

Essay.

"Higher economic problems in Pakistan and how to meet them"

Outline:

(2117 words approx)

1) Introduction:-

2.) Higher economic problems in Pakistan.

2.1.) External debt

(December 2023, total external debt is \$ 131.159 billion)

2.2.) Inflation.

(Economic Survey of Pakistan → 26% inflation FY July - April 2024)

2.3.) Rising energy prices

(Electricity rates in Pakistan are 45% higher than other countries in region - Business Recorder)

2.4.) Rising imports

(Import bill surged to \$17.92 billion in January - April 2024 according to State Bank of Pakistan).

2.5.) Unemployment rate is increasing especially in youth.

(According to Economic Survey of Pakistan 11.1% unemployed are 15-24 aged people)

2.6.) Lower Human Development Index (HDI)

(Pakistan stands globally 164 out of 193 countries in term of HDI, value of 0.540 in 2024 according to UNDP Report)

2.3a Complex tax system leads to narrower tax base

b) Complex system also leads to tax evasion

(According to Business Recorder, tax evasion is Rs 5.8 billion)

3.) Ways to meet higher economic problems:

3.1) Increasing remittances
(through embassy incentives)

3.2) Controlling inflation
(In Switzerland, price price control policies are followed → Swiss National Bank)

3.3) Dire need of renewables like wind and solar

(Initiatives like Public-Private Partnerships) (e.g. SIFC)

3.4/a) Easy tax base through transparency, governance and digitization.

b) Ways to incorporate informal to formal economy ("Informal economy is 64% larger than formal" → Express Tribune)

3.5) Reducing Imports/ increasing exports.
(Encouraging domestic production)

3.6) Providing skilled based training/ educational incentives.
(Various programs for rural areas)

3.7) Increasing Women Participation
(providing quality childcare)

4.)
5.)

- 4.) Critical Analysis.
- 5.) Conclusion.

"Higher economic Problems
and how to meet them"

Pakistan, since its inception has dealt with political instability, periods of civilian military rule, different forms of government along with current situations like post Pandemic era, international conflicts, overthrow of recent government and trade disruptions. As a result, Pakistan's economy is plagued with an overwhelming external debt, inflation, rising energy prices, rising imports, higher unemployment, lower Human Development Index (HDI) and complex tax system. Although the country is trying to cope up with these issues but according to some experts, these measures are somehow ineffective. However, some measures such as increasing remittance, controlling inflation through adequate measures, promoting renewables, simplifying tax base, reducing imports, providing skilled based ~~high~~ training and increasing women participation would help. In order to make effective use of

these solutions, factors like political stability, international image and transparent governance are very important.

Firstly, one of the most grave challenge that is faced by the economy is rising external debt. Due to increasing debt, the country's currency is declining, creating inflationary pressure and further putting strain on economy. The already debt-burdened economy which has a total of \$131.59 billion external debt has recently got approval of \$7 billion loan from IMF (Al-Tazeera). The rising external debt would result in low foreign direct investment as investors would be afraid to invest their money in an already debt trapped economy. Not only this, but higher debt can reduce the ability to pay back resulting rising costs of commodities.

Secondly, increasing inflation rate is another economic evil that is faced by Pakistan. According to Economic Survey of Pakistan, Inflation Rate (CPI) is 26% (FY April-June), which is a lot.

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People are facing with reduced purchasing power due to constantly price increases while their average income remains the same, this leads to deterioration of living standards. As people are faced with economic hardships, political situation of a country may suffer due to social unrest which may lead to violent protests.

Thirdly, increasing energy prices poses great threat to the economy of Pakistan. According to Business Recorder, electricity rates in Pakistan are 45% higher than that of other ~~the~~ countries in the region. In an attempt to secure loans from IMF, Pakistan has to abide by their rules (According to the Diplomat). As a result, public agitation might occur further deteriorating the peace of society, it would also put pressure on the pockets of poor residents of the country while impacting their overall ability to do business because such high electricity costs would also result in high operational costs.

Fourthly, as the recent figure from State Bank of Pakistan suggests that import bill has surged \$17.92 billion in 2024 which means imports are very much higher than the export. This also happened due to relaxation in government policies. Increasing imports indicate that the economy is heavily dependant on foreign goods which would make Pakistan's economy vulnerable to any global supply chain disruptions or geo-political tension. That could be seen in the after shocks of Russia Ukraine conflict which heavily disrupted global supply chain of oil and gas markets and the negative impact could still be felt greatly in the country's economy.

Fifthly, it is so unfortunate that the unemployment rate is much higher amongst the youth of the country. Pakistan's youth is a valuable assets, that if utilized efficiently and skillfully could have better impact on the country. But the current unfortunate scenario suggests something else otherwise. According to the

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Economic Survey of Pakistan, 11.1% of the unemployed are people from 15-24 age groups. This figure shows that how unfortunate and unlucky the country is about utilizing its precious human resources. Due to unemployment, mental stability of unemployed youth deteriorates, this would also result in their association with illegal activities which would further put strain on the already strained economy of Pakistan. 625

Sixthly, another threat to economic landscape of Pakistan is lower Human Development Index (HDI), according to UNDP report of 2024, Pakistan stands globally 164 out of 193 countries in terms of HDI with the value of 0.540. This shows lack of policy measures to uplift human development of the country.

Most of the population especially rural is faced with alarmingly low human development which is due mainly due to scarcity of clean drinking water, diseases, malnutrition in children and their inability to access resources. Human development is a vital step in the economic

sustainability, without it, it is impossible for a country to grow and prosper. A healthy body and a healthy mind is the first step towards betterment. An unhealthy and malnourished community workforce would not be able to participate in the workforce.

Seventhly, the existing tax system which is so complex and lacks transparency become an economic challenge. As the complex tax base leads collection of tax difficult, ultimately the tax burden falls on the one some class of people or groups which results in lower gross salaries despite working hard all day, while those who successfully evade taxes like businessmen and industrial giants keep enjoying the luxuries of their lives. Lack of transparency in tax collection is evident in the narrow tax base, the government keeps taxing specific tax base to get revenue, which is unfair to people who are paying taxes. According to Business Recorder,

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tax evasion is 5.8 billion which is almost 7% of the GDP (Gross Domestic Product). The overall complex tax system has given birth to the informal sector that uses contemptful or unethical means to do business just to avoid the complexities of tax system.

However, there are some ways which can be implemented to tackle the economic problems of Pakistan. One of them being is increasing remittances.

In order to cope up with increasing external debt, Pakistan needs to adopt ways to which it can repay the debt back.

The numerous bailouts that has been granted by IMF, China or any other country cannot be reversed, so that country need to adopt policies to take care of its debt like to increase its remittances.

The government should offer tax breaks or incentives for those who want to send remittances home, this would prevent them from using grey markets for sending their money home. The government

should work on fast-building so that sending remittances home would be felt safe. Along with tax breaks, government could also simplify the process and give provide low transaction costs. Smartly utilizing digital platforms would make it easier to send remittances. The more the remittances in the country the more economically stable the country would be.

Also, measures should be implemented to curb inflation in the country. There is no one way which a country can reduce its inflation. There are numerous techniques that needs to employed by the government according to its economic, social and political landscape. Some measures such as using supply side policies to ~~to~~ improve productivity and efficiency in the country, price controls could be offered and also diversifying supply chains, because if one supply chain gets disrupt, the country has

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an option to utilize the other option, in this way there would be less disturbances in supply, so ultimately demand and supply would be manageable without putting pressure on the price.

Pakistan could also learn from Switzerland policies, according to Swiss National Bank, proper price control policies are followed, these price policies are not dependant on supply and demand mechanisms, rather they are solely dependant upon the government of Switzerland, which helps them becoming the least inflationary country.

Moreover, the use of increasing price of electricity has pressurized people to adopt other methods to save their electricity bill, such as solar and wind power. However, in Pakistan, cost of solar panels are so high that not everyone can afford to have solar panels at home while paying taxes. So, the government should make it easier for them to have solar panels, the government should also encourage the use

of solar panels at public and private offices as well, so that more productivity could be achieved without putting pressure on the pockets of people. Measures like Public-Private Partnerships should also be encouraged,

such as Special Investment Facilitation Council (SIFC). New projects of wind and solar should be encouraged, this would help meeting Pakistan's growing energy needs.

Furthermore, tax system should be transparent, and free from any political influence.

There should be good governance and digitalization. A digitized tax system would have proper details of tax payers and non-tax payers of the country. The prevalence of informal economy which existed mainly due to high and unfair taxes should also be addressed. Government should incorporate ways to turn informal economy to formal economy, this way tax base could be expanded, which would decrease existing burden on the already taxed sector. According to the

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Express Tribune, informal economy
accounts for 64% more than the
formal economy, which if incorporated
in the formal sector bring numerous
advantages to the country, by
solving many issues that are
prevalent.

Besides, there should
also be focus on reducing imports,
as the current imports bill is
much higher than the exports.

There should be serious implementation
of measures that help increasing
export and export potential of
the country. Domestic Production
should be encouraged, government
should provide subsidies and
incentive to small to medium
scale businesses. Countries' own
industries should be encouraged to
reduce dependency on the imports.

Similarly, export potential should
be taken into account, government
should adopt measures to increase overall
potential of the exports such as by
focusing on key areas of exports like
agriculture, cultivating existing
land that is barren to increase
agricultural outputs would enhance
export potential and export
volumes.

More and more, there should be focus on providing education and skilled based training to the people. As the literacy rate is 62% (Economic Survey of Pakistan), providing additional training and education would help in increasing literacy rate of the country. With given the current pace of rapid globalization, there is an increased need of skilled based businesses/jobs, so for that, focus should be on providing skills. Main focus should be on providing education and training to rural areas where illiteracy is more prevalent. Providing them with training would equip them to become a useful resource for the economy of Pakistan.

Last but not the least, there should be many initiatives that would help women become a part of this fast paced economy. Due to cultural and religious factors, many women are reluctant to go out and work, some have family reservations, some are not allowed by their

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families or husbands and some are bound to stay at home and fulfill their motherhood duties. Initiatives like providing childcare facilities to women (food panda office, UNILEVER) would encourage them to work without worrying about their babies. Many women in Pakistan work from home and do online businesses which make up a significant proportion of informal economy, thereby reducing overall revenue collection opportunity for the government. So, women should be encouraged to become a part of workforce and contribute positively towards the economy.

Although it is important to implement effective measures for the betterment of the country but in order to get most out of these given solutions and strategies, internal affairs and security of the country should be stable. Without political stability, democracy, national security, soft image of the country, these solutions would not be as fruitful as they should be. So it is most important to strengthen

the country within, so that
so outer / external force could
take advantage of Pakistan.
If Pakistan shows strong, resilient
behaviour then these solutions would
be beneficial. The country should
also focus on becoming self-
sufficient rather than finding
easy escape to get money
that is going back to
IMF again and again, this
would tarnish the reputation
of Pakistan globally and hence,
the country would lose its
credibility in international forums
like United Nations Organisation
(UNO) and regional organisations
like Shanghai Corporation (SCO).
Pakistan is on the road
to become a transit economy,
so it should make maximum
use of it to reap the
benefits of transit economy.

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In conclusion, despite grappling with numerous economic challenges that are a result of vast instability in politics, national security and global calamities, Pakistan can overcome these problem by following strategic growth steps, and using step by step approach to eliminate economic evils such as, increasing remittances, controlling inflation through various effective measures, promoting use of renewables through Public-Private-Partnerships, easing the tax system through transparency, good governance and digitization. The country should also incorporate informal sector to its formal sector which would result in great influx of revenue to the government, promoting ways to increase exports, providing skilled based training and education (especially to rural areas), and increasing women participation in the country. Given that, the above measures would be of great value if the internal condition like political stability and national security is given top most priority, because for "the tree to look green and full of fruits, it's roots should be watered carefully."