**Moving in the Right Direction?**

**The economic history of Pakistan is full of irrational commit-ments by political players that have landed the economy in dire straits.**

[Dr Kamal Monnoo](https://www.nation.com.pk/columnist/dr-kamal-monnoo)

April 26, 2024

[Newspaper](https://www.nation.com.pk/newspaper), [Opinions](https://www.nation.com.pk/opinions), [Columns](https://www.nation.com.pk/columns)

It is for this reason that India relied on a local boy Tata to privatise Indian Airlines and the move has not only become a great story of turnaround (since domestic captains know the terrain far better than their foreign counterparts) but has also ensured that India’s profits remain within India. This incidentally, takes us to the third facet of the government’s conversation on partnering with the private sector and luring foreign investment in different sectors of Pakistan like refining, infrastructure, mining, etc., and it is here where one tends to be the most concerned on what is being said.

Importantly, before committing to any unreasonable or foolhardy incentives just to grab funds, it is advisable for the present economic managers to take a pause in order to prudently assess where and how in the past such drives have gone wrong and cost the country dearly, meaning poorly thought through agreements either largely attributed to sheer incompetence or short-sightedness or perhaps vested interests; an introspection is required, especially by the present actors who continue to rule the roost for almost 5 decades now. Care needs to be taken that we do not end up repeating our past mistakes, as these are the very sort of mistakes that actually lie behind the economic impasse we face today. To quote a few examples and comparisons, our investment policy in the auto and motorcycle sectors has achieved scant little but has cost us dearly in exchange outflows. We continue to import kits expensively, agreed deletion benchmarks remain elusive, product development has been negligible or none & we continue to produce expensive cars while exporting nothing. Even the price control mechanism for the consumers is not competition or productivity-driven, but instead kept under check through second-hand automobile imports that in turn add to the valuable exchange outflows.

[China unveils first Hangor-class submarine builit for Pakistan](https://www.nation.com.pk/27-Apr-2024/china-unveils-first-hangor-class-submarine-builit-for-pakistan)

In contrast, India’s Automobile sector is a net exporter, mostly works on 100% deletion, and produces some of the cheapest car variants in the world, and companies like Mahindra & Mahindra, Tata and DCM have gone on to capture global manufacturing that instead repatriates valuable foreign exchange back into India. This is why when the finance minister talks about private-public partnerships or private sector-led growth, one sincerely hopes he is looking inwards and not outwards. Marrying desirable FDI with national needs is a very delicate business and is possible only through a strict professional lens of national interest and transparency. It is in this context that one found it to be strange when recently no less an authority than the Prime Minister himself jumped in to give statements on assurances to Saudis in giving them preferential treatment on profit repatriations and/or for investments in the Reko-Diq project, something that sends the wrong signals to global investors on level playing field and transparency in managing the country’s financial affairs and naturally has not been received very well by the markets. It is these very shenanigans that need to be avoided. The economic history of Pakistan is full of irrational commitments by political players that have landed the economy in dire straits.

[Rawalpindi BISE chief visits exam centres in Pindigheb](https://www.nation.com.pk/27-Apr-2024/rawalpindi-bise-chief-visits-exam-centres-in-pindigheb)

A key case in point is the energy sector: Lopsided dollar-based IPP agreements, poorly planned coal power plants under CPEC based on imported coal and in locations that add heavily in logistic costs, needless politicking on dams, populist doling out of gas towards domestic usage at the cost of industry and politicising state-owned utility companies, to only name a few. Little wonder that with competitiveness compromised, Pakistan today is rapidly de-industrialising. It is this adverse development that helps us explain the fourth conversation on taming inflation. What we need to understand is that with the competitiveness and productivity driven efficiencies in the domestic supply-chain almost eroded and a continuously declining industrial output negatively impacting economies of scale leading to a rather inelastic import demand structure, tightening monetary policy in Pakistan in many ways fuels inflation rather than capping it - leaving the central bank and the government with not many tools to fight the prevailing cum punishing inflation. And this ‘too-hot’ inflation is bound to pose impediments in any sort of a recovery plan designed to put Pakistan’s economy back on track. Implying, that even the fifth conversation on the stock exchange being a yardstick to gauge progress could at best be temporary, meaning the gains being witnessed could quite easily reverse quickly and the hike is likely to be a mere bubble.

[CDA organises E-Katcheri to facilitate residents](https://www.nation.com.pk/27-Apr-2024/cda-organises-e-katcheri-to-facilitate-residents)

Using the “full-model”, a measure that indicates chances of recession in an economy, when fed with Pakistan’s data it signals almost an 85% chance that yet another downturn could be just around the corner and possibly hit the economy as early as later this year. Paul Dietrich, a specialist on tabulating full-models, opines that even a mild recession that affects the GDP by merely 1% can see an erosion of almost one-third in stocks investments; now you can well imagine the volatility in Pakistan’s GDP figures and given the kind of oscillation in the GDP itself over 5 years, it does not board very well for the PSX. To conclude, in the writer’s opinion, it would be too pre-mature at this stage to even hint at an economic recovery or to say that things are indeed moving in the right direction. Only once Mr. Aurangzeb assembles the right team around him that can look at matters holistically and prepare an all-encompassing plan that identifies and ensures avoidance of previous mistakes in investments & operational management and in addition is empowered to bring about the change management for successful practical implementation, can there be realistic chance of turning things around sustainably. Incidentally, given his own authority limitations, the chances of such a governance paradigm shift remain quite slim for now!

[REO visits Rescue offices in Rawalpindi region](https://www.nation.com.pk/27-Apr-2024/reo-visits-rescue-offices-in-rawalpindi-region)

Dr Kamal Monnoo
The writer is an entrepreneur and economic analyst. Email: kamal.monnoo@gmail.com