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Subject : Pak-Affairs .

Qns 2:

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

Pakistan faces a variety of economic challenges that have impacted its growth and development prospects.

Economic Challenges :-

1) Political Instability & Governance Issues :

Political instability in Pakistan has long been a barrier to sustained economic progress. Frequent changes in government, often driven by political turmoil, result in inconsistent economic policies and hinder long term planning. Governance issue, including corruption and inefficiencies in public

administration, exacerbate this instability. Corruption undermines trust in public institutions and diverts resources away from essential services and infrastructure development. This unstable environment creates uncertainty for investors and businesses, affecting their willingness to commit resources to long-term projects.

2) Debt Burden:

Pakistan's debt burden is a significant obstacle to economic stability and growth. The country faces a high level of domestic and external debt, which consumes a substantial portion of government revenues through debt servicing. This heavy debt load limits fiscal space, constraining the government's ability to invest in critical infrastructure, social services and development projects. Additionally, debt servicing pressures can lead to cuts in essential public

public expenditure or force the government to seek additional borrowing, perpetuating a cycle of debt dependency.

3. Inflation & Currency fluctuations:

Persistent inflation has eroded purchasing power and impacted the cost of living for many Pakistanis. Fluctuations in the exchange rate further complicate the economic environment, affecting the stability of prices and the overall investment climate.

Inflationary pressure can result from various factors, including supply chain disruptions, high import cost, and domestic demand supply imbalances.

Currency fluctuations, often driven by trade deficits and external shocks, can lead to uncertainty for businesses and consumers, complicating financial planning and investment decisions.

4) Energy shortage:

Energy shortages have been a chronic issue in Pakistan, with frequent load shedding and unreliable power supply disrupting industrial production and economic activities. The country's energy infrastructure is outdated and inefficient leading to significant transmission and distribution losses. High energy costs further strain businesses, particularly those in energy-intensive industries. These issues hinder industrial growth, reduce productivity and limit the country's competitiveness in the global market.

5. Low Tax Revenue :-

Pakistan's Tax revenue as a percentage of GDP is relatively low compared to global standards. This low tax base results

from a combination of factors, including widespread tax evasion, a narrow tax base, and inefficiencies in tax administration. The limited revenue collection restricts the government's ability to fund public services, infrastructure projects, & social welfare programs. Strengthening tax collection and expanding the tax base are essential for improving fiscal health and enabling sustainable development.

6) Unemployment & Underemployment:

High levels of unemployment, particularly among the youth, pose a significant challenge for Pakistan's economic development. The lack of job opportunities limits income generation and economic participation. Additionally, underemployment, where individuals work in jobs that do not fully utilize their skills or

or provide adequate compensation, further exacerbates the issue.

7. Trade Deficit :-

Pakistan faces a substantial trade deficit, characterized by a high level of imports compared to exports. This imbalance places pressure on the country's balance of payments and depletes foreign exchange reserves. The trade deficit is driven by factors such as low export competitiveness, limited diversification of exports products, and high import dependence. Reducing the trade deficit is crucial for stabilizing the economy and ensuring sustainable economic growth.

8. Infrastructure Deficiencies :-

Inadequate infrastructure, including transportation networks, logistics and technology infrastructure.

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hampers economic development.
Poor infrastructure limits
business efficiency, increase
transaction costs, and
reduces the competitiveness
of Pakistani products and
services. Investing in
modernizing and expanding
infrastructure is essential for
supporting economic activities,
enhancing productivity, and
attracting investment.

9. Education & Skill Gaps:

The education system in Pakistan faces challenges related to quality, access and relevance. There is a mismatch between the skills acquired through education and those required by the labor market.

Strategies for Sustainable Economic Growth and Development :-

1) Political And Governance Reforms :-

To address political instability and governance issue, Pakistan needs to strengthen its institutions and promote transparency and accountability. Implementing comprehensive anti-corruption measures, enhancing public sector efficiency and ensuring the rule of law are essential steps. Promoting political stability through dialogue and consensus-building can create a more predictable environment for economic planning and investment.

2. Debt Management and Fiscal Reforms :-

Effective debt management is crucial for reducing Pakistan's debt burden. This involves negotiating debt restructuring agreements with international creditors to secure more favorable terms and pursuing concessional loans to ease repayment pressures. Fiscal

reforms should focus on broadening the tax base, improving tax administration and reducing tax evasion.

3. Inflation Control and Monetary Policy :-

To control inflation, the central bank should strengthen its monetary policy framework and adopt an inflation-targeting approach. Transparent

communication of monetary policy decisions and measures to control money supply and interest rates can help stabilize prices. Addressing currency fluctuations requires building foreign exchange reserves through export-led growth and improving trade balance.

4. Energy Sector Reforms:

Addressing energy shortages involves investing in modernizing the energy infrastructure and diversifying

energy sources. Promoting renewable energy sources, such as solar and wind, can reduce dependence on fossil fuels and improve sustainability. Encouraging public-private partnerships in the energy sector can bring in investment and expertise.

5) Trade & Export Promotion:

To address the trade deficit, Pakistan should focus on diversifying its export base and developing new markets. Supporting industries with high export potential through targeted subsidies and incentives can enhance competitiveness. Negotiating favorable trade agreements and reducing barriers to international trade can open up new opportunities for Pakistani businesses.

6. Infrastructure Development: - Investing in infrastructure

development is crucial for enhanced economic efficiency and competitiveness.

Public-Private ownership can be leveraged to develop key infrastructure projects, including logistics, transportation and technology.

7. Education & Skill development:

Reforming the education system to improve quality and access is essential for developing a skilled workforce.

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