

Discuss the major economic challenges facing Pakistan and propose strategies for sustainable economic growth and development.

Q. NO: 03

1) INTRODUCTION: Major Economic challenges and growth strategies for Pakistan

"The issue with Pakistan's economy is not mere economic rather it is the issue of the whole political economy" ~ S. Akbar Zaidi, Economist

Pakistan's economy is riding on a roller coaster, facing sometimes booms and other times the bust. The major issues of the economy are current account deficit and fiscal deficit. It shows internal as well as external vulnerability of Pakistan's economy. Internally, country is affected by political instability which deteriorates economic condition. Other factors like weak export, under-industrialization, low tax base and debt problems are contributing to internal issue. While at

external level, extensive loans (debt), dwindling foreign direct investment, climate catastrophes, uncontrolled imports and changing geo-political apparatus hamper the Pakistan's economy. To overcome these, government should take immediate measures in the said areas to revamp the economy.

2) THE INTERNAL CHALLENGES IN PAKISTAN'S ECONOMY

2.1) Political Instability Weakening economic ambitions

Frequent government changes halt the proper long-term planning and policy making. Every government comes with its own agenda while de-throning previous policies.

As Malecha Lodhi (Former US ambassador for Pakistan) says for economic prosperity, political harmony is a must factor.

As per Bloomberg's report on political instability and economy;

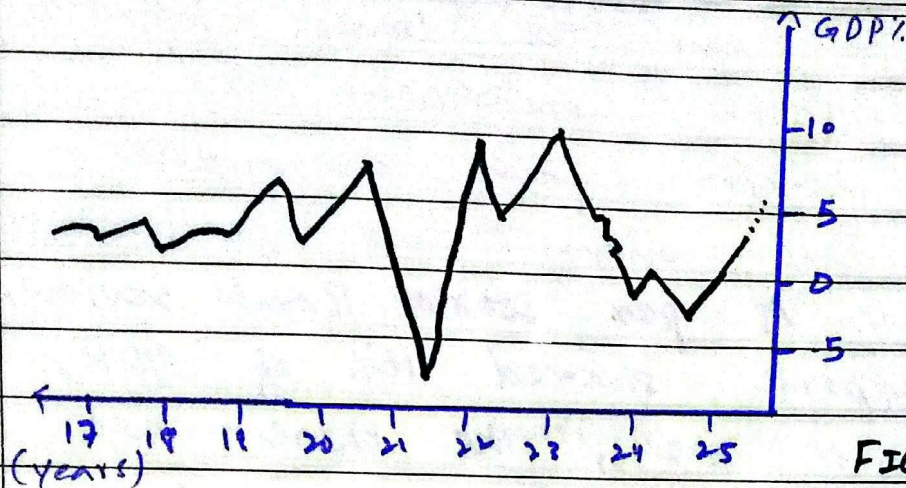


FIG: 2.1

This report shows that prevailing political instability in Pakistan is deteriorating its economic cycle.

2.2) Weak Exports behind Balance of Payment Crisis

In year 2024-25, Pakistan only exported \$30 billion of products such as Rice, maslakh, wheat, cotton (textiles), etc. However, Pakistan imported \$60 billion of products (Economic Survey). This low amount of export can attributed to weaker industry base, climate change and lack of skilled workforce.

2.3) Lack of effective and efficient Industrial sector

Merely 10-20% of GDP is comprised of industry

which is one the lowest figures against Pakistan's neighbour. The industrial sector faces enormous challenges of energy and infrastructural impediments. As per world Bank review, in 1990s exports shared 16% of GDP, whereas in 2024, the share has dropped to 10.5%. It is just because Pakistan's industry is functioning on old-fashioned machines and methods.

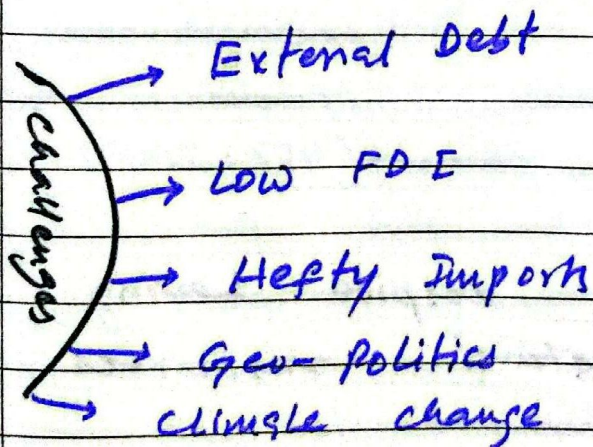
2.4) Issue of Tax in Pakistan

The major problem in fiscal deficit of Pakistan is its tax-based issue. There is wide evasion of tax, low tax bracket and undocumented and unautomation. As of FY 2024, country's tax-to-GDP ratio is ~15% which 4% lower than Asia Pacific region (World Economics). As per another report of Pakistan Institute of Development Economic (PIDE), 70-80% people are not in tax bracket and 80% of Pakistani perform cash transactions.

2.5) Expanding Domestic Debt

Pakistan's interest domestic debt has surged to Rs. 54 Trillion including debt from commercial banks and PPPs. Lack of revenues and more expenditure lead to higher amount of debt. As per Pakistan Bureau of Statistics, 50% of revenue is spent on paying the interest on debt.

3) EXTERNAL CHALLENGES OF PAKISTAN'S ECONOMY



3.1) Chronic External Debt

Due to low exports Pakistan is prone to get more debt. Shrinking foreign reserves also compels Pakistan to

go for bailout packages. As of now Pakistan has outstanding loan of Rs. 96 Trillion / \$ 80 billion. From which \$ 22 billion to China, ~9 billion to IMF \$ 18-19 billion to ADB and others. So, Balance of payment crisis coupled with issue lead Pakistan to increase debt basket.

3.2) No investment due to low FDI

According to Finance division of Pakistan, country hardly attracted 1% of GDP as FDI. This state of affairs is because growing security concerns, administrative hurdles, and increasing poverty (45% IMF).

3.3) Hefty imports despite having enormous natural resources

According to a new research (Geological), Pakistan possesses trillions of US dollars beneath its earth, yet it imports more. As per ministry of energy Pakistan imports 30% of overall imports of oil and LNG. This brings the

burden on foreign reserves which are shrinking at \$17-18 billion.

3.4) Climate change incurring huge losses

Each year with monsoon coming, Pakistan gets heavy rainfall, which end up in flash floods and washing of agriculture lands. As per National disaster Management Authority, 2025 flood incurred \$3 billion of loss along with loss of 1+ million of agriculture land.

2.5) Geo-politics and its aftermaths on Pakistan's economy

Conflicts at critical chokepoints like the strait of Hormuz and babul-mandeb make Pakistan vulnerable to economic instability.

A day of blockade at this point would increase inflation in Pakistan by more than 100%.

Geo Economic Review. Moreover, India's

uneasiness can be seen by supposing proxies like BLA & BNA in Pakistan to destroy critical infrastructure.

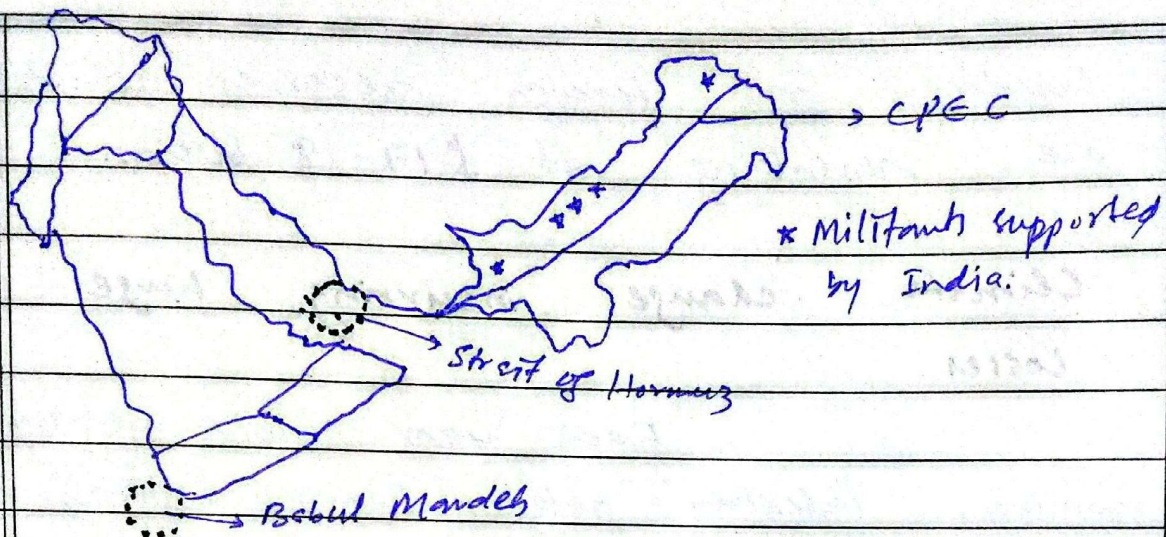


FIG: 1.2

4) STRATEGIES FOR SUSTAINABLE GROWTH AND DEVELOPMENT

4.1) Promoting Skilled Workforce

Pakistan has an enormous human capital who can transform the economic by its skills. Giving them modern education, incorporating artificial intelligence and robotics, they can generate huge amounts of profit. Already, the youth has generated the remittance of \$38 billion in year 2024-25 which is 26% increase from previous FY. So, it can be reached at \$100 billion. As India's technology exports surges to \$250 billion/year.

4.2) Enhancing Industrialization and Strengthening Export Base

As government has taken a good step with the help of China of launching more (SEZs) across the country. Chinese technology can be integrated in Pakistan's industry to boost the exports.

4.3) Increasing tax Bracket

Pakistan has a very low tax-to-GDP ratio as compared to its neighbour where it is upto 90% and Pakistan is struggling at 10-15%. So, bringing more people in tax bracket and integrating technology so that \$ more tax can be recovered can be a viable strategy.

4.4) Attracting FDI

FDI in Pakistan is at alarming rate, only 2.2%. This can be increased by providing security and improving administrative

bottlenecks. One window registration and acceptance mechanism can be implemented.

4.5) Making climate Resilient Infrastructure

Pakistan should focus on water management. cities or populated areas must be constructed with climate-resilient canals and rivers. Proper mechanism should be followed to help water safely reach the Indus delta.

5) CONCLUSION

Pakistan's economy is facing critical challenges. Internally, political instability, weak export, domestic debt, and slow industrialization are contributing to economic meltdown. Externally, debt issues, climate change, more imports and geo-political situation also impedes economic growth. However, government should take immediate measures in promoting skilled workforce,

Critically analyze the major causes of the energy crisis in Pakistan and its impact on national development

enhancing industrialization, reforming
can system and attracting FDI to
bring growth and development

Suggest practical reforms

2) INTRODUCTION: Energy Crisis in Pakistan
that can ensure energy security and affordability in Pakistan.

Pakistan's energy sector has remained an apple of discord in country's development. The already disintegrating economy is further detached by issues of energy. Energy crisis in Pakistan can be attributed to complexities in agreements with independent power producers, inefficiency of distribution companies (DISCOs) and more reliance on energy imports. In the backdrop of these issues, Pakistan's industrial sector worsens, circular debt expands and socio-economic grievances increase. To overcome the crisis, government needs to renegotiate with IPPs, privatize the DISCOs and use renewable source

of energy.

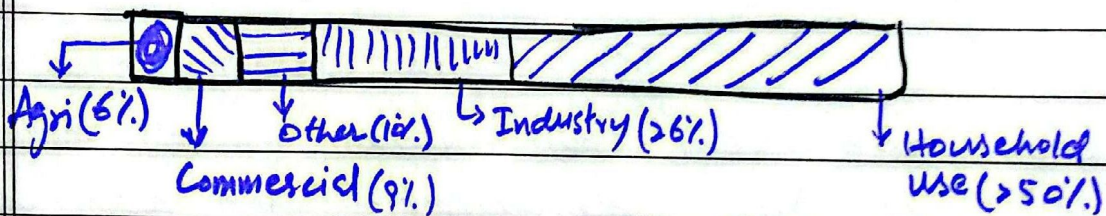
→ Energy Condition at Play:

- Generation Potential
- Installed Capacity

→ 90,000 GWh

→ 45,000 MWh

→ Energy Consumption



Source: Ministry of Energy

9) MAJOR CAUSES OF ENERGY CRISIS IN PAKISTAN

2.1) Agreements with IPPs as a bone of contention

Pakistan's energy sector has been affected by the lack of planning in agreements with IPPs. In 1980s and later 2000s, government agreed on fixed returns upto 15%. The need of hour was

Plant many power plant as much IPPs could do. The terms and conditions was not long-term centric. Therefore, today these IPPs incur huge debt or payment on government without even functioning. As per energy division, there are more than 100 IPPs in Pakistan. According to (PBS) 70% of energy budget is spent on IPPs for their prior agreements.

2.2) Inefficiency of DISCOs

DISCOs are inefficient when comes to bill recovery, maintenance and protecting transmission lines. They single handedly incur Rs. 400 billion of loss which government pays through subsidies - Energy Division of Pakistan. DISCOs are also remain failed in curbing the power theft due to prevailing corrupt practices.

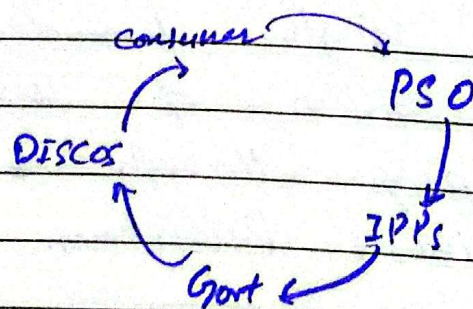
2.3) Reliance on Energy Imports

Pakistan energy imports

account for overall imports. Let say overall import is \$60 billion, energy import is \$18 billion out of it. Pakistan imports oil and gas for middle to run electric power plants. Moreover, 48% of country's energy ~~and~~ comes from thermal power plant. So, supporting these power plant gets huge chunk of our foreign reserves. (Data from Economic survey 2014-2015).

3) Major Implications of the Crisis

3.1) Widening Circular Debt



According to Pakistan's energy division, Circular debt has surged to Rs. 1.6-1.7 billion. This comes from IPPs' capacity payments, inefficiencies at government level,

DISCOs mismanagement, power theft by end consumer and importing oil. All of the structural pitfall at every level have be compensated by government by taking loans either from domestic lenders or external.

3.2) Halting Industrial Sector Growth

Industries are shutdown in Pakistan due to increasing price per unit. As International Energy Agency reports that average price per unit across the globe is 10-15 cents/unit, but in Pakistan it is more the 80 cents per unit. Therefore, Industrialists are reluctant to continue. In reaction, Pakistan's exports diminishes over the years. According to World Bank data, Industrial exports was 16% of GDP in 1990s, However, it is 10% of GDP in 2024. So, energy crisis halts the industrial sector of Pakistan.

3.3) Growing Socio-economic Grievances

In Pakistan, frequent shut down of businesses due to the high cost of electricity, people are becoming ^{reeling} under poverty line. UNDP estimates 45% population lives below ^(poverty) poverty ^{line}. Along with this, inflation always remains at the top. In year 2022-24, it went upto 25%. That's why sentiments of people become genuine. It erodes the trust of people in government and public institutions.

4) REFORMS TO OVERCOME THE ISSUE

4.1) Going on Renewable Energy Source

Despite investing in thermal power, government needs to invest in wind, hydro, solar and nuclear energy. Government also needs to enhance the infrastructure to get benefits from renewable sources of energy. According to a study in Harvard university, 0.25% of using Balochistan's landscape for solar panels would finish the

energy issues of Pakistan

4.2) Renegotiate the terms and condition of IPPs Agreement

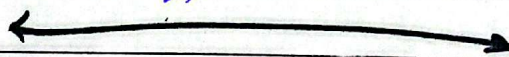
Government should amend the agreements by establishing a committee on IPPs affairs. Fixed returns tariffs and other waivers should be terminated. Government should make responsible IPPs for waste transmission line and they need to revamp their agenda from just producing to sustainable production.

4.3) Privatization of DISCOs

currently, DISCOs incur Rs. 400 billion of loss on government due to operational inefficiency. If these are privatized, other investors will work by looking at the competition. In this way, government would be able to get rid of some of its circular debt. Under CPEC II, Chinese investors will invest in DISCOs and that will also help Pakistan overcome the energy crisis somehow.

5) CONCLUSION

Pakistan's energy sector is in critical condition. The more the government spends, the less it gets. It is because of complex agreements with IPPs, inefficient DISCOs and high imports of energy. They altogether lead to heavy circular debt, shutdown of industry and contribute to social grievances. To reform the sector, government need to privatize, to renegotiate with IPPs and going for renewable energy sources.



Unity among diversity has been

PA:05

a challenge in Pakistan. Discuss

ANSWER TO QUESTION #01

Q) **INTRODUCTION:** The challenge of the role of provincial autonomy in addressing ethnic grievances in Pakistan?

"The challenge for Pakistan has never been diversity, but the absence of an inclusive political compact"

~ Hussain Haqqani
(Historian)

This quotation of Hussain Haqqani clearly points out the problem of Pakistan is not diversity, but political, economic and racial marginalization of diversity. Therefore, unity has remained a big challenge arising from historical political neglect of democratic parties, socio-economic grievances of provinces and lack of proper distribution of resources. To overcome these issues, 18th amendment to the 1973 constitution of Pakistan is a viable approach in the form of provincial autonomy. The revised scheme

of provincial autonomy is a big step to address ethnic issues in Pakistan. These include decentralization in governance structure, provision of health, education and agriculture in provincial subjects and tax collection.

2) THE CHALLENGE OF UNITY

AMONG DIVERSITY IN PAKISTAN:

2.1) Historical Political Neglect of Democratic Parties

Power centralization in the wake of One Unit scheme in 1950s neglected provincial democratic parties which led to ethnic discord. Also, the unacceptance of Mujeeb-ur-Rehman's mandate in 1970 election brought Pakistan on the verge of separatism and regionalism.

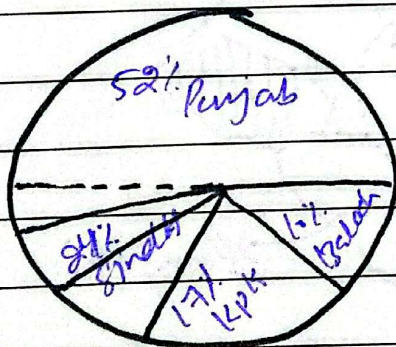
2.2) Unity in diversity is diluted due to socio-economic grievances of provinces

Ethnicity is further

exacerbated due to "Quota System in Jobs" marginalizing people of Baluchistan and Belochistan. Moreover, the royalty of economic projects is not given to residents of the area such that coal in Tharparkar and exploitation of gas in Sui. People, thus, become raise the slogan of their respected ethnicities.

2) Improper wealth distribution also spread resentments

Horizontal distribution of 7th NFC



Weighted formula
 ~ Population 80%
 ~ Poverty 10.2%
 ~ Revenue (Tax) 5.0%
 ~ Inverse Population 2.70%

Source: SBP

Distribution scheme of 7th NFC is not accepted by provinces like Balochistan and K.P.K.

due to prevailing poverty and natural hazards. This resource inequality also becomes an obstacle to unity and diversity.

2.4) Persistent Security Issues and militancy

Provinces like KPK and Balochistan are severely grieved due to terrorism and extremism in both provinces. In 2025, almost 1000 casualties have been reported. So, it distorts trust in government leading towards separation ideologies.

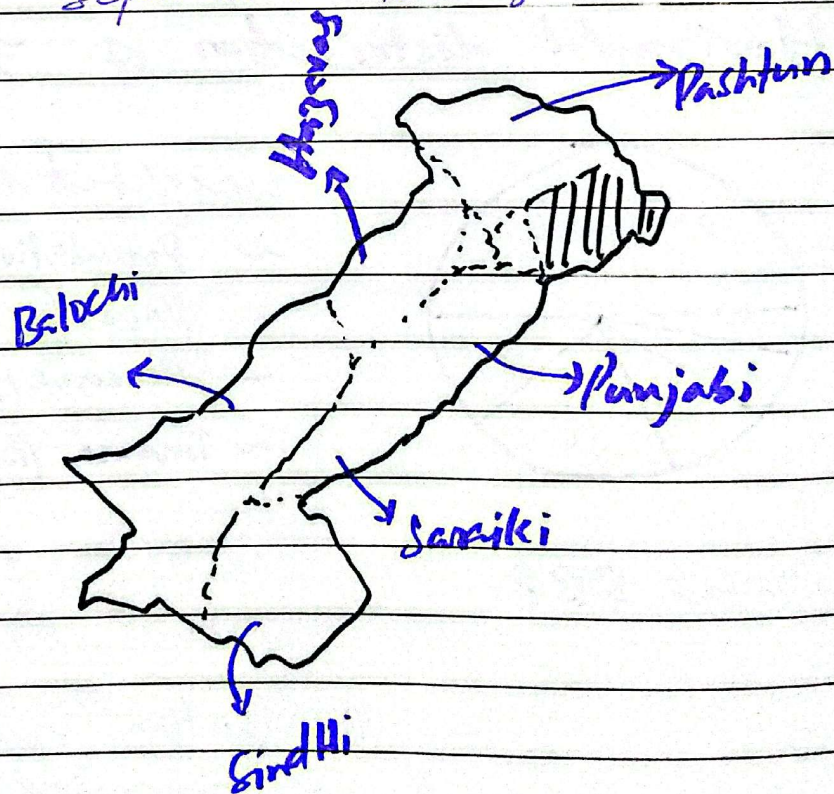


FIG: Ethnic diversity in Pakistan

3) ROLE OF PROVINCIAL AUTONOMY

- MY IN ADDRESSING ETHNIC GRIEVANCES IN PAKISTAN

Provincial autonomy is widely protected in 18th amendment of the 1973 constitution of Pakistan. Following points prove that provincial autonomy has reduced ethnic grievance in Pakistan.

3.1) Decentralization of power, empowering local government.

In provincial autonomy, all provinces are given right to local government. It means ~~power~~ power will be delegated to district union and town committees.

Sindh already has this system, but Punjab still lags behind it.

3.2) Control of Health Sector to provinces

Provinces now have their own health system. It is

divided from federation. Therefore, ethnic grievances are reduced due to health autonomy.

3-3) Provinces enjoy education as a separate entity for them.

The federation has nothing to do with education system of provinces. This separation was occurred due to growing ethnic discomfort on language. - Ethnicity preserved their language less be colonized prior to 18th amendment

3-4) Agriculture system under provinces to overcome alleged inequalities

Agriculture is also given to provinces due to the alleged accusation of inequality in output by federation. Now, agriculture output and tax comes under the provincial list (non-concurrent)

3-5) For reducing grievance, tax collection is also the subject

of provinces.

All four provinces collect taxes on their own. Sindh generates almost **60%** of tax in the country. grievances are further curtailed due to tax ownership.

3-6) Sharing of the royalty of natural resources

Provincial autonomy also includes the equal and joint possession of the royalty of natural resources. This would also reduce the ethnic discord in the country.

4) CONCLUSION

There are widespread ethnic grievances in Pakistan due to historical/political neglect, socio-economic grievances, improper wealth distribution and security tension.

Provincial autonomy, therefore, has played enormous role in reducing ethnic discomfort by giving ownership of health, education, agriculture, revenue and other sectors to provinces.