Action Plan for the Pakistan Economy

Professor Dr Shahida Wizarat

Countries which are bastions of free market economies are feeling free to abandon these policies and adopting more pragmatic approaches. This can be discerned from market interventions and nationalization of banks and financial institutions by countries in the aftermath of the Great Recession in 2008-9. BREXIT and the trade wars between the US and China and US and Europe are manifestations of moving away from liberalism. They are not hesitating to violate WTO and GATT rules to protect their economies, while Pakistan is not even taking advantage of the Safeguard Clauses in the WTO rules and Contingency and Escape Clauses in the GATT regime to protect its national interest. In the following I have suggested how we can protect Pakistan's interests and prevent the free fall of the economy.

Declaring Economic Emergency

The government should declare economic emergency which will facilitate taking tough decisions. There are provisions in rules that during emergency situations countries can protect their interests and those of their companies and citizens. The following steps need to be taken during emergency and bring about a reset.

1. **Balance of Payments**

The IMF's external sector strategy has failed to deliver in Pakistan since the 1990s. In an earlier study I summarized the impact of IMF policies as follows:

"Consequences of pursuing such policies are: One, they try to bring about a 'recessionary adjustment' rather than an 'expansionary adjustment'. Second, the strategy tries to impose 'across the board' demand restraint rather than 'selective' and targeted demand restraint. Third, the cost of adjustment is borne entirely by the middle and poor segments of the society." (Wizarat, 2000)

Alternative Strategy

"I have tried to formulate an external sector strategy for Pakistan that does not entail the costs and drawbacks of the IMF strategy. My claim that this strategy is superior to the IMF strategy is on the following accounts: First, with hindsight we know that devaluations for the last many years have not increased exports. And when import demand has been reduced, it has been at a very high cost to the economy in the form of deindustrialization. We are also cognizant of the adverse ramifications of devaluation on inflation, investment, output and employment. In view of the above, I am proposing 'selective' demand restraint rather than 'across the board' demand restraint. Second, I have tried to pass on the cost of adjustment to the segments of the Pakistani population that have been beneficiaries of current policies. Third, the proposed strategy tries to break the trade-off between economic adjustment and economic growth by trying to bring about an ‘expansionary adjustment’ rather than a ‘recessionary adjustment’. Fourth, while the IMF model tries to increase foreign exchange reserves by increasing **exports only,** the alternative strategy focuses on expanding exports, reducing imports, increasing remittances, payments for the use of our infrastructure, resources and services, financial assets to increase the flow of foreign exchange reserves.”

Following measures are being proposed in Alternative to the IMF and other Out of the Box Solutions and are being reproduced here:

Short term measures

1. Charging for the Use of Pakistan's Resources and Services. Pakistan's highways, airports and facilities have been given for free or on nominal rates. This practice needs to be replaced by charging market determined rates for the supply of our infrastructure and resources, with prior knowledge and information about the total amount these will generate.

2. Selective demand management

(a). Banning the import of luxury and consumer goods. Selective demand restraint rather than across the board demand restraint reduces the import demand for consumer and luxury goods, creating space for the import of essential capital goods, industrial raw material and machinery required for economic development. The strategy also passes on the cost of adjustment to wealthy classes, instead of the middle and poor classes, which is marginal as compared with the tremendous socio-economic-political cost entailed in the IMF strategy.

(b) Import of essential consumer goods on barter. Import of essential goods like petroleum through barter trade, discussed above, can also release the pressure on foreign exchange reserves. Moreover, it can bring about an ‘expansionary adjustment’, rather than a recessionary adjustment entailed in the IMF strategy. Such a proposal will not only help save foreign exchange but also revive economic activity in the country. The major focus of external sector policy should be on creating an exportable surplus that can be bartered for the import of essential goods.

Medium to long term measures. 1. Exploring substitutes for essential imports. Moreover, demand for petroleum products can be reduced by switching to alternative sources like wind, solar, nuclear and hydel power. 2. Exploring Alternative Export Commodities and Markets. We have to explore export markets for fish, textile yarn, wearing apparel and accessories, sports goods, leather and leather manufacturers and surgical instruments. Alternative markets for these could be Central Asia, the Russian Federation, Middle East, China and Japan. Moreover, Pakistan being an agricultural country has a lot of potential to export food items, fruits and vegetables to the European Union, the Russian Federation and other SCO countries. But consumers in these countries are health and nutrition conscious and the governments are equally alive to the situation and enacting laws to ensure quality assurance of food products imported in these countries.

3. Repatriation of Looted Pakistani Assets Transferred Abroad

I first presented the idea of relating debt servicing to looted Pakistani assets transferred abroad in 2000.[1] I had proposed that we announce a debt management strategy that allocates a certain percentage of this looted money for debt servicing, ensuring the entire amount is serviced in a short period of time. The pros of the scheme are that it meets the quid quo pro criteria i.e. it puts the burden of debt servicing on people who have benefited from this debt. Expanding on my earlier suggestion made in 2000, I am now proposing that we use the proceeds of not only looted corruption money transferred abroad, but all corruption money realized from within the country and abroad. And use the proceeds not only for debt servicing, but for closing the current account deficit and building foreign exchange reserves. A task force comprising of NAB and FIA officials, economists, etc. can be constituted to work out the modalities.

4. Gold Reserve Management Strategy

During the era of the gold standard central banks maintained a major portion of their reserves in gold and a minor portion in currencies. But after the abandonment of the gold standard, central banks hold major portion of their reserves in currencies, and allocate only a certain portion to be maintained in gold. And resort to trading in gold in a crisis management situation only.

5. Implementation of Cartagena Protocols and Photo-sanitary standards.

Pakistan will have to ensure quality assurance of its products and adopt Cartagena Protocols on risk assessment and biodiversity and pass the Labelling Law so that we can categorize our exports into organic, hybrid and Bt. The study by Rasheed, Zia and Lal empirically investigates the impact of currency devaluation on the trade balance of Pakistan using the ARDL approach indicate that that contrary to what theory suggests, devaluation plays no role in determining the trade balance in the long run.

Recommendations:

- Non tariff barriers can be erected to stop the inflow of non essential imports that are increasing the current account deficit.
- To cope with the shortage of hard currencies essential commodities should be imported on barter. This will save a staggering amount from the import bill, resulting in a massive reduction in the current account.
- In the medium to longterm, substitutes for essential imports need to be explored.

- New markets for exports and quality products and those with higher technological content to exported.
- Repatriation of looted Pakistani assets and corruption money to be used for debt servicing.
- Charging market based rates for the use of our services will help to increase the inflow of hard currencies from diverse sources instead of relying merely on exports.
- Gold reserve management strategy to be used to increase our reserves.

2. **State Bank of Pakistan**

Performance Evaluation.

Evaluating the performance of the SBP for the last 18 months Chohan (2022), at the Centre of Aerospace and Security Studies (CAA) evaluated performance on the basis of functional independence, statutory independence, inflation targeting and lending to the government. The author concludes that the State Bank of Pakistan Amendment Act (SBPAA) has failed on all four accounts.

First, the SBPAA aimed to make the SBP free of political interventions through greater statutory independence. He observes that the SBP has become *more subservient* to the government, "towing the same line even when it shouldn't, and leaving things to "Daronomics." Daronomics has not worked well, as the last economic survey shows, and the value of Rupee, inflation, government debt, credit ratings and money supply are all indicative of the failure."

Second, Chohan says the SBPAA allows the SBP to enjoy greater functional independence, allowing more freedom in choosing monetary tools to achieve the goals that *are deemed* most appropriate. He says the SBP has achieved only two things: raised interest rates and dabbled in letters of credit (LCs). This has resulted in raising rates to 21% which is the highest in the world and stifling economic activity, as the investor is better off with idle funds instead of investing them. The author says the LCs fiasco has turned the SBP into an "investment broker or export-merchant dealer, arbitrarily picking (or having picked for it) the winners and losers (and most are losers) in terms of who will be able to do business and who will not. This is a perverse role for a sober monetary authority to play, and it violates the spirit of any law written for a central bank anywhere, including the SBPAA. Therefore, the SBPAA has failed to get the functional independence for the SBP as well."

Third, the SBPAA has envisaged inflation-only mandate for the SBP. And this makes the inflation- obsession "a particularly horrifying stupidity of the foreign drafters of the SBPAA." And evaluating SBP on this account Chohan says SBP performance on this account is the worst in the history of Pakistan. He says " based on the miserable inflation that the public is facing, the SBP has failed beyond measure. Of course, a monetary authority can and should do much more than focus on inflation, and that too by using more than just interest rates when inflation is supply-side in any case."

Fourth, the SBPAA aims to bring some financial discipline through curtailing the SBP's monetary disbursement to a government that habitually lives beyond its means. Chohan says the SBP has achieved this through using banks to lend to the government: "government continues its borrowing binge, instead of shrinking its size and rationalizing its expenditures, while the SBP continues to bankroll this unsustainable trajectory. It is simply that the banking sector has become the vehicle for this practice instead, totally violating the spirit put into the SBPAA.

Recommendation

- State Bank of Pakistan Amendment Act (SBPAA) has failed on all four accounts, the SBP autonomous status should thereford be reversed

3. Interest, Inflation and Exchange Rates.

Indiscriminate use of monetary policy to fight inflation irrespective of whether it is due to demand pull factors, cost push factors or abuse of market power is very unprofessional. In fact, inflation in Pakistan is mostly due to devaluation of the Rupee on account of IMF conditionalities. Another cause for inflation is high concentration levels in many industries, leading to collusion, hoarding and abuse of market power. Instead of determining the cause of inflation the lending rate is increased. This over extended use of monetary policy is hurting the economy and should be discontinued.

Baig and Aboya (2023) found a long run association between interest rate and CPI. But the flow of relationship is from prices (CPI) to the rate of interest. This indicates that inflation fluctuations have a positive significant impact on the interest rate, but there is no evidence of a reverse relationship from the interest rate to prices (CPI). This may be attributed to the fact that using interest rate to control inflation has been ineffective in Pakistan. As interest rate as a policy tool manages demand pull factors of inflation, but inflation occurs mainly due to cost push factors in Pakistan. Budget deficit also has no statistically significant impact on the interest rate. Baig and Aboya state that their results do not support the conventional idea that high interest rates lead to lower inflation.

Moreover, Sheikh and Wizarat (2023)state that monetary authorities in Pakistan have been considering higher discount rate as a tool for strengthening the Pak Rupee, but the historical record after the early 1970s have shown that high interest rates did not stabilize the exchange rate. One of the reasons for the situation may be because high interest rate has always resulted in greater amount of public debt, thereby enhancing the amount going to debt servicing, which puts greater pressure on the Pak Rupee and results in weakening it. They recommend that monetary authorities lower the discount rate for the purpose of strengthening the Pak Rupee.

Recommendations:

- Inflation will be better controlled through controlling cost push factors brought about through abandoning the free float of the Rupee and reverting to managed float within determined margins.
- The interest rate to be brought down to its 2018 level.
- In the second phase the interest rate to be brought down to 0 with the ushering in of Islamization.

4. **Monopolies and Cartels**

As stated earlier monopolies and cartels have played a major role in restricting output and escalating prices in Pakistan. Most of the members of cartels are ministers and other influentials. Anti trust/competition policy is the appropriate policy to deal with the problems of monopolies, hoardings, excessive profit margins and abuse of market power.

Recommendations:

- The Securities and Exchange Commission, which is almost dormant should be reconstituted and reactivated, anti trust policy formulated and effectively enforced.

5. **Foreign Exchange Regime**

Flight of capital has been a sources of great concern for economic stability of the country. It is being done both legally and illegally through a very liberal foreign exchange regime for transfer of foreign exchange for education, medical treatments, holidays, payments on credit cards and by multinational companies for the transfer of royalties to their home countries. It is also being done through purchasing foreign currencies in bulk and transferring them both legally through the banking channels as well as illegally.

Recommendations:

Government intervention in the foreign exchange regime is being recommended.

- Capital controls aimed at preventing this massive outflow need to be put in place.
- Foreign exchange companies need to be stopped from foreign exchange transactions.

6. **Debt Management**

I am proposing the formulation of a debt management strategy that will ensure (a) no new loans are taken for debt servicing (b) ensuring the interest and wellbeing of the people of Pakistan is not sacrificed for debt servicing (c) debt servicing to be undertaken from the looted money transferred abroad and corruption money. We need to convert part of our foreign exchange reserves into gold. Astute central bankers have been doing that over the years, which keeps them safe from foreign exchange currency shocks and precludes the need to borrow from the IMF.

Recommendations:

- A task force comprising government officials, economists and others working on debt management to be constituted to work out the modalities for such a debt management strategy.
- Using gold reserve management strategy to increase reserves.

7. **Agriculture**

To ensure food security we need to conserve our food supplies. This requires a temporary ban on the export of wheat, rice and other food items from Pakistan and ensure adequate food supplies in the country. In order to provide irrigation water and increase agricultural productivity, dams need to be constructed immediately. Moreover, GMOs have much lower nutrition content in addition to containing virus. Micro biologists and scientists are telling us that the single most important way to protect populations from viruses is by building the immune system. This requires that the food we eat, particularly the food that enhances the immune system should be unadulterated and pure. And we know from knowledge and experience that Bt crops have much lower nutritional content than organic food and non GMOs. So if we have to save our populations from casualties on a large scale, we have to provide them with nutritious food, which is non GMO. Therefore the Government should immediately ban both the production and import of GMOs in Pakistan.

Recommendations:

- Building of dams to be undertaken urgently.
- Banning the production and import of GMOs.
- Ten acres of land to be given to landless peasants to grow organic crops.

8. **Minerals, Mining and Industrialization.**

The present policy of signing agreements for the extraction of minerals and their export in raw form has to be abandoned and replaced by establishment of industries that convert the raw minerals in to manufactured products. This would help in the establishment of industries that will use the extracted minerals. This way we can change the resource *curse* which afflicts exporters of minerals and fuels into a resource *blessing*. Industrialization of the under-developed areas should *initially* be based on the *static* comparative advantage of these areas. This can be reinforced with industry-cum-area specific fiscal incentives. Thus, a viable industrial structure in the rural and hitherto underdeveloped areas can be created. Care should be exercised in the choice of these industries. This means that we must target only those industries whose natural resources are found in abundance in Balochistan, KPK, Azad Kashmir and Northern Areas. This means that we develop fuel, mineral, fruit and vegetable processing industries in these areas.

While a *dynamic* comparative advantage should be created for hi tech industries including defense related industries in big cities. Defense production and armament industries will also benefit from economic integration with regional friends like China, Turkey, Malaysia, etc. Increased economic ties with the Russian Federation and Central Asian Republics should be developed. Greater integration with these countries will contribute through scale economies by enlarging the markets and availability of state of the art technology.

Recommendations:

- Revoke all the existing leasing agreements signed with countries and companies.
- Industrialization of Baluchistan, KPK, Azad Kashmir and Northern Areas to be based on the minerals, fuel, fruits and vegetables grown in these areas.
- High tech industrialization to be pursued in Karachi, Lahore, Pindi, etc.

9. **Power and IPPs**

The percentage of thermal power in the total should be reduced and that of hydro, nuclear, solar and wind should be increased. In order to address the problem of circular debt and reduce the burden on the consumers and make industry viable the issue of IPPs should be addressed immediately.

Recommendations:

- All the IPPs using thermal power should be shut down immediately to honour Pakistan's international obligations particularly with respect to the Paris Declaration which enjoins upon us to reduce carbon emissions. (Arshad Abbasi , 2024)

10. **Privatization Policy.**

Zubair and Wizarat (2023) show that privatization in Pakistan seems to be politically conditioned and externally imposed, rather than fulfilling the needs of the domestic economic environment. Majority of the SOEs performed worse after privatization than before it. Most of the privatization programs completed in the 1990s and 2000s were characterized by corruption, nepotism and mismanagement mainly because privatization programs either served vested interest or poor implementation paved the way for the emergence of interest groups that were the real beneficiaries of privatization. The institutional mechanism that enables an effective regulatory environment to get relatively better outcomes and a well-functioning capital market that is a precondition for privatization are missing in Pakistan.

Privatization policy of the GOP will have to distinguish between strategic and non strategic sectors. GOP should start with restructuring and privatization of loss making non strategic units. Starting privatization with profitable units will increase the budget deficit.

Recommendations:

- Strategic units should be *restructured* but not *privatized*.
- All the loss making non strategic units should be privatized.

11. **Resource Mobilization.**

IMF Model has resulted in decline in output, employment, increasing the skewness in the distribution of income and poverty levels through putting the entire tax burden on the middle, lower middle and poor classes of the country and splashing the generated resources on wealthy Pakistanis and foreign nationals. The resulting elite capture is devastating the lives of the vast majority of Pakistanis resulting in denial of food, basic health and education facilities to them, increase in thefts, robberies, muggings, murders, etc. And when these oppressed people agitate, the state is using brute force resulting in deaths and injuries to peaceful protesters as happened recently in J&K. It is therefore important to formulate a home grown model of public finance. The public finance regime can be made equitable, progressive and self reliant through the following

Recommendations:

- First, increase the percentage of direct taxes to 50 % of total taxes generated.
- Second, wealthy segments of the economy should be brought within the tax net. These include imposition of taxes on incomes generated in agriculture, stock exchanges, real estate, etc.
- Third, increased revenues be directed towards increasing health and education budgets in development expenditures.
- Fourth, attractive saving schemes need to be developed that will increase savings from their dismal levels.
- Fifth, while CPEC is taking care of investments in the power, transport and communication sectors, complimentary government investment in social infrastructure and facilities will help in overhauling the structure and crowding in of private investments.

12. **Regional Development**

For bringing development to the hitherto underdeveloped areas, it is important to address the genuine grievances of the people. Development will itself bring about social change – the government only has to accelerate it. So that the sense of exclusion of people of underdeveloped areas is removed.

Recommendations:

- Development of mineral and fuel based industries will remove sense of exclusion in the local population.
- Distribute 10 acres of land to landless peasants for organic farming will reduce poverty especially in the smaller provinces..

Appendix Table 1

Structure of Imports		US $ million
Particulars		Year 2017-18
	TOTAL	**44280.9**
A.	**Food Groups**	**4730.6**
	Milk & Milk food	197.8
	Wheat Unmilled	-
	Dry Fruits	95.6
	Tea	450.9
	Spices	122.0
	Edible Oil (Soybeans& Palm)	1654.4
	Sugar	4.0
	Pulses	407.9
	Other food items	1797.9
B.	**Machinery Group**	**6505.4**
	Power generating Machines	1927.7
	Office Machines	356.7
	Textile Machinery	424.4
	Const. & Mining Machines	263.4
	Aircrafts, Ships and Boats	757.5
	Agriculture Machinery	96.6
	Other Machinery items	2679.0
C.	**Petroleum Group**	**8393.3**
	Petroleum Products	5459.8
	Petroleum Crude	2933.5
D.	**Consumer Durables**	**3749.4**
	Road Motor Vehicles	2150.1

	Electric Mach. & Appliances	1599.4
E.	**Raw Materials**	**6948.0**
	Raw Cotton	573.5
	Synthetic Fiber	396.2
	Silk Yarn (Synth)	487.5
	Fertilizer Manufactured	615.2
	Insecticides	119.3
	Plastic Material	1748.8
	Iron & steel Scrap	1164.9
	Iron & steel	1842.6
F.	**Transport Group**	**3240.0**
	Road Motor Veh (Build Unit)	2150.1
G.	**Telecom**	**1132.0**
H.	**All other Items**	**9582.2**

Source: Pakistan Economic Survey 2019-20, Government of Pakistan,

Appendix Table 2

	Structure of Exports US $ millions	
Particulars		Year 2017-18
Total		**17064.5**
A.	**Food Group**	**3430.346**
	Rice	1494.7
	Sugar	362
	Fish & Fish Preparation	315.6
	Fruits	339.8
	Vegetables	172.6
	Spices	59.7
	Oil seeds, nuts & kernels	31.9

	Meat & Meat Preparation	159.2
	Other Food items	435.1
B.	**Textile Manufactures**	**9983.1**
	Raw Cotton	55.8
	Cotton Yarn	987.8
	Cotton Cloth	1630.3
	Knitwear	1971.9
	Bed wear	1674.1
	Towels	598.8
	Readymade Garments	1918.3
	Made-up articles	513.4
	Other Textile Manufactures	632.7
C.	**Petroleum Group**	**155.2**
	Petroleum Products	155.9
	Petroleum Top Nephtha	39.3
D.	**Other Manufactures**	**2527.7**
	Carpets, Rugs & Mats	57.9
	Sports Goods	244.5
	Leather Tanned	240.4
	Leather Manufactures	391.7
	Surgical & Med. Goods.	283.8
	Chemical & Pharma. Pro.	795.8
	Engineering Goods	141.9
	Jewellery	5.1
	Cement	166.6
	Guar & Guar Products	26.3
	All Other Manufactures	174.6
E.	**All Other items**	**968.2**

References

Abbasi, Arshad (2024), Circular Debt Reduction I'd Possible in a Single Click to save Pakistan from Financial Catastrophe and Destabilization, CRSS.PK

Baig and Aboya (2023), Do high Interest Rates Lower the CPI, unpublished research paper, IOBM, Karachi.

Chohan, Usman, Performance Evaluation of the SBP Post Autonomous, Centre of Aerospace and Security Studies, Islamabad.

Rasheed, Aijaz, Zia Ullah and Irfan Lal (2023), unpublished paper, Impact of Currency Devaluation on the Trade Balance of Pakistan, IOBM, Karachi.

Wizarat, Shahida (2000), An Alternative Debt Management Strategy for Pakistan, Pakistan Business Review, later published in Fighting Imperialism Liberating Pakistan, CRS, 2012.

Wizarat, Shahida (2022) , Alternative to the IMF and Other Out of the Box Solutions, Partridge Publishing, Singapore.

Zubair, Muhammad, (2023), unpublished paper, IOBM, Karachi