

## **Debate on Pakistan's Macroeconomic Policy: Risks, Concerns and Role of IMF.**

Pakistan is one of those countries in South Asia that remained on a very high growth trajectory. Pakistan in 1947 had a population of 33 million and per capita GDP of less than US \$100. We didn't benefit that much in regards of the manufacturing sector at the time of partition. Pakistan today is at 2020 million and per capita GDP has risen to around \$1500. Pakistan is the 4<sup>th</sup> largest exporter of rice and this export is about \$2 billion and also the 8<sup>th</sup> largest product of textile. The structure of our economy has changed drastically in this period of 7 decades and how is what we will discuss today. Agricultural activity though increased in the economy but the share of agriculture has drastically reduced and we see a huge shift within the agricultural sector. The figures of 2019 show Pakistan being the 4<sup>th</sup> largest producer of milk at 45.6 million tons is the annual production which is a good indicator for the growth of our dairy sector. This shift in the agricultural output and the increase in productivity has caused the manufacturing sector to flourish by 25% so that makes the manufacturing component of GDP about 25% right now but the major chunk that makes up our GDP is the services industry which is about 55%.

The annual growth rate of Pakistan in the last 60-65 years has been 5% which seems quite reasonable seeing as we have also touched 8 percent which is high but on the other hand, there have been periods when we have hovered over 2.5 and 3 percent. The growth rate of Pakistan was enviable in 60s and a part of 70s because at that time, Pakistan was operating 2% above the south Asian average and was recognized in regards with the industrial production and the industrial pattern developed was admirable. Some of this pattern was restored in the 80s as well and a comparison can be drawn between these two time periods.

The exports were quite high in the first 20 years of the creation of Pakistan and were higher than the combined exports of Indonesia, Malaysia, Thailand, Philippines and Turkey. Alarmingly, Pakistan now is at 152 out of 189 states in the human development index. The period of 1960s was also termed as "decade of development" due to Ayub Khan's industrial policy and the inflow of investment which aided in boosting investor confidence.

Zulfiqar Ali Bhutto had the nationalist agenda and nationalized the major manufacturing firms in Pakistan. He created a deception by nationalizing banking, insurance, education etc. that caused the quality of education to suffer and investor confidence to shatter so they were not willing to invest and in such a case, there's is very little chance for an economy to grow. This experiment with socialism had a very negative impact on the industrial development of our country.

Another major factor was that bureaucracy held a lot of power in economic decision-making which led to a lot of delays in decision making, corruption, inefficiency, red-tapism etc. The law and order also started to deteriorate and the power at the time was inadequate and expensive as well as the infrastructure being inadequate. After Zulfiqar Ali Bhutto came Zia ul Haq who was a powerful military dictator backed by the west against USSR and a lot of aid pumped into the country. He was able to stop the damage caused by him in terms of culture of entrepreneurship, damage done by nationalization but did not actually take proactive measures to reverse what Bhutto had done. The major issues he faced were macroeconomic imbalances, fiscal and current account deficit and the budget sent on defense was very high, almost 6.5% of GDP and the overall neglect of development spending.

Afterwards, Nawaz Sharif introduced the major economic liberalization reforms. His policies at the time couldn't bring much change at the time, the investment and exports were pretty stagnated at that point and in fact started declining later due to which the macroeconomic sustainability started to look like a serious problem to the economists. In financial sector, the state-owned enterprises like banks dominated in Nawaz Sharif's era and there were inefficiencies as well as limited access to capital being although economic liberalization was taking place and policy environment of the government in terms of rules, taxes and import tariffs was instable.

Another major factor that played a huge role in destabilization of the economy in the decade till 1999 was the frequent changes in the government. West put sanctions due to nuclear tests that further increased our economic difficulties.

General Musharraf came in power after 1999 with the agenda of economic recovery. He collected a team of technocrats as a part of his cabinet and created structural reforms from 2002 to 2007. Parallel to all this, another development was the 9/11 attacks which changed the geostrategic importance of Pakistan and it again came into the radar of the west and after joining the alliance of US and NATO, it was showered with a lot of aid and it became their frontline state on their war of terror. This all caused the economy to start regaining its economic position which caused the GDP growth rate to increase and was recorded above 6%. Poverty also reduced by almost 10% as well as the decrease in unemployment rates from 8.4 to 6.5% and almost 12 million (11.8) new jobs were also created between 1999-2008.

The economic situation started to go downhill after 2008 and is still not good in 2021. We reversed all the development done in the decade of military regime instead of developing and capitalizing on it through strong institutional responses, good public policies and good governance. All the three successive governments were unable to capitalize on the development.

The cause of it all includes the problem of internal security, shortage of energy and other governance issues that has caused the economy to falter in this decade and still the economic position of Pakistan is very weak.

In short, initially, Bhutto's reforms damaged the economic position and caused a drift from industrialization to another path but there were other issues subsequently including inconsistency, discontinuity, lack of coherence in economic policy, political instability, weak domestic security and law and order, poor governance, unwillingness to take tough and unpopular decisions and to set the course of economy right. All these combined together to play a role in the pull down of the economy and the growth of Pakistan started to fall. If we discuss the situation currently, Pakistan is performing very low as far as HDI is concerned. Half of the total population is illiterate and 2/3 of the female population is illiterate, more than half the population doesn't have access to decent health facility. The mortality rate is 80 per thousand. The female population in the labor sector in Pakistan is the lowest in south Asia. The growth rates and per capita income is also very low. The biggest advantage to Pakistan after the 9/11 attack was that we started to receive a collation fund of 1 billion dollars by the US annually. This foreign assistance definitely played a role in growth but it also had huge costs in the form of more than 80 thousand casualties of the civilian population after the war on terror, travel advisories were issued to the businessmen and traveler, the insurance premiums on the exported goods escalated, the diversion of export orders to other countries due to the unpredictability because of law-and-order situation even though the inflow of

cash due to foreign assistance was still coming in so despite it having its advantages, it still had a bigger negative impact on the society of Pakistan as a whole.

The main 2 things that lead to the things that became a cause for our repeated macroeconomic vulnerability despite the repeated IMF supported reform programmes are the fiscal imbalance and the major weakness we are suffering from in the export sector.

IMF can mainly only be successful in carrying out the reforms that the government itself has a dedication towards. Just like any other country, Pakistan also turns towards IMF for help at the last moment at which point, the major concern is always to restore the macroeconomic stability.

Just like anything else, funding provided by IMF comes with its own pros and cons.

One pro is that it helps a country fill the deficit gap so any country facing issues regarding the payment of deficit loans can ask the IMF to step in and solve their issue fairly easily. Any country looking to attempt a new economic policy can have the IMF serve as the council and advisor. The cons related to IMF are that it is trying to achieve the perfect timing to step in when any country is in an economic lurch which is not easy and has received criticism for doing too much or too little or coming off as too eager and in fact even being partial about some countries or even being termed as too interventionists. IMF can be way too controlling when a country turns to it for help and we become liable to telling our state secrets to the IMF so even though it does give a boost and quick inflow of cash for a country but has many disadvantages in the long run. IMF also puts very unrealistic conditions on loans that may be suitable and applicable for one country but are highly unfavorable for another country. So, weighing the pros and cons, one can easily conclude that the cons greatly outweigh the pros.

Talking about the challenge that we're currently facing in order to become a powerful and sustainable economy after the global financial crisis of 2008 that affected the world economy greatly, the global economy was buoyant in 2018 and the global rates were very good. So, the biggest challenge Pakistan could face is how favorable the global economic conditions are for Pakistan in the aftermath of this pandemic which was an unforeseen event on our part and we were highly unprepared for the hit it caused our economy. Pakistan is not an export-oriented economy but it will have to change that if we want to grow sustainably and in order to do that, will have to increase our industrial capacity. As long as we don't focus on the process of innovative and technology-based process of industrialization, the growth of Pakistan seems almost impossible.

The second challenge we will be faced with in the future is how we keep our economy integrated with the global economy and where we fit in the global economy chain. CPEC is a big opportunity for us in that regard not just for energy and infrastructure but also for industrialization. A deeper collaboration with China would greatly help us in technology transfer and industrialization, the one condition which remains is prioritizing it and bringing it up in the agenda of the government and the political, social and economic discourse. If we are successful in making the base of industrialization strong by Chinese collaboration, we will be able to much quicker overcome our changes.

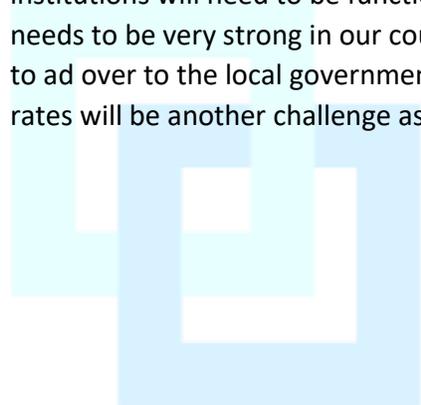
Thirdly, we need to diversify our exports because our export portfolio is very limited due to which there are very specific areas in the world market where we can actually sell our exports. The goods and services produced within our economy need to be diversified which can also only be achieved through the process of industrialization, strategies, plans and policies and we can't be a good self-reliant economy unless this is achieved. We will also have to produce competitive goods even if we are used for outsourcing and offshoring for Chinese companies, we will have to fit in their global

value chains. If this is achieved successfully, it will automatically generate our economic activity, create employment opportunities and improve growth rates.

Fourthly, the challenge we will need to be prepared for is our labor productivity because our labor lacks skill as well as output which decreases the overall productivity also with other issues like lack of education, health issues which has caused Pakistan not to be able to get on the same trajectory as other economically strong nations.

Fifthly, we must focus on research and development without which no economy can grow and we lack the policy framework for that. Private sectors in Pakistan try to take subsidies from the government.

Lastly, policy makers should be perusing sound, consistent and credible economic policies. The uncertainty present will need to be country with Robust, sound and predictable policies and our institutions will need to be functioning. Civil service reforms are also needed. Local government needs to be very strong in our country and provincial government needs to let go of the reluctance to ad over to the local government. Our decision making polices are out date. Increasing investment rates will be another challenge as well as raising quality of institutions.



Economic  
Forum

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