

ECONOMIC CHALLENGES
AND THE WAY OUT

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The main reason for Pakistan's economic woes and crises, one after another and more acute than the previous, is that our economic policies and priorities have not been set keeping in view the ideology of the country and the real needs of its people. The object has been the protection of special interests and, deliberately or otherwise, to conform to the global order and the agenda of the West.

We are not against economic liberty and the market economy system, but we cannot overlook the way western capitalism has got hold of us and the way global colonial institutions, corporations and foreign governments are tightening the noose around us in the name of liberalization and globalization. Whether today's economic policy-makers or yesterday's managers, all consider foreign aid-based economic development as the be-all and end-all.

It is the result of this wrong strategy that, despite being resourceful in manpower as well as material assets, between 40 and 50 million people in Pakistan are mired in poverty (this figure has doubled during the last 11 years). Agriculture is not properly attended to although 70 per cent of the population is dependent on it and 9 of 11 industries that account for two-thirds of the country's exports are based on agricultural produce. Likewise, small industries, which are the second biggest provider of jobs after agriculture, are given least importance in policy-making. Administrative expenditures are on the rise and development projects are designed only to procure foreign loans, irrespective of their usefulness and need.

The annual installment for repaying our loan and interest now exceeds Rs 265 billion, which is 54 per cent of total budget income. If this amount is procured through interest-bearing loans, the debt burden would only increase every year.

The external debt stands at \$38 billion after paying \$30 billion more than what we have obtained since 1977, and this is expected to rise to \$42 billion next year. If we examine the growth of real assets as a result of projects against which loans were procured, then this growth is not worth more than \$5 billion. In other words, assets of just \$5 billion have been created against a debt burden of \$70 billion. The rest have gone for salaries, commissions, embezzlement, or into the pockets of individuals and coffers of institutions of the donor countries, whereas every Pakistani is groaning under this huge burden of loans. The development strategy of the World Bank and the IMF is flawed in essence and operation. Its aim is not the economic development and prosperity of those countries that receive loans; the object is to safeguard the donors' interests and make the recipient's dependent on the global market in the name of stability in sectors for which loan is given. This distorts development priorities and the social welfare system. Containing the budget deficit and maintaining a positive balance of payments are important, but the most important is the

rate of industrial production, the selection of right items for this production and maintaining quality.

The biggest failure of the present government is that it has failed to comprehend the root cause of the economic problem. Ours is not a problem the IMF conditionalities are concerned with. Our problem is economic slump, decline in investment, stagnant industrial production, and poverty and unemployment. The present government too has done nothing worthwhile to restore business confidence or to boost the production process.

Elimination of corruption is essential, yet the way an environment of fear and distrust has been created can result only in economic downturn. Promoting a tax-paying culture is quite important, but to expect an increase in tax income after inflicting slump on trade through fear and harassment is naive. Documentation of the economy is useful, but this does not mean confrontation with the whole of the trading community. While an important aspect of tax culture is that every wealthy person should pay taxes, equally necessary is that taxes should be just, the government should use the tax income in a transparent manner to meet the needs of the people, and taxpayers should enjoy legal protection.

By trying to change the tax system through the use of force, the government has shaken the confidence of the business circles and disturbed the trade atmosphere. How can investment increase in these circumstances? Rather, such circumstances can only cause capital flight, and this is exactly what is happening.

To rectify the situation, the first thing to do is to admit that a wrong economic strategy has been pursued, and then to terminate its pursuit. This task is unlikely to be accomplished by the present team. Its vision, its experience and capability, its interest are all linked with the strategy that has taken us to the brink of disaster. Only a new leadership and a new team comprising elements from amongst the people, who live among them and are aware of their problems, ordeals, aspirations and priorities, and are accountable to them, can alone perform this task.

The government should bring an end to the present exploitative system through a comprehensive law. There shall certainly be problems of transition; the way to progress and stability passes through problems that must be faced dauntlessly. Elimination of riba (interest) in consonance with the Supreme Court verdict could be a significant step, but the government has been negligent in this regard. This verdict came in December 1999.

Responsible people in the government institutions are now talking about procuring explanations and further time from the court, but the question is: why were these explanations not sought during the past one and a quarter year? Why wait till the deadline? Why has no progress been made for the establishment of those important institutions the court had advised for?

No other way is practicable except to draw a clear line, discard the rotten system of the past, and make a fresh start. Those who are fearful of defaulting on their repayments should know that they are heading towards total liquidation.

We are not in favour of a default and think an alternative strategy is quite workable; yet to paint a dreadful picture of default is not right either. Thirteen countries of South America actually defaulted in 1980 but their action did not prove catastrophic. The World Bank and other financial institutions have given a new timeframe for the recovery of more than 130 loans during the last 20 years. Russia keeps on defaulting even today, yet world institutions hold talks with it and are even considering writing off its loans. Only some months ago, the G-7 considered writing off \$38 billion of loans dating back to the Soviet period, and negotiations are on for repaying the remaining loans in 30 years. A global campaign is raging throughout the world these days and the G-7 in its Cologne, London, and Paris conferences has promised a write-off of loans of 61 countries worth some \$100 billion.

We can benefit from the criteria under discussion for a loan write-off with respect to the ability to repay loans, provided that we take a firm stance that:

- We shall never seek loans in the future, for any reason whatsoever.
- We shall not procure loans only to repay loans.
- We shall set apart a specific percentage of our exports (e.g. 10 percent) for debt retirement, but only after a reprieve of reasonable duration.
- Existing loans shall be frozen and a moratorium of 5 to 10 years will be obtained for repayment. After this, payment, in proportion to our exports, could be initiated.
- The criteria that are being adopted for other countries for loan write-offs shall also be applied to us.

There is nothing embarrassing about negotiating for a loan write-off, when no embarrassment is felt in begging for money. When Russia is doing this, as are 50 other countries, why should we hesitate? The wrong we committed by taking loans, others committed it by extending repayments. We should bargain on these issues. This is possible only when the chapter of loan-taking is closed and the strategy of living within our own means is strictly adhered to.

Pakistan is not a small country; it has a strategic importance that no one can afford to ignore. Only 15 or 16 per cent of our economy (imports and exports) is vulnerable to foreign pressure; the rest is self-sufficient.

A new strategy should accord priority to the development of agriculture and small- and medium-size industries should be encouraged. The tax system needs to be restructured. Privatization should not be done hastily and blindly; the aspects of security, public needs, a judicious wage system, consumer rights, and a stable employment should also be considered. A new industrial policy that conforms to the conditions and needs of the country should be formulated. The distribution of wealth and the people's participation in the production process are important policy considerations.

What also needs consideration is what role the state should be playing as far as the economy is considered. The private sector is important and has a central role to play, yet an effective government sector along with it is also necessary. However, the government sector does not mean that bureaucrats or politicians should run it. Government institutions too should be run with business acumen. Also, and an effective system of accountability should be laid down.

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