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Making balance of payments sustainable

Usman Qadir | 13th Mar 2025

Pakistan's balance of payments crises are unlikely to be resolved through short-term fixes like import bans, which have only disrupted industries and constrained economic growth.

A sustainable solution requires boosting industrial production, diversifying exports, and reducing reliance on imported fuel through energy efficiency and renewable investments.

Strengthening foreign exchange reserves, improving trade competitiveness, and fostering a transparent policy environment will help attract investment and stabilize the external sector.

Equally important is a shift in economic behavior—balancing consumption with productivity. By prioritizing long-term structural reforms over reactive measures, Pakistan can build a resilient economy capable of sustaining growth and reducing external vulnerabilities.

Pakistan's external sector is under severe strain, with a persistent balance of payments crisis driven by chronic trade deficits, external debt pressures, and a volatile exchange rate. Past stabilization measures, such as import restrictions, have largely resulted in economic contraction rather than meaningful correction.

A fresh approach is required—one that moves beyond short-term fixes and focuses on strengthening industrial production, attracting foreign direct investment, and rationalizing fuel consumption to enhance productivity and exports for sustainable stability.

At the heart of Pakistan's external vulnerabilities lies a structural trade imbalance, where exports remain stagnant while import dependency rises.

The manufacturing sector is skewed toward low-value-added products such as textiles and agricultural commodities, while global markets demand high-value manufacturing and services trade—areas where Pakistan lags. Successive governments have relied heavily on external borrowing rather than increasing domestic revenues or improving productivity, with debt servicing consuming a significant portion of foreign exchange reserves. The rupee's sharp depreciation has made imports costlier, fueling inflation.

A large portion of the import bill goes to petroleum products, straining reserves, while inefficient energy use and a lack of public transport infrastructure worsen the problem. Pakistan's chronic current account deficits also reflect excessive reliance on imported goods. While improving living standards is important, economic sustainability requires a balance between consumption and productivity.

Pakistan's recent use of import bans and restrictions to manage the trade deficit presented significant challenges.

Research suggests these measures did not yield lasting improvements in the external sector and instead created constraints for industries reliant on imported raw materials. This, in turn, affected production, employment, and export growth.

A more sustainable approach would focus on strengthening export capacity, enhancing energy efficiency, and promoting responsible consumption to address the trade imbalance effectively.

Re-evaluating fuel subsidies and promoting energy efficiency in industries and households can help reduce the import burden. Expanding public transport networks to reduce reliance on private vehicles and encouraging renewable energy adoption through incentives for solar and wind energy investments will further lessen dependence on imported oil.

Promoting energy conservation in industries, government offices, and commercial centers is equally essential. Instead of restricting imports, Pakistan should incentivize value-added production by improving trade facilitation, providing targeted subsidies for export-oriented industries, and expanding regional trade with Central Asia, Africa, and ASEAN markets.

Strengthening foreign exchange reserves requires proactive strategies such as enhancing remittance inflows through formal banking channels.

Negotiating bilateral currency swap agreements to reduce reliance on the US dollar, issuing diaspora bonds, and securing concessional financing from multilateral institutions are viable options.

Renegotiating debt repayment terms while avoiding high-interest commercial borrowing can help ease financial pressures, while tapping into climate finance and regional investment funds provides alternative financing without exacerbating debt burdens.

Beyond immediate stabilization, Pakistan must undertake deep structural changes to build a resilient external sector. The country must move beyond textiles and agriculture by developing competitive industries in IT, pharmaceuticals, engineering, and renewable energy. This requires investment in research and development, technology adoption, and public-private collaboration to develop export-oriented industrial clusters.

Incentivizing multinational firms to set up manufacturing operations in Pakistan would further enhance competitiveness.

A sustainable external sector strategy also requires reducing reliance on imported goods by developing local supply chains, supporting small and medium enterprises in manufacturing, and leveraging Special Economic Zones to attract foreign direct investment.

Pakistan’s high import dependence for energy is a major contributor to external deficits. To reduce this burden, investment in renewable energy sources such as hydro, solar, and wind power must be prioritized.

Energy efficiency programmes should be introduced to lower industrial consumption, while regional energy trade should be explored, particularly with Central Asia and Iran.

Trade policy must be reformed by reducing tariff and non-tariff barriers to encourage industrial competition, negotiating preferential trade agreements with key trading partners, and aligning trade policy with long-term industrial development goals.

Long-term investor confidence requires predictable and transparent policies. Reducing bureaucratic red tape, ensuring regulatory consistency, and enhancing institutional autonomy will create a more stable investment environment.

Pakistan's economic stability depends not just on government policies but also on responsible consumption choices. While aspirations for a higher standard of living are natural, excessive reliance on imported luxury goods and energy inefficiency must be reconsidered.

Moderation in spending, prioritizing locally produced goods, and reducing wasteful energy use can ease pressure on the balance of payments without compromising economic well-being.

Pakistan's external sector stabilization demands a shift from short-term crisis management to long-term economic transformation. The country must focus on production and export-led growth rather than import suppression, strengthen industrial and trade competitiveness, attract sustainable foreign investment, improve institutional governance, rationalize fuel consumption, and encourage responsible economic behaviour.

By committing to evidence-based economic reforms, Pakistan can break free from external dependence and build a resilient economy capable of sustaining long-term

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