DAWN

Towards middle power status

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THE period between May 2025 and May 2026 has been unusually consequential for Pakistan. In May 2025, the country surprised observers by demonstrating a high degree of capability and professionalism in an aerial war with a much larger power. More recently, a nation often portrayed as peripheral to global affairs assumed a central diplomatic role by facilitating a ceasefire and enabling direct talks between a superpower and a neighbouring country that had not engaged face to face for nearly five decades. Pakistan's ability to balance its relationships — building trust with the US while sustaining deep ties with China, entering into a defence pact with Saudi Arabia while maintaining constructive engagement with Iran — has drawn global recognition. Governments, media and policy analysts have begun to describe it as an emerging middle power in a rapidly evolving multipolar world.

A country's strength rests on three pillars: military capability, diplomatic reach and economic and technological capacity. Pakistan has shown competence in the first two. The third pillar is the critical missing link where Pakistan must focus its efforts. Its moment of achievement should be a catalyst for the transformation of the stop-go pattern of policymaking of the past three decades. A decisive shift requires support across political parties, the private sector and civil society.

Yet the near-term outlook is complicated. Risks to recently achieved macroeconomic stability have risen due to external shocks, including disruptions in the Strait of Hormuz. The UAE's recent withdrawal of its deposits highlights this vulnerability. While such withdrawals might be manageable under normal conditions, the need to replace them with Saudi deposits shows the fragility of Pakistan's external position. Reliance on shortterm financial inflows from friendly countries or on geopolitical rents must be phased out. Dependence has delayed structural reforms, suppressed growth, discouraged domestic savings and heightened exposure to domestic and external shocks.

So what should be Pakistan's end goal? The prevailing model of elitist growth, where a narrow segment captures disproportionate benefits, has delivered limited, uneven progress. Ensuring that gains from economic expansion are broadly distributed is imperative. The results of the current model are stark: nearly 40 per cent of the population lives in poverty; gender and regional disparities persist; and Pakistan has slipped from medium to low ranking on the HDI. Literacy rates are modest, while health and nutrition indicators are generally poor. Economically, Pakistan has moved from a trajectory of industrialisation to one of premature deindustrialisation, increasing reliance on imports and trading activities. Graduate unemployment is high, reflecting a mismatch between educational outcomes and labour needs. Farm productivity is low, with significant food imports. The tax system penalises formal sectors while leaving large segments — such as agriculture — undertaxed, thus discouraging investment. Excessive regulation and an overextended state footprint inhibit the growth of SMEs.

Achieving middle power status requires a robust economic foundation.

Failure of governance and institutions lies at the root of these challenges. Whether in law and order, energy, education, or fiscal management, institutional weaknesses underpin recurring crises. Any new development model must address this on a priority basis. The problem is not a lack of diagnosis but implementation. Rather than creating new committees and commissions, the focus should shift to assigning clear responsibilities to ministries and agencies, with measurable milestones and strict timelines. A promising initiative — the development of performance agreements between the PM and federal ministries — was undertaken in 2022 but abandoned following a change in government. This tendency to discard previous efforts without evaluating their merit has contributed significantly to policy discontinuity. Projects begun by earlier administrations are often delayed or defunded, undermining investor confidence. Leadership changes even within the same political party can lead to abrupt policy reversals.

Such unpredictability raises the risk premium for investors, discouraging long-term commitments. As a result, Pakistan's investment-to-GDP ratio has stagnated around 15pc, constraining growth to 3-4pc annually. In contrast, during the 2000s, when investment exceeded 20pc of GDP, growth averaged around 6pc. Decentralisation offers a partial remedy but remains incomplete. While the 18th Amendment and seventh NFC Award strengthened provincial autonomy, the next step — empowering local governments — has yet to be fully realised. Regional disparities persist, with underdeveloped districts lacking access to basic services and economic opportunities, while major urban centres attract resources and migrants. Devolving authority and resources to LGs could unlock the economic potential of lagging regions. Districts endowed with natural resources, such as those in Balochistan, could achieve higher growth and better living standards if given control over their development priorities. Effective local governance could enhance service delivery, reduce grievances and create a conducive environment for private investment. Evidence suggests that public satisfaction with services was highest when LGs were functional. Reinstating and strengthening them would improve governance outcomes and yield political dividends.

Another critical constraint is centralised decision-making. The increasing concentration of authority in the PM's Office and CMs' secretariats has slowed administrative processes and undermined institutional capacity. Empowering line ministries and professional civil servants is essential for efficient governance. Equally important is the neglect of human capital. Pakistan's low ranking in technological capability and human development reflects underinvestment in education skills, and training. Fragmentation between federal and provincial responsibilities has led to policy incoherence and weak coordination. A nationally agreed framework with clear roles, coordination mechanisms and monitoring systems is needed.

Also, the education system is disconnected from market needs. Weak industry-academia linkages, combined with incentive structures that prioritise academic publications over innovation and commercialisation, have limited universities' contribution to economic development. Expanding higher education without aligning it to local economic opportunities has yielded limited returns. In a knowledge-driven global economy, technological capability, innovation and a skilled workforce are the primary drivers of growth. Pakistan must undertake comprehensive reforms across the education spectrum — curriculum, pedagogy, assessment and skills development — to align with these realities. Achieving middle power status is not merely a function of diplomatic success or military strength. It also requires a robust economic foundation, capable institutions and an inclusive development model. Pakistan has risen to strategic challenges. The task is to translate that capability into sustained economic transformation.

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