

Topic: Pakistan's Economic Future: Can  
the country achieve sustainable growth?

- As Pakistan stands at the cross roads of its economic journey, the looming question remains: can the country break free from the shackles of chronic fiscal deficit, inefficient institutions and energy shortages to achieve sustainable growth, or will it continue to teeter on the brink of economic instability

**I.** Introduction

Pakistan can achieve sustainable growth by addressing its structural issues, diversifying its economy and implementing effective policies that promote investment, innovation and human development.

**II.** Structural issues hindering sustainable growth

a. Institutional Weaknesses

Case in point: The Panama papers scandal and its implications for Pakistan's economy.

b. Fiscal and monetary policy challenges

Case in point: The impact of high interest rates on Pakistan's economy and the need for monetary policy reforms.



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### c. Energy and Infrastructure Constraints

**Case in point:** The China-Pakistan Economic Corridor (CPEC) and its potential to address Pakistan's infrastructure challenges.

## II. Opportunities for sustainable growth

### a. Diversification of economy

**Case in point:** The success of Pakistan's IT industry and its potential for the future growth.

### b. Investment in human capital

**Case in point:** The impact of investment in human capital on economic growth in countries like South Korea and Singapore.

### c. Regional trade and cooperation

**Case in point:** The benefits of Regional trade and cooperation for Pakistan's economy including increased access to markets and resources.

## IV. Policy Recommendations

### a. Institutional Reforms

**Case in point:** The success of institutional reforms in countries like Georgia.

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**b. Fiscal and Monetary Policy Reforms**

**Case in point:** The benefits of fiscal and monetary policy reforms in countries like Chile and Poland.

**c. Investment in Infrastructure and Human Capital**

**Case in point:** The impact of investment in infrastructure and human capital on economic growth in the countries like China and India.

**V. Conclusion:**



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In 1947, Quaid-e-Azam Mohammad Ali Jinnah, the founder of Pakistan, envisioned a country that would be a beacon of hope and prosperity for its people. However, over seven decades later, Pakistan's economic landscape tells a different story. Despite being endowed with immense natural resources, a strategic geographic location and a resilient population, Pakistan's population and economy has been plagued by chronic fiscal deficits, inefficient institutions and energy shortages. The country's economic growth periods has been erratic with periods of high growth followed by episodes of stagnation. Today, Pakistan stands at critical juncture where the need of sustainable growth is more pressing than ever. With the rapidly growing population, a rising middle class, and growing demand for goods and services, Pakistan's economic future hinges on its ability to achieve the sustainable growth. Pakistan can achieve sustainable growth by addressing its structural issues, diversifying its economy and implementing effective policies that promote investment, innovation and human development.

Structural issues in Pakistan are the main hinderance in sustainable economic growth in Pakistan. Pakistan's institutional weaknesses are the hinderance to its growth. The country's institutions such as the bureaucracy, judiciary, and law enforcement agencies are often inefficient, corrupt, and lack transparency.



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and accountability. For instance, the bureaucratic red-tape and corruption in government departments discourage investment, hinder business growth and leads to lack of trust in institutions. **The National Accountability Bureau (NAB)**, established to combat corruption, has been criticized for its limited powers and lack of effectiveness.

**The Panama Paper Scandal** which revealed widespread tax evasion and money laundering by Pakistani politicians and businessmen, is a stark example of institutional weaknesses that plague Pakistan's economy.

According to the **World Bank**, Pakistan ranks 136 out of 180 countries in terms of ease of doing business, largely due to its weak institutions.

Pakistan's fiscal and monetary challenges are another significant obstacle to sustainable growth. The country has a history of large fiscal deficits, which have been financed through borrowing, both domestic and foreign. This has led to a significant increase in Pakistan's public debt which stood at over **87%** of GDP in 2020. The country's monetary policy has also been ineffective in controlling inflation, which has averaged over **7%** in the past five years. High interest rates, aimed at controlling inflation, have had a negative impact on **Pakistan's economy** particularly on the industrial sector. For instance, the



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**State Bank of Pakistan's** decision to increase the interest rates to **13.25%** in 2019 led to decline in industrial production and a slowdown in economic growth. According to **International Monetary Fund (IMF)**, Pakistan's economic growth is expected to slow down to **2.4%** in 2023, largely due to its fiscal and monetary policy challenges.

Similarly, Pakistan's energy and infrastructure constraints are the major bottleneck to its sustainable growth. The country has faced severe energy shortages in recent years, which have had a negative impact on industry and economic growth. According to the **World Bank**, Pakistan's energy shortages result in the loss of up to **2%** of GDP annually. The country's transportation infrastructure is also inadequate, with poor road networks, inefficient ports and limited rail connectivity. This has increased the cost of doing business in Pakistan and made it difficult for the country to compete with its regional peers. However, the **China Pakistan Economic Corridor (CPEC)**, a **\$62 billion** infrastructure development project has a potential to address Pakistan's infrastructure challenges. The project, which includes the development of roads, railways, ports and energy infrastructure, is expected to increase Pakistan's GDP up to



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3% annually.

Despite the challenges, there are certain opportunities for the sustainable growth in Pakistan. Pakistan's economy has traditionally been reliant on few sectors, such as textiles and agriculture. However, there are several other sectors that have the potential to drive growth and diversify the economy.

One such sector is the IT industry, which has shown remarkable growth in recent years. Pakistan's IT industry has grown ~~to~~ from a mere \$30 million in 2000 to over \$3.5 billion in 2020 with exports of over \$2 billion. The sector has also created thousands

of jobs and has the potential to create many more. Another sector with potential growth is **tourism**. Pakistan has a rich cultural heritage and natural beauty, with attractions such as ancient **Indus Valley**

**Civilization**, the Himalayas, and the beautiful valley of Gilgit Baltistan. According to the **World Tourism Organization**,

Pakistan has the potential to attract over **1 million** tourists annually, generating significant revenue and creating jobs. Similarly, the agriculture sector, which is the backbone of Pakistan's economy, has the potential to drive growth the adoption of modern technology and farming practices.

In the same way, investment in human capital is critical for driving growth and productivity in Pakistan. Education and healthcare



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are two key areas that require significant investment. Pakistan has made progress in increasing access to education, but the quality of education remains a major concern.

According to the **World Bank**, Pakistan's education system is ranked **133** out of **140** countries in terms of quality. Similarly, the healthcare system in Pakistan is also underdeveloped, with significant disparities in access to healthcare between the rich and the poor. However, there are several initiatives that have been launched to address these challenges. For example, **The Prime Minister's Youth Program** has provided scholarships to thousands of students to pursue higher education. Similarly, the Education Sector Reform Program has aimed to improve quality of education in Pakistan. Countries like **South Korea** and **Singapore** have shown that investment in human capital can drive economic growth and productivity. For example: South Korea's investment in education and training has enabled it to become one of the world's leading economies.

Regional trade and cooperation can also play a critical role in driving growth in Pakistan. The country is strategically located at the crossroads of South Asia, Central Asia and Middle East, making it an important hub for regional trade. Pakistan has trade agreements with several



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countries in the region, including China, India and Afghanistan. However, the country's trade relationship with its neighbors are underdeveloped, and there is significant potential to increase trade and economic trade and cooperation. For example, Pakistan's economic trade with Afghanistan is limited, despite the two countries sharing a long border. Similarly, Pakistan's trade with Iran is also limited despite the two countries having the significant economic complementarities. Regional Organizations like **SAARC** and **ECO** can play a critical role in promoting regional trade and cooperation. For example, SAARC has launched several initiatives to promote regional trade, including **South Asian Free Trade Area (SAFTA)** and **South Asian Preferential Trade Agreement (SAPTA)**.

Now, to achieve sustainable growth, Pakistan needs to implement a comprehensive set of policies that address its institutional, fiscal and monetary challenges. Strengthening institutions like NAB and FBR is critical to reducing corruption and nepotism in Pakistan. According to **Transparency International**, Pakistan ranks 140 out of 180 countries in terms of corruption perception. Implementing policies to increase transparency and accountability in government's decision making can also help. For example countries like



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Georgia and Rwanda have implemented successful institutional reforms which have led to a significant reduction in corruption.

Similarly implementing a more transparent and effective fiscal policy in monitoring can help reduce Pakistan's fiscal deficit and promote sustainable growth. According to **IMF**, Pakistan's fiscal deficit has averaged around **5%** of GDP over the past five years.

Reforming the monetary policy can reduce inflation and promote growth. Pakistan's inflation rate has averaged over **7%** for past five years. Countries like Chile and Poland have implemented successful policy reforms for growth. Their fiscal policy framework has been strengthened through implementation of structural balance rule, which has helped to reduce country's fiscal deficit.

In conclusion, Pakistan's economic future is at critical juncture. The country faces several challenges including institutional weaknesses, fiscal challenges, and energy and infrastructure constraints. However, there are also several opportunities including diversification of economy, investment in human capital and regional trade and cooperation. To achieve sustainable growth, Pakistan needs to implement a comprehensive set of policies that address all the challenges. By doing so Pakistan can



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unlock its full economic potential and achieve  
sustainable growth