Caught in the Middle: Pakistan's Growth Trap & Its Cost to Business Sustainability

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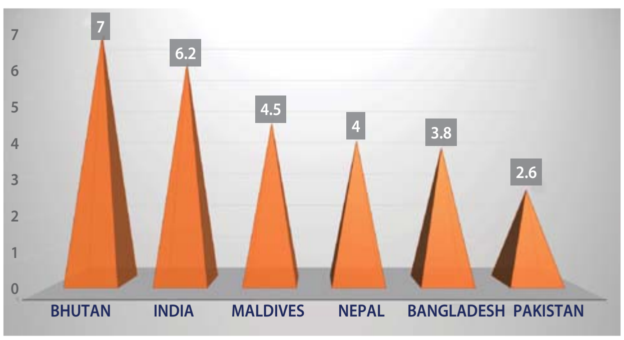
Preamble

This article covers Pakistan's fragile economic trajectory in comparison to its South Asian peers, highlighting the challenges of low GDP growth, volatile industrial output, weak business sentiment, and rising climate policy uncertainty. Amid robust growth across the region, GDP forecasts for 2025 show Bhutan leading at 7%, followed by India at 6.2%, Maldives at 4.5%, Nepal at 4%, and Bangladesh at 3.8%. In contrast, Pakistan's modest 2.6% growth not only signals economic underperformance but also reflects deep structural fragilities that hinder sustainable business development, as illustrated in the graph below:

Figure 1: Real GDP Growth (%) for 2025 (Annual Percent Change)



Source: IMF: https://www.imf.org/external/datamapper/profile/PAK

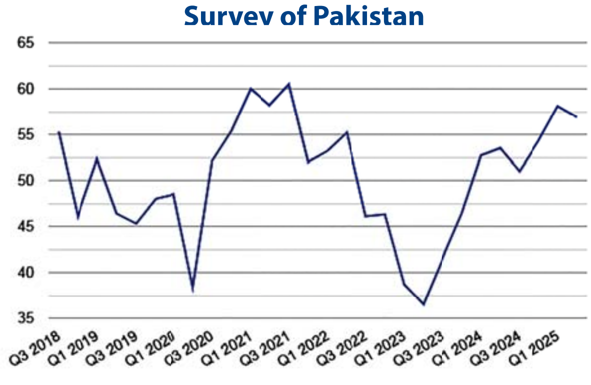
Against this backdrop, the article explores how these structural challenges—spanning energy instability, limited fiscal space, policy unpredictability, and environmental risks—are undermining business sustainability. It draws on real-time data covering GDP trends, industrial performance, investor sentiment, and climate-related disruptions, while also showcasing how leading Pakistani conglomerates such as Nishat, Fauji, Hashoo, and Engro have managed to stay resilient through diversification and integrated strategies. The article concludes by outlining targeted policy reforms—drawn from successful regional models in Sri Lanka, Nepal, and the Maldives—that can help Pakistan stabilize its industrial output, strengthen investor confidence, and chart a path toward long-term, export-driven growth.

Structural Challenges Behind Subdued Growth

This subdued growth is interwoven with real and pressing problems as discussed below:

- **Fragile industrial base:** Stagnant GDP dampens momentum in Large Scale Manufacturing (QIM) and fuels volatile monthly industrial production, impacting capacity utilization, investment decisions, and job creation.
- **Lagging regional competitiveness:** Pakistan's lower GDP and slower progress in business sustainability rankings—as compared to India, Bangladesh, and its neighbors—underscore its lacking in innovation, infrastructure, and regulatory effectiveness.
- **Public sentiment and investor mood:** A sluggish economy continues to dampen business sentiment in Pakistan, with the Business Confidence Index declining to 56.9 in Q2 2025 from 58.1 in Q1 2025. Although still above the 2018–2025 average of 50.32, corporate pessimism is being amplified by persistent structural issues such as import barriers and currency instability. These factors are reinforcing low business morale and leading to increasingly cautious decision-making.
- **Climate policy uncertainty:** With limited growth, revenue-constrained governance reacts slowly to climate risks. This appears in fluctuating Climate Policy Uncertainty Index trends, which deter long-term planning and green investment.

Figure 2: Business Confidence Survey of Pakistan



Source: The Global Economy - https://www.theglobaleconomy.com/Pakistan/business_confidence_survey/

The data sketches a clear, interconnected challenge but also sets the stage for a compelling inquiry: How can Pakistan break the cycle of low growth and fragmented sustainability? Could Pakistan face modest economic growth alongside high business vulnerability, thereby exposing the true fragility of its corporate sector?

Growth Rankings and Market Sentiments

Pakistan's economic resilience remains under strain despite inching up to 144th in the 2024 Business Sustainability Index - well behind Bangladesh (115th), India (120–160th), and the Maldives (approximately 80th), as shown in **Figure 3.** This middling rank stems from:

- A 5.9% fiscal deficit in FY 2024–25
- Public debt near 80% of GDP
- A narrow tax base with only 1.3% of population paying income tax
- Power-sector circular debt that forces load-shedding and costly energy consumption, crippling factories

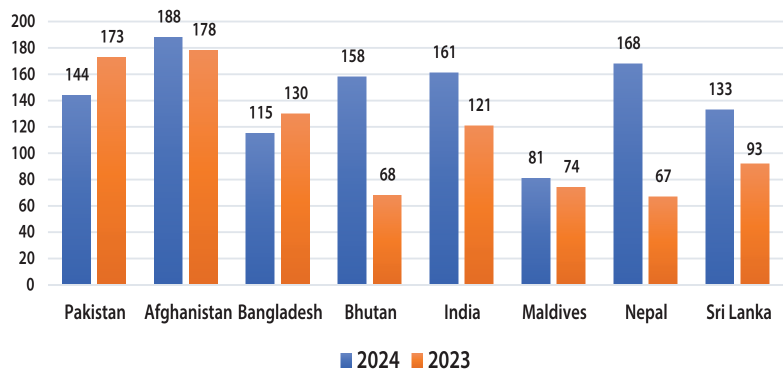
Meanwhile, from January 2024 to April 2025, Pakistan's **World Sentiment Index** ranged between 0.64 and 1.21, far below Bangladesh (1.08–2.67) and India (2.45–4.18) as illustrated in **Figure 4.** This moderate outlook reflects:

- Rupee volatility and tight forex controls
- Chronic energy outages disrupting production
- Policy unpredictability during flood and smog emergencies

In contrast, stronger tax reforms, export stability, and coherent policy frameworks in neighboring economies support higher business confidence.

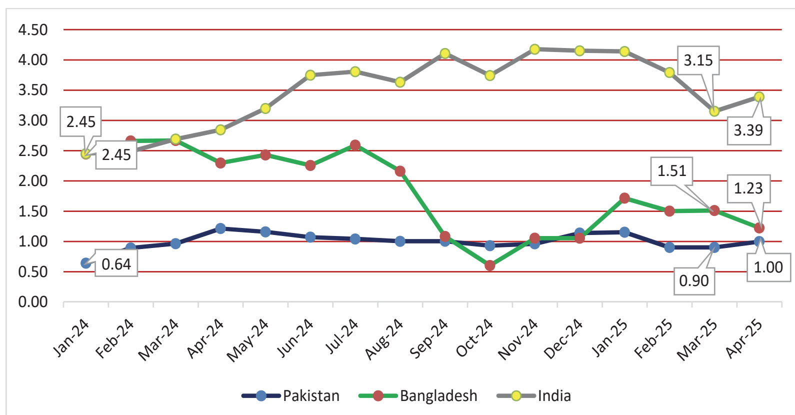
shocks and supply disruptions, enabling consistent output even amid energy shortages and rupee volatility. In Q3 2025, Nishat Mills posted a market capitalization of PKR 44.27 billion and earned PKR 1.98 per share. Profits from textiles are reinvested in cement and energy divisions, while banking subsidiaries MCB Bank and MCB Islamic Bank provide financial resilience, helping the group withstand circular debt and foreign-exchange constraints.

Figure 3: Business Sustainability Ranking



Source: The Global Sustainable Competitiveness Index
https://solability.com/the-global-sustainable-competitiveness-index/economic-sustainability-index

Figure 4: World Sentiment Index of South Asian Countries (Monthly)



Source: World Uncertainty Index - ***https://worlduncertaintyindex.com/***

Case Studies of Successful Businesses in Pakistan

Nishat Group – Vertical Integration and Market Leadership

Headquartered in Lahore, Nishat Group has become one of Pakistan's largest conglomerates by integrating all stages of its textile operations—from spinning and weaving to finished garments—under Nishat Mills. This vertical integration shields the company from raw material price

Fauji Group – Commerce with a Conscience

Based in Rawalpindi, Fauji Foundation blends commercial success with a social mission. Fauji Fertilizer, a top producer, posted a market cap of PKR 558.44 billion and an EPS of PKR 9.33 in Q1 2025. Earnings fund social programs for military families, maintaining internal demand during downturns. Long-term gas agreements for fertilizer production and diversification into cement and healthcare allow Fauji to offset sector-specific shocks and remain a resilient industrial player.

Hashoo Group – Hospitality Excellence and Strategic Diversification

Islamabad-based Hashoo Group, known for its Pearl Continental hotel chain, set regional benchmarks for quality. Through Pakistan Services Limited, it reported a market cap of PKR 26.99 billion and an EPS of PKR 15.14 in Q3 2025. During tourism slumps caused by security issues and the pandemic, Hashoo diversified into real estate and oil and gas via Zaver Petroleum. Strategic hedging and agile cost management have allowed sustained profitability across economic cycles.

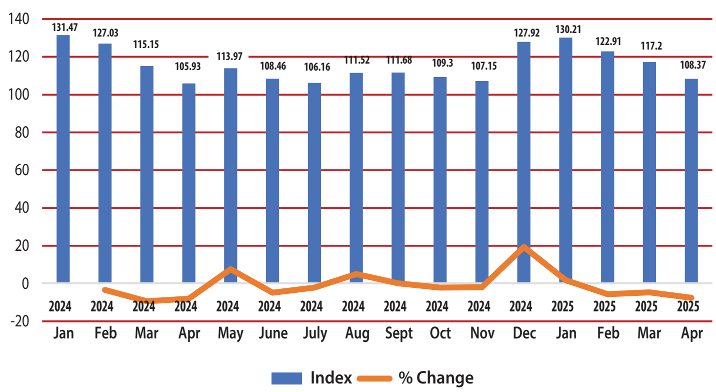
Engro Corporation – Driving Agricultural and Consumer Innovation

Engro Corporation leads in fertilizers and consumer goods. As of 2024, it had a market cap of PKR 238.95 billion and an EPS of PKR 40.33. By backward-integrating chemical inputs and improving fertilizer blends, Engro has mitigated currency risks and import bottlenecks. Investments in cold-chain logistics for brands like Olpers and Tarang have strengthened domestic distribution, maintaining margins despite regulatory volatility.

Volatile Industrial Output

From January 2024 to April 2025, Pakistan's Quantum Index of Large Scale Manufacturing (QIM) swung from about 131 to 106, rebounding briefly and then settling near 108, as shown in **Figure 5.**

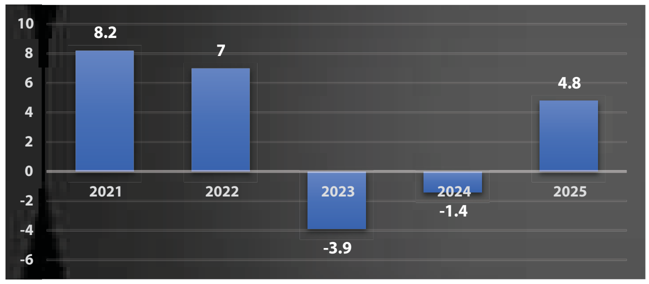
Figure 5: QIM of Large-Scale Manufacturing Industries



Source: PBS

These fluctuations align with broader annual trends, shown in **Figure 6:** robust industrial growth in 2021–22 (+8.2%, +7%), followed by steep decline in 2023 (–3.9%) and 2024 (–1.4%), with a fragile projected recovery of +4.8% in 2025.

Figure 6: Industrial Production of Pakistan from 2021-2025



Source: Focus Economics - https://www.focus-economics.com/country-indicator/pakistan/industry/

Chronic energy instability—marked by grid failures, circular debt, and load-shedding—frequently burdens factories. The January 2023 blackout, for instance, cost the textile sector around USD 70 million and led to prolonged production interruptions. Companion studies reveal that even one hour of power loss can slash textile revenue by up to 24% and dent export volumes.

Equally impactful are foreign exchange shortages and rupee devaluation, which squeeze raw material imports and halt operations in export-critical sectors like textiles, pharmaceuticals, and auto assembly. This explains the sharp QIM dips in early and mid-2024.

Temporary interventions—like power subsidies and short-term currency stabilization—sparked brief recoveries, as seen in December 2024. However, without structural fixes in the energy sector and currency stability, these gains remain vulnerable.

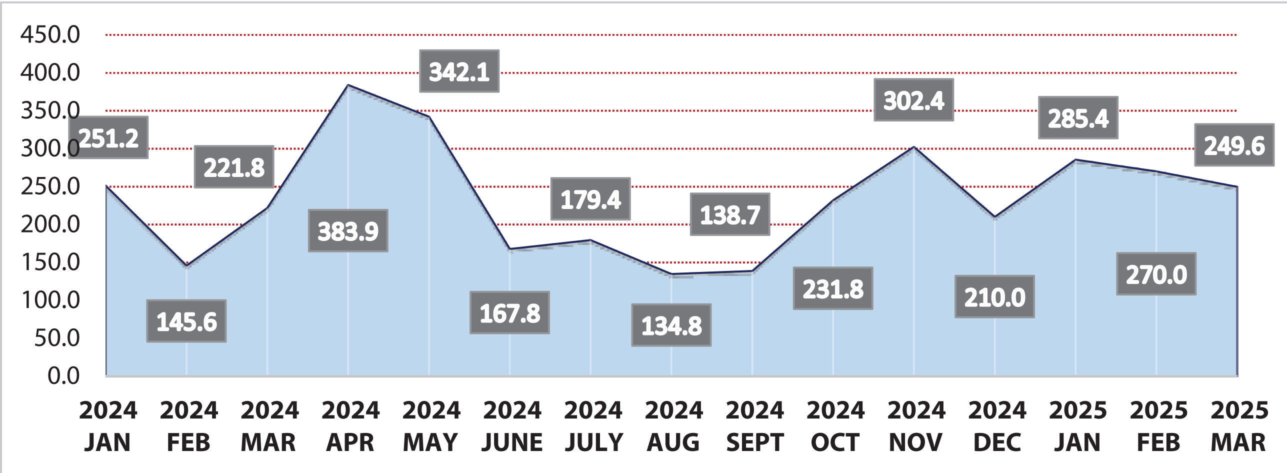
QIM volatility and industrial contraction are not statistical noise—they reflect real-world shocks: energy outages, circular debt, forex bottlenecks, and policy stop-go. Pakistan's modest projected recovery in 2025 hinges on addressing these systemic challenges.

Environmental and Climate Challenges

The Climate Policy Uncertainty (CPU) Index in Pakistan swung from a peak of 383.9 in April 2024 down to 134.8 in August 2024, with subsequent spikes in November 2024 (302.4) and January 2025 (285.4), as shown in **Figure 7.**

- **April 2024 floods:** Triggered emergency responses like the National Adaptation Plan, creating acute regulatory ambiguity (CPU ≈ 384).
- **November smog crisis:** Toxic pollution in Lahore prompted court-mandated controls and environmental restrictions (CPU ≈ 302).
- **January 2025 policy drag:** COP29 discussions revealed delayed adaptation funding and disjointed recovery planning (CPU ≈ 285).

Figure 7: Climate Policy Uncertainty Index (Monthly)



Source: Economic Policy Uncertainty - https://www.policyuncertainty.com/pakistan_cpu.html

This CPU volatility adds a third destabilizing dimension to Pakistan's fragile industrial backdrop. Factories already struggle with erratic energy supply (load-shedding, circular debt) and import uncertainty—now they also face unclear and shifting climate regulations. This combination of disruptions further undermines confidence, curtails green investment, and directly feeds into the QIM and annual output volatility already illustrated in Figures 5 and 6.

In short, Pakistan is not just caught in a growth trap—it is mired in overlapping fragilities: economic, energy, and environmental. Without policy coherence and structural reform, CPU spikes will continue to undermine the fragile rebound, limiting the country's ability to convert modest growth into truly sustainable business resilience.

What Pakistan Can Learn from SAARC Countries?

1) **Establish an Economic Commission:** Adopting Sri Lanka's Economic Commission model would give Pakistan a single, empowered body to manage SEZs, EPZs, STZs, and the Gwadar Free Zone—streamlining approvals, reducing red tape, and ensuring policy stability. By channeling strategic investments into manufacturing clusters, this reform would smooth out the erratic monthly swings in the Quantum Index of Large-Scale Manufacturing and help turn short-term spikes into sustained capacity growth, thereby lifting annual industrial production rates.

2) **Global Buyer-Led Networks:** Emulating Sri Lanka's integration into buyer-led apparel networks—where lead firms like H&M and Zara guarantee sales volumes and technical standards—can help Pakistan diversify beyond textiles into higher-value, producer-led sectors such as electronics and auto parts. Reliable export contracts and technology transfer would bolster domestic value addition, strengthen Pakistan's Economic Sustainability Index through higher export earnings and foreign exchange inflows, and reduce reliance on volatile commodity markets.

3) **Port City Colombo Model:** Expanding a network of over 45 Double Tax Avoidance Agreements and 28 Investment Promotion Treaties, as Sri Lanka has done, will recreate the legal certainty that underpins investor confidence. Clear tax regimes and repatriation guarantees will boost foreign direct investment into Pakistan's zones, improving its World Sentiment Index as businesses perceive lower risk and greater predictability—critical ingredients for lasting economic resilience.

4) **Power Sector Incentives & Hydropower PPPs:** Nepal has pioneered several innovative industrial reforms that Pakistan could adapt to enhance its own economic indicators. Nepal's promotion of private hydropower through VAT exemptions, "take-or-pay" PPAs, and open investment from Indian and Chinese developers sparked a surge in reliable, affordable energy supply. In Pakistan, similar incentives would reduce load-shedding-related disruptions, stabilize manufacturing output and the QIM of Large-Scale Manufacturing, and support consistent annual industrial growth. Cleaner energy tied to VAT benefits would also improve environmental metrics, potentially boosting Pakistan's Business Sustainability Index and investor sentiment by demonstrating a commitment to sustainable infrastructure.

5) **Digital Payments for Business Efficiency:** Nepal's deployment of connectIPS and NEPALPAY QR—where QR payment volumes grew by 230% and connectIPS transactions increased nearly 97 fold from FY 2018–19 to FY 2023–24—underscores the power of digital finance. Pakistan could replicate this success by rolling out seamless, interoperable payment systems across its industrial zones. Faster payments would reduce working-capital bottlenecks, uplift monthly QIM figures, formalize transactions (thus raising its Business Sustainability Index), and foster greater investor confidence, as reflected in a higher World Sentiment Index rating.

6) **Creative Economy Fund & Innovation Hubs:** The Maldives established a Creative Economy Fund of MVR 100 million and innovation hubs focused on IP protection, skills development, and technology adoption.

   Likewise, Pakistan can create similar incubators in STZs and industrial parks to support SMEs and startups—particularly in tech, design, and agri-processing—thereby diversifying industrial activity. Increased innovation and job creation would help stabilize QIM and annual output, lift the Business Sustainability Index through broader sectoral inclusion, and improve sentiment as visible success stories boost confidence across industries.

7) **Unsolicited Proposals Policy:** Pakistan can enhance its industrial recovery and investment environment by adopting the Maldives' Unsolicited Proposals Policy, which allows private-sector entities to propose development projects directly to government bodies through a transparent, staged evaluation process. This framework would attract innovative investments in renewable energy, industrial logistics, and smart manufacturing hubs—reviving stagnating factory activity and stabilizing the QIM of Large-Scale Manufacturing. By fast-tracking technically robust projects, Pakistan could secure infrastructure that supports uninterrupted industrial operations, increasing annual industrial production growth.

8) **Tourism-Inspired Leasing Model:** The Maldives' recent amendments to its Tourism Act allow foreign investors to lease islands for up to 99 years—initially 50 years—with extensions available through lump-sum payments or installment plans totaling USD 5 million per lease term. This longstanding lease model gives investors long-term certainty and easier access to international financing. Pakistan could adopt a similar long-term lease approach for its industrial zones, offering 50 to 99-year leases with clear, time-bound fee structures. This would provide investors with the security and financial predictability currently missing from Pakistan's short-tenure arrangements.

Conclusion

In today's competitive South Asian landscape, Pakistan's 2.6% growth, volatile manufacturing output, and muted business sentiment highlight systemic weaknesses in energy, policy, and investment frameworks. By adopting proven regional reforms—centralized commissions, hydropower incentives, robust digital payments, and long-term industrial leases—Pakistan can stabilize its industrial base, lift its Business Sustainability Index, and restore investor confidence. Implementing these targeted steps can turn short-lived upticks into sustainable growth, paving the way for resilient, export-led economic recovery.

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