▪ Global Strategic & Security Studies Review (GSSSR)
▪ URL: http://dx.doi.org/10.31703/gsssr.2023(VIII-III).03 ▪ p- ISSN: 2708-2121 ▪ e-ISSN: 2708-3616

Navigating Pakistan's Economic Crossroads: The Ultimate Panacea for Its Existential Crisis

Nosherwan Adil	Lecturer, Department of International Relations, National University of Modern Languages, Islamabad, Pakistan.
Kashif Ashfaq	Lecturer, Department of Pakistan Studies, National University of Modern Languages, Islamabad, Pakistan.
Muhammad Saad Arshad	Lecturer, Department of Pakistan Studies, National University of Modern Languages, Islamabad, Pakistan.

Corresponding Author: Nosherwan Adil (Lecturer, Department of International Relations, National University of Modern Languages, Islamabad, Pakistan.
Email: nosherwanadilrehman@gmail.com)

Vol. VIII, No. III (Summer 2023) Pages: 19 – 32 DOI: 10.31703/gsssr.2023(VIII-III).03

Abstract: *Pakistan faces a critical juncture in its economic trajectory, grappling with multifaceted challenges that threaten its stability and growth. This paper presents a holistic solution to the economic problem of the country, offering a multifaceted strategy encompassing macroeconomic stability, human investment capital, institutional reforms, social safety nets, and sectoral diversification. Addressing the root causes of structural weaknesses, fiscal imbalances, and external debt burden, this solution emphasizes the imperative of governance transparency and enhancement, and fostering a domestic environment conducive to investment and growth. Collaboration among diverse stakeholders is pivotal for executing this strategy, aiming to revitalize the economy of Pakistan and ensure sustained prosperity while prioritizing the well-being of its populace.*

Key Words: Economic Problems, Fiscal Imbalances, External Debt Burden, Institutional Reforms, Sectoral Diversification

Introduction

The ever-worsening economic crisis has placed Pakistan at a crossroads as the stability of the country is dependent on its financial health. Amidst, political instability, polarization, and an election year; the economic problems of Pakistan will grab much attention in 2024. The country turned into political instability in April 2022 when then-PM Imran Khan was ousted from office through a dramatic no-confidence vote in parliament. Since then, Pakistan's economic indicators are swamped at an all-time low as the country is trapped in high inflation, unemployment, excessive fiscal deficit, falling investment, deteriorating external balance, trade, and budget deficit, low foreign capital inflow, dwindling foreign exchange reserves, heavy debt repayment, low foreign capital inflows, devaluation of the currency, weak production sector, over-reliance on aids, loans and bailout packages (Horowitz, 2023).

Similarly, structural imbalances are also a hindrance to the sustained economic growth and development of Pakistan that include excessive political involvement in economic

Citation: Adil, N., Ashfaq, K., & Arshad, M. S. (2023). Navigating Pakistan's Economic Crossroads: The Ultimate Panacea for Its Existential Crisis. *Global Strategic & Security Studies Review, VIII*(III), 19-32. https://doi.org/10.31703/gsssr.2023(VIII-III).03

activities, non-documentation of the economy, over-reliance on agriculture which is heavily dependent on floods and climate change, ambiguous and higher taxation policies, neglect towards SMEs, dysfunctional accountability sector, detachment from industrialization characterized by the persistent energy crisis and ineffective governance and institutional structure (Azad, 2023).

To remove structural imbalances and improve macroeconomic variables, deep-rooted reforms are needed to increase efficiency, stimulate entrepreneurship, and improve competitiveness, and technological progress. It is pertinent to mention that structural reforms remain the last refuge for economic managers when cynical economic measures stop producing desired outcomes. The following sections of this research paper discuss the economic outlook of Pakistan's economy, its causes and implications, several government initiatives, and solutions to address the economic crisis of the country.

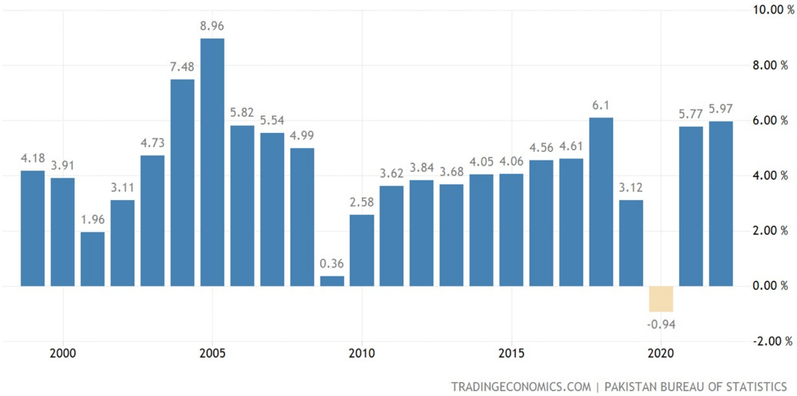
Pakistan Economic Outlook

Pakistan's GDP grew by 0.4% in the fiscal year that ended in June 2023, according to the World Bank. The slower rate of economic growth in Pakistan suggests that the private sector is operating under more restraint due to factors such as declining investor confidence, delayed fiscal tightening, import restrictions, and the aftermath of the historic summer flood of 2022. (Sustained Reform Commitment Is Needed to Overcome Pakistan's Economic Crisis, 2023).The risk of default has increased as a result of the foreign reserves dropping to an extremely low level of $4.3 billion, barely enough to fund imports for a month (Shahzad&Niyyar, 2023).

According to the reports, due to higher energy and food prices, inflation in the countryrose to 29.5 percent in Fiscal Year (FY) 2023.Moreover,downward spiral on exports, the Current Account Deficit (CAD) swamped by2 percent of GDP in Fiscal Year 2023 but is expected to rise to 2.1 percent of GDP in FY2024 of GDP and 2.2 percent of GDP in FY25 as import control is expected to ease. Similarly, the fiscal deficit of Pakistanshrunk by 6.7 percent of GDP in FY23 (*Sustained Reform Commitment Is Needed to Overcome Pakistan's Economic Crisis,* 2023). The following indicators will determine whether Pakistan can recover from this economic abyss in the future or not:

Pakistan's Macroeconomic Variables

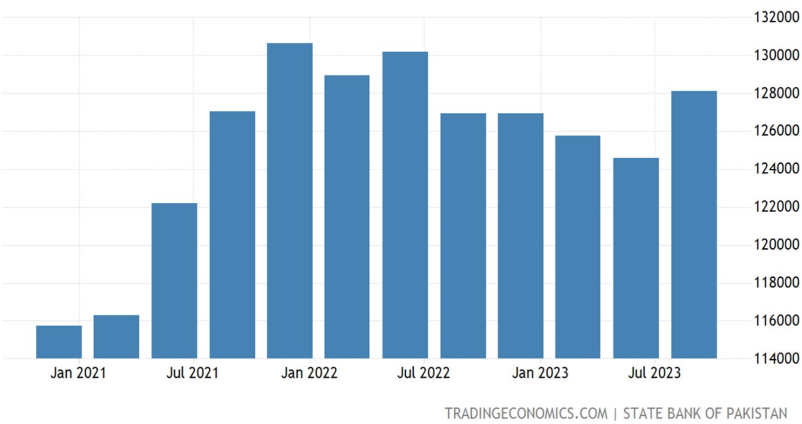
Pakistan's GDP annual growth rate swamped under -1.90 percentin 2023 in comparison to the annual GDP growth rate of 5.74 percent and 5.97 percent in 2021 and 2022 respectively(*Pakistan GDP Annual Growth Rate*, 2022). The inflation rate of Pakistan skyrocketed to 31.5 percent in the first three months of 2023 in comparison to 9.5 percent and 23 percent in 2021and 2022 respectively (*Inflation Rates in Pakistan*, 2022).Pakistan's Gross Domestic Product (GDP) was $376 billion in 2022, with an annual growth rate of 5.79 percent in comparison to $348 billion with a 5.74 percent growth rate in 2021(O'Neill, 2023). Similarly, the GDP per capita of Pakistan was$1450 in the first four months of 2023, whereas it remained constricted to $1460 in 2022 and $1473.9 in 2021(*Pakistan GDP per Capita*, 2022). The Unemployment rate in Pakistan rose steeply to 6.40 percent in 2023 and is expected to reach 8.50 percent in 2024(*Pakistan Unemployment Rate*, 2022)in comparison to 6.20 percent and 4.3 percent in 2022 and 2021 respectively(O'Neill, 2023). The interest rate of Pakistan was set all-time high by the central bank at21.98 percent in April 2023 which was 16 percent and 9.75 percent in 2022 and 2021 respectively(*Pakistan Short Term Interest Rate*, 2023). The Foreign Remittances of the country swamped to $6365 million in 2023 in comparison to $8260 million in 2022. The above-mentioned indicators are not keeping pace with debt repayment equations and increasedthechances for the country to default on its debt(*Pakistan Remittances*, 2022).



Source: Trading Economics, at https://tradingeconomics.com/pakistan/gdp-growth-annual

The Composition of Overall External Debt of Pakistan

According to the statistics, Pakistan's government is directly responsible for $97.5 billion of the total amount of external debt and liabilities, which will total $126.3 billion by the end of December 2022. Public sector enterprises under government control also owe an additional $7.9 billion to multilateral creditors. These multilateral lenders can be divided into four main groups: Chinese debt, private and commercial loans, Paris Club debt, and multilateral debt. Islamabad owes $18 billion, $15 billion, and $7.6 billion to the World Bank (WB), Asian Development Bank (ADB), and International Monetary Fund (IMF), among other multilateral organizations. (Rana, 2023). Islamabad is mostly in debt to Germany, Japan, the United States, and France, accounting for the majority of Pakistan's $10 billion debt to the Paris Club (Pakistan Seeking Rescheduling $10 Billion Debt Owed to Paris Club: Report, 2022). Pakistan also owes Chinese financial institutions $6.3 billion in addition to a sizeable amount of private debt in the form of Sukuk bonds and Eurobonds totaling $7.8 billion. Pakistan is also in debt $27 billion to China (Pakistan's Foreign Loan Inflows Slow Down: Ministry of Economic Affairs, 2023).Moreover, the Pakistani central bank has received a $4 billion foreign deposit from China's State Administration of Foreign Exchange (SAFE) (Jain, 2023).



Source: Trading Economics, at https://tradingeconomics.com/pakistan/external-debt

Debt Repayment Pressure

Pakistan faces considerable repayment pressure characterized by large external debt syndrome as the country is expected to repay $77.5 billion by June 2026 to private creditors' including Chinese financial institutions, and Saudi Arabia. This repayment will surely become a hefty burden for a country worth a GDP of $350 billion (Pakistan Needs to Pay $77.5 Billion in External Debt; Risk of Default "Real", Says US Think Tank, 2023).

Pakistan's Repayment Calculus from Exports, FDI, and Remittances

Pakistan is dependent on remittances and Foreign Direct Investment for debt repayment and to avoid a financial default.However, the earnings from FDI and remittances are not keeping pace with Islamabad's expectations as import bills are further mounting pressure on the country. For instance, Pakistan's remittances and export earnings were a total of $164 billion in comparison to $170 billion worth of imports over the last three years. The said scenario has led to a persistent current account deficit for Pakistan.(*Chapter 6*, 2023).

Causes of Economic Crisis in Pakistan

There are several causes of economic crisis in Pakistan such as external debt and borrowing, incessant inflation, energy crisis, political instability, corruption and inefficiencies, and geopolitical influences. The following section will explain these causes at length:

External Debt and Borrowing

Pakistan's financial crisis is the result ofexcessiveexternal debt and borrowing, which has unfortunately reached $126.3 billion. There are multiple stakeholders and creditors to whom Islamabad owe this mounting debtsuch as multilateral organizations, commercial and private lenders, Paris Club nations, and the neighboring China. Pakistan's persistent mounting debt is attributed by several factors such as abysmalfinancial growth, excessive international borrowing, currency depreciation, andlackof exports. Islamabad' foreign reserves are currently around $4 billion, which has emplaced the country at the crossroad of ineligibilityto pay one month's worth of imports. Subsequently, Pakistan might not be able to pay its recurring debt in the near future (Sajjad, 2023).

Persistent Trade Deficit

Pakistan has been prey to a persistent trade deficit for decades. In FY2022, the trade deficit reached a startling $48 billion, severely straining foreign exchange reserves. Pakistan's export growth has been modest, fueled by structural flaws, a lack of product diversification, a restricted export base, and inadequate competitiveness. In FY2022, the nation's exports came to a mere $32 billion, or 10% of its GDP. However, the export market remained centered on labor-intensive, low-value sectors like basic textiles. However, growing consumer demand, high oil costs, and imports of capital goods have all contributed to Pakistan's rapid increase in imports.Over the last five years, the 10% annual rise in imports has greatly exceeded the 3% annual growth in exports. In FY2022, imports totaled $80 billion, with the majority of goods coming from chemicals, metals, machinery, and petroleum. Thus, the nation's ongoing trade imbalance has exacerbated the current account deficit (Ali, 2023).

Inflation

The residents of Pakistan are facing severe problemswith purchasing power and an incessant increase in country-wide poverty due to an unprecedented 25% inflation rate. The unending increasing costs of fuel, food, imported goods, and electricity are theimmediatecause of this inflation. The implemented monetary and fiscal policy of then government Pakistan Tehrik-e-Insaf's (PTI)to boost the financial health of the country in the face of the COVID-19 pandemic, have further weakened the economic strength andchallenged the mechanism of regulatory measures (Shahid, 2023).

Energy Crisis

Pakistan is currently dealing with an incessant energy crisis including a power shortage that has seriously hampered to expansion and diversification of its economy and produce goods. The country continues to rely on external-cum-imported hydrocarbon, which are prone to continuous price volatility. Moreover, corruption,poor management and deficit of good governance,andaninvestment discrepancy in renewable energy sources have led the country into inefficient and insufficient domestic energy production. Consequently, the millions living the country are affected emotionally and financially by the power outages and load shedding, According to different statistics, the Gross Domestic Product (GDP) of Pakistan has reduced by up to 4% as a result of relentlessenergy shortages (Ayaz&Masoom, 2023).

Political Instability

The common wisdom suggests that political stability leads to financial stability but unfortunately in the case of Pakistan, democratic dearth, political unrest, and depraved governance have negatively affected the confidence of domestic and foreign investors. Subsequently, this has led to a decrease in Foreign Direct Investment (FDI), lowering the likelihood of economic growth and ultimately causing capital flight from the country. The volatility in the exchange rate caused by incessant political instability and lack of expected governance have continue to harm businesses that depend on stable and somehow static exchange rates for international trade. The budgetary constraints and inconsistent economic growth led to an increase in external borrowing and budget deficits elevating the risk of debt crises of the country.Furthermore,Pakistan's insecurity is characterized political instability including lack of rule of law, terrorism, civil unrest, deterring foreign investment, disruption of economic activities, and damage to infrastructure, collectively contribute to the financial and economic stability of the country. Hence, socio-economic and political instability undermines the faith of investors, creditors, and the public in the regime's ability to address the ongoing challenge in the country (Ghalib, 2023).

Corruption and Inefficiencies

For many years, the citizens of the nation have endured a cycle of corruption and inefficiencies. Pakistan rated 124th out of 180 countries in Transparency International's Corruption Perceptions Index (CPI) 2021 survey, indicating a high level of perceived corruption.The Economic Survey of Pakistan testifies that corruption costs billions of dollars annually. The World Bank report estimated that corruption in the country could be siphoning off around 2% to 3% of Pakistan's GDP each year.Inefficiencies within the public sector and tax collection systems lead to substantial revenue losses. The incessant corruption and institutional inefficiencies have also negatively impacted attracting FDI. Several reports suggest that the ranking of Pakistan in the Ease of Doing Business Index has been affected by red tape, bureaucratic hurdles, and corruption, making it less attractive for foreign investment. Hence, the survey conducted by independent observers often reveals a lack of trust in public institutions due to perceived corruption and inefficiencies (Kirsanli, 2023).

Geopolitical Influences

Pakistan has continued to face substantial security challenges due to its geopolitical position. The cost of combating terrorism and maintaining security has been significantly high. Several reports suggest that the military expenditure of Pakistan is among the highest in the region, sometimes exceeding 3% of its GDP. Moreover, the changing geopolitical situations in the region, especially persistent tensions and conflicts with neighboring countries like Afghanistan and India have created uncertainties that affect investment, trade, economic stability, and regional economic cooperation. Similarly, Pakistan has been hosting millions of refugees over the years has put pressure on infrastructure, resources, and the economy. It impacts employment, social services, and overall economic stability (Khan, 2023).

The Impact of the Economic Crisis on Pakistan

Pakistan's financial problems have significantly impacted the socio-economic life of its citizens and tainted the overall well-being of the country's population.The following section will discuss the Socio-economic and Sector-wise impacts in detail.

A Socio-economic Effects

The persistent economic problems of Pakistan have had significant socio-economic effects on its population such as increasing poverty rates, unemployment and underemployment, social unrest, security challenges, rising income inequality, lack of access to basic health facilities and Education, rural-urban disparities, and regional implications,

Increasing Poverty Rates

Poverty remains a significant challenge in Pakistan. According to the World Bank, poverty in Pakistan has reached 37.2 percent by the end of 2023 outmatching the national poverty rate of around 24.3% as per Pakistan Economic Survey 2020-2021. This indicates that approximately more than one-fourth of the population lives below the poverty line. TheGlobalMultidimensional Poverty Index (MPI) 2021 assesses that around 38.8% of Pakistanis are considered multi-dimensionally poor, taking into account factors such as health, education, and living standards. Moreover, the COVID-19 pandemic characterized by economic disruptions and lockdowns exacerbated poverty levels in Pakistan (Sajjad, 2023).

Unemployment and Underemployment

The challenge of unemployment and underemployment persist in Pakistan. In 2021, the unemployment rate in Pakistan was around 5.7%, while in 2022, the unemployment rate went in height up to 6.42%, and is expected to project to trend around 7.20 percent in 2024 and 6.90 percent in 2025. The Youth unemployment rate also tends to be higher. In 2021, the youth unemployment rate in Pakistan was approximately 9.1% and increased by 0.3% in 2022 in comparison to the previous years. In total, the youth unemployment rate in Pakistan amounted to 11.31 percent in 2022.Moreover, underemployment is a prevalent issue. The country's youth do not fully match the skill-needed criteria subsequently their high qualification is under-utilized by the national companies.The labor force participation has been a subject of concern in Pakistan. The rate in 2021 was estimated at around 33%, suggesting that a substantial portion of the working-age population is not actively engaged in the labor market due to various reasons, including discouragement from seeking employment (Akhtar, 2023).

Rural-Urban Disparities

The rural-urban disparities continue to impact aspects of Pakistani citizens including access to basic services, healthcare, education, and economic opportunities. Starting from access to basic services such as sanitation, clean water, and electricity is more limited in rural areas. According to the Pakistan Social and Living Standards Measurement Survey (PSLM) 2018-2019, around 91% of urban citizens have access to improved sanitation facilities, compared to only 50% of rural households. Access to clean drinking water has also remained a challenge for rural inhabitants. According to an independent survey, 88% of the rural populace have access to clean drinking water. Moreover, Child and maternal health outcomes are often poorer in rural areas. According to the Pakistan Demographic and Health Survey (PDHS) 2017-2018, infant and child mortality rates are higher in rural areas compared to urban areas. (Ejaz&Mallawaarachchi, 2023).

Social Unrest

Due to the persistent economic hardships, there is a great deal of frustration and unhappiness among the citizens of Pakistan, which is demonstrated by the citizens in variuous forms such as strikes, road protests, violence, and riots. The faith, confidence and social fabric in the successive government havefurtherswamped by unemployment, insecurity, and inequality. Nations' unity and stability are threatened bypersistent economic crisis, watershed ethnic-ethnic-sectarian calamity, and regional and global tensions. Similarly, access to clean drinking water remains a challenge for Pakistani citizens. According to the Pakistan Social and Living Standards Measurement Survey (PSLM) 2018-2019, about 95% of urban households have access to improved drinking water sources, while in rural areas, this percentage is around 88% (Alamuddin, 2023).

Security Challenges

Pakistan's citizens have not witnessed the social stability since decades. Nonetheless, the persistent economic crisis have challenged country's capacity to manage domestic and regional-centric security challenges. Islamabad is currently facing multifaceted security threats to its socio-economic and political stability that include militancy and terrorism organized by various ideologies. These militant groups with their nefarious activities have posed a significant threats to stability and development of Pakistan.

Rising Income Inequality

This is a significant socio-economic challenge for Pakistan, contributing to disparities in wealth distribution. One indicator of income disparity is the Gini coefficient.The Gini coefficient, in Pakistan is estimated to be between 0.3 and 0.4, indicating moderate to high levels of income inequality. Moreover, sectoral disparities also exist in Pakistan. Professionals in various sectors such as technology, finance, and corporate industries often earn higher incomes compared to those employed in agriculture or informal sectors. Ancillary, gender inequality is also a contributing factor to income disparities.Women often face limited access to economic opportunities and wage gaps, leading to lower incomes compared to their male counterparts (Burki, 2023).

Lack of Access to Basic Health Facilities and Education

In Pakistan, access to basic health and educational amenities is still a major problem. A reasonable distance from their residences is a barrier accessing basic healthcare for about 22% of Pakistani individuals, according to the Pakistan Demographic and Health Survey (PDHS) 2017–2018.Approximately 33% of those living in rural areas and 15% of people living in urban areas said that traveling a distance was a barrier to getting healthcare. The World Health Organization (WHO) recommends a doctor for every 1,000 people, however Pakistan's doctor-to-patient ratio is reported to be far lower at 0.84 doctors per 1,000 people.Healthcare expenditure Out-of-pocket healthcare expenses are high in Pakistan, According to the World Bank, in 2017, approximately 60% of healthcare expenditure in the country was financed through out-of-pocket payments, limiting access for many due to financial constraints.Similarly, the situation of education remains similar to that of basic health care. According to UNESCO (United Nations Educational, Scientific and Cultural Organization), approximately 22.8 million children of primary school age in Pakistan are out of school. Auxiliary, Girls, especially in rural areas and marginalized communities continue to face problems of lower enrollment and higher dropout rates compared to boys. The literacy rate also remains a concern for successive governments of Pakistan. According to the Pakistan Social and Living Standards Measurement Survey (PSLM) 2018-2019, the overall literacy rate of the country stands at approximately 59% (Qureshi, 2023)

Regional Implications

The economic crisis in Pakistan has significantly affected regional financial growth and socio-political stability. The nuclear-armed Pakistan with an abled above 60% youth is still very significant from a geopolitical and geostrategic standpoint. In an increasing globalized world, the economic and political collapse of one country have direct implications on neighboring countries in the shape of migration, and Internally Displaced Peoples (IDPs). Hence, the prompt social and financial stability would be welcomed by neighboring countries also (Simsek, 2022).

B Sector-wise Impacts

The financial problems of Pakistan have had a sector-wise impact on the various segments of the country. The following section will discuss several sectors such as the agriculture sector, industrial sector, service sector, energy sector, trade sector, and construction and infrastructure sector.

Agriculture Sector

The agriculture sector contributes significantly to the GDP of Pakistan accounting for around 20% to 25% of the total GDP, and feeds around 38% of the labor force from this sector. Nonetheless, the agriculture sector of Pakistan continues to face multiple issues such as water scarcity,lowproductivity,outdated farming practices, proper water management, inadequate mechanization, lack of productivity due to technological advancement, lack of access to modern farming techniques, frequent government interventions, and vulnerability to climate change, impacting crop yields and farmer incomes. The above-stated issues have swamped the agriculture growth to an all-time low and impacted the overall economic growth of the country (Haq, 2022).

Industrial Sector

The contribution of industrial sector in Pakistan's GDP accounts for approximately 20% to 25%. The country is dependent on different industries such as cement, textile, and steel significantly to exports and job creation. However, within the industrial sector, manufacturing industries face hurdles related to energy shortages, power shutdown, inconsistent policies and cumbersome regulations, skill gaps, labor issues, lack of investment in research and development, lack of modernization, high production costs, and infrastructural deficiencies, affecting their competitiveness.Overcoming these hurdles can significantly enhance the contribution of the agriculture sector of Pakistan by creating employment opportunities, improving productivity, and fostering economic growth (Siddiqui, 2023).

Service Sector

Pakistan is a service-based economy, as it is the largest contributor to the GDP of the country, constituting around 50% to 60% of the total GDP. The sub-sectors such as telecommunication, information technology, retail, and banking have also shown growth potential, contributing to the economy. Nevertheless, the service sector of Pakistan also faces multiple challenges such as inefficiencies, infrastructure constraints, lack of skilled labor force, lack of producing quality services, regulatory environment, and security concerns and perceptions. Hence, overcoming these deficiencies could boost the overall performance of the service sector and would foster sustainable economic growth (Qureshi & Shah, 2019).

Energy Sector

Energy is a lifeline of the country's economy in modern times. However, Pakistan continues to face chronic energy shortages leading to power outages and disruptions in commercial and industrial activities.The insufficient investment and lack of interest from local and international investors have resulted in a gap between demand and supply, impacting economic growth and domestic businesses. Pakistan's energy sector faces multiple problems such as dependency on fossil fuels, lack of diversification and limited investment in renewable energy sources, inefficient transmission and distribution systems, persistent circular debt and financial viability and sustainability, capacity expansion and generation gap, and lack of access in rural areas. Overcoming these issues would ensure a reliable, sustainable, and affordable energy supply that can support economic development and the growth and development of Pakistan (Jilani, 2023).

Trade Sector

Pakistan also faces the issue of trade imbalance which is further causing the economic crisis of the country. The significant trade deficit continues to lead to a strain on foreign exchange reserves. The challenges in trade sectors are multifaceted such as trade barriers, tariff and non-tariff barriers, limited export diversification, logistical and infrastructure challenges, quality and standard compliance, extensive informal economy and smuggling activities, limited value addition and innovation in the end-product, and limited foreign direct investment in key sectors affect the capacity building, technological advancement and modernization needed to enhance export competitiveness. Hence, boosting value addition, encouraging innovation, and fostering a conducive trade environment can enhance trade sector competitiveness and drive sustainable economic growth in Pakistan (Bhomwick, 2023).

Construction and Infrastructure Sector

The geostrategic location of Pakistan has always shown a potential for the construction and infrastructure sector, particularly with initiatives like the China-Pakistan Economic Corridor (CPEC). However, this sector is not exempted from challenges either. The challenges include inadequate infrastructure, funding constraints and investment, regulatory and approval delays, bureaucratic hurdles, energy and power deficiencies, capacity and skill shortages, and land acquisitions and legal issues. Hence, a conducive business environment,emphasis on quality control and safety standards, and clear land acquisition policies can foster the overall growth of this sector and would ultimately contribute totheeconomic development of Pakistan (Hanif, 2022).

Government's Attempts to Address the Crisis

The successive governments have taken several initiatives to address the incessant economic crisis of Pakistan such as reforms and bailout packages from the IMF, government austerity measures, and promoting exports and FDI, but these above-mentioned initiatives failed to bring any productive results.

Reforms and Bailout Packages from IMF

Pakistan's last hope for relief from its low foreign reserves, growing public debt, and balance of payments crises was the International Monetary Fund (IMF). Strict conditions, such as structural changes and stabilizing measures, are attached to the bailout packages, though, and subsequent administrations must undertake difficult market and budgetary reforms. In accordance with the continuous staff agreement for a $3 billion standby arrangement in June 2023 prior to the $1 billion loan in 2019. Pakistan made a commitment to lower its public debt, reduce the budget deficit, do away with energy subsidies, raise tax revenues, replenish its foreign reserves, and permit exchange rate flexibility. Even though IMF funding offers the anticipated short-term respite, breaking free from the boom-bust cycle necessitates the commitment to changes that can result in self-reliance.(Hussain, 2023).

Government Austerity Measures

Pakistan made a commitment to lower its public debt, reduce the budget deficit, do away with energy subsidies, raise tax revenues, replenish its foreign reserves, and permit exchange rate flexibility. Even though IMF funding offers the anticipated short-term respite, breaking free from the boom-bust cycle necessitates the commitment to changes that can result in self-reliance. The administration also implemented direct tax measures, increasing the minimum corporate tax rate to 2% and the income rate to 35%, to aid in fiscal consolidations. The Prime Minister's Office's spending budget was cut, going from Rs. 1.15 billion to Rs. 0.81 billion. But the austerity measures only made a negligible difference in the economy's recovery.(Rashid, 2023).

Promoting Exports and FDI

Boosting exports and drawing foreign direct investment are regarded as essential components for accelerating economic expansion, initiating sustainable growth, and resolving the balance of payments crisis. On these fronts, the Pakistani government has launched a number of programs. The weakening of the rupee helped Pakistani products become more competitive in the export market. To help exporters, tax refunds, duty drawbacks, and other subsidies have all been increased. Export-oriented sectors have been guaranteed access to low-cost energy and enhanced liquidity through export finance initiatives. Additionally, trade diplomats are tasked with negotiating with overseas partners to gain improved access to markets. Pakistan subsequently obtained GSP+ status in the EU market, enabling duty-free exports. Therefore, in order to change institutions and policies and fairly integrate into the global economy, these reform efforts must continue. (Verela, 2023).

Recommendations

Pakistan has become a rent-seeking economy characterized by tax concessions and exemptions, and its products are not competitive internationally. Hence it is considered as the primary reason for its recurring balance of payment crises. The following solutions are recommended to resolve the grave economic crisis in Pakistan:

Uniformity in Annual GDP Growth Rate

To attract investors through Foreign Direct Investment and Foreign Remittances, Pakistan should bring consistency in its annual GDP growth rate. As stated above, Pakistan's GDP annual growth rate was 5.74 percent and 5.97 percent in 2021 and 2022 respectively but swamped under -0.5percentin FY2023.

Reduce Higher Taxation Policies

The country lacks a mechanism and uniform percentage in the context of imposition of taxessubsequently Pakistan had been slapped with penalties bytheIndependent Power Producers (IPPs) case back in 2017. Then finance minister Ishaq Dar directed his financial team to impose additional taxes and plans to slash subsidies on gas and electricity to meet IMF's bailout package worth $1.1 billion. Moreover, the current Pakistan Democratic Movement (PDM) government has presented the supplementary financial bill before parliament to increase the General and Sales tax to 18 percent to help raise 170 billion rupees. Such initiatives discourage foreign investors and stimulate hyperinflation in the country. The proper long-term taxation mechanism is need of an hour as the country is already ata crossroads.

Strengthen Anti-Corruption Units to Combat Corruption and Money Laundering

According to Corruption Perception 2022, Pakistan stands at 140 out of 180 in the list of the most corrupt countries in the world. The statistics are testified by Panama and Paradise Papers which spoke volumes of corruption and money laundering in Pakistan and not only politicians but businessmen and diplomats were also on the list. The pattern of corruption in Pakistan is through import and export licenses, mega construction projects, subsidies on selective enterprises for vested interest, and grassroots corruption including involvement of institutions like WAPDA, FBR, and Pakistan Customs, etc. The strengthening of anti-corruption units such as NAB, and FBR through institutional reforms, decentralization of power,andappointment of competent lawyers to prosecute aptly is a need of an hour.

Creation of Macroeconomic Stability

This initiative will give confidence to both consumers and investors and could be achieved through fiscal discipline, lowering inflation, and meeting the Current Account Deficit (CAD).

Ease of Doing Business

The reduction of the cost of doing business is very important to attract local and foreign investors for industrial growth. Even economists believe that One Window Operation should be introduced to facilitate the investors.

Skill Development

The development of skills to enable workers to work on modern machines would certainly improve the proficiency and readiness of laborers. The government must incentivize private enterprises to impart on-the-job training.

Adoption of Modern Technology

To spur entrepreneurship and innovation, the government should take the initiative to establish science and technology industrial parks across the country likewise recently established by NUST to encourage youth to initiate startups and satisfy their need for modern technologies.

Investment in Modern Physical Infrastructure

To ensure the cost-effective, reliable, and efficient provision of service, especially in the communication and energy sector

Revitalization of Existing Industrial Complex

To ensure value-added growth by relying on the execution of the new application to meet the needs and tastes of international consumers. The major problem with industries of Pakistan is relying heavily on unfinished goods, it is either raw materials or unfinished goods such as cotton in the form of globular, threads, and unstitched clothes. Moreover, the production sector is seriously weak as international consumers' demands are versatile whereas Pakistani products are not market-competitive in pricing and quality in comparison to Bangladesh and India. So, revitalization of the existing industrial complex to international standards would make the country's industries competitive.

Rethinking Agriculture Priorities

Though Pakistan falls in the category of an agro-economy this complex faces serious problems such as a declining canal system, poor crop yields, lack of irrigation, persistent floods, unfair distribution of water, lack of agriculture reforms and limited access of financing, power shortage, and outdated farming system have added fuel to the fire. The above-mentioned problems have made the agriculture sector a liability for Pakistan and resulted in further unemployment in the country. The solutions include irrigation reforms, provision of subsidies and incentives, improved capacity building of farmers, and provision of subsidies for electricity would turn this sector into an asset and address the food shortage of Pakistan.

Encourage the diaspora to invest in Pakistan

As stated above, Pakistan is heavily dependent on remittances to meet its financial needs. Similarly, the foreign diaspora should be encouraged to invest in the country by assuring the safety of their investment. Issuing special investment bonds would make them shareholders in local enterprises.

Encourage Dynamic SMEs

The new growth strategy could be led by efficient and dynamic small and medium enterprises (SMEs). The government should encourage banking channels to finance SMEs instead of relying on large-scale firms.It is important to mention that the State Bank of Pakistan has offered long-term financing facilities and export refinancing facilities to large firms. Such facilities should extend to SMEs as well.

Remittances through Banking Channels

As stated above, Pakistan is heavily dependent on remittances to meet its financial needs but indicators such as $6365 million in 2023 in comparison to $8260 million in 2022 show that it is not keeping pace with debt repayment equations and increase the chances for the country to default on its debt. Moreover, most remittances in Pakistan are not through proper banking channels as the private market providesabetter exchange rate. The government should balance the exchange rate, and impose taxes, and register moneychangers.

Encourage Fisheries and Livestock Industries

The exports of fisheries were estimated at $373 million in 2021 which was 1.6 percent of the total export of the country. Similarly, livestock shares 61.89 percentoftheagriculture sector and 14.04 percentof GDP has recorded an annual growth of 3.26 percent in FY 2021. This sector has the potential to contribute further totheannual GDP growth of Pakistan. So, initiatives should be taken to facilitate this sector.

Inspire Public Saving and FDI

The administrative lacunae such as the availability of reliable statistics for better estimation of profit/loss percentage need to be addressed to encourage public saving and attract Foreign Direct Investment in the country. The reliable statistics available for public scrutiny would assure the citizens that the money saved from the austerity campaign is spent on concerned areas rather than on the lavish lifestyle of politicians.

Depoliticized Institutions

The government of Pakistan should build effective institutions to remove red-tapism and bottlenecks in good governance to win the private sector's trust in policies. Moreover, the government's role should be limited to developing foundations and providinganenabling environment to execute a dynamic growth strategy. Depoliticized institutions would encourage and streamline competent individuals to get timely promotions and run the organizations.

Conclusion

It would be appropriate to say that Pakistan is at a crossroads because of the looming debt repayment crisis. The sustained growth to harness its massive untapped potential in the agriculture and manufacturing sector is most desirable for Pakistan. Moreover, a comprehensive solution to the existential economic crisis of Pakistan demands a multifaceted approach addressing key challenges across sectors. Fostering a stable policy environment, prioritizing strategic reforms in governance, and enhancing institutional transparency are fundamental steps to instill international investor confidence and stimulate economic growth. Simultaneously, focusing on revamping the agriculture sector through water resource management, modernization, and technological advancements can alleviate rural poverty and boost overall productivity. Investing in renewable energy sources, resolving energy shortages, and upgrading infrastructure is imperative to improve manufacturing competitiveness and bolster industrial growth. Streamlining trade regulations, promoting export diversification, and exploring new markets can reduce dependency on a few key export items and mitigate trade imbalances with other countries. Emphasizing skill development and education, especially in STEM fields, alongside healthcare reforms, can drive innovation, and uplift human capital, which is essential for sustained economic progress. A cohesive strategy integrating these reforms, coupled with inclusive policies that prioritize social welfare and bridge rural-urban divides is pivotal to steering Pakistan toward resilience, economic stability, and sustainable growth. Hence, economic reforms need sincere application from competent individuals to realize the economic potential for financial growth and prosperity of the country.

References

Akhtar, S. (2023). Economy: No Country for the Young. *Dawn.Com*. https://www.dawn.com/news/1733020

Alamuddin, B. (2023). *Inequality and the threat to Pakistan's economic stability*. Arab News PK. https://www.arabnews.pk/node/2264491

Ali, M. (2023). *Pakistan's trade deficit: challenges and prospects*. Weekly Cutting Edge. https://weeklycuttingedge.com/pakistans-trade-deficit-challenges-and-prospects/#:~:text=Pakistan's%20global%20trade%20share%20has,successfully%20expanded%20their%20export%20capacities.

Ayaz, M., Chaudhary, G. M., &Masoom, M. A. (2023). Effect of Energy Crisis on Performance of Export and Non-Export Oriented Textile Companies in Pakistan. *Journal of Educational Research and Social Sciences Review (JERSSR), 3*(1), 140-147.

Azad, A. R. (2023). Economic growth has to be backed by structural reforms: Shamshad. *Brecorder*. https://www.brecorder.com/news/40274947

Bhomwick, S. (2023). *'Unbalanced' Balance of Payments: Pakistan's Vicious Cycle*. Observer Research Foundation. https://www.orfonline.org/expert-speak/unbalanced-balance-of-payments

Burki, S. J. (2023). *Income inequality and poverty in Pakistan*. Express Tribune. https://tribune.com.pk/story/2408328/income-inequality-and-poverty-in-pakistan#:~:text=By%20all%20measures%2C%20Pakistan%20performs,the%20average%20for%20the%20poorest.

Chapter 6. (2023). State Bank of Pakistan. https://www.sbp.org.pk/reports/annual/aarFY22/Chapter-06.pdf

Ejaz, N., & Mallawaarachchi, T. (2023). Disparities in economic achievement across the rural–urban divide in Pakistan: Implications for development planning. *Economic Analysis and Policy, 77*, 487–512. https://doi.org/10.1016/j.eap.2022.11.023

Ghalib, S. J. (2023). *Political Instability and Pakistan's Economic crises. - Stratheia*. Stratheia. https://stratheia.com/political-instability-and-pakistans-economic-crises/

Hanif, U. (2022). Construction sector fears collapse. *The Express Tribune*. https://tribune.com.pk/story/2382837/construction-sector-fears-collapse

Haq, S. (2022). An unyielding year for agriculture in Pakistan. *The Express Tribune*. https://tribune.com.pk/story/2393236/an-unyielding-year-for-agriculture-in-pakistan

Horowitz, J. (2023). *Pakistan's political crisis will deepen its economic misery*. CNN. https://edition.cnn.com/2023/05/12/economy/pakistan-political-crisis-economy-default/index.html

Hussain, A. (2023, November 16). Pakistan and IMF reach deal for releasing $700m from $3bn bailout package. *Al Jazeera*. https://www.aljazeera.com/news/2023/11/16/pakistan-and-imf-reach-deal-for-releasing-700m-from-3bn-bailout-

Inflation rates in Pakistan. (2022). WorldData. Info. https://www.worlddata.info/asia/pakistan/inflation-rates.php#:~:text=The%20inflation%20rate%20for%20consumer,rate%20was%208.2%25%20per%20year.

Jain, A. (2023, March 7). 'Requested China to roll over USD 2 billion deposits': Pakistan tells IMF. *Mint*. https://www.livemint.com/news/world/requested-china-to-roll-over-usd-2-billion-deposits-pakistan-tells-imf-11678174815917.html

Jilani, M. (2023). *Exploring Pakistan's Energy Sector: Sources and Trends*. Paradigm Shift. https://www.paradigmshift.com.pk/pakistan-energy-sector/

Khan, F. (2023). *The geopolitical framing of Pakistan's economic crisis*. South Asian Voices. https://southasianvoices.org/the-geopolitical-framing-of-pakistans-economic-crisis/

O'Neill, A. (2023). *Pakistan: Gross domestic product (GDP) in current prices from 1987 to 2023*. Statista. https://www.statista.com/statistics/383739/gross-domestic-product-gdp-in-pakistan/#:~:text=The%20gross%20domestic%20product%20in,value%20in%20the%20observed%20period.

Pakistan GDP Annual Growth Rate. (2022). Trading Economics. https://tradingeconomics.com/pakistan/gdp-growth-annual#:

Pakistan GDP per capita. (2022). Trading Economics. https://tradingeconomics.com/pakistan/gdp-per-capita

Pakistan needs to pay $77.5 billion in external debt; risk of default "real", says US think tank. (2023, April 8). Outlook. https://business.outlookindia.com/news/pakistan-needs-to-pay-77-5-billion-in-external-debt-risk-of-default-real-says-us-think-tank-news-276776

Pakistan Remittances. (2022). Trading Economics 20. https://tradingeconomics.com/pakistan/remittances

Pakistan Seeking Rescheduling $10 Billion Debt Owed To Paris Club: Report. (2022, September 24). Outlook. https://www.outlookindia.com/international/pakistan-seeking-rescheduling-usd-10-billion-debt-owed-to-paris-club-report-news-225602

Pakistan Short Term Interest Rate. (2023). CEIC. https://www.ceicdata.com/en/indicator/pakistan/short-term-interest-rate#:~

Pakistan Unemployment Rate. (2022). Trading Economics. https://tradingeconomics.com/pakistan/unemployment-rate#:~:

Pakistan's foreign loan inflows slow down: Ministry of Economic Affairs. (2023, January 28). The Economic Times. https://economictimes.indiatimes.com/news/international/world-news/pakistans-foreign-loan-inflows-slow-down-ministry-of-economic-affairs/articleshow/97396161.cms?from=mdr

Qureshi, A. (2023). Overcoming barriers to education and healthcare access in Pakistan: A comprehensive analysis. *Medium*. https://medium.com/columbia-journal-of-science-tech-ethics-and-policy/overcoming-barriers-to-education-and-healthcare-access-in-pakistan-a-comprehensive-analysis-.

Qureshi, I. A., & Shah, H. J. (2019). Deteriorating Economic Conditions and their Impact on National Security. *ISSRA Papers*, *11*(II), 29-44.

Rana, S. (2023, April 6). *Pakistan's Existential Economic Crisis*. United States Institute for Peace. https://www.usip.org/publications/2023/04/pakistans-existential-economic-crisis

Rashid, Dr. Q. (2023). *What Austerity Measures*. Pakistan Today. https://www.pakistantoday.com.pk/2023/02/25/what-austerity-measures/

Sajjad, Dr. A. (2023). *Pakistan's Economic Crisis: Unveiling the Causes, Impacts, and Remedies*. Superior University. https://oric.superior.edu.pk/pakistans-economic-crisis-unveiling-the-causes-impacts-and-remedies/

Shahid, A. (2023). *Pakistan's inflation rises to 31.4% y/y amid high energy prices*. Reuters. https://www.reuters.com/markets/asia/pakistans-sept-cpi-314-yy-statistics-bureau-2023-10-02/

Shahzad, A., &Niyyar, G. (2023). *UAE to loan $1 bln, roll over another $2 bln to Pakistan - minister*. Reuters. https://www.reuters.com/world/asia-pacific/uae-roll-over-2-bln-loan-pakistan-provide-1-bln-additional-loan-2023-01-12/

Siddiqui, E. H. A. (2023). Industrial regression. *The News International*. https://www.thenews.com.pk/magazine/money-matters/1077048-industrial-regression

Simsek, H. A. (2022). *A Brief Analysis of Pakistan Economy in the Context of Regional Developments*. Eurasian Research Institute. https://www.eurasian-research.org/publication/a-brief-analysis-of-pakistan-economy-in-the-context-of-regional-developments/

Sustained Reform Commitment is needed to Overcome Pakistan's Economic Crisis. (2023). The World Bank. https://www.worldbank.org/en/news/press-release/2023/04/03/sustained-reform-commitment-is-needed-to-overcome-pakistan-s-economic-crisis