

Why is the foreign exchange crisis a surprise?

HUMAYUN AKHTAR KHAN

The balance of payments crisis has been a regular feature of our economy. What we need to see is why it keeps happening. While, at present, the government has the unenviable task of ensuring that we stay afloat, it rightly also has looked at the root causes of the crisis.

The balance of payments pressure is the result of our economic policy and priorities. One reason is our endemic reliance on external finance. Not only has external debt grown, what has caused the problem to worsen is recent increased reliance on high-cost external debt. Such debt was incurred knowing that the economy does not earn enough foreign currency to service them. Our debt servicing needs grew along with a decline in exports and higher imports. The crisis was inevitable.

For a few weeks after the new government took over, there was concern about meeting our external obligations. This has been partly resolved with Saudi help and will be resolved further through continuing negotiations with China, the UAE, and

the IMF. This should help us not only meet repayment obligations, but also help us address serious issues of tenure and cost of debt.

Later, there are real questions that decision-makers must contend with. For one, how long before we are faced by another balance of payments emergency? Also, why is a foreign exchange crisis always around the corner in Pakistan?

To answer these, we may analyse why the economy is always close to default. There are both immediate and long-term reasons. The particular reason this time was that for four years, the government held the rupee value at about Rs105 to USD1. This dampened international demand for exports and made imports cheaper, increasing the trade gap. In the event, the drawdown of reserves, themselves built on external credit, was the cost of maintaining a high rupee value. Adding to these woes, the US has also stopped Coalition Support Fund transfers to Pakistan. This crisis also brings forth the enduring reasons for Pakistan's economic malaise. It shows that high economic growth is not possible within the econ-

omy's present framework. Translated, this means that our macro fundamentals are not strong enough to support high or even moderate growth. For one, the economy does not save enough to increase investment without resorting to foreign savings. Within its present framework, the economy can avoid an external crisis only if it functions at a low equilibrium with modest levels of savings, investment, imports, and exports and low GDP growth.

Though federal tax revenue grew by 71 percent between 2014 and 2018, total GDP revenue was still short of spending. In fact, for decades, the Pakistan government has not generated enough revenue to meet its needs. It, therefore, borrows to bridge the gap, from within and outside. While borrowing for financially viable projects generates returns that help repay loans, using external credit for purposes that do not directly stimulate the economy strains our ability to service the loans. The way to break out of this bind is to strengthen macro fundamentals and generate growth based on higher production and productivity. What makes this a challenge is that both macro indicators and increase in pro-

duction are mutually related. At under 14 percent of GDP, our manufacturing sector is small. It also does not produce the goods that can compete with other emerging economies and so does not earn enough foreign exchange for the economy. Pakistani manufactured goods have one of the lowest knowledge contents in the world. So, they rely on government incentives or protection to export or to survive. Agriculture too has not done much better.

There are many reasons for this, but one reason is the government's lack of funds and its skewed priorities. Despite increase in recent years, the scale of public investment falls short of what is needed to build essential business-stimulating infrastructure, such as efficient transport services or power and water supply, as well as to develop the country's human resource and knowledge base. So, where would growth come from? The economy is locked in a circular logic. Growth in production of goods is low because of weak fundamentals, which are weak because we do not invest and produce enough. Breaking the loop requires addressing the structure of the economy. Only an efficient economy

with corrected priorities, progressive taxation, less subsidy, and well-thought-out protection will increase competitiveness. It is good to see that the new government is alive to these fundamental issues.

The balance of payments crisis reflects these realities. It shows that, historically, governments have not raised enough funds in Pakistan. Nor has the economy been internationally competitive. Also, public investment has been small compared to needs, and what was spent was not prioritised or managed well. For decades, governments have carried the avoidable burden of loss-making PSEs and of a power sector that does not recover cost. Plus, so far, we have subsidised and protected inefficient industries. Furthermore, we have locked ourselves out of regional trade opportunities. These factors, along with security concerns, also have precluded large-scale growth of FDI. What should be done? To ward off the present crisis, the government is on the right track: immediately seeking grant and aid on easy terms to service debt. Already, the depreciation of the rupee has reduced growth of imports

into the country. The next steps should be to increase revenue, especially in the provinces. This must be done even if it irks key constituencies. The government must also reduce avoidable expenditure. It must address PSE deficit and resolve the governance and policy issues that hobble the power sector. The key to this plan is that, along with placing the macros on better footing, it must begin a programme to expand and upgrade manufacturing in the country.

All this must be done within the necessary constraints that an IMF programme would impose. The challenge is how. I am glad to see a solid plan evolving. I know its implementation will have to be done with uncompromising rigour even if there are difficult decisions to take. The choice before us is to either embark on this difficult journey or stay trapped in an endless loop of vulnerable external account and low growth. We must also revisit our security paradigm. Pakistan is militarily strong to withstand any outside pressure. Recent events have shown, however, that we may not be strong enough to cope with pressures from within.

A hundred days: worth a thousand words

IMTIAZ ALAM

An official front page ad, bearing the solitary caption "We've been busy", asked bewildered readers to "turn the page for Naya Pakistan". The next page boasted "progress worth a thousand words" and was overfilled with screaming headlines. But for the U-turns that have come to characterise the regime, this was just another empty answer to the rhetorical claims.

Over the first 100 days, the current government looked busy and did nothing. A plethora of task forces were created to figure out a plan of action. We still don't understand what they are up to, now that the honeymoon period is over with a whimper. There was much fanfare at the Convention Centre, where we were made to laugh at the PM's chicken and egg theory of poverty alleviation, Foreign Minister Shah Mehmood's diplomatic googly of the Kartarpur Corridor and the virtues of the PM's U-turns extolled by the finance minister.

Given the topsy-turvy financial policy explained by Finance Minister Asad Omar, the rupee could not take the joke and fell by five percent the very next day amid wild speculations. Some people had wrongly guessed that the devaluation was a shrewd move to enable Pakistan to receive an IMF package; that was not the case because the prime minister came to know about it from the media.

One was amazed at Special Assistant to PM on Establishment Shahzad Arbab, who revealed for the first time that a 100-day plan was conceived well before the last elections and that 18 out of 34 targets have been achieved or are close to being achieved. If this is the nature and style of governance, then how can one evaluate the performance of the government? The prime minister came up with similarly bizarre explanations in his press talk with a few TV anchors. He talked about midterm elections, legislation through ordinances and the need to regulate the autonomy of the State Bank to determine monetary and exchange-rate policies, as well as boasting of the military's backing of the PTI's manifesto or about decisions that the PM solely makes.

Looking at the performance of the PTI government, one can only conclude that the regime is clueless, as witnessed in the confusion on CPEC, foreign policy matters and the economy. To understand the current regime, we will have to understand its nature and judge it on certain objective criteria and as an auxiliary of a neo-colonial power-structure in a hybrid democracy. Like the PTI, the cur-

rent government too seems to move and work at the whims and rhetoric of its leader - The Great Khan. With a hodgepodge cabinet at the helm, the regime doesn't get its strength from parliament, where it enjoys a shaky majority in only the Lower House, but from other support systems.

Rather than taking parliament along, the PTI government prefers to maintain an acrimonious relationship with the two major opposition parties. As it is not ready to come out of its make-believe world of recovering plundered wealth stashed offshore, the government is not serious about setting a flailing economy in order. It is more obsessed with symbolic measures of austerity than tightening non-productive expenditures, generating resources and increasing exports to fill two deficits that haunt the future prospects of the economy. Former president Asif Ali Zardari has also alleged that, instead of respecting federal norms, the new regime is going back to the days of the 'One Unit' system.

The handling of the balance of payments crisis and the casual approach towards structural and governance reforms have been disappointing. The government first tried to raise financial resources to meet the huge gap in balance of payments, as a means to avoid necessary structural reforms or tough decisions. This allowed the finance ministry a false sense of self-assurance while negotiating with the IMF from a position of strength, which resulted in the failure of the talks. If the balance of payments crisis were over, as confidently declared by the finance minister, there would be no point in talking to the IMF. The finance minister kept everybody guessing without clearly setting a course out of this financial imbroglio.

As it transpired, 'friendly' countries are not likely to throw their good money after bad money. And that is entirely reasonable. Even if they had doled out the billions of dollars needed to meet the current year's current account deficit, they must have wondered what Pakistan would do next year. They might also be looking for some kind of reforms that could spare Pakistan from a similar situation next year. Except for one economist, everyone on the Economic Advisory Council advised the government not to waste time and instead seek a bailout from the IMF, along with milking other sources to create some fiscal space for development. Some, like Hafeez Pasha, even warned against a looming default. But they were ridiculed as 'Platos'. Hence, the crisis becomes more lethal with each passing day. Devoid of a substantial

socio-economic agenda, the PM is becoming impatient about his empty promises. Being an effective philanthropist, he seems to have picked some half-baked recipes to alleviate poverty. The PM could have consulted economist Qaiser Bengali, who is the architect of the successful Benazir Income Support Programme (BISP) that also included the Waseela-e-Rozgar subsidiary, or Dr Akmal Hussain, who has authored the UNDP Pakistan Report on "inclusive and sustainable development", which provides a policy framework for what PM Imran Khan is trying to do. Additional measures could be added to BISP with bonuses for population control and compulsory education of the children still out of school.

Many poverty reduction programmes have failed, except those that focused on creating subsistence assets for the poor. There are very good experiments of micro-financing, including the Grameen Bank of Bangladesh, which provides insight into strategies for a trickle-down effect, even though marginally. Imran Khan looks to be ideologically confused between the non-militaristic Scandinavian model of taxing the rich and spending on social services, and the Harvard School model of accumulation of wealth in a few hands resulting in a trickle-down effect as adopted by Gen Ayub Khan (with disastrous consequences). He seems clueless about the high targets he has set for himself. Instead of taking a long road of reforms for good governance, he is taking refuge behind gimmicks such as bringing down the walls of governor houses or not living in the prime minister quarters while living in the PM House. He can, however, succeed by combining a policy of peace with neighbours with a massive poverty reduction programme.

The PM's threatening tone and his followers' abusive language against everybody else are also alienating the business classes, civil services, intelligentsia and critical voices in the media. Because his accountability drive is failing to bring back the plundered billions and he has nothing to fall back on, he goes back to offensive politics - perhaps forgetting the fact that he is now here to deliver. The greater the expectations, the more rapid the disillusionment. If the government continues like this, it may soon face greater disillusionment and resentment on streets. The more it gets isolated, the greater will be its reliance on others. What is needed is for the prime minister to go back to parliament and keep the transition on track.



India clean bold by Sidhu-Rasheed

Civilian deaths

BRETT WILKINS

While campaigning for president in late 2015, Donald Trump promised a bloody escalation of the US-led war against Islamic State in Syria and Iraq, vowing to "bomb the shit out of" IS militants and "take out their families." Targeting terrorists' wives, children and other relatives is a war crime under international law, but Trump doubled down on his promise and since taking office has presided over a dramatic increase in civilian deaths in six of the seven countries subjected to America's open-ended war against terrorism. This increase has been most acute in Iraq and, most recently, in Syria, where hundreds of innocent civilians have died in US-led air strikes in recent months.

Although US and coalition forces are not deliberately targeting civilians, many - if not most - of those killed in the latest strikes have been women and children. According to local and international media and human rights monitor groups, at least 271 and possibly more than twice as many civilians have been killed in nearly

900 US-confirmed air strikes in Deir Ezzor province in October and November. The vast majority of these raids have been carried out by American warplanes; British, French, Dutch and other coalition members have also participated.

The UK-based monitor group Airwars and local and international media outlets report many victims of these recent bombings have been wives, children and other relatives of IS fighters.

The UK-based Syrian Observatory for Human Rights (SOHR) reported 32 IS family members, including 12 women and 13 children, died in a November 11 strike on Al Shaafa, while an attack on Al Kashma that same day killed at least 35 civilians, mostly women and children, according to Step News Agency and other outlets. Syrian Network for Human Rights (SNHR) and local media reported that a November 15 attack on Al Boubardan killed 18 members of a single family, including 14 children and three women.

SOHR, Amnesty International and other monitor groups and media reported 36 relatives of IS fighters, including 17 children and 12 women, died in November 17

strikes east of Hajin. Free Deir Ezzor Radio later reported the civilian death toll from the attack had risen to 53. That same day, Airwars and local media said at least 12 and as many as 24 civilians were killed in another strike on Hajin. Trump was apparently serious when he said in December 2015 that he wanted to kill IS fighters' innocent relatives. At the height of the race for the Republican presidential nomination he said:

"When you get these terrorists, you have to take out their families. They care about their lives, don't kid yourself. But they say they don't care about their lives. You have to take out their families". Shortly after taking office, Trump began loosening the military's rules of engagement that were meant to protect innocent life.

According to a Washington Post report, the president was unimpressed by the development of special CIA drone munitions designed to limit civilian casualties, and when watching video of a previous drone strike in which the agency delayed attack until the targeted militant walked away from a house with his family inside the president asked, "Why did you wait?"

Letters to the Editor

Climate conundrum

Despite repeated warnings about the perils of climate change, global leaders have failed to give a sincere push to addressing environmental concerns. Although a series of agreements have been ratified to address environmental matters, there doesn't seem to be a plausible consensus on what should be done to prevent climate change and its damaging effects. At this critical juncture, all countries must put forth a collective strategy to deal with the matter. On the individual level, people need to prioritise environmentally-friendly practices to reverse the deleterious impact of climate change. Climate apathy is a curse that will pull the world towards doom and it is our responsibility to ensure that our actions don't create any further catastrophes.

Bilal Ahmed
KARACHI

Open sewers

This is to draw the attention of the municipal authorities to the problem of open sewers in Soldier Bazar. Clogged drains let dirty water to run in streets, making it increasingly difficult for

residents to walk on road. The authorities concerned should take immediate action in this regard and ensure that all drains are unclogged in a timely manner.

Ashfaq Sharif
KARACHI

Contaminated water

Dirty water tanks and out-of-order filters installed in public schools are posing serious health threats to students who are forced to drink dirty water. Students are suffering from typhoid and other severe waterborne diseases. Those who are in charge of schools' governance are not paying attention to this important issue. However, this is a great matter of concern for parents as they don't want to put the health of their children at risk. This is the foremost responsibility of the government to keep a constant check on the quality of water at schools and hostels.

Laiba Muhammad Amir
CHARSADDA

Packing exports

The packaging of our export items are not up

to the mark and this is one of the important reasons for the unprecedented decline in our exports each year. In order to increase the country's exports, it is necessary that our finished products are packed in beautiful packaging.

Abdul Samad Samo
KARACHI

Local production

This refers to the news report 'Pakistan, China ink accord to upgrade railways'. The Chinese company China Railway Rolling Corporation (CRRC) has shown interest in investing in Pakistan and to supply 230 modern coaches to Pakistan. It may be mentioned that Pakistan possesses a carriage manufacturing factory in Islamabad, which can manufacture 150 passenger coaches per year on a single-shift basis. In the presence of this facility, the import of ready-made carriages from China would be an unnecessary expenditure. All the proposed 230 coaches can be manufactured in the carriage factory locally. By working on a double-shift basis, the factory can produce 300 coaches annually. The railways authorities are requested to give a serious thought to this suggestion.

Air Cdre (r) Azfar A Khan
KARACHI

Book a ride

Ride-hailing apps are gaining popularity in Pakistan as they are more convenient, provide quality service and customer satisfaction, and offer cheaper fares. Companies that offer such services have not only created lots of economic opportunities, but they also are earning lots of profit. The government is also increasing its revenue by collecting corporate taxes from these companies. The demand for cars as well as for other vehicles is also increasing. There is a positive impact on per capita income. People's personal assets, including cars and motorcycles, are being used to generate income. These companies have allowed people to book a ride from the comfort of their homes. These companies can generate more benefits for the Pakistani economy and can be more productive if the Pakistani government forms a regulatory body which can monitor their activities.

Khalil Ahmed Shar
ISLAMABAD

Day of Disabled Persons

International Day of Disabled Persons was observed on December 3 across Pakistan. Instead of creating awareness and implementing the laws and policies, the government only organised photo sessions for the media. We need to value people with disabilities as social assets and not as liabilities. Change can only happen if we come together and raise a voice for those who have been silenced.

Kinza Khan
KARACHI

Sin tax

Sin tax on cigarettes is a good step taken by the authorities concerned that will go a long way in discouraging the habit of smoking among people. Smoking is harmful to health and it is assumed that the higher price of a pack of cigarettes will allow people to abstain from smoking. Since cigarettes are readily available across the country, even school-going children have also adopted this dangerous habit. While a hike in tax on cigarettes will reduce the consumption of tobacco products, the healthcare authorities too need to play an important role in creating awareness among people regarding the harmful effects of smoking.