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Pakistan's Economic Future: Risks, Opportunities, and Strategic Choices

The future of any economy is inseparably linked to its past and present. Pakistan's economic history has unfolded in distinct phases, marked by episodes of strong growth and significant poverty reduction—notably during the 1960s, 1980s, 2000–07, 2014–16, and again in 2020–22. Yet today, the economy finds itself in a precarious position. For the first forty years since independence we were ahead of our neighboring countries in all economic and social indicators but for the last thirty five years they have made significant strides and we have been left behind. Growth has stalled, Youth Unemployment is rising , poverty and erosion of purchasing power of the middle class have lowered the living standards of the majority of the population ; tendency to migrate abroad has accelerated ; international ratings remain negative; and foreign exchange constraints are binding. Although macroeconomic stability has been achieved , there is a lot that needs to be done to accelerate upward movement in the real sectors of economy ---agriculture and industry.

On the positive side, Pakistan's international standing has improved significantly since May 2025 skirmishes with a much larger and powerful neighbor demonstrating its military strength. It is time that we leverage this achievement with other two components that make a nation command respect on a sustained basis---Economic sovereignty and Technological diffusion. The agenda for the future should therefore focus on attaining these two objectives which are interrelated and interdependent. The theme of this conference therefore is quite appropriate in this respect ,

If we mechanically project these present conditions into the future—while ignoring historical experience or the projected global and national trends —the outlook would indeed appear bleak. But should we assume that current circumstances will persist unchanged? Are the domestic and external shocks confronting Pakistan today permanent features of the future?

It is important to recall that the present crisis is the result of a confluence of adverse factors: global economic disruptions , fractured supply chains; alongside internal political uncertainty . weak governance and intense social polarization. Any serious assessment of Pakistan's future must therefore rely not on linear projections, but on scenario analysis—

constructing alternative paths based on differing assumptions and assigning probabilities to their outcomes.

Such an exercise must begin with a careful evaluation of global economic trends and Pakistan's domestic endowments, while recognizing its inherent limitations. Forecasts cannot fully account for unforeseen shocks, geopolitical ruptures, or other imponderables that may alter the trajectory of the economy.

Global Megatrends and Their Implications

Let me now outline the major global megatrends likely to have direct or indirect consequences for Pakistan. We are operating in a highly uncertain international environment. The election of President Trump in the United States and his trade and tariff policies, the war in Ukraine, the conflict in Gaza, and instability across the Middle East , intervention in Venezuela have all heightened global risks and vulnerabilities, complexity and ambiguity have sharpened. I would add a word of a caution here. The collapse of multilateralism and weakening of the United Nations and its agencies precipitated by the US withdrawal from 63 organizations such as WHO,UNESCO, IPCC etc , the abandonment of Climate change agenda , vociferous opposition to Diversity, Equity and Inclusion, stringent restrictions on migration by the Western countries , the ascendency of right wing political parties in Europe , the weakening of traditional alliances in the Western world and China becoming a credible partner of developing countries and champion of globalization have shattered the forces that could help us in predicting the future. . Some of the trends I outline may themselves be overtaken by unexpected developments in the future. What I submit to you this morning should be considered tentative rather than definitive.

First, the rapid dissemination and absorption of new technologies. Artificial intelligence, robotics, blockchain, the Internet of Things, additive manufacturing, high-speed connectivity, e-commerce, cloud computing, and data analytics have spread widely across developing countries. However, a widening digital divide persists. Many countries lag in electronic payments, mobile money, digital government transfers, and fintech adoption.

Second, climate change risks. Global warming and greenhouse gas emissions are already affecting food security, energy supply, and water availability in developing countries. How these risks are managed will be decisive—not only for Pakistan, but for humanity as a whole.

Third, demographic transition. Advanced economies are aging, while developing countries—including Pakistan—have youthful populations. This demographic asymmetry can yield dividends for labor-surplus countries, provided they equip their youth with skills demanded in labor-deficient economies such as Japan, Korea, and Germany.

Fourth, the erosion of unipolar global dominance. The post–Cold War hegemony of the United States has weakened with the rise of China, now the world's largest exporter and second-largest economy—an extraordinary transformation from its position in 1980. The rivalry between the two powers is increasingly centered on technological leadership.

Fifth, the explosion of information and knowledge. Human knowledge becomes obsolete at an accelerating pace. New ideas and technologies expand exponentially, requiring effective systems to identify, filter, and apply what is relevant.

Finally, financial integration and volatility. The aftershocks of the global financial crisis, tapering of quantitative easing, synchronized monetary tightening by major central banks, dollar appreciation, and the dominance of the US Federal Reserve in global payments have created severe external financing challenges for developing economies.

A Changed Global Landscape

Pakistan must recognize that the global conditions prevailing between 1990 and 2015 no longer exist. Open trade regimes are giving way to protectionism. Capital flows and foreign direct investment to developing countries will not return to their earlier scale or patterns. Growth in major export markets is slowing, limiting export dynamism. Transport costs—once declining—have risen due to supply chain disruptions. Global value chains and intra-industry trade are no longer expanding as they once did.

Given these realities, how can Pakistan position itself to maximize benefits and mitigate risks—while ensuring inclusive growth and broad-based welfare?

Inclusive Growth as a Strategic Imperative

Inclusive growth requires reducing income, gender, and regional inequalities through:

1. Investment in human capital—higher education, research and development, vocational and technical training;
2. Technological Assimilation and Digital Pakistan
3. Climate-resilient agriculture to ensure food security and industrial raw materials;
4. Greater female participation in the labor force;

5. Progressive taxation and pro-poor public spending;
6. Special focus on lagging regions; and
7. Strong and well-targeted social safety nets.

Investment in Human Capital

Pakistan's greatest challenge is absorbing its rapidly growing young population—both domestically and in overseas labor markets. Human capital investment must move beyond credentials toward the acquisition and application of knowledge and problem-solving skills. Pakistan's Human Capital Index and social indicators remain alarmingly low compared to regional peers, and a business-as-usual approach will not suffice.

From reintegrating nearly 20 million out-of-school children, to prioritizing STEAM education, to change the curriculum in middle and high schools to develop competencies in computational thinking, intelligent systems, ethical and responsible use of technology , to continuous reskilling and upskilling of the workforce, the tasks ahead are formidable.

Demographic trends offer both urgency and opportunity. While advanced economies age, Pakistan remains young. Japan alone seeks 80,000 ICT professionals by 2030; Korea has opened its labor market; and immigration policies in Canada, Australia, and New Zealand increasingly favor skilled workers. Academia, the private sector, and government must collaborate systematically to meet this demand.

Technological Assimilation and Digital Pakistan

Pakistan can benefit substantially from emerging technologies—particularly AI and its applications across industry, agriculture, education, health, and finance.

The five pillars of *Digital Pakistan* should be:

1. Expanded access and connectivity;
2. Robust digital infrastructure;
3. Digital skills and literacy;
4. E-government; and
5. Innovation and entrepreneurship.

While freelancing, startups, and e-commerce attract young Pakistanis, scale and quality remain constraints. Digital technologies can also accelerate financial inclusion and cross-border payments, but progress is hindered by internet instability, weak fiber infrastructure, excessive taxation on telecom, spectrum pricing issues, foreign exchange restrictions, and—most critically—a shortage of skilled ICT professionals.

Pakistan produces around 25,000 IT graduates annually, yet only 5,000–10,000 are industry-ready. Firms are reluctant to invest in training due to high attrition, creating a vicious cycle that must be broken.

Climate Change: An Existential Challenge

World Bank estimates suggest that by 2050, climate change could reduce Pakistan's GDP by 18–20 percent. Losses of 6.5–9 percent of GDP may arise from floods and heatwaves alone, while air pollution and water shortages could further reduce output by over 10 percent.

By mid-century, Pakistan's population may reach 350 million, increasing food demand by 50 percent and requiring 56 percent more crop calories than in 2010—at a time when water availability and agricultural productivity are under threat.

A credible climate agenda must include:

- R&D in drought- and pest-resistant crops;
- Efficient water conservation and management;
- Transition to renewable energy;
- Sustained afforestation and watershed protection; and
- Access to international climate finance for resilient infrastructure.

Closing Gender Gaps

Pakistan ranks 145 out of 146 countries on the Global Gender Gap Index. Female labor force participation, literacy, political representation, and child health outcomes remain among the worst globally. Despite legal reforms, weak enforcement and entrenched social norms continue to limit women's economic contribution.

Devolving power and resources to local governments—with guaranteed female participation—has shown promise. Scaling such approaches is essential if Pakistan is to fully utilize its human potential.

Reforming Public Finances

The government's footprint in Pakistan remains excessively large. The formal sector bears a disproportionate tax burden while nearly 60 percent of economic activity remains untaxed. Progressive taxation and stronger enforcement could raise the tax-to-GDP ratio to 15 percent by taxing large agricultural holdings, urban property, and services—primarily at the provincial level.

Public spending must be redirected toward education, health, R&D, and human capital formation by undertaking institutional reforms aimed at eliminating waste , inefficiencies, overlap and redundancies and strengthening E Governance.. Capital markets must be deepened, retail participation expanded, and government borrowing diversified beyond a narrow banking base.

Finally, tariff and non-tariff barriers must be dismantled to restore competitiveness and integrate firms into global value chains. The anti-export bias must be eliminated, imports liberalized, and productivity-driven import substitution pursued where Pakistan enjoys genuine comparative advantage.

Special focus on lagging regions

Recent district level data reveals that at least 80 districts of Pakistan mainly in Balochistan, Merged districts of KPK, Southern Punjab and rural Sindh lag behind in income, and social indicators. To maintain social cohesion and harmony it is imperative that administrative, legal powers and financial resources are devolved to the districts and communities who can make their own decisions according to their priority needs. Over Centralization of powers and concentration of resources in the well off areas of the country has brought about this huge disparity where Islamabad has only 5 percent of the population below the poverty line while a large number of districts in Balochistan have incidence of 85 to 90 percent.

Targeted Social Safety Nets

One of the stellar performing institutions of Pakistan which has received uninterrupted bipartisan political support is Benazir Income Support Program which provides unconditional and conditional cash transfers to females over 9 million poor households. Based on evidence , criteria and digitization the leakages are minimal and targeting is more or less accurate. However, given the inflationary pressures the amounts have to be increased and skill training for employability given priority. Other subsidies such as for electricity, gas food, and fertilizers should also be channeled through BISP.

Pakistan's future is not preordained. With informed choices, institutional reform, and sustained investment in people, the country can still convert risk into opportunity and restore a path of inclusive and resilient growth.