Report of the Lecture on

Economy of Pakistan: Challenges & Way Forward

A Lecture

By

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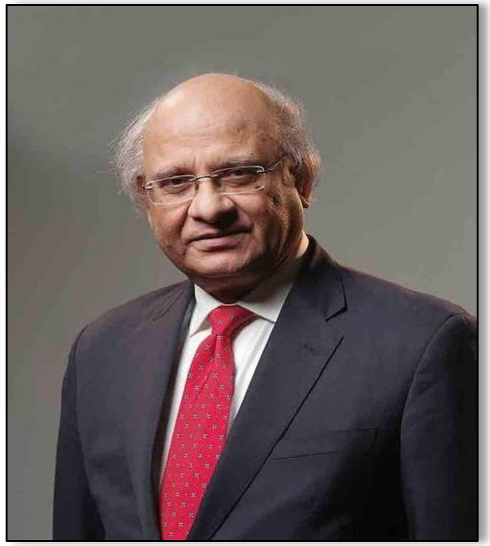
About the Speaker



Dr Ashfaque Hasan Khan is currently the Principal of NUST School of Social Sciences and Humanities and Director General NIPS. He has been the Special Secretary Finance/Director General Debt Office and Economic Adviser Ministry of Finance, Islamabad; Spokesperson of the Government of Pakistan on Economic Issues; Director and Vice Chairman of the Saudi-Pak Industrial and Agricultural Investment Company Ltd; and Director of the United Bank Limited and Pak-Libya Holding Company. Dr Khan holds a PhD degree in Economics from the Johns Hopkins University, USA. In recognition of his outstanding contribution to the fields of economics and public policy, the President of the Islamic Republic of Pakistan conferred the award of Sitara-i-Imtiaz to Dr Khan in 2005. The Economic Cooperation Organization (ECO) conferred upon him the ECO Excellence Award in 2010.

Expert Participants at the Lecture

Speaker

- Dr Ashfaque Hasan Khan, Principal NUST School of Social Sciences & Humanities (S3H); Director General, NIPS.

Participants

- Dr Salman Shah, Advisor Economic Affairs & Planning to the Chief Minister of Punjab; Member Advisory Council, NIPS.
- Ambassador (Retd) Riaz H. Khokhar, Former Foreign Secretary of Pakistan; Member Advisory Council, NIPS.
- Mr Owais Ahmed Ghani, Former Governor Khyber Pakhtunkhwa & Balochistan; Member Advisory Council, NIPS.
- Lt Gen (Retd) Muhammad Masood Aslam, Former Commander 11 Corps; Member Advisory Council, NIPS.
- Air Marshal (Retd) Farhat Hussain Khan, President Centre for Aerospace & Security Studies (CASS), Islamabad.
- Dr Nadeem ul Haque, Vice Chancellor Pakistan Institute of Development Economics (PIDE), Islamabad.
- Dr Shahida Wizarat, Dean Economics Department, Institute of Business Management (IBA), Karachi.
- Dr Lubna Shahnaz, Labor Economist at Policy Research, Innovation, Development & Education (PRIDE).
- Air Vice Marshal Dr Muhammad Ajmal Khan, Principal NUST School of Electrical Engineering & Computer Science (SEECS).
- Ambassador (Retd) Syed Hasan Javed, Director Chinese Studies Centre, S3H NUST; Former Ambassador of Pakistan to Germany.
- Brigadier (Retd) Amir Yaqub, Director Operations & Collaboration, NIPS.
- Mr Atif Munir Sheikh, President Faisalabad Chambers of Commerce & Industry.
- Commodore (Retd) Baber Bilal Haider, Director National Institute of Maritime Affairs (NIMA), Islamabad.
- Mr Muhammad Sabir, Principal Economist Social Policy & Development Centre.
- Mr Abdul Wajid Rana, Former Secretary Finance; Program Leader, International Food Policy Research Institute (IFPRI).
- Dr Osman Sadiq Paracha, Head of Department, COMSATS, Islamabad.
- Dr Ghulam Mujaddid, Faculty of Aerospace Sciences & Strategic Studies, Air University, Islamabad.
- Dr Najma Sadiq, Head Department of Mass Communication, S3H NUST.
- Dr Atia Ali Kazmi, Senior Research & Policy Analyst, NIPS.
- Dr Faisal Abbas, Associate Professor, S3H NUST.

- Dr Attiq ur Rehman, Assistant Professor, Department of International Relations, National University of Modern Languages (NUML), Islamabad.
- Mr Muhammad Zahid Siddique, Head Department of Economics, S3H NUST.
- Dr Samina Naveed, Assistant Professor, S3H NUST.
- Mr Muhammad Naeem Murtaza, CEO, AR Group.
- Mr Raza Khan, Special Correspondent, PTV World.
- Lt Col Waqar, General Headquarters Rawalpindi.
- Major Ali, General Headquarters Rawalpindi.
- Dr Wajiha Haq, Assistant Professor, S3H NUST.
- Dr Imran Said, Assistant Professor, S3H NUST.
- Dr Farah Naz, Assistant Professor, S3H NUST.
- Ms Saadia Saif Niazi, Lecturer, NUML.
- Mr Adnan Ali, Research Associate, NIPS.
- Ms Sobia Khursheed, Assistant Director Collaborations, NIPS.
- Mr Hannan Rashid, Assistant Director, NIPS.
- Ms Adeeba Rehman, Coordinator , NIPS
- Ms Daniya Gardezi, Research Intern, NIPS.

Economy of Pakistan: Challenges & Way Forward

NUST Institute of Policy Studies organized the lecture titled "The economy of Pakistan: Challenges and way forward" on Wednesday, the 4th of November, 2021. Dr Ashfaque Hasan Khan, veteran economist and academic, contextualized the economic struggles of Pakistan and what measures Pakistan must take to steer the economy in the right direction. This report presents the understanding and thoughts of the speaker and useful input by the expert participants on Pakistan's economic challenges and the way forward.

1. Preamble

The economy of Pakistan has struggled to take off for the past couple of decades even with financial stimuli from international monetary institutions. Structural issues, lack of foreign direct investment, unemployment, and stagnant growth continue to shape a dismal economic outlook. Different governments have tried different policy plugins throughout, but a comprehensive development stays lackluster thus far.

The unprecedented impetus in the form of China-Pakistan Economic Corridor (CPEC) has, however, changed the situation for several better circumstances in multiple domains of national growth and stability. The corridor emerged as a ray of hope and is being considered the game changer for the economy of Pakistan and the entire region. CPEC's energy and infrastructural projects are set to provide strong platforms for sustainable economic growth in Pakistan.

The chronological trajectory of Pakistan's development has been divided in six distinct periods.[1] These are: Flat Fifties (1947-1958), Golden Sixties (1958-1969), Socialist Seventies (1971-1977), Revivalist Eighties (1977-1988), Muddling Nineties (1988-1999) and Reforming Hundreds (1999-2007). Early on, the government could not focus on solidifying the fundamentals of the economy due to internal political instability that included challenges related to the Eastern Wing of Pakistan. Economic growth remained

[1] Dr Ishrat Hussian, "The Role of Politics in Pakistan's Economy," Columbia, *School of International and Public Affairs (SIPA)*, Journal of International Affairs, March 25, 2010. Accessed: November 20, 2021.

stagnant even after creation of the State Bank of Pakistan in 1948 because more time was spent on structuring the new setup.

The economic growth in the 1960s baffled everyone. In 1965, it compelled the New York Times to write that “Pakistan [was] on its way towards an economic milestone that [was] so far reached by only one other populous country, the United States.” Yet, the trickledown economics of golden sixties consolidated wealth in few hands to boost development which led to a countrywide nationalization by Prime Minister Zulfiqar Ali Bhutto’s regime. The seventies saw nationalization of different big companies along with land reforms for the welfare of marginalized population. The eighties witnessed undoing of the socialist experiment and paved the way for privatization. The Soviet war induced billions of dollars leading to economic growth. However, the increase in fiscal deficit eventually led Pakistan to seek International Monetary Fund’s (IMF) assistance.

The nineties saw four regime changes and sanctions on Pakistan after the country became an overt nuclear power in response to the second series of nuclear tests by India. Misgovernance, political instability, and external sanctions halted the economic growth and led people to call this era the “lost nineties.” In the 21st century, Pakistan surrendered to the IMF’s structural adjustment programs and took a back seat in autarky while relying more on the external support.

At present, the global economy is facing a downturn amid rising oil prices. The unprecedented pandemic has increased economic challenges of developing countries like Pakistan, which are caught between a rock and a hard place. Covid-19 has halted the complete wheel of economic activities and debt payment obligations have become more pressing for these states. After the initial inertia, the government decided to go to the IMF to solve the problem of deflating foreign reserves but the challenges of inflation, high oil prices, unemployment, and shrinking foreign reserves. The projects of CPEC have, however, tackled the chronic energy issues and the completion of other projects will certainly boost the economic activities.

2. Economy of Pakistan Before 1988-89

The economic journey of Pakistan has been bumpy and the passage towards economic stability and growth improvement seems distant. At one point, the analysts were bewildered by growth trends and prosperity in Pakistan. However, growth rates dipped as the new leadership of that time steered the system towards a different economic model by placing people at the heart of its efforts. The ensuing political instability de-tracked the country and some efforts were made to put it back on the initial path. The year 1988-89 drew a distinct line between previous and existing economic development because Pakistan sought IMF's assistance. The economic landscape changed dramatically after the 1990s.

Early on, Pakistan's economic growth remained at 3 percent in the fifties with minimum inflation. Poor economic growth was salvaged by the Korean War which prompted the demand for jute that in turn helped Pakistan earn foreign reserves. During this time, the efforts were also galvanized to setup industrial units in Pakistan. In the sixties, the economy grew at 10 percent per annum. Pakistan became a role model for economic development in terms of the level of growth. Many mega projects like Tarbela Dam, Mangla Dam and the Green Revolution were successfully undertaken. This high prosperity was followed by the grief of separation of East and West Pakistan.

The nationalization of private companies and banks ensued while several significant international events kept influencing Pakistan's domestic economic landscape. The 1973 Arab-Israeli War resulted in the increase of international oil prices by five times. This brought a difficult situation in developing countries. Pakistan devalued its currency by 57 percent from PKR 4.1 equaling to 1 U.S. dollar to PKR 11 against a dollar. The inflation rate remained high as well. In the eighties, the economy witnessed a revival with an economic growth of 6.5 percent per year, inflation rate at 7 percent and public debt at USD 20.5 billion. Overall, the growth rate remained at 5 percent per annum through these years. It was not a small feat for a developing country like Pakistan. However, things took a downturn after 1988-89 as Pakistan went to the IMF for assistance.

3. Epochal Events in the 1990s for Global Economy

The years 1988-89 was the turning point for the world and Pakistan. This time period marked the end of the Cold War. Other important events were the disintegration of the Soviet Union, fall of Berlin Wall, end of Iran-Iraq War, and the Tiananmen Square episode. The book *Satanic Verses* by Salman Rushdie came at that time and created an uproar in the Muslim World. Francis Fukuyama's book, *The End of History*, proved to be another addition to the disturbing factors. This time period marked the end of socialism and communism and a complete victory for capitalism – as if the Western democracy was going to encapsulate the world for ever.

This led to a wind of change in Eastern Europe after the disintegration of the Soviet Union and emergence of new smaller states. At exactly the same time, John Williamson, a British economist working for the World Bank (WB), coined the word Washington Consensus while the United States emerged as the sole superpower. Samuel Huntington's book, *The Clash of Civilizations*, published at that time described Islam and China as the only two enemies of Western democracies. He evaluated population explosion in Muslim countries and the economic rise of China as big challenges in the making – the prediction about China has already turned into a reality.

An important event in Pakistan was the return of Benazir Bhutto at the helms, although she was not responsible for bringing in the IMF in 1988. Before she took charge of affairs, the program was already signed by the then finance minister. The decision marked the beginning of the economic slavery of Pakistan to the IMF. Since 1988-89, barring the four years from 2004 to 2008, Pakistan has gone to the IMF for eighteen and in total twenty-two times. At present, every effort is being made to take Pakistan back to the IMF in 2022.

4. Neo-Liberal Economic Order

The victors of Second World War created a neo-liberal economic order. The IMF was fashioned at Bretton Woods Conference in New Hampshire in 1944, along with the then International Bank for Reconstruction and Development, now called the World Bank. The

IMF and WB are also called Bretton Woods Institutions (BWI). The International monetary system needed an overhaul and development funds were required to rebuild Europe. The IMF primarily aimed to assist countries in managing their balance of payment and money lending issues. It will be worthwhile to note that the development template provided by the IMF along with the Washington Consensus for developing countries appears to be inherently flawed. The beneficiary state is bound to implement standard macroeconomic policies – thus, a distinctive dependence on IMF programs despite their negative impact on a country's economic models. Pakistan is no exception and often stays helpless against the IMF dictates.

The policies of IMF are based on intellectual foundation of the neo-liberal economic order and remain subject to various estimations – whether they are useful or not. The neo-liberal economic order places market at the center and includes economic liberalization, privatization, de-regulation, free market, increased role of private sector, reduction in the size of government, austerity, elimination of subsidies, removal of price control, and various facets of globalization. Neo-liberalism does not promote government intervention in the market, leaving the market to itself determine price level on the basis of demand and supply.

According to the neo-liberal economic order, monetary policy is more powerful than fiscal policy. Therefore, the emphasis of IMF is on an independent Central Bank. In other words, a country's macroeconomic policies would shift towards the Central Bank. Currently, the same deal is under discussion between Pakistan and the IMF and interestingly, the current Governor of Pakistan's Central Bank is the member of IMF's Board of Governors.

5. Washington Consensus

The oil price shocks of the 1970s led the developing countries knock at IMF's door for monetary assistance. The IMF, WB and the U.S. Treasury drafted out economic and development policy prescriptions for these countries which came to be known as the

Washington Consensus. These were set of stabilization policies and structural adjustment programs which any loan-seeking country would implement. The policy prescription is a standard set for all clients, comprising highly constricted monetary (rising discount rate) and fiscal (austerity) policies, market-based exchange rate (devaluation) and raised prices of utilities including gas and electricity.

The neo-liberal economic order of the post Second World War setup is today's Washington Consensus. International organizations like IMF, World Bank, United Nations, and World Trade Organization promote and implement this order. The IMF spearheads its implementation through structural adjustment policies and programs. These programs have damaged the economies of developing countries like Pakistan, Argentina, Chile, Ukraine, Egypt and many others.

6. Impact of Washington Consensus on Pakistan's Economy

Pakistan has been one of the regular users of IMF resources. The country has gone to the IMF for record 22 times and in 2019 Pakistan signed a new 39 months long program. So far, the IMF has sanctioned USD 32.925 billion and Pakistan has drawn USD 21.837 billion for its economic stability. The policy prescription has comprised the same standard measures including tight monetary and fiscal policies, market-based exchange rates, and raised utility prices. These measures have severe long-term implications for the economy. For instance, a constricted monetary policy implies high discount rate which discourages private sector investment, as interest rate and investment are inversely proportional. Less investment leads to slow economic activity and less job creation, thus increasing unemployment.

Under the current IMF program, the State Bank of Pakistan raised discount rate from 6.5 percent in June 2018 to 13.5 percent in July 2019. This policy intervention added PKR 1687 billion in interest payments. Rupee devaluation from PKR 121.5 in 2018 to PKR 166.4 in 2020 against the U.S. dollar has added another PKR 4,666 billion to the public debt. The recent free fall of currency from May 2021 to October 2021 has added another PKR 1980 billion to the debt. These policies have damaged the economy and created serious national security concerns. Raised utility prices and cost of production impacted industrial competitiveness and exports. It is pertinent to remember that increased discount rate does not control inflation. Similarly, exports cannot be improved by devaluation.

Simply put, there have been two "lost decades" of development in Pakistan – in the 1990s, we added USD 17.5 billion of debt and from 2008-2018, another USD 49 billion were added. One common element in both decades was IMF's program. Almost seventy percent of Pakistan's debt accumulated during this time. The impact of IMF driven policies have not been positive particularly with regards to the balance of payments, fiscal development, growth and employment, and debt crisis. Trade imbalance has also contributed towards balance of payment crisis. Lesser trends of large-scale manufacturing and monetary devaluation have aggravated challenges. Remittances from overseas Pakistanis have been saving the country from severe balance of payment crisis. On fiscal front, the overall revenue has gone up, but so have the interest payments. The process of debt finances for defense is very humbling to be applied by a nuclear power.

7. Current Economic Outlook

Pakistan is between a rock and a hard place as far as the economic stability is concerned – persistent reliance on IMF bailout has deteriorated the in-house capacity and confidence of the institutions. The current IMF deal is yet another example of the incapacities and inabilities to take the reins of economic sector. Rupee has already been degraded to the lowest point in history. The push for an independent State Bank is underway but will have severe implications for the country. It is a matter of concern that why the State Bank of Pakistan, which is already more independent than the Central Banks of Thailand, Brazil, and Argentina, is so far unable to deliver on the economic front. The enquiry is worth sharing with the echelons of power and decision making.

8. Way Forward

The crucial dependence on the neo-liberal economic model of Washington Consensus has damaged the economy of Pakistan. The IMF is key player of this order but its programs offered to the client states only end up in debt and poverty. Despite having capable professionals on board, IMF's policies ultimately harm the economic structures of recipient countries. Various push and pull factors work against the backdrop of strategic placement of experts in this system. Pakistan must learn to live without the IMF. Out of its 190 member countries, few are frequent visitors. Although it is possible to rationally guard its economic interests, Pakistan is the only nuclear power to compromise its autarky to IMF. Whenever there is a political will to pull through this unnecessary obligation, numerous better ways of economic sovereignty will inevitably emerge. For instance, instead of fulfilling IMF's unreasonable demands that directly affect people, such as raising prices of utilities, Pakistan must mull floating bonds and managing the need for dollars, as was done in 2004.

The dividends of Pakistan's natural resources, strategic location, and vast human capital await optimization by capable leadership. There is need of a national culture of creating and grooming leaders. There are certainly many problems in Pakistan but so are the resources. The country must get over the problem of "*Sada Banda" (our own man)* culture. China-Pakistan Economic Corridor of Belt and Road Initiative offers multiple win-win avenues to replace the strict and damaging options of IMF programs and Pakistan must fully capitalize on these opportunities.

9. Q&A Session

The "lost decade" of Pakistan's development argument was coined by Dr Shahida Wizarat in her book *The Rise and Fall of Industrial Productivity in Pakistan*. The phrase has been reused later on by several authors. The recent IMF deal is being stated as another potential lost decade but it would be more destructive – probably a total meltdown.

Despite having many other options, Pakistan cannot afford to default on the IMF deal. Though, it will not be an unprecedented phenomenon – states such as Argentina defaulted on their IMF deal and survived. Similarly, Iran has been wrestling with severe sanctions regime yet fared well economically as compared to Pakistan. It is perplexing to note Pakistan's repeated decision to entertain the IMF and its unreasonable policies of intervention in her economic system.

Moreover, the "one size fits all" solution policy set forth by the international financial institutions has discontents across the globe. Joseph Stiglitz's book *Globalization and its Discontents* explains how the contemporary development policies advocated by these organizations are of no help for developing countries. Likewise, state institutions are sometimes intentionally weakened to make way for the consultants who do not vouch for institutions and states but are only interested in minting money. Nonetheless, trickledown economics is no more viable and quick reforms and processes are required to smooth the pace of economic growth.

On the flipside, the economic development of Pakistan must not be seen in a vacuum. There is a need of first putting the house in order and evaluating national policies instead of shifting the entire blame to the downsides of IMF program. Lack of capacity and resources for designing viable policies has been a crucial factor in pushing Pakistan towards external avenues such as the IMF. It is also worth noticing that Pakistan and China are most watched countries in the changing geopolitical landscape. The global politics along with the schemes of hybrid warfare must therefore be given careful salience for safeguarding the national interest, security, and stability.

10. Conclusion

The event provided a useful occasion for experts, scholars, and students to recognize the context of Pakistan's economic problems and possible solutions. A stable economic growth before 1988-89 in Pakistan witnessed a nosedive by the introduction of IMF's structural adjustment programs. Therefore, it is imperative for the policymakers to evaluate the country's economic policies, ensure pragmatic reforms, and stabilize economy by minimizing dependence on external involvement. Institutions, in particular those dealing with the economic policy, have to be safeguarded and provided with trained workforce for meeting this purpose. Pakistan's dividends must be optimized under the patronage of competent leadership having "faith, discipline, and selfless devotion to the duty," as professed by the founding father, Quaid-e-Azam Muhammad Ali Jinnah. The resourceful land of Pakistan will then become one of the best world economies.

Gallery


PAKISTAN'S FISCAL VULNERABILITY


Salman Shah
Dr.Lubna Shahnaz
Dr. Osman Sadiq...
Abdul W Rana
Najma Sadiq
Dr Mujaddid
Samad Jaffry NI...
Dr. Nadeem ul H...