

NEED AND STRATEGIES TO RECOVER THE STALLING ECONOMY OF PAKISTAN

- i) Introduction ✓ 23/100
- ii) Understanding the Economy of Pakistan
- iii) Cause of Stalling Economy
 - a) Persistent political instability
rising security challenges
 - b) Security challenges
 - c) Weak taxation system
- iv) Need to Recover - the stalling Economy of Pakistan
 - a) Competing with developed and emerging economies
 - b) Reducing high loan and debt burdens
 - c) Increasing literacy, employment, and alleviating poverty
 - d) Economic strength determines global influence and power
 - e) Ensuring defence capability and national sovereignty
 - f) For long-term development and stability

v)

Strategies to Recover the Stalling Economy of Pakistan

a) Ensuring political stability for smooth economic growth

b) Reforming and making the taxation system transparent

c) Reviving industrial sector through SMEs Development

d) Modernizing agriculture sector

e) Enhancing Human Development through Health and Education

f) Facilitating ease of doing business to attract FDI

vi)

Conclusion

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According to the "The News International", As of March 2025, Pakistan's public debt surged to 76.01 billion - reflecting a staggering 337% increase in just a decade. With a debt now accounting for 66.3% of GDP, the country finds itself trapped in a fiscal quicksand, making economic recovery not just necessary, but imperative. Persistent political instability and weak taxation systems are one of the core causes for stalling economy. Pakistan's economy has always gone through critical phases repeatedly, but at present, it requires a leap forward to compete with emerging economies and reduce its reliance on domestic and foreign loans. Pakistan has also need to ensure its national sovereignty and strengthen its defence capability so that no country views Pakistan with hostile intentions. These needs can only be met through coherent strategies, such as ensuring political stability. A reforming taxation system will also help to build fiscal resilience and stabilize country's condition. Moreover, investing in human development through education and healthcare will pave the way to stability. It also requires modernizing agriculture and reviving

the industrial sector growth through SMEs. Pakistan's economy has already been in a critical condition due to multiple reasons, which requires a strong need with proper strategies to recover the stalling economy.

Pakistan's economy is largely mixed combining agriculture, industry, and services, but it has often struggled to maintain stability and sustainable growth. As per Economic Survey (2024-25), over 37% of the labour force is employed in the agriculture sector. Agriculture also contributes a significant number around 24% to the country's GDP. Yet, low productivity and out-dated farming methods halt in its full potential. Furthermore, textiles dominate Pakistan's export basket, accounting for over 52% of total exports and contributes 8.5% to Pakistan's GDP alone. However, inconsistent policies, frequent energy shortages, and lack of innovation have weakened its performance. Other sectors such as IT and banking also contributes a significant number. Pakistan's economy is heavily relied on external loans, limited tax revenue, and widening trade deficit. This combination created a cycle of fiscal pressure and increased dependency on international lenders.

such as the IMF. At the same time, Pakistan possesses great potential due its strategic location, young population, unexplored natural resources. ~~Pakistan's economy~~ is not stagnant, rather stuck between potential and crisis. Unlocking this potential requires structural reforms and consistent policies to transfer existing strengths into sustainable growth.

Persistent political instability has always been one of the significant reason for stalling economy of Pakistan. Since its inception, Pakistan's ~~inception~~ economy has been going through many difficulties. Just after the independence, seven prime ministers had to change the ~~just~~ in the frame of nine year, which is quite worrying. Even after the certain political stability, direct and indirect military intervention through martial laws, and military coups further exacerbated the situation. These instabilities have always hinder smooth economic growth of the country. A closer look at historical trends reveals that during 1999-2008 military regime, GDP growth dropped from 4.2% to 1.7%, which is quite concerning. Another example of political instability

halting economic growth is 126-days sit-in by opposition party. Government claimed losses of Rs 5.67 billion.

Security issue have also been major reason and remained in Pakistan from long time. The security issues are mainly border disputes, with India and Afghanistan due to deep-seated grievances, historical conflicts, and weak local governance in border regions. This issue has dragged economy of the country into more ~~probable~~ difficulties. As of 2025, Global Terrorism Index (GTI), Pakistan ranks among the most affected countries in the world by terrorism. These terror attacks not only take the lives of innocent people, but it affects the country in many areas too, such as local business, trade, investment, big projects, and financial losses too. For example, attacks against major infrastructure like CPEC (Gwadar) and northern infrastructure projects, have caused delays, added security costs, and fear among investors. This is a serious hurdle for country's growth. As per The News International, Pakistan incurred \$ 126.79 billion in losses directly or indirectly over 17 years (2001 - 2018) due

to terrorism. For this reason, government has to transfer funds from development projects to security operations, and counter terrorism, raising defence and security spending by 12-14.5% recently which squeezes budget for social sectors, education, and health and hampers economic growth.

Pakistan's weak taxation system is a significant cause of its stalling economy, characterized by narrow tax base, wide-spread tax evasion, and inefficient tax administration. Individuals or small and large business avoid to be documented as to escape from taxation system by the help of political influence and administrative loopholes. For example, The New International reported, that only about 5.6 million individuals file tax returns, despite being Pakistan's population being over 240 million. This large part of the economy (especially agriculture, retail/wholesale trade, real estate) remains informal or under-documented, halting the economic growth through low tax-to-GDP ratio. Pakistan's tax revenue as percentage of GDP has hovered around 9-11%, which is low compared

to emerging economies. Due to weak taxation system, salaried class and compliant businesses have to bear its cost. Consequently, the government collects in-sufficient budget, leading to a massive budget shortfall. To bridge this gap, government borrows loans from domestic and foreign companies to pay debts, diverting funds to invest on human capital like education and health-care, and infrastructure. The lack of investment cripples long-term productivity and growth of a country, while the high indirect taxes fuel inflation, reducing the purchasing power of consumers and further stagnating economic activity.

Competing with developed and emerging economy is not a optional but a need for Pakistan. The world economies are progressing day by day. It will be too late for Pakistan if Pakistan does not take the right step on the right time. According to the IMF report, Pakistan GDP per capita grew at an average rate of only 1.9% annually between 2000-2022, whereas Bangladesh and India grew at a rate of about 4.5% and 4.9%. This wide-gap

In growing rate is a serious concern for Pakistan, as it shows Pakistan have not seen proportionate gains in income or opportunity, unlike its neighbouring countries. Because of this, Pakistan remains less competitive with weaker exports, poor performance, and limited investor appeal. If Pakistan fails to compete with others, it will further lack in technology, trade, and agricultural exports. As, Pakistan got much potential to boost its economy, competing with regional countries and developed nations has become a crucial step. As Ciddman Sachs projection says Pakistan's economy would reach approximately \$123 million by the year 2075, potentially making it the world's sixth largest economy. Thus, competing is crucial for Pakistan to recover its stalling economy by boosting exports, attracting FDI and embracing technological innovations.

Another major need to recover the stalling economy is reducing high loans and debt burdens from the economy. Pakistan has been debt trapped for long time for a long time due to many reasons. As of 2025, Pakistan's debt-to-GDP ratio is

70%, which is equivalent to \$259 bn. This staggering number has increased over time, making a mountain of debt burden now. Moreover, every year Pakistan has to repay almost 46% from fiscal year budget. Pakistan's unsustainable debt trap, services payments are crippling public investment in vital sectors. To avoid a debt trap, the country must pursue multi-pronged strategy centered on fiscal discipline, comprehensive economic reforms, and aggressive measures to stimulate inclusive growth. To revive growth, Pakistan needs tighter fiscal discipline, cut borrowing, reduce circular debts, and rely more on domestic than external bailouts until it's very necessary. Only by doing so can it reduce debt burden, free up resources for development, and restore economic stability.

Even after the heavy reliance on foreign aid, the country could not work properly on human development too. So, it causes lacking in increasing literacy and employment ratio. Consequently, lacking in this, it proposed poverty at high rate. According

to the National Commission for Human Development (NCHD), roughly 69 million which is around 40% of the population, is unable to read and write. The reasons for this is labour force, discouragement of girls study (especially in rural areas) and lacking in basic resources. But, above all the main reason is low budget percentage on education, which stands around 1.6% to 1.9%. This percentage is lower than the required number that is 4% and the World average is 4.4%. Despite a declared "Education Emergency" with a goal to increase spending to 4% of GDP by 2029, recent budget budget allocation showed a bitter reality. Resultantly, this all cause into increase in unemployment number. According to the IMF report, as of 2025, Pakistan unemployment rate stand at 8% which is around 6 million of 75 million labour force, which is higher than the prescribed by ILO. Moreover lower focus on literacy causes increase in further unemployment and poverty rate. A recent survey by World Bank states that Pakistan's poverty headcount

jumps to 44.7%. These numbers remind the nation the need for recovery of its stalling economy.

Moving forward, in today's world, emerging nations and superpowers are not just determined by its tough military, latest technology or having more warheads, but by its strong economy too.

The country that fell apart from Pakistan stands at \$467.3 billion GDP today, IMF reported.

While Pakistan reaches approx \$400 bn. Another neighbour of Pakistan, India, surpassing approx \$4.19 tr GDP. The shocking numbers reminds a need for recovery.

Being 33rd largest country by land area and fifth by most populous country, Pakistan only contributes only 0.9% of share to Global GDP, as per World Economic. As to influence in World Order, Pakistan really needs to strengthen its economy.

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because countries with strong economy tend to have more soft power through culture, diplomacy and international projects which can shape global narratives. Beside this, a robust economy copes better with

with price fluctuation, climate shocks and financial crisis. This stability also increases national credibility on global stage.

A country with credible defense capability is less vulnerable to external pressure, reducing risk of compromise of sovereignty. Pakistan, a country with enemy like India around the borders has a threat of being attacked everytime. Moreover, rise of terrorism and their attacks on innocent civilian, and infrastructure like CPEC is a big hurdle for the smooth growth of a country and loss of financial investment. Resultantly, loss of financial investment and delaying of projects put a barrier in economic sustainability, and reminds a need to ensure its defence capability. For the fiscal year 2024-25, Pakistan allocated Rs 2.123 billion to defence budget, but still this is far less than many countries, Dawn reported. As written in foreign policy of Pakistan, it has to ensure its national sovereignty at any cost and for this Pakistan has to strengthen its defence capability everytime. Moreover, this is one of the significant need

to ensure defence capability and national sovereignty for the stalling economy of Pakistan as a defence capability creates the foundation for political stability, investor's confidence, and uninterrupted economic activity - all essential for sustainable development. Without security, no economy can prosper.

Pakistan also needs to adopt a long-term development strategy grounded in sustainability. This means shifting from short-term fixes such as temporary subsidies, and frequent external borrowing to structural reforms that builds resilience over decades. As for decades, Pakistan has been lacking long-run planning and development mainly due to governance crisis, but it is a need to recovering the stalling economy. Just in recent times, The World Bank's new country partnership framework for Pakistan over 10 years (30 billion) emphasizes clean energy, climate resilience, private sector growth, and institutional reforms. This shows external recognition of how long-term sustainability must be a core part of development. 1) long-term policies like breaking the boom-bust cycle, and start addressing

human capital deficit as low investment in health and education has created a human capital crisis, constraining space for sustainable growth - is an essential reform. Moreover, building climate resilience, because climate shocks are direct and severe threat to economic stability, damaging agriculture, infrastructure and food security are food security also one of the significant need for long-term development and for economic stability.

Political stability is a cornerstone of economic growth, as it ensures consistency in policies, investor's confidence, and effective governance necessary for long-term development of a country. Frequent political upheavals in Pakistan have consistently undermined the continuity of economic policies and investor's confidence. Every change government brings policy reversals that disrupt fiscal planning and long-term projects of the country. According to the State Bank of Pakistan (SBP), foreign direct investment declined by over 30 percent during periods of political unrest between 2018-2022, reflecting how instability transfers directly into capital flight and

slower growth. Political institutions should be strengthened, and rule of law be enforced, to ensure political stability. Also, by promoting consensus based policy making, electoral reforms, and curbing political polarization, it can be ensured. Besides reforming the whole system, promoting awareness among people is also an essential as people to be aware and participate in country's politics for transparent government. Thus, political stability is unavoidable for smooth economic development, as it leads long-term continuity of policies, attract FDI through restoring investor's confidence and people's trust on its government.

Transparent taxation system helps the government to collect taxes from people and invest on their back directly or indirectly which causes economic development. But unfortunately, in the case of Pakistan, taxation system has always been undermined. The Auditor General's report for 2024-25 found a tax gap of Rs 189.92 billion. This report points out the flaws in the taxation system and Tax Department, and shows a mandatory change in the system. Taxation system should be reformed by introducing

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an integrated digital tax filing and monitoring system - linking NADRA, FBR, and data to reduce human contact and corruption. Moreover, many sectors are in informal economy, such as retail, agriculture, and real estate sector, currently being un-taxed and should be into formal economy system. These small changes in the taxation system will bring much revenue and contribute to economic development of a country. A transparent audits and public and public disclosure will pave the way more to transparency by arranging independent third party audits for larger tax payers and make reports public. Also, publish quarterly FBR performance reports to enhance public trust. Transparent taxation not only enhances revenue but also strengthens citizen's trust in governance, creating a sustainable foundation for economic revival.

Reviving Pakistan's industrial sector requires strategic focus on developing Small and Medium-sized Enterprises (SMEs), which contribute over 40% to GDP and employ nearly 80% of the non-agriculture labour force. Over the past year, industrial

growth got stagnated, manufacturing growth fell to 3.9% in FY 23. Economic Survey of Pakistan reported, SMEs have always faced energy shortages, high credit costs, outdated technology, and limited access to finance, which hinders them to expand their business and contribute more in economic race. Reforms like access to finance, will help them a lot. Also, expanding SMEs lending programs through SBP's refinancing scheme and encourage microfinance institutions, this will lead them to update and expand their businesses. Also, by establishing industrial clusters and technology parks for R&D and skill development will assist youth to do startups and bring them on world forums. Furthermore, set up special economic zones (SEZs) with lower ^{energy} tariffs to boost their productivity with low cost. Also, introducing one-window clearance and reduce bureaucratic hurdles for business registration and taxation to promote ease of doing business with transparent way. By empowering SMEs with credit, technology, and policy support, Pakistan can achieve inclusive industrial revival, generate employment and diversify its exports base.

As a agrarian country, agriculture in Pakistan serves as the backbone for the country's economy. According to the Dawn, agriculture employs over 37% of labour force and 23.5 to 25.0% of country's GDP in FY 2024-25 was contributed by the agriculture sector.
But, unfortunately the agriculture sector does not show any progress, as it grew only 0.56% in FY 24-25, one of its lowest in recent years. Agriculture sector now needs to be modernized as it got much potential and it can help in country's economy. One of the key measures to modernize agriculture sector is technological upgradation, such as introduce modern machinery, drip irrigation, and precision farming. Also, promoting digital agriculture - use of satellite data - mobile apps and weather alert systems and support agriculture research and bio technology for high yield and climate-resistant seeds. Another key measure can be taken is shift water from flood irrigation to drip and sprinkler systems to reduce water wastage and rehabilitate canals and water courses to improve efficiency. Furthermore, institutional and policy reforms to provide easy credit and

insurance schemes for small farmers. Thus, agriculture in Pakistan have much potential in recovering the Pakistan's economy, but it just need to be modernized.

Human Development often lacks in Pakistan as it invests far less in education and health care than regional peers, and this underinvestment weakens its human capital base. Besides increasing investment, education spending of ~~GDP~~ Pakistan dropped to 0.8% of GDP in the first 3 quarters of FY 2024-25, Dawn reported. Health sector also stands at 0.9% of GDP, which is quite low. Due to less focus on healthcare, unhealth masses of lacks in national productivity, and innovation. Resultantly, this causes to less participation in country's GDP. Human Development can be enhanced through many ways. One of them is increase funds of education and health care. The government should establish new schools, particularly in rural areas, ensuring that every region of the country is covered. It should also provide reliable transportation facilities to make access easier, especially for girls, thereby

Promoting female education. Another key step is to build large, well-equipped hospitals in every major town, capable of treating all types of illness with qualified doctors. In addition, small dispensaries should be set up every few kilometers to handle emergency cases. Moreover, thousands of existing schools and hospitals are currently non-functional or closed; they must be made operational and upgraded to meet international standards. Ensuring access to quality education and healthcare will help Pakistan build a healthy and literate population - the true foundation of a strong economy.

Starting business has become a very difficult task to do in Pakistan, as its system from registration to taxation is trick, untransparent, and corrupt. Government should open one-door facilitation centre, where all the work is done online and accessible to every investor. This frame of work will lead to attract foreign direct investment at wide level. As Pakistan got much potential, but investors are more willing to invest when rules are clear, process is smooth and transparent,

and the cost and time of entry is lower. Pakistan's EODB ranking is 108th out of 190 countries in the World Bank "Doing Business" report, which is not good comparatively regional peers. Pakistan has also carried out almost 300 reforms aimed at improving the investment climate, but despite these reforms FDI remains low. Pakistan attracted FDI worth about \$ 1.784 billion in first ten months of FY 2025, making a year-on-year decline. FDI improves country's economy when doing of business get easier registration, one-stop-shop service, digitalization of government services (online company registration, online tax filing, online trade documentation) to reduce delays and increase transparency. For example, registration can now be done in one day through SECP and FBR integration. But, providing protection, regulatory consistency and clarity, infrastructure and utility cost reduction are also essential part of ease-of-doing-business.

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To conclude, Pakistan's economy has always been in tough times. Sometimes, security

issues disrupts country's mega projects, sometimes, unstable policies hinders stability due to political instability, and tax evasion gets the country in billion rupees loss every year. As the World is moving towards new level of progress through bigger economies, Pakistan also needs to secure its position in emerging economies and compete with them. Pakistan also needs to ensure its defence capability and national sovereignty as it always got border disputes with India, terrorism threat by Afghanistan. Stabilizing its economy is also an essential for Pakistan as it got trillion rupees debt which weaken economic condition more. Pakistan can touch the peak of economic progress as it got potential. Working on strategies like ensuring political stability for long-run policies, initiating SMEs for reviving industrial sector, and reforming taxation system for transparent work, these all can prove the way to stabilizing the economic condition. Moreover, investing on human development and making the business easy to start will give long-term results in country's economy. These strategies

will recover the falling economy
of Pakistan. ✓