



Déjà vu with Pakistan's Economy

Global index provider MSCI recently announced its plans to include Pakistan in its emerging markets index, due to its recent economic performance. MSCI announced it plans to upgrade Pakistan from frontier- to emerging-market status in 2016. News that Pakistan is being considered for inclusion in the MSCI emerging markets index was seized upon by a government desperate for international recognition of what it says are its achievements in stabilizing the Pakistani economy. The current government like its predecessors is trying to take the credit for saving the Pakistan economy from the brink of collapse.

Nawaz Sharif's previous stints in power ended with him being dismissed, from 1990-1993 he was removed due to corruption, whilst his rule from 1997-1999, ended in his ouster by General Pervez Musharraf with the country virtually bankrupt.

Under Musharraf the economy was almost entirely driven by 3 sectors, the service industry, foreign direct investment (FDI) and privatisation. Key Pakistani assets were sold to the world. Under Musharraf, FDI increased but much of this comes in the form of purchase of domestic cigarette manufacturing by America's Altria group and by an expansion of companies such as Pepsi Cola and McDonald's. The service sector was driven by real estate and the stock market and thus General Musharraf's regime failed to develop the foundations of a modern, competitive, and productive economy and as a result its reliance on just a handful of sectors meant such an economy was never sustainable. Musharraf's legacy was making Pakistan drown in debt. When he became leader in 1999 Pakistan's external debt stood at \$32 billion, by 2007, this figure had reached \$42 billion.

When Asif Ali Zardari came to power in September 2008 the economy only went in one direction. He accelerated much of Musharraf's policies which were bankrupting the nation. During the PPP's 5-year term no roadmap for economic revival or solutions to the economic challenges faced by the country was presented. The absence of any roadmap led to a number of short-term tactical responses to avert economic collapse. Zardari like Musharraf resorted to external finance and the failed policies of the IMF. In November 2008, an agreement was made with the IMF for a \$7.6 billion loan. Inflation during his 5-year term was in double digit territory. Zardari completed his term in office in March 2013 – a record for Pakistan as no other government in the country's history had ever finished its full term. The best the outgoing government could muster regarding its term in office was the fact it completed its term. In spite of the economy being in shambles, a situation made worse by collapsing infrastructure in the power and energy sectors, high levels of insecurity and corruption. Zardari's government throughout its term just stood by as Pakistan's problems went from bad to worse. The out-going government and its cronies believed, in spite a long list of national failures (made even worse by the out-going government's incompetence), in spite of this, they survived a whole term and this was their success.

When Nawaz Sharif became prime minister in 2013, the country's energy, electricity, debt and overall economic situation had reached rock bottom. Like all his predecessors Sharif made many grand promises. With Sharif now half way through his term the shiny

new articulated buses, freshly dug underpasses and dedicated flyovers, Islamabad's new public transport system is a symbol of a government that gets big things done. The China-Pakistan Economic Corridor (CPEC) \$46 billion mega project signed in April 2015, continues to be used by the Sharif government as evidence that the future of Pakistan has finally been secured. So much so that the IMF gave the Sharif government raving reviews on its economic management. In March 2015 the [IMF in a press release said](#): *"Pakistan's economy is improving, helped by prudent monetary and fiscal policies, strong capital inflows, robust remittances, and lower international oil prices. The authorities have made progress with consolidating macroeconomic stability, strengthening public finances, and re-building foreign exchange buffers,"* International Monetary Fund (IMF) Director of the Middle East and Central Asia Department Masood Ahmad [praised](#) the commitment of Prime Minister Nawaz Sharif and the economic team of the government with improving the economic situation of the country.

But many have been sceptical of the recent economic performance and the positive IMF statements.

[Sakib Sherani of Macro Economic Insights said](#) *"We've been here before,"* referring to the tenure of Musharraf a decade ago when there was talk of Pakistan having turned the economic corner. The IMF and other cheerleaders, he said, *"are all talking about something that's quite different from the real economy."* The rise in foreign reserves, Mr Sherani argued, is a *"bit like a Ponzi scheme,"* because most of the new reserves are borrowed from the IMF and other creditors. Pakistan is currently in a \$6.6 billion loan programme with the International Monetary Fund, which was granted on condition that Islamabad carried out extensive economic reforms, particularly in the energy and taxation sectors.

Hafeez Pasha, an economist and former finance minister highlighted, *"In our close to 70 years' history, we've never had a government that fudged statistics to the extent of this one,"* Actual growth, he says, is more like 3.5 per cent than the official 4.2 per cent, while the budget deficit is closer to 8.5 per cent than 5 per cent. Moreover, he argued, the money borrowed to increase foreign reserves has burdened Pakistan with unsustainable debt, the currency is *"hugely overvalued"* and inequality is rising as a *"rapacious elite"* spends billions on buying property in Dubai. *"Here in Pakistan, it's really the poor who are getting it bad. The end result is despair, disillusionment."*

This was confirmed in a [report by non-profit organisation, Rafter](#), that Pakistan's economy continues to rely heavily on "commercial loans, concessionary donor loans and aid." Pakistan's external debt has increased over \$5 billion under Sharif. Under Zardari it increased by nearly \$20 billion. Debt has been a consistent pattern in Pakistan's recent economic history, despite the rhetoric from successive leaders to the contrary.

Successive leaders have pursued short term policies over long term strategic planning and this has cost the country dearly. This is why borrowing from international institutes has been a regular feature alongside regular crisis and economic collapse. Strategically there has been three fundamental issues that have held Pakistan back, which if overcome would change the status quo.

The first of these strategic issues is Pakistan has never been built upon its strengths. Pakistan is full of mineral wealth, but much of these have not been utilised. Pakistan has considerable natural and mineral resources which include oil, gas, gold, chromite, iron ore, coal, bauxite, copper, antimony, sulphur, limestone, marble, sand, rock salt and

clays for ceramics. Pakistan's strengths lay in agriculture and industry due to such natural wealth, but instead successive leaders pursued the service sector, which only employs a minority of the population. Despite discovering the world's largest coal field at Thar in 1991, work only started in 2014, whether this initial project will even meet its 2017 deadline remains to be seen.

The second is Pakistan's industry throughout its history has been severely neglected and even today industrialists and the IMF would like to turn Pakistan into a cheap labour, consumer goods focused manufacturer. They would like Pakistan to make mobile phone handsets, small Suzuki's and textiles.

Currently Pakistan's industrial sector accounts for only 24% of the economy. Cotton textile production and apparel manufacturing are Pakistan's largest industries, accounting for 66% of Pakistan's exports and 20% of the employed labour force. During Musharraf's tenure, large-scale privatisation led to the public sector to account for a shrinking proportion of industrial output. Low end manufacturing merely keeps a nation stuck to producing for western consumers. None of Pakistan's leaders have attempted to develop and expand an industrial base that produces heavy machinery and goods such as engines, aircrafts, vehicles, chemicals etc. China in the space of three decades used its Special Economic Zones (SEZ) to develop heavy industry and use this to construct its own jets, heavy machinery etc.

Thirdly, agricultural development has not led to poverty reduction. Pakistan is blessed with arable land, a large irrigation network and is amongst the world's largest producer of many kitchen items. However poverty remains a big problem, even today 37 million people live below the World Bank poverty line in Pakistan, this is the equivalent to the whole population of Canada! All successive governments needed to do was guarantee a supply level of agricultural products, improve product quality and introduction new land use and employment rules. Pakistan is a net food exporter, except in occasional years when its harvest is adversely affected by droughts.

Pakistan's problems, whether political, economic or social are not due to a lack of resources or skilled personnel. In all economic areas and sectors Pakistan has no shortage of resources to build upon. Pakistan has however been led by incompetent, insincere leaders, surrounded by their cronies. This is where the problem is and this is why the complete uprooting of the architecture that maintains them is the only route to success and prosperity. The ruling elite of Pakistan historically have maintained the status quo, which allows them to loot the nation and maintain their corrupt positions. Their interests do not lie in dealing with Pakistan's long term strategic challenges, but in only lining their own pockets. Pakistan has all the ingredients to prosper, develop and fulfil the needs of all its people, it's the political architecture led by lackeys that continue to hold the nation back.

**Written for the Central Media Office of Hizb ut Tahrir by
Adnan Khan**