Pakistan Affairs.
(Mock-4)

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Part-II
(Q3)

The current economic challenges of Pakistan are challenges of Political Economy or the issues are deep rooted in structural flaws in our Economy. Take a side and suggest policy measures to address these challenges?

Introduction to Current Economic Challenges:

The current economic challenges to which Pakistan is exposed have their roots in unequal distribution of resources at the time of Partition followed by political polarization, lack of political will, political instability, Systematic flaws. Now, Pakistan is trapped ~~root~~ badly in viscious cycle of economic decline. Therefore, Political economy and structural flaws are intertwined and are collectively contributing to economic instability. However, structural flaws are so deep rooted that even Political will alone can not overcome them.

Structural Flaws: Root of Economic Declin

By structural Flaws, systematic and structural issues are being referred to. Weak economy of Pakistan is the result of poor system, improper administration and lack of Human Development.

1) Narrow Tax Base: Weak Economy

Pakistan's economy heavily depends on tax collection. However, the issue lies in that tax is collected from very few people, posing whole burden on some factions ~~to~~ exempting others. This narrow tax base not only cause economic decline due to less tax collection but also over burdenize tax payers, further worsening the situation.

2) Informal Economy evading Tax:

In addition to narrow Tax base, informal economy of Pakistan evades tax easily. This is because of lack of proper documentation of informal economy. For instance, Agriculture contributes to around 23% of GDP of Pakistan but do not contribute proportionally to taxation. Similarly, small-level retailers and shopkeepers economic sources are not being registered properly posing a burden to already weak economy.

3) Lack of Digitisation of Economy:

Pakistan also lack digitisation of economy which also equips many to evade tax with false information regarding income. Multiple large-scale Business owners easily evade tax due to lack of proper record, documentation and digitisation of income sources. This is also another cause of economic decline

4) <u>Property Tax Evasion owing to weak check and Balance</u>

Owing to incapacitated regulatory bodies and undocumented economy, property tax is largely evaded by property dealers as well as investors which could otherwise have benefitted the economy.

5) <u>Red Tapestry : Declining Trade</u>

Long, unnecessary formalities discourages traders to trade with Pakistan, resulting in poor economy.

6) <u>Unnecessary Subsidies burdenize economy:</u>

Though subsidies ~~are~~ ought to provide ease of business and living, It also posses burden on economy. Unthoughtful subsidies ~~also~~ are also more deteriorating to economy than the benefit they provide.

7) <u>Lack of Policies to attract Foreign Investment:</u>

Pakistan lack a proper system and policies that could build the trust of Foreign investors on Pakistan. Moreover, lack in Centre facilitating Foreign investments could be a factor contributing to economic decline.

8) State Owned loss making Enterprises

Loss making State owned enterprises are also overburdening economy. Since, Expenses of SOEs are beared by government and profits are not generated. SOEs are in loss mainly due to lack of accountability, over employment, old infrastructure and poor administration.

9) Inefficient Use of ~~govern~~ Public Infrastructure:

Public Infrastructure like schools, hospitals are not fully used. This causes burden on economy without producing any productive results.

10) ~~Poor~~ Weak policies on Investment:

government has not focused on policies related to Investment. This has caused investors to invest in real estate rather than investing in any productive which could have provided employment opportunities as well as contributed positively to economy.

Therefore, Structural flaws including undocumented, informal economy, loss making SOEs, narrow Tax base, unnecessary subsidies, lack of mechanism to attract foreign and domestic investment, Red Tape procedures ~~are~~ all collectively exacerbate economic challenges.

Policy measures For Economic Revival:

Multiple policy measures and structural reforms are needed to overcome the economic challenges faced by Pakistan.

1) Policy For ease of business:

Government machinery could attract foreign investors and traders to involve in business with Pakistan by building their trust, ensuring their safety and making procedures easier for them. To deal with this, Pakistan is already considering a facilitation center.

that will attract foreign investment. This will ultimately increase the inflows in the form of FDI and also provide employment opportunities to locals, strengthening the economy of the country.

2) Encouraging investors to invest in Business:

Government could encourage domestic investors to invest in production Business instead of real-estate and property. Investing in property makes the economy stagnant while same investment when done in any business provides masses employment opportunity and increases exports. This not only reduce poverty, inflation at grass root level but also become a source of improving current account balance by increasing exports.

3) Widen Tax base by documentation:

Tax is one of the major source of revenue generation. Therefore, Pakistan can significantly increase its revenue by documenting and engaging informal economy in Taxation system. This will automatically ~~[illegible]~~ improve economy

4) **Imposing higher taxes on Property:**

Imposing higher tax on property could not only generate revenue but also discourage investors to spend on real estate. This will divert investments to production businesses which would sustainably revive economy.

5) **Digitising Economy:**

Digitising economy will include all income resources in Tax base. Moreover, It will also reduce corruption, tax evasion. It will ultimately improve tax collection, revenue generation and economic revival.

6) **Structural reforms of SOEs:**

SOEs reforms including reducing unnecessary employees, renovating infrastructure implementing protectionist policies could significantly improve SOEs productivity. This will result in transition of SOEs from burden to revenue generating institutions.

7) Privatisation of loss making SOEs
Loss making SOEs privatisation will reduce burden on economy and increase revenue generated by privatisation which could be utilized by government in human and infrastructure development.

Conclusion:
Political instability, terrorism badly impact foreign investment. In addition to this, informal undocumented economy, loss-making SOEs, tax evasion, narrow tax base, red tape procedures — result in economic decline. However, these issues could be addressed by adopting policies to attract foreign investment, encourage domestic investors to invest in business, efficient use of Public property can improve economic conditions to large extent. Structural reforms of SOEs, privatising loss making SOEs and digitising economy can increase revenue generation and provide employment opportunities, thereby strengthening economy.

(Q5)

Assess the changing dynamic of Pakistan-US relations in the context of strategic realignments and global power shifts after new governments in both the countries. Do you think, the nature of relationship is strategic partnership or transactional cooperation? Discuss.

Changing Dynamic of Pak-US relations:

Since the beginning of Pakistan, Pakistan and US relations have changed dynamics continuously. With changing world order and power centers, US is changing alignments continuously to maximize its own benefits and security.

New Governments in Pak and US:

Trump's government and Sharif's government in US and Pakistan have changed the alliances significantly. Relations with each other and other countries are evolving fastly in 21st century.

Pakistan-USA relations from pages of History:

Many analysts ~~define~~ divide Pakistan and US relations in eras of marriages at ~~and divorces~~, the time of converging interests and divorces in times of diverging interests. From history, It is evident that US has always strengthened ties with Pakistan to fulfill its own national interests.

1) Afghan Jihad : Cold War

US strengthened ties with Pakistan during Afghan Jihad and formed an alliance with Pakistan to support Afghanistan against the USSR - the perpetrator of communism and enemy of USA.

2) Sanctions on Pakistan Nuclear Program.

US shifted its alignment to oppose nuclear program of Pakistan by imposing sanctions. This shows that US formed bonds with Pakistan only to fulfill its own interest.

3) War on Terror Post 9/11

After tragic incident of terrorist

attack on Twin Towers of World Trade center and Pentagon, US again forced Pakistan to align with US interests. It used Pakistan's air bases Human resource against Afghan Talibans which posed a huge cost to Pakistan and still Pakistan is paying the cost in the form of militant groups. and hostile behaviour of neighbouring country - Afghanistan.

4) **US strikes on Pakistan to recover Bin laden:**

US strikes on Pakistan and accusations on Pakistan to hide Bin laden shows how US has always prioritize its national interests and do not form any strategic partnerships.

All these events from history shows that US aligns itself not with partners but with its national interests. It has never formed long-term strategic partnership with Pakistan.

Its behaviour has revealed that It continuously evolve its relations on basis of interests.

US-Pakistan Relations : Transactional Cooperation

US realignment with Pakistan in 2025 is also of transactional nature rather than a strategic partnership. US — the superpower — has tried to maintain its relevance in all regions of world especially in Asia — highly populated and energy rich region. Moreover, the emerging competition of US-China — is also in Asian region. This also keeps US interested in this region. Shift in Washington posture is mainly due to its economic & hegemonic interests.

1) US Economic Interest: Minerals.

US - rich and powerful economy — has its interests in minerals and rare earth metals of Pakistan. These minerals hold great importance in 21st century because of their high demand to be used in latest technology including solar panels, electric vehicles, Artificial

Intelligence. Owing to these interests, US is improving its posture toward Pakistan which could be visibly seen by Trump's behaviour on International Forums.

2) US diversifying its Supply Chain of minerals:

US wants to diversify its supply chain of minerals and rare earth metals by strengthening bonds with Pakistan. Therefore, any blokade in existing supply chain will not impact US economy. Pakistan should also utilize this opportunity to develop technology and train Pakistani masses on that technology.

3) US ties with Pakistan to counter influence of China in region:

By forming alliance with Pakistan, US want to maintain its presence in Asian region and to reduce influence of China on the region.

Asian region holds importance in terms of Human resource and rich mineral & energy resources.

4) To counter Chinese String of Pearl:
US is increasing its presence in Asian region to counter "String of Pearl" ~~str~~ geo-military strategy of China which could potentially block US connectivity with the world.

5) US to counter CPEC of Chinese:
CPEC intends to connect whole world to China except North America. Chinese influence on world's economy is a direct threat to American hegemony. This is also another reason US is strengthening its ties with Pakistan.

Conclusion:

US-Pakistan changing relations are clearly short-term economic interest based. Therefore, It ~~would be~~ ~~accord~~ shows that US-Pakistan recent strengthened ties are just transactional cooperation and not long term all encompassing strategic Partnership.. So, Pakistan, alike US, should try to maximize its benefits by negotiation with US especially on technology transfer related to Minerals.