

Economic perception and reality

Blessed with a bountiful supply of economy-sustaining resources, the country's economy has been successively mauled by a cabal influenced by Harvard Business School model theorists, populist leaders charmed by the romantic socialist economic notions of the 50s and 60s and commercially ignorant bureaucrats bent upon imposing their Kafka-esque will on the economic destiny of the nation. We happen to have one of the most resilient economies in the world; it had to be so in order to survive some very destructive economic Rasputins over the years. Notwithstanding the fact that we Pakistanis love to run ourselves down, the economy is certainly in better shape than three years ago.



11-7-03
Pak-Eco
The Nation

Ikram Sehgal

The President correctly contends that necessary corrections in the macro-economic factors delay the micro-economic benefits for the general public.

The President recently took up public cudgels on behalf of his economic team, pummeling those critics maintaining that the economic turnaround was really a net windfall of 9/11. He is mostly right in stating that the positive economic factors visible today are because of the economic reforms enacted since Oct 12, 1999, that instead of practising populist micro-economics, his focus has been on correcting macro-economic aberrations. All political governments of the last decade instituted reforms but neither enough or far-reaching, moreover they themselves knocked the bottom out of their do-gooding by going off the bend with their populist initiatives. The Nawaz Sharif "yellow cab" scheme became a financial albatross around the nation's neck in actual implementation. Ms Benazir's over-drive for "private power projects" (initiated by Junejo in the 80s to meet our energy shortages on a war-footing basis) was applauded. In signing outrageously expensive "power purchase agreements" her government threw both the baby and the bathtub out with the water, investors have been laughing all the way to the bank at Pakistan's cost. And what about "the great motorway robbery", an economic white elephant for which our children's children will keep paying through their noses? Mix this economic witch's brew with the omnipresent dirty hands of chicanery for personal benefit, rampant corruption further aggravates the situation.

Very few third world countries are blessed with the potential to feed and clothe the entire population, have the natural resources to profitably run agriculture and industry and simultaneously possess a willing white collar - blue collar labour force capable of outperforming any in the world when duly motivated and if duly compensated. Pakistanis never had any food shortages

line for us to be complacent or comfortable, the quantum and associated misery thereof is nowhere on the scale in the countries of South Asia, India included. The entrepreneurial nature of our commercial community (freed of bureaucratic straitjackets) can make money out of almost nothing. A grateful nod is also due to our free-spending consumer-oriented masses that have a first world penchant in giving greater priority to the purchasing of colour TV sets than the third world necessity of putting food on the family table.

Giving his economic team not only necessary overhead and flank protection to implement economics reforms as an absolute military ruler, the president's economic team increased the number and frequency of corrective actions to stabilize and rejuvenate the economy. The military regime allowed the Ministry of Finance and SBP respectively to take tough but pragmatic fiscal and monetary decisions that are anathema to populism. The Mian Nawaz Sharif regime initiated the process of making the State Bank of Pakistan independent of the executive, Musharraf's most potent move was to bring in Dr Ishrat Hussain as Governor and remove most Ministry of Finance-imposed shackles meant to jealously guard the bureaucrats' prerogative of being the economy's prime mover and shaker. Finance Minister Shaukat Aziz played a key role in overcoming the bureaucratic resistance on this issue. The pragmatic SBP Governor lets economic forces work out their aberrations themselves and refrains from tinkering with ideas threatening economic stability, such pragmatic independence has allowed the economy to go nowhere but up. Dr Ishrat is irreverent to almost three decades of his past service with world financial institutions. Despite being deeply concerned about environmental issues, this "rebel with a cause" says the food on the table must take far greater priority. He would have been a raving failure under any political regime pursuing populist policies.

forms achieving in less than 15 months what would have probably been possible in 50. On the correct economic trail we are still in the woods with many more miles to go, relatively speaking the economic upturn has been nothing short of dramatic.

Economic sanctions imposed because of our May 28, 1998 nuclear explosions were almost immediately lifted. Next, debt was re-scheduled, some on terms entirely forgiving. Immediate US Aid and outright grants prompted similar moves by other western donor nations. Quotas discriminating Pakistan textile exports were reversed considerably by EU, to a smaller degree by the US. Most importantly, because of the universal clamp-down against easy flow of money to terrorist and terrorist organizations, "Hundi" transfers were severely curtailed, forcing net inflow of home remittances by Pakistani expatriates through normal banking channels. Foreign exchange reserves had earlier been boosted by SBP's purchasing of US dollars from the "kerb market" to shore up the Pakistani Rupee, SBP now reversed its stance and shored up the US dollar. Pakistan started receiving hard currency for use of port and airport facilities by coalition forces engaged in the war in Afghanistan. On a pro-rata basis the foreign debt should have increased from US \$ 38 billion (in Oct 1999) to US \$ 42 billion, instead it fell (for the first time in our history) to US \$ 36 billion, that makes a positive resource saving of US\$6 billion. Our economic boost was somewhat dampened by heavy defence expenditures to counter India's deploying of almost her entire defence forces in offensive posture on our eastern borders.

The enhanced economic cycle increased the revenues of both public and private companies, greater taxes flowed into the exchequer. In a world full of recession the positive economic factors infected the Stock Market with broad investor enthusiasm, the index rose to an all-time high past 2700 points. As an economic barometer, the "boom" is a speculator's delight and reflects renewed economic confidence, it also tends to exaggerate the current state of the economy, the bubble could burst in the manner US stocks and shares did, these had been artificially inflated by the padding of profits of blue-chip companies "creatively" audited by firms like Arthur Andersen. Despite the government's claims, one area of disappointment has been Foreign Direct Investment. With Dr Hafeez Shaikh's innovative mind and "hands on" approach combining Board of Investment and the Privatization Commission, things should improve.

The uneven application of the criteria for selection of personnel (from brilliant down to atrocious) is very perturbing, as seen in some senior-most appointments in the nationalized commercial banks. Banking professionals must be selected on merit, a handful of over-rated, incompetent and inefficient executives have been

positive economic factors visible today are because of the economic reforms enacted since Oct 12, 1999, that instead of practising populist micro-economics, his focus has been on correcting macro-economic aberrations. All political governments of the last decade instituted reforms but neither enough or far-reaching, moreover they themselves knocked the bottom out of their do-gooding by going off the bend with their populist initiatives. The Nawaz Sharif "yellow cab" scheme became a financial albatross around the nation's neck in actual implementation. Ms Benazir's over-drive for "private power projects" (initiated by Junejo in the 80s to meet our energy shortages on a war-footing basis) was applauded. In signing outrageously expensive "power purchase agreements" her government threw both the baby and the bathtub out with the water, investors have been laughing all the way to the bank at Pakistan's cost. And what about "the great motorway robbery", an economic white elephant for which our children's children will keep paying through their noses? Mix this economic witch's brew with the omnipresent dirty hands of chicanery for personal benefit, rampant corruption further aggravates the situation.

Very few third world countries are blessed with the potential to feed and clothe the entire population, have the natural resources to profitably run agriculture and industry and simultaneously possess a willing white collar - blue collar labour force capable of outperforming any in the world when duly motivated and if duly compensated. Pakistanis never had any food shortages even during the worst of economic period at one time looking after three million Afghan refugees, albeit partly with foreign aid. Today over two million remain in Pakistan and there is no foreign assistance. The Soviet Union and its COMECON partners perennially had no bread and meat on their "superpower" shelves. Despite the ministrations of economic Rasputins of varying ilk and ideology, Pakistan has never really had a recession. Our mostly un-documented parallel economy wards off recession, Resource-rich countries like Brazil, Argentina, Indonesia etc have seen inflation spin their currencies out of control, not so Pakistan. While too great a percentage of our masses live below the poverty

of putting food on the family table.

Giving his economic team not only necessary overhead and flank protection to implement economics reforms as an absolute military ruler, the president's economic team increased the number and frequency of corrective actions to stabilize and rejuvenate the economy. The military regime allowed the Ministry of Finance and SBP respectively to take tough but pragmatic fiscal and monetary decisions that are anathema to populism. The Mian Nawaz Sharif regime initiated the process of making the State Bank of Pakistan independent of the executive, Musharraf's most potent move was to bring in Dr Ishrat Hussain as Governor and remove most Ministry of Finance-imposed shackles meant to jealously guard the bureaucrats' prerogative of being the economy's prime mover and shaker. Finance Minister Shaukat Aziz played a key role in overcoming the bureaucratic resistance on this issue. The pragmatic SBP Governor lets economic forces work out their aberrations themselves and refrains from tinkering with ideas threatening economic stability, such pragmatic independence has allowed the economy to go nowhere but up. Dr Ishrat is irreverent to almost three decades of his past service with world financial institutions. Despite being deeply concerned about environmental issues, this "rebel with a cause" says the food on the table must take far greater priority. He would have been a raving failure under any political regime pursuing populist policies.

The President correctly contends that necessary corrections in the macro-economy factors delay the micro-economic benefits for the general public. Despite the IMF prescribed course of economic stabilization and resurgence we remained mired in deep trouble by the time 9/11 came around, we were in danger of defaulting on some of our loan-repayment commitments. After a period of panic in the body economic, mainly because of exports almost drying up because of the uncertainties created by the requirements of the war against terrorism, Pakistan became a net economic beneficiary of 9/11. This watershed (changing the world as we knew it) force-multiplied resurgence of our economy, the re-

history) to US\$36 billion, that makes a positive saving of US\$6 billion. Our economic boost was somewhat dampened by heavy defence expenditures to counter India's deploying of almost her entire defence forces in offensive posture on our eastern borders.

The enhanced economic cycle increased the revenues of both public and private companies, greater taxes flowed into the exchequer. In a world full of recession the positive economic factors infected the Stock Market with broad investor enthusiasm, the index rose to an all-time high past 2700 points. As an economic barometer, the "boom" is a speculator's delight and reflects renewed economic confidence, it also tends to exaggerate the current state of the economy, the bubble could burst in the manner US stocks and shares did, these had been artificially inflated by the padding of profits of blue-chip companies "creatively" audited by firms like Arthur Andersen. Despite the government's claims, one area of disappointment has been Foreign Direct Investment. With Dr Hafeez Shaikh's innovative mind and "hands on" approach combining Board of Investment and the Privatization Commission, things should improve.

The uneven application of the criteria for selection of personnel (from brilliant down to atrocious) is very perturbing, as seen in some senior-most appointments in the nationalized commercial banks. Banking professionals must be selected on merit, a handful of over-rated, incompetent and inefficient executives have been chosen because of their connections, their misdeeds can make the economic edifice totter again. This vital factor needs to be addressed if the perception of a resurgent economy has to stay in line with ground realities. One would like to report that everything is fine and dandy, and that Pakistan's economic resurgence is irreversible. This is too optimistic an overview, the perception is quite positive but a few crucial economic challenges have to be confronted, particularly the twin menace of nepotism and corruption. In the new democratic environment, will we be forced to return to populism?

E-mail queries and comments to:
ikramseghal@nation.com.pk