UCP Journal of Humanities & Social Sciences
Vol. 3 (2), January - June 2025, 37-57
DOI: https://doi.org/10.24312/ucp-jhss.03.02.495

Economic Security of Pakistan: Lessons from History

Adnan Khan
Ph.D. Scholar in History from University of the Punjab and Associate Lecturer, University of Central Punjab, Lahore
Email:adnankhan1@ucp.edu.pk

Abstract

Pakistan's economic journey has been marked by numerous challenges and fluctuations, shaped by a combination of multiple internal and external factors. This historical analysis looks into the key economic phases of Pakistan, exploring the political and global influences that have shaped its economic landscape. From the early struggles of post-independence to periods of rapid growth and subsequent downturns, this study highlights the pivotal moments and policies that have impacted Pakistan's economic development. Key issues such as political instability, structural imbalances, and reliance on foreign aid are examined in the paper. Additionally, the analysis considers the role of agriculture, industrialization, and the service sector in driving economic growth. Through this historical study, the paper aims to provide a comprehensive understanding of the persistent economic challenges facing Pakistan and some suggestions for development. This study employs a qualitative historical research approach, analyzing archival records, government reports, and scholarly literature to trace Pakistan's economic trajectory.

Received:
23 March 2025

Revised:
09 April 2025

Accepted:
19 May 2025

Published:
20 May 2025

Keywords: Economic overview of Pakistan, Economic development and challenges, Political instability, Structural imbalances, foreign aid.

Introduction

Since its inception in August 1947, Pakistan has faced numerous economic challenges. The country is facing constant rise and fall in its economy (I. Husain, 2019, p. 8). The country's economic journey has been influenced by a complex interplay of political, social, and global factors. This paper explores Pakistan's economic history, highlighting the key challenges and milestones that have shaped its economy. It examines how economic security challenges contribute to the growing threats to Pakistan's national security. The main factors of the economic security of the country are its geographical location, natural resources, industrial and agricultural potentials, the degree of socio-demographic development, the quality of public administration (Grigoreva & Garifova, 2015). This paper begins by outlining the conceptual foundations of economic security, using Structural Dependency Theory, Elite Capture Theory, and Historical

Institutionalism. It then describes the qualitative historical research approach, data sources, and analytical methods. The analysis examines Pakistan's economic security across various periods, focusing on post-independence challenges, policy shifts, and external dependencies. The discussion identifies patterns of economic instability and suggests strategies for long-term security. The paper concludes with key findings and reflections on Pakistan's economic resilience and future pathways.

Theoretical Framework

This paper uses three key theories to explain Pakistan's economic security challenges:

1. **Structural Dependency Theory** – This theory explains how Pakistan's economy has remained dependent on foreign aid, loans, and external markets. Instead of developing a self-sufficient economy, past policies have increased reliance on international institutions and powerful countries, limiting economic independence.

2. **Elite Capture Theory** – This theory shows how economic benefits in Pakistan have mostly gone to a small group of powerful elites, such as industrialists, landlords, and politicians. Unequal wealth distribution and policy control by these elites have widened income gaps and slowed fair economic development.

3. **Historical Institutionalism** – This theory helps understand how past economic policies and institutions shape Pakistan's current challenges. Decisions made in earlier decades, such as policies during the Ayub Khan era, continue to influence today's economic structure, making reforms difficult.

Early Years Post-Independence (1947-1958)

Pakistan inherited a weak economic structure. The country faced immediate challenges, including the need to rehabilitate millions of refugees and establish a new economic system. The economy was primarily agrarian, with a limited industrial base and infrastructure. Even in the province of Punjab, Muslims were in a weak position (Awan, 2024). The early governments focused on stabilizing the economy, developing infrastructure, and establishing state-owned enterprises to drive industrialization. Compared to India, Pakistan got poor infrastructure in terms of agriculture, industry, communications, educational and health facilities, finance, and government infrastructure (Afzal, 2009, pp. 14–16). One of the major factors was the injustice done by the Radcliff's boundary commission, i.e., the

Muslim-majority areas like Gurdaspur, Firozpur, Murshidabad, and Nadia were unjustifiably awarded to India. In addition, Pakistan also had to face the issues of the accession of the princely states - Kashmir, and Junagarh, etc. (Afzal, 2009).

A few initial challenges that Pakistan had to face:

a- **Administrative issues:** Pakistan had to establish its administrative system from top to bottom, i.e., from the capital of the country to the council of the village. The inadequate number of government officers was also a great problem for Pakistan because there were only **101** Muslim Civil Servants out of a total of **1157** Indian civil servants, out of which only **95** migrated to Pakistan.

b- **Financial Problems:** The land and areas that came to Pakistan after independence were backward both agriculturally and industrially. The following table consists of factories and assets inherited by Pakistan after 1947:

Table 1: Industrial and Financial Resources

Factories and Industries		
Industry	**Total**	**Inherited by Pakistan**
Textile Mills	394	14 (3.55%)
Jute Mills	106	0 (0%)
Registered factories	14,677	1414 (9.6%) In which 41.2% were small-scale factories
Banking and financial resources		
	Total	**Due share**
Cash balance	Rs. 4 billion in Reserve Bank of India	Rs. 750 million (Rs. 700 million Received)
Compensation for 16 ordinance factories.	-	Rs. 6 Crore to be released to Pakistan, but the Reserve Bank was stopped by the Indian government due to the Kashmir conflict.

c- **Armed Forces:** The British insisted that even after the formation of two states, there should be one single army, but Quaid e Azam Muhammad Ali Jinnah insisted that the All India Muslim League would not accept the partition unless they had a Muslim majority army (Nicholas Mansergh, 1982, p. 534).

Table 2: Military Resources

	Total	Pakistan received
Ordinance stores	160,000 tons	23,225 tons
Armored vehicles and Tanks	249 vehicles	0
Soft vehicles	1461	74
Ordinance factories	16	0

In the first decade, the government focused on stabilizing the economy and laying an economic foundation, as the private sector lacked funds for industrial growth. Profits made by the merchant class during and after the 1950s Korean War provided capital for industry, which the government developed and later transferred to the private sector (Akbar Zaidi, 2015). Pakistan's economic journey began with significant challenges, threatening its existence as it faced weak foundations and early conflicts with India.

The Ayub Khan Era (1958-1969)

Ayub Khan's era, starting with his 1958 military coup, saw significant economic development, coinciding with Pakistan's Cold War alliance with the USA. The government introduced reforms to promote industrialization, including the Green Revolution in agriculture and large-scale industrial projects. From 1958 to 1969, Pakistan's economy grew at an average rate of 5.82%, with the manufacturing sector expanding at 8.51%, the highest in the country's history. New car assembly factories, cement industries, dams, canals, and power stations were established. The space program of Pakistan was also initiated by the government; that was a landmark achievement (Tirmizi, 2012).

Ayub Khan's policies also benefited agriculture through land reforms, merging small farms into larger ones, and tackling hoarding. The government provided loans and work programs and increased crop prices, along with more funding for agriculture. However, tax collection remained low, under 10% of GDP (Wilcox, 1969).

The policy of the Export Bonus Vouchers Scheme in 1959, combined with the policy of tax incentives, stimulated new businesses, traders, and exporters. These schemes helped new businesses to get foreign exchange and buy advanced industrial machinery and required raw materials. Moreover, tax breaks were also given to encourage investments in less-developed regions, which helped develop the industry in Punjab. (Kemal, 2006, p. 53).

Apart from all the above-mentioned achievements, Ayub's policies created high growth in the fields of agriculture and industry, but they also led to social inequalities. Mahbub ul Haq criticized that 22 families controlled a significant portion of the economy, with 66 percent of the industrial assets and 87 percent of the banking assets (Akbar Zaidi, 2015, pp. 6–8). In 1959, the government initiated the building of a new and organized capital city. This decision led to further alienation among the population of East Pakistan as the income disparity between the two provinces increased. For the development and stability of a country, it is imperative to have an equal distribution of resources. The unequal distribution of resources led to the political struggle in East Pakistan for their economic and social rights that ultimately resulted in civil war due to the unacceptable policies of the ruling elite. This situation created an economic security dilemma that resulted in the fall of East Pakistan.

GROSS PROVINCIAL PRODUCT FOR EAST AND WEST PAKISTAN
(Estimates for 1964-65 to 1968-69 at 1959-60 Factor Cost)

	West Pakistan		East Pakistan		Disparity*
	Total (Rs crs)	Per Capita (Rs)	Total (Rs crs)	Per Capita (Rs)	
1964-65	2244.05	443	1861.75	301	1.47
1965-66	2243.15	459	1953.65	303	1.51
1966-67	2459.60	461	2053.70	315	1.46
1967-68	2708.15	494	2142.95	320	1.54
1968-69 **	2891.22	514	2237.48	325	1.58
1969-70 **	3156.30	546	2271.33	321	1.70

* Disparity is the ratio of per capita GPP of West Pakistan to that of East Pakistan.

** Rough estimates.

Sources : Pakistan Economic Survey, 1969-70.
Performance Statistics of West Pakistan, April 1969, Government of West Pakistan.

Figure 1: Annual Gross Provincial Product

The per capita income disparity between East and West Pakistan increased during the 1960s. The disparity ratio between the two provinces surged from 1.47 in 1964-65 to 1.70 in 1969-70 (Sengupta, 1971). Other major examples of disparity like the available petrol in East Pakistan per capita was 0.1 gallons on average compared to 0.8 gallons in West Pakistan. The Electricity supplied to West Pakistan was at least 19 times more than in East Pakistan (S. U. Khan, 1961, p. 54).

If one looks at the economic figures in the Ayub Era, the economic condition seemed to be getting better in the 1960s. However, the disparity between the two provinces created differences not only in their living standards and facilities but also threatened the economic security of the East Pakistan. During the Ayub Khan era (1958–1969), Pakistan's economy grew rapidly, but this growth was uneven. Wealth became concentrated in 22 powerful families, while many people remained poor. Cities like Karachi and Lahore developed, but rural areas were left behind. The Green Revolution helped large landlords, but small farmers struggled. East Pakistan felt economically neglected compared to West Pakistan, leading to resentment.

The Bhutto Era (1971-1977)

Zulfikar Ali Bhutto's era saw a shift in economic policies. His government nationalized key industries, banks, and educational institutions, aiming to create a more equitable society. While these policies were popular among the masses, they led to inefficiencies and a decline in industrial productivity. The economy suffered from political instability and global oil price shocks. Despite some successes in agriculture and social sectors, the overall economic performance during this period was poor (Zahoor, 2011a, pp. 150–153). The process of nationalization of the industries in Pakistan under the leadership of Bhutto can be divided into two stages:

1. **First Phase**: This stage began when the Pakistan Peoples Party (PPP) came to power. Inspired by a desire to control the wealth and resources held by a small, elite group. The goal was to redistribute wealth and reduce inequality.

2. **Second Phase**: Started around 1974 when the influence of the left-wing within the PPP decreased. It became less about ideology and more about reacting to various situations as they arose. Bhutto's approach to economic management reduced the role and effectiveness of the Planning Commission. Corruption increased, and gaining access to government resources became a way to amass personal wealth. Public interventions in the economy were used by those in power to increase their wealth and influence (Noman, 1988b, p. 74).

Bhutto's Economic Policies:

Prime Minister ZA Bhutto introduced socialist policies to avert more division in the country. He nationalized the economy and established new industrial and infrastructure projects like Port Qasim and Pakistan Steel Mills. However, economic growth slowed, with annual growth rates dropping from 6.8% in the 1960s to 4.8% in the 1970s. Nationalized industries often lost money the reason behind this was that market-oriented decisions were not taken. His government did not achieve its goals of reducing poverty and inequality. Conversely, poverty and income inequality increased. The rate of inflation in the country rose significantly, averaging 16% per year from 1971 to 1977 (Faridi, 2021, pp. 81–82).

The PPP's nationalization efforts, especially in the second phase, lacked true alignment with corporatism or socialist ideals. Instead of advancing socialism, state-run enterprises became tools for power and status. Though justified with socialist rhetoric, nationalization often resulted in poor management. This mismanagement made governance more difficult and further weakened the country's economic activity, and threatened the economic security (Zahoor, 2011b).

Public and Private Sector Industrial Investment (Millions of Rupees)

Year	Private Sector Investment	Public Sector Investment	Total Investment	Private Sector Investment as % of Total Investment	Public Sector Investment as % of Total Investment
1971-72	1,235	99	1,334	92.6	7.4
1972-73	1,018	111	1,129	90.2	9.8
1973-74	1,023	391	1,414	72.3	27.7
1974-75	1,437	1,065	2,502	57.4	42.6
1975-76	1,818	3,182	5,000	36.4	63.6
1976-77	1,795	4,315	6,110	29.4	70.6

Source: ***Pakistan Economic Survey, 1976-77*** (Islamabad: Government of Pakistan, Finance Division, 1977), p.43.

Figure 2: Industrial Investment, 1971-77

When evaluating the performance of public sector companies under the Pakistan People's Party (PPP), it's important to remember that the nationalized businesses were already burdened with a combined debt of Rs. 254 million. Their efficiency was further compromised by additional challenges. According to Noman, the early performance of some public sector companies wasn't entirely disappointing; in fact, industries like cement, automotive, petroleum, and fertilizer did quite well. However, the overall success was dragged down by a few persistently struggling enterprises (Noman, 1988a, pp. 78–80).

New public enterprises were often created to serve political purposes, and some were built in unsuitable locations, like the Bannu Sugar Mills. The poor location and lack of proper infrastructure made it hard for such plants to compete. Additionally, public sector jobs were used as a political tool by the PPP to gain more support. Jobs were handed out in a way that led to overstaffing and inefficient management, which eventually crippled the financial performance of these companies. For example, in 1972-73, enterprises managed by the Board of Industrial Management employed 40,817 people, but by 1976-77, this number had increased by 58% without a corresponding rise in production. Bhutto's passionate speeches and election campaigns had raised public expectations for job creation, but the government's focus on capital-intensive projects made it difficult to meet these expectations (Zahoor, 2011b, pp. 152–153).

In short, while Bhutto's era was marked by ambitious economic reforms and a focus on social justice, the effectiveness of his policies was mixed, and the country faced substantial economic challenges and political instability during his time in office. The legacy of his economic policies is complex, which resulted in further threatening the economic stability and security of the country.

Zia-ul-Haq Era (1977-1988)

General Zia-ul-Haq implemented martial law through Operation Fair Play in 1977 (Nawaz, 2009, p. 352). His regime marked another shift in economic policies. The government reversed many of Bhutto's nationalization policies and promoted private sector growth. Zia's era saw a revival of the economy, with significant foreign aid inflows, particularly from the United States, due to Pakistan's strategic role in the Afghan war. Despite this, the benefits of economic growth were not evenly distributed, and the country faced challenges such as rising debt and fiscal deficits. General Zia increased the role of the army in various government departments by using military intelligence extensively (Siddiqa, 2016). He appointed senior military officers to important positions in public administration by providing profits to the country’s armed forces. That is the reason why Zia got massive support from within the army, so he was able to remain in power for a long time (Jalal, 2014).

The Afghan War put an economic strain on Pakistan's economy, too. The influx of refugees from Afghanistan, particularly in the NWFP (now better known as Khyber Pakhtunkhwa), has put pressure on the resources and infrastructure of Pakistan. This led to increased military spending and less use of resources for social and economic development. This era saw an increased involvement of the military in politics and the economy. During the Zia regime, ethnic and sectarian conflicts increased, and the country became politically paralyzed. No focus was made on the sectors of agriculture and industry.

When foreign loans and debt relief ended after the Afghan War, deeper economic issues became evident. Low savings rates led to debt repayment pressure, balance of payments deficits from weak export growth, and inadequate infrastructure. These factors slowed GDP growth, contributing to the 1990s economic slump.

The 1990s: A Decade of Instability

Political unpredictability, frequent governmental transitions, and poor economic management characterized the 1990s. The nation saw high inflation, sluggish economic growth, and mounting debt. Economic performance was hampered by structural issues such as a small tax base, ineffective public sector businesses, and bad governance (I. Husain, 2018). The overall state of the economy remained unstable despite a few attempts at economic liberalization and reform. Pakistan experienced severe economic difficulties in the 1990s as a result of pervasive dishonesty and abuse of authority. An increase in violence between factions and extremist activities.

The rate of economic growth had decreased. Systems and important organizations were deteriorating. There were numerous safety concerns, and the nation was unstable. These problems brought in an economic crisis that reduced GDP and private investment. Pakistan responded to this by implementing a stringent structural adjustment program from the International Monetary Fund (IMF). Spending on non-productive regions grew, which decreased the amount of money available for development. The GDP growth rate decreased to 3.5% as a result. Additionally, this resulted in a rise in the poverty rate (Faridi, 2021, p. 183).

The 1990s marked a period of momentous political and economic instability in Pakistan. Following a comparatively stable 1980s, the country witnessed a slowing down of economic growth, a rise in inflation, and an ever-increasing debt burden(I. Husain, 2009). Political turmoil was evident, with four prime ministers being dismissed between 1988 and 1997(Bray, 1997). Factors contributing to this instability involved weak political institutions, military interference, and division among political parties (B. Khan et al., 2020). The lack of enthusiastic and visionary leadership, a weak judiciary, and political ethnicity further aggravated the situation, particularly in the Sindh province(Siyal, 2021). The unrest during this period can be traced back to the previous decade, when General Zia's military regime laid the groundwork for democratic instability (B. Khan et al., 2020). The culmination of these factors led to a decline in voter confidence and participation. This was clearly reflected in the low turnout of the 1997 general election (Bray, 1997).

During the 1980s, the United States gave Pakistan more than $4 billion in aid, with approximately $2 billion allocated for military purposes, but in the 1990s, Pakistan had to face the strict restrictions of the Pressler Amendment (S. R. Khan & Akhtar, 2014). During the 1990s, Pakistan faced persistent financial challenges, leading to a significant increase in both domestic and external debt. Between June 1990 and May 1998, the country's total debt nearly doubled, rising from $20 billion to $43 billion. By the end of this period, Pakistan's external debt had grown to 47.6% of its GDP, with an average annual growth rate of 8.1%.

In 1998, the net present value of this external debt was 230% of Pakistan's export earnings, far exceeding the safe limit of 150%. This means that the country was heavily reliant on borrowing and struggled to keep up with payments. The burden of external debt and foreign currency obligations became increasingly unsustainable, as it rose from 258% of total foreign exchange earnings in 1990 to 364% in May 1998. Moreover, the portion of foreign earnings needed to pay off debt increased significantly, from 23.3% in 1990 to over 40% by 1998. These figures indicate that Pakistan's external debt had reached a critical and unsustainable level (I. Husain, 2009).

The Musharraf Era (1999-2008)

Pervez Musharraf's regime brought economic stability and growth, mainly due to U.S. support in the ‘war on terror’. The government implemented reforms to liberalize the economy, attract foreign investment, and promote privatization. Sectors like telecommunications, banking, and manufacturing saw significant progress. However, the benefits were largely enjoyed by the elite, with the poor receiving little from the growth. Issues such as poverty, unemployment, and regional disparities persisted. Following 9/11, Pakistan's economy improved due to foreign aid. The GDP growth rate rose to 6%. The amount of money needed to pay back debts became manageable, and the budget deficit was lowered. Additionally, the reserves held by the State Bank reached record levels (Akbar Zaidi, 2015, pp. 8–9).

Despite these positive indicators, Pakistan had to face great security threats and economic burdens due to the fallout of the war on terror in Afghanistan because Pakistan was the front-line state supporting NATO and the USA. In the longer run, the security threat negatively impacted tourism, the sports industry, and overall foreign and local investment in Pakistan. This resulted in ruining Pakistan's economy, forcing the government to go for higher loans from the International Monetary Fund (IMF) and the World Bank.

The Musharraf era (1999-2008) in Pakistan was characterized by rapid economic growth, but this success was not without side effects. While macroeconomic indicators improved, including higher GDP growth rates, the benefits did not trickle down to the general population (I. Husain, 2009). Income inequalities and regional disparities increased, along with rising inflation. (Looney, 2008) The government's economic policies were criticized for neglecting human development, with worsening unemployment and poverty rates (S. Khan, 2007). Despite claims of an economic turnaround, a comprehensive review suggests these claims were exaggerated (S. Khan, 2007). The economic model adopted during this period was questioned for its ability to lay a solid foundation for future growth (Looney, 2008). However, some argue that thoughtful public policy in high-potential sectors could have helped Pakistan join the ranks of rapidly growing Asian economies(Burki, 2000). Ultimately, economic concerns played a significant role in the rejection of Musharraf's government by voters in 2008 (Looney, 2008).

Table 3: Economic Growth Rate

Pakistan Sectors of Economy	**Annual Percentage Growth Rate**						
	Period of 1960	Period of 1970	Period of 1980	Period of 1990	Period of 2000	Period of 2010	Period of 2020
GDP	6.77	4.84	6.45	4.6	4.32	2.4	-0.38
Agriculture	5.07	2.37	5.44	4.4	3.76	1.2	2.67
Manufacturing	9.93	5.5	8.21	4.8	4.83	3.0	-5.4
Service Sector	6.74	6.26	6.65	4.6	4.54	4.1	-0.59

Source: Economic Survey of Pakistan, 2019-2020

The 2008 Global Financial Crisis

Pakistan's economy also suffered because of the global financial crisis that started in 2008. The country faced a severe balance-of-payments crisis, and growth slowed down. The government tried to get economic assistance from international financial institutions such as the International Monetary Fund (IMF) to stabilize the economy. Despite some recovery in subsequent years, the economy continued to face structural challenges such as energy shortages, fiscal deficits, and a weak tax system (I. Husain, 2019, pp. 11–12).

The 2008 global financial crisis significantly impacted Pakistan's economy through multiple channels. The crisis primarily affected Pakistan via the financial sector and trade, leading to negative effects on economic growth and employment (Haq et al., 2014). The Gulf Financial Crisis played a crucial role in transmitting the global crisis's impact to Pakistan, reducing foreign direct investment, decreasing labor force emigration, and increasing return migration (Javed et al., 2020). The crisis negatively influenced Pakistan's SME sector, causing increased inflation and decreased living standards (Syed et al., 2012). Additionally, the crisis affected remittances, international trade, exchange rates, interest rates, and foreign aid (Ashraf et al., 2012). While remittances showed a positive trend until 2015, this was attributed to post-9/11 anti-money laundering legislation and rupee depreciation rather than economic growth(Javed et al., 2020). These studies highlight the multifaceted impact of the global financial crisis on Pakistan's economy across various sectors.

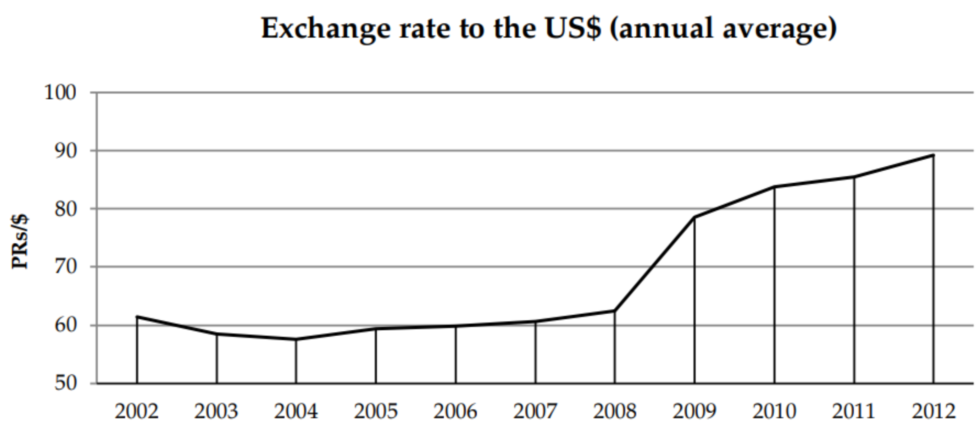

Figure 3: Year exchange rate (Ministry of Finance, 2013)

The above-cited table depicts the depreciation of the Pakistani Rupee against the US dollar after the global financial crisis of 2008 that led to high inflation.

Therefore, this global economic crisis had negatively impacted the economic security of Pakistan.

While foreign direct investment (FDI) inflows to Pakistan surged notably from US$ 2,157 million in 2005 to US$ 5,492 million in 2007 due to economic liberalization and privatization, they experienced a downturn in 2009 due to the financial crisis and global economic slowdown. This decline had significant repercussions for job creation and the spread of technology.

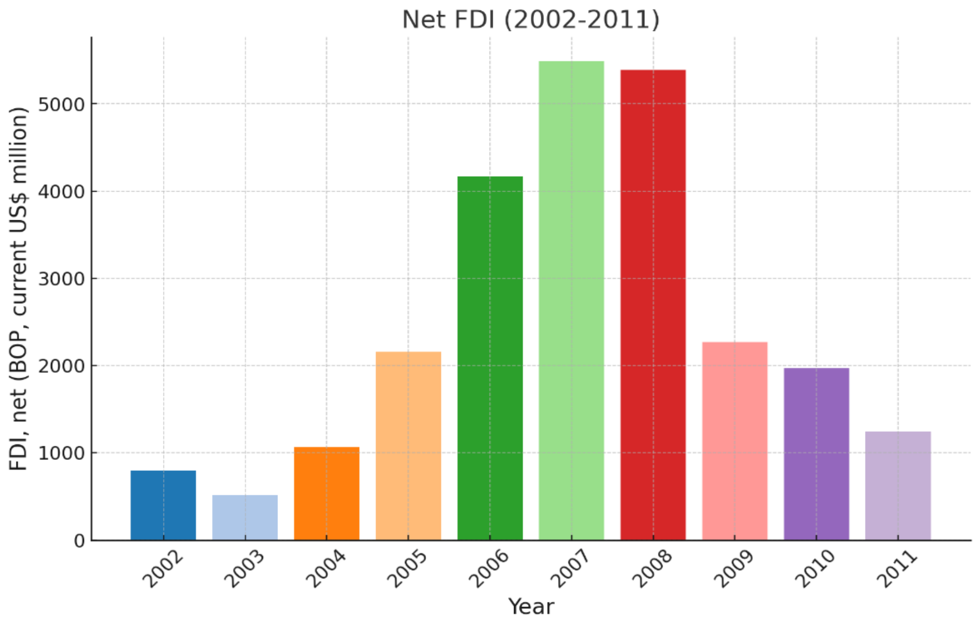

Figure 4: Annual FDI (World Bank)

Developments and Challenges (2008-2013)

Pakistan's economy experienced significant volatility and challenges from 2008 to 2013. In recent years, Pakistan has continued to face significant economic challenges. The country has struggled with issues such as high public debt, low foreign exchange reserves, and a large informal economy. Political instability and security concerns have also hindered economic performance. Despite some progress in sectors such as telecommunications, banking, and services, the overall economic situation remains fragile. The China-Pakistan Economic Corridor (CPEC) is very important for strategic reasons. It will help not just the neighboring countries but also the whole region in many ways, like improving industry, education, and job opportunities (Awan, 2018, p. 129). Pakistan is a full partner in the CPEC project, just like China. Pakistan wants to boost its economy and find more markets for its products. The country is dealing with a serious energy crisis and needs to improve its energy sector. The CPEC project includes various sources of energy to help with this issue (Awan, 2017, p. 240). The reliance on China increased because, after 2008, international institutions and countries were not willing to invest in Pakistan.

The country faced macroeconomic instability, with fiscal deficits, underperforming revenues, and high spending levels (Kahkonen et al., 2009). The average annual growth rate during this period was 3.25%, with only two instances of growth exceeding 5% (Haque, 2022). The security situation further complicated economic progress, with numerous terrorist attacks causing loss of life and infrastructure damage (Siddiqui, 2019). These security challenges negatively impacted investor confidence and economic growth (Siddiqui, 2019). The economy's vulnerability to external shocks, partly due to reliance on external financing and an expansionary fiscal stance, led to a balance of payments crisis in 2007-08 (Kahkonen et al., 2009). This period contrasted with the higher growth rates of 6.3% in the 1980s and 4.9% in the early 1990s. Improving domestic revenue mobilization was identified as crucial for reducing economic vulnerability and supporting development efforts.

Key Economic Challenges

A look at Pakistan's economic history reveals deep-rooted and ongoing challenges that have shaped the country's economic journey from the start. These issues aren't just problems from the past; they continue to affect Pakistan's economic path today. Since its early days as an independent nation, Pakistan has dealt with structural and policy challenges that have made it difficult to achieve steady economic growth. From the beginning, Pakistan has struggled with difficulties in its economic structure and policies, which have slowed down its progress.

Frequent changes in the government and ongoing political uncertainty make it difficult to maintain steady economic policies. This instability scares away foreign investors, which slows down the country's economic growth. Additionally, the economy faces several deep-rooted problems. The government doesn't collect enough taxes, many state-run companies are not operating efficiently, and a large portion of the workforce is employed in informal jobs that are not regulated or taxed properly.

These issues lead to the government spending more money than it earns, creating budget deficits and preventing the economy from growing in a healthy and sustainable way (I. Husain, 2012, pp. 15–19).

One major constant problem for Pakistan has been relying heavily on foreign aid and loans to fund its development projects and balance of payments. This dependence has led to a high debt burden and higher vulnerability to external shocks (Fatima, 1997, pp. 41–47). The country has faced severe energy shortages. This has resulted in a severe negative impact on industrial productivity and economic growth. Despite efforts to address this issue, energy supply remains inadequate to meet the growing demand (T. Husain, 2010, pp. 47–51). Despite being an agrarian economy, Pakistan's agricultural sector has struggled with low productivity, outdated techniques, and poor infrastructure, hindering overall economic performance. Security issues, including terrorism and regional conflicts, have also disrupted economic stability and growth, discouraging investment. The country's economic and political structures are dominated by a small, powerful elite, leading to unequal opportunities and wealth distribution, which deepens the gap between the rich and the poor (I. Husain, 2020).

The COVID-19 pandemic hurt Pakistan’s economy, shrinking GDP and increasing fiscal deficits. But in 2021–2022, the economy recovered due to strong agriculture, better services, and high remittances.

A major challenge is Pakistan’s low tax-to-GDP ratio, which limits government revenue for public services and infrastructure. This is due to a narrow tax base, tax evasion, and a weak tax system. Improving tax collection is key to ensuring financial stability and long-term growth.

Pakistan also faces an energy crisis, with high electricity and fuel prices being a major cause of inflation. As energy costs increase, they affect all parts of the economy, making it more expensive for businesses to produce goods. These higher costs are usually passed on to consumers in the form of higher prices, which increases inflation. This situation puts more pressure on household budgets and makes it harder for the economy to remain stable.

Conclusion

Fixing deep-rooted economic issues in Pakistan requires comprehensive reforms, including improving public sector efficiency, expanding the tax base, and enhancing governance. A transparent and accountable government fosters trust, reduces corruption, and ensures effective policy implementation, attracting investments and stabilizing the economy.

Expanding the tax base will strengthen Pakistan’s financial position and reduce dependence on foreign loans. Encouraging more businesses, particularly in the informal sector, to pay taxes can boost government revenue. These funds can be directed toward infrastructure and public services, reducing income inequality and supporting long-term development.

Economic diversification is crucial for reducing dependence on agriculture. Strengthening manufacturing, services, and the IT sector can create new growth avenues. Investments in energy, transport, and communication infrastructure enhance productivity, while improvements in education, healthcare, and skill development increase human capital and economic expansion.

Boosting exports is vital for economic stability. Enhancing product quality, securing new trade agreements, and supporting SMEs in global markets can improve trade performance. Infrastructure improvements, such as better logistics, ports, and highways, can lower costs and increase productivity. Encouraging local industries can reduce import reliance, while technological advancements can enhance agricultural exports.

Strong security policies and regional cooperation are essential for a stable economic environment. Strengthening law enforcement, intelligence, and the judicial system can tackle terrorism, political instability, and crime. Collaborating with neighboring countries to address smuggling and insurgency can further enhance security. A stable environment boosts investor confidence, increasing foreign direct investment and economic growth.

Pakistan's economic history has seen both growth and challenges due to structural imbalances, political instability, and reliance on foreign aid. Sustainable growth requires economic diversification, infrastructure development, human capital investment, and improved governance. The manufacturing sector has played a crucial role in poverty reduction and economic progress. To sustain this progress, Pakistan must encourage savings and investments, maintain fiscal discipline, and create a stable political climate to attract investors.

Building strong institutions ensures that economic growth benefits everyone. Investment in education and healthcare is crucial for long-term development. Openness to Foreign Direct Investment (FDI) and international trade can further strengthen economic security. Addressing past issues such as elite control, unstable policies, and dependency on foreign aid is essential for long-term stability.

Reducing reliance on imports and foreign loans requires strengthening local industries and supporting SMEs. Agricultural and industrial reforms are necessary, providing farmers with better credit and technology while expanding industries across regions to create jobs. Policy consistency and transparent public spending are crucial to economic stability. Investment in education and job training can build a skilled workforce, while trade diversification and regional cooperation through projects like CPEC can enhance economic resilience.

However, challenges such as corruption, resistance from powerful groups, and external financial pressures make reforms difficult. Effective policy enforcement, political consensus, and international support are needed. Pakistan's current economic crisis, marked by inflation and high debt, demands long-term solutions rather than temporary fixes. The lessons from the Ayub Khan era highlight the need for inclusive policies that benefit all citizens. By implementing these reforms, Pakistan can achieve sustainable financial stability and economic growth.

References

Afzal, M. R. (2009). *Pakistan: History and Politics 1947-1971* (1st edition). Oxford University Press.

Akbar Zaidi, S. (2015). Issues in Pakistan's economy: A political economy perspective. *OUP Catalogue*, 20–23.

Ashraf, M., Kayani, J., & Rafiq, K. (2012). *An Investigation into the Global Financial Crisis Factors and a Snap Shot of Their Impact on Different Segments of Economy in a Developing Country: A Case of Pakistan* (SSRN Scholarly Paper 2200971). https://papers.ssrn.com/abstract=2200971

Awan, M. A. (2017). *CPEC"s Repercussions: A Harbinger of Success and Prosperity in South Asia; An Analysis*. *18*(2).

Awan, M. A. (2018). *Pakistan-Iran Geo-Political Environment and the Discourse of Relations (1947-2017): A Reappraisal*.

Awan, M. A. (2024). An Evaluating Perusal of Punjab's Role in the Paradigm of Pakistan Movement. *Journal of Policy Research*, *10*(2), Article 2. https://doi.org/10.61506/02.00285

Bray, J. (1997). Pakistan at 50: A state in decline? *International Affairs*, *73*(2), 315.

Burki, S. J. (2000). *Changing Perceptions and Altered Reality: Emerging Economies in the 1990s*. World Bank Publications.

Faridi, D. M. Z. (2021). *Economic Growth in Pakistan – A Historic Perspective*.

Fatima, M. (1997). Foreign Influence on Pakistan's Economic Policy. *Pakistan Horizon*, *50*(4), 39–49.

Grigoreva, E., & Garifova, L. (2015). The Economic Security of the State: The Institutional Aspect. *Procedia Economics and Finance*, *24*, 266–273. https://doi.org/10.1016/S2212-5671(15)00658-9

Haq, M., Khan, K., & Parveen, A. (2014). The Growth and Employment Impacts of the 2008 Global Financial Crisis on Pakistan. *THE LAHORE JOURNAL OF ECONOMICS*, *19*, 129–154. https://doi.org/10.35536/lje.2014.v19.i2.a5

Haque, S. (2022). PIDE'S Charter of Economy (Policy). *The Pakistan Development Review*, 527–544. https://doi.org/10.30541/v61i3pp.527-544

Husain, I. (2009). Pakistan's economy – 1999/2000 – 2007/2008: An objective appraisal. *Business Review*, *4*(1), 7–48. https://doi.org/10.54784/1990-6587.1165

Husain, I. (2012). Economic Reforms in Pakistan: One Step Forward, Two Steps Backwards. *The Pakistan Development Review*, *51*(4), 7–22.

Husain, I. (2018). *Governing the ungovernable: Institutional reforms for democratic governance* (First edition). Oxford University Press.

Husain, I. (2019). *Economic Highs and Lows of Pakistan: Analysing the Last 70 Years* (70 YEARS OF DEVELOPMENT:, pp. 7–32). Sustainable Development Policy Institute. https://www.jstor.org/stable/resrep24393.7

Husain, I. (2020). *Pakistan: The Economy of an Elitist State* (Second Edition). Oxford University Press.

Husain, T. (2010). Pakistan's Energy Sector Issues: Energy Efficiency and Energy Environmental Links. *Lahore Journal of Economics*, *15*(Special Edition), 33–59.

Jalal, A. (Ed.). (2014). *The Oxford Companion to Pakistani History* (Reprint edition). Oxford University Press.

Javed, S., Shaukat, B., & Ahmad, I. (2020). How the Global and Gulf Financial Crises Affected Pakistan: Ten-year Review. *International Migration*, *59*. https://doi.org/10.1111/imig.12789

Kahkonen, S. K. J., Refaqat, S., & Waheed, M. (2009). *Pakistan Economic Update* [Text/HTML]. World Bank. https://documents.worldbank.org/en/publication/documents-reports/documentdetail/170601468066528418/Pakistan-economic-update

Kemal, A. R. (2006). Key Issues in Industrial Growth in Pakistan. *THE LAHORE JOURNAL OF ECONOMICS*, *11*(Special Edition). https://doi.org/10.35536/lje.2006.v11.isp.a5

Khan, B., Shah, H., & Khan, I. (2020). A Decade of Political Unrest: An Analysis of General Zia Era in Pakistan. *Global Strategic & Securities Studies Review*, *V*, 68–77. https://doi.org/10.31703/gsssr.2020(V-III).08

Khan, S. (2007). Pakistan's Economy since 1999: Has There Been Real Progress? *South Asia Economic Journal - S Asia Econ J*, *8*, 317–334. https://doi.org/10.1177/139156140700800207

Khan, S. R., & Akhtar, A. S. (2014). *The Military and Denied Development in the Pakistani Punjab: An Eroding Social Consensus*. Anthem Press.

Khan, S. U. (1961). A Measure of Economic Growth in East and in West Pakistan. *The Pakistan Development Review*, *1*(2), 49–54.

Looney, R. (2008). The Musharraf Paradox: The Failure of an Economic Success Story. *The Open Area Studies Journal*, *1*. https://doi.org/10.2174/1874914300801010001

Nawaz, S. (2009). *Crossed Swords: Pakistan, Its Army, and the Wars Within* (1st edition). Oxford University Press.

Nicholas Mansergh (with Public Resource). (1982). *India: The Transfer of Power, 1942-47, Vol. 11*. London, Her Majesty's Stationery Office. http://archive.org/details/constitutionalre06nich

Noman, O. (1988a). *Pakistan: Political and Economic History Since 1947*. Routledge. https://doi.org/10.4324/9780203037966

Noman, O. (1988b). *The Political Economy Of Pakistan 1947-85* (1st edition). KPI Limited.

Sengupta, A. (1971). Regional Disparity and Economic Development of Pakistan: I: The Facts. *Economic and Political Weekly*, *6*(45), 2279–2286.

Siddiqa, A. (2016). *Military Inc. - Second Edition: Inside Pakistan's Military Economy* (Second edition). Pluto Press.

Siddiqui, D. A. (2019). *The State Fights Back: A comparative Analysis of Law and Order Situation of Pakistan During 2008 – 2012 (PPP Period) and Its Effects on the Economy* (SSRN Scholarly Paper 3372320). https://doi.org/10.2139/ssrn.3372320

Siyal, N. (2021). THE CRITICAL ANALYSIS OF THE CAUSES OF POLITICAL INSTABILITY IN PAKISTAN FROM 1988 TO 1999 (SPECIAL REFERENCE TO SINDH PROVINCE). *Journal of Arts & Social Sciences*, *8*(2), Article 2. https://doi.org/10.46662/jass.v8i2.169

Syed, A. A. S. G., Memon, M. A., Halepoto, A. H., & Shaikh, F. M. (2012). Global Financial Crisis in South Asia and its Impact on Pakistan's SMEs Sector by Using CGE Model. *Journal of Asian Business Strategy*, *2*(4), Article 4.

Tirmizi, F. (2012, May 14). How golden was Ayub Khan's era? *The Express Tribune*. https://tribune.com.pk/article/11584/how-golden-was-ayub-khans-era

Wilcox, W. (1969). Pakistan: A Decade of Ayub. *Asian Survey*, *9*(2), 87–93. https://doi.org/10.2307/2642306

Zahoor, M. A. (2011a). *A Critical Appraisal of the Economic Reforms under Zulfikar Ali Bhutto: An Assessment*.

Zahoor, M. A. (2011b). *A Critical Appraisal of the Economic Reforms under Zulfikar Ali Bhutto: An Assessment*.