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Pakistan Affairs Test-4

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Q. 2

Introduction

While inflation crossing 20-25% in recent years and unemployment affecting millions of youth, Pakistan stands at a critical economic crossroads. These challenges are not merely the result of global shocks; rather, they stem from deep-rooted structural flaws, including chronic energy shortages, low productivity, and a narrow tax base. The most alarming underlying factor is poor governance and persistent policy inconsistency, which have repeatedly undermined economic stability. Frequent shifts in fiscal and monetary policies, abrupt changes in taxation, and governance failures such as leakages, institutional weaknesses, and mismanagement have intensified both inflationary pressures and joblessness. This write-up will explore the root causes of inflation and unemployment in Pakistan and critically analyze how weak governance and inconsistent policymaking have aggravated these economic vulnerabilities.

1) Root Causes of Inflation in Pakistan

a) Demand-Supply Imbalances

Rapid population growth, which has quadrupled over the past 50 years, has significantly increased demand for essential goods. At the same time, persistent supply-side constraints in critical sectors such as agriculture and energy have created shortages, driving prices upward and fuelling inflation across the economy.

b) Fiscal Deficits and Public Debt

Chronic budget deficits have compelled the government to borrow both domestically and internationally, leading to high debt servicing that now consumes nearly 60% of revenue. This heavy debt burden reduces spending on productive sectors such as health, education, and infrastructure, indirectly fuelling inflation and constraining economic growth.

c) Currency Depreciation and External Shocks

A weak Pakistani ~~rupee~~ ~~ag~~ rupee against the dollar raises the cost of imports, particularly oil, machinery, and essential commodities, while external

Shocks like the Russia-Ukraine war and global oil price surges, further exacerbate inflationary pressures. Pakistan experiences persistent price instability as a result of these causes as well as domestic economic challenges.

d) Structural and Market Inefficiencies

Structural and market inefficiencies in Pakistan's food sector, such as oligopolistic and highly concentrated markets, enable middlemen to manipulate prices. At the same time, poor storage, limited cold-chain infrastructure, and fragmented transportation systems lead to massive post-harvest losses, estimated at 30-40% for perishable goods. These systematic flaws not only drive up consumer prices but also weaken the competitiveness of both domestic and export markets.

2) Root Causes of Unemployment in Pakistan

a) Demographic Pressures

Over 60% of Pakistan's population is under 30, yet job creation is not keeping pace with the growing labor force. Many young people face structural

unemployment because the education system is outdated and does not equip them with the skills demanded by the job market.

b) Low Industrialization and Investment

Manufacturing and industrial growth in Pakistan remain slow due to energy shortages, high taxes, and bureaucratic red tape, while limited private and foreign investment further restricts job opportunities.

c) Informal Economy and Low Productivity

A large informal sector, including agriculture, retail, and real estate, fails to provide formal jobs or social security, while low productivity suppresses wage growth and limits opportunities in the formal economy.

3) Role of Poor Governance

a) Corruption and Mismanagement

Misuse of resources and leakages in subsidies, public projects, and state-owned enterprises raise costs and lower efficiency, while funds intended for social and infrastructure development are often diverted, indirectly worsening both inflation and unemployment.

b) Weak Institutions and Poor Governance

Inefficient tax collection, with only about 3% of the population actually paying income tax, limits government revenue for investment in job-creating sectors, while weak regulations and politicized institutions discourage private sector growth.

4) Policy Inconsistency and Its Impacts

a) Frequent Shifts in Economic Policies

Abrupt tax hikes, frequent changes in tariffs, and volatile interest rates create uncertainty for businesses. This discourages both local and foreign investors from committing to long-term projects, limiting job creation and undermining overall economic stability. Recent exits of MNCs like P & G, Microsoft, Careem, Shell, and Pfizer highlight how policy uncertainty and economic instability are driving investors away.

b) Short-term Fixes over Long-term Strategy

Reliance on IMF bailouts and temporary subsidies only addresses symptoms, not structural issues. Policies that prioritize fiscal balance over growth and employment further worsens social hardships.

c) Neglect of Social and Human Capital Investment

Limited investment in education, health, and vocational training lowers labor productivity, while underutilization of women and youth reduces the workforce's potential output.

Conclusion

Pakistan's inflation and unemployment are the result of structural economic flaws, demographic pressures, and external shocks. However, poor governance and inconsistent policymaking amplify these challenges by discouraging investment, misallocating resources, and failing to protect vulnerable populations. A sustainable solution requires consistent long-term economic planning, improved governance with reduced corruption, stronger institutions, investment in human capital and infrastructure, and comprehensive tax reforms to increase revenue and fund job-creating programs. Without these measures, Pakistan risks a vicious cycle of inflation, unemployment, and social unrest, but with reform and stability, the country can unlock its demographic dividend and achieve sustainable growth.



Q. No. 3

Introduction

Energy security is the cornerstone of economic stability, industrial growth, and sustainable development. Pakistan's growing population, expanding industrial sector, and reliance on fossil fuel imports have long posed challenges to energy security, resulting in high energy costs, trade deficits, and environmental degradation. The 2025

National Electric Vehicle (NEV) Policy exemplifies Pakistan's commitment to sustainable energy solutions, highlighting the shift toward renewable and alternative energy sources to meet transportation and industrial energy demands. This policy, along with other initiatives in solar, wind, and hydro energy, underscores the critical role of alternative energy in reducing carbon emissions, ensuring energy efficiency, and supporting economic resilience.

1- Pakistan's Energy Challenges

- a- High Reliance on Imported Fossil Fuels:
Over 80% of petroleum requirements are imported, leading to a significant drain on foreign exchange.

b- Growing Energy Demand

Projected electricity demand is increasing due to population growth and industrialization.

c- Environmental Concern

Transport and industrial sectors contribute significantly to carbon emissions and urban pollution.

d- Energy Inefficiency

Aging grid infrastructure and limited adoption of modern technologies exacerbate energy losses.

The NEP Policy 2025 projects electricity demand for EVs over the next five years at 126 terawatt-hours, which can be met through existing surplus in the national grid.

2- Role of Alternative and Renewable Energy Sources

a) Solar Energy

Pakistan enjoys high solar insolation, especially in Sindh and Balochistan, which enables the generation of abundant solar energy. This resource supports decentralized energy solutions in remote areas, providing electricity access to communities that are otherwise

difficult to connect to the national grid. By harnessing solar power, Pakistan can significantly reduce its dependence on imported fuels, enhancing both energy security and economic resilience.

b) Wind Energy

The wind corridors in Sindh and Balochistan offers substantial potential for grid-connected power generation, providing a reliable and sustainable energy source. With low operational costs and long-term viability, harnessing wind energy can play a crucial role in strengthening Pakistan's energy security and supporting economic growth.

c) Hydro Energy

Large-scale dams, such as Diamer, Bhasha and Tarbela, along with small hydro projects, significantly contribute to both base-load and peak-load electricity requirements. These hydroelectric sources provide clean energy with long-term cost advantages, making them vital for sustainable energy planning and economic stability.

d) Electric Mobility (NEP Policy 2025-30)

NEP Policy aims to have 30%

of all new vehicles as electric by 2030, a move expected to cut fuel consumption by 2.07 billion litres annually, saving around \$1 billion. This transition will also reduce carbon emissions by 4.5 million tons per year and lower health-related costs by \$405 million. The policy promotes local manufacturing of electric vehicles and components, fostering industrial growth and creating employment opportunities. Additionally, it introduces innovative technologies such as battery swapping, Vehicle-to-grid (V2G) systems, and mandatory integration of EV charging points in new buildings to support wider adoption and sustainable urban mobility.

e) Energy Efficiency and Innovation

Implementing smart grids, advanced energy ~~set~~ storage systems, and efficient industrial processes enhances energy utilization and reduces wastage, strengthening Pakistan's energy security. Simultaneously, the adoption of electric vehicles under the 2025 NEV Policy is expected to cut capacity payments from Rs 174 billion to Rs 105 billion, demonstrating how energy-efficient technologies and innovative solutions can deliver both economic and environmental

benefits.

3- Benefits of Alternative Energy for Sustainable Development

a- Economic Growth

Promoting renewable energy and electric vehicles reduces Pakistan's dependence on fuel imports, generates significant foreign exchange savings, and stimulates local industries, creating jobs and fostering industrial growth.

b- Environmental Protection

Transitioning to clean energy lowers greenhouse gas emissions, mitigates climate change, and contributes to a healthier environment.

c- Social Benefits

Policies like the NEV subsidy, which allocates 25% specifically for women, provide affordable, safe, and sustainable mobility for citizens, enhancing social inclusion and quality of life.

d- Technological Advancement

Adoption of renewable energy and EV technologies encourages innovation, research, and the development of local expertise in cutting-edge sectors.

c - Energy Security

Diversifying energy sources through renewables and electrification reduces vulnerability to global fuel price fluctuations and strengthens long-term energy resilience.

4- Policy and Institutional Measures

Pakistan's energy sector is being strengthened through comprehensive policy and institutional measures, including the development of initiatives like the NEP Policy (2025-30) and renewable energy incentives. These policies are shaped through the engagement of experts and industry stakeholders to ensure evidence-based and actionable strategies. Regular performance audits and monitoring are conducted to track progress and ensure that targets are met. Additionally, support for SMEs and domestic manufacturers is provided to promote localization, fostering industrial growth and self-reliance in the energy sector.

Conclusion

Energy security is indeed the backbone of economic growth. A strategic move toward sustainable energy solutions is demonstrated by Pakistan's adoption of renewable and alternative

energy sources as well as policy interventions like the 2025 NEU Policy. By promoting electric mobility, solar, wind, and hydro power, Pakistan can reduce its dependence on fossil fuels, lower carbon emissions, achieve economic efficiency, and foster industrial and technological growth. A comprehensive approach integrating renewable energy, energy efficiency, and innovation is essential to achieving sustainable development and a resilient economy.

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