effectiveness and relevance in addressing South Asia's collective issues?

1- Introduction: Challenges And Opportunities Facing The SAARC:

South Asian Association for Regional Cooperation (SAARC) is established in December, 1985 with 8 member countries including India, Pakistan, Bangladesh, Bhutan, Nepal, Sri-Lanka, Maldives and Afghanistan. This regional organization faces several challenges in integration such as conflicting interests of its member states. However, mutual interests and shared goals of

climate, trade and security can unite these states. If a conflict resolution mechanism establishes, then these nations can collaborate to bring peace, stability and development in the region.

2- Challenges That Hinder Cooperation Among SAARC Nations:



Map showing conflicting interests of member states of SAARC

2a- Diverging interests of SAARC nations:

Pakistan and India frayed relation:

The largest nation among SAARC member states is India, which makes it dominant. This is the reason that conflicts between India and Pakistan paralyzed SAARC cooperation. For instance, the revocation of Article 370 further widened the gap between them.

2b- Hegemonic designs of India:

India wants to contain China in the region and expand its influence across the regional countries. Its flagrant example is building its military with the help of USA.

2c- India's alternative regional networks:

want to alienate Pakistan:

India has established alternative

regional networks to strengthen its regional influence such as Bhutan Bangladesh India Nepal (BBIN) network and The Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC).

2d- Current geo-strategic and geo-political milieu: US and Western powers' influence:

US containment policy of China and its nexus with India has created volatile situation in the region, which makes it almost impossible for regional cooperation among SAARC states.

For example, US presence in Indo-Pacific region and South-China sea.

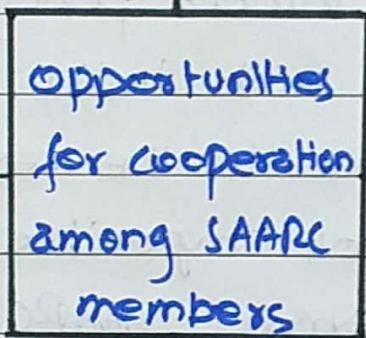
3- Opportunities For Cooperation Among SAARC Nations:

"SAARC has the potential to transform South-Asia into a region of peace, harmony and development. But this requires

all member nations to
act with commitment and sincerity”

- Maithripala Sirisena,
former President of Sri Lanka

(3a) Climate change and climate
diplomacy: Reparations demand
from developed countries:
Pakistan, India, Afghanistan, Maldives
are particularly most vulnerable to
disastrous impacts of climate change.
Therefore through SAARC platform
they can collectively demand for
climate compensation:

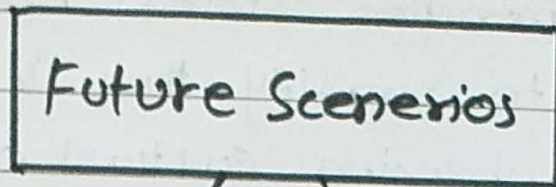


(3c) Tourism and
people-to-people
interactions:
By promoting
trade and cultural
exchanges, peace
and stability in
the region can be
promoted.

(3b) Cooperation
to resolve
security issues:
The resurgent terrorism
poses threat to all
states. It's an opportunity
to bring all states
together to resolve
this mutual threat.

(3d) Energy crisis and bilateral trade
integration to resolve energy-
related issues:
The Russia-Ukraine war and
conflicts in Middle East is a
grave threat to energy cuts.
Therefore, all states of SAARC
can explore other energy sources
such as CASA 1000 and TAPI
can be operationalized.

4- Potential Scenerios For The Future Of SAARC And Its Role In Regional Integration And Cooperation:



(4a) Completely paralyzed due to expansionist policies of India

Until the conflicts among member countries of SAARC settled, they cannot achieve regional integration and cooperation. It is likely to be expected that India surpasses China's power in the region with the help of USA. It will adversely impact cooperation among SAARC nations.

(4b) Convergence and Cooperation on mutual interests

The cooperation can be achieved by working on shared threats of climate change and terrorism. All SAARC states can negotiate to build strong economic and trade ties. It will ensure regional integration and cooperation.

4c- Promotion of cultural exchanges among SAARC nations can boost up regional integration:

All member states have potential to amplify their interests through enhancing cultural exchanges.

Other organizations such as ASEAN, African Union (AU) and European Union (EU) are examples of building friendly ties with each other through cultural exchanges.

4d- Technological advancement is an opportunity to bring SAARC countries together for mutual development:

Most of the South Asian countries are far behind in technology.

Therefore, through mutual collaboration, they can also forge strength of their people in learning new skills such as Information technology and software programming. India is already emerging in IT sector.

5- Strategies To Enhance SAARC's Capacity To Collaborate On Mutual Threats:

“SAARC should work more closely together to ensure sustainable development, eradicate poverty, and improve the quality of life of the people of this region.”

— Sheikh Hasina, former Prime Minister of Bangladesh

5a- Establish conflict resolution mechanisms:

It is imperative to establish an independent body that oversees conflicting issues. It helps in peacefully resolve issues through bilateral talks.

Case study of ASEAN's ASEAN Regional Forum (ARF): It promotes security dialogue and cooperation in the Asia-Pacific. Moreover, ARF

employs preventive diplomacy to manage regional conflicts. SAARC can emulate it to establish such conflict resolution mechanism.

Sb- Need to prioritise economic integration over contentious issues: Functionalist approach:

All members of SAARC should strive to explore cooperation opportunities rather than focusing on conflicts. As China and India have clashes over border, they do trade of almost 100 billion dollars every year. Pakistan and India should also prioritize trade ties over conflictual interests.

Sc- All states need to focus on low politics to bring regional stability and peace:

The South Asian countries should not indulge in great power rivalry. Afghanistan presents example

of exploitation at the hands of western rivalry. They should learn lesson from this and focus on economic integration among themselves.

Sd- Association of Southeast Asian Nations (ASEAN) is stark example of regional cooperation:

ASEAN focuses on economic growth, social progress and cultural development among Southeast Asian nations. SAARC can emulate ASEAN's economic cooperation mechanisms.

6- Conclusion:

SAARC is South Asian States regional organization that faces myriad of challenges to bring unity in diversity. Nonetheless, with political will, conflict resolution mechanisms and shared goals, all states can cooperate with each other. It will help them to foster regional peace and stability.