Politics of economy

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Bad politics cannot help economy as witnessed during the budget speech of the finance minister in the National Assembly. Painting a rosy picture of an economy dependent upon exogenous factors fails to make an impact in front of a vigilant opposition crying foul of an exclusionary political system. The message from the National Assembly was not of economic stability, but of political instability enough to shy away all prospective investors, foreign or domestic. The post-9/11 windfall gains that created fiscal space is being squandered at the altar of authoritarian self-perpetuation. Can Pakistan achieve economic take-off under the current three-year IMF programme and on the clutches of bad politics?

All fiscal indicators, we have been told, are robust and, in most cases, above the set targets. Fiscal deficit is down to 4.5 percent of the GDP and is targeted at 4 percent of the GDP for the next fiscal. In fact our primary fiscal deficit is now surplus. Current account is even more robust and is expected to result in a wooping $3 billion surplus (4.3 percent of the GDP), thanks to primarily an unprecedented increase in remittances (likely to cross $4 billion this year) from the Pakistanis working abroad and a much reduced debt-servicing liability (courtesy 9/11). Although the exports grew by 20.8 percent and are estimated to climb up to $10.5 billion, trade deficit will still be $1.5 billion due to higher cost of oil.

Due to re-scheduling, re-profiling and remission of our foreign debt, the cost of debt-servicing has significantly fallen — 2.1 percent of the GDP or $1,416 million this year. External account and balance of payment situation has become so good that our GNP growth has climbed up to all time high — 8.4 percent. If one has to believe Mr Shaukat Aziz, even the growth rate of Gross Domestic Product (GDP) is now being projected at 5.1 percent. Quite enabling environment of lowest ever interest rates, availability of liquidity overflowing the banks with a lower inflation rate of, believe it or not, 3.3 percent, should have helped an economic take-off. But it hasn't, although finance minister is quite sanguine about one of the highest growth rates he has achieved in a very difficult international economic environ.

What is quite disturbing are the facts that, despite the successful compliance of the IMF Structural Adjustment Programme and achievement of fiscal stability and stabilisation of balance of payments situation, fixed investment by public and private sectors, presently at 15.5 percent, has fallen behind 19.5 percent of 1990-95 and 17.1 in 1995-00. The public sector programme, although kept below the target this year and somewhat increased in the next fiscal (4,5 percent), it is still almost half of 9.2 percent of the GDP in the 1980s. Similarly, the structure of our exports remain fixated with the textile sector — 64 percent additional exports earning during this year was due to textile manufactures — which will not be sustainable. Due to excessive demand management, wasteful allocation of resources for non-productive usages and a flawed poverty reduction strategy, one-third of our population now lives under poverty-line. Despite an enabling fiscal environment, investment is not taking off. It is hovering around 15-16 percent of the GDP, which is still lower than 18.6 percent in 1980s.

After having achieved fiscal and financial stability, the finance minister should have taken a leap towards supply-side measures to give a jump to economic growth. But he has confined his measures to the remittances-driven demand in construction and also in SMEs. The Interim Poverty Reduction Strategy Paper (I-PRSP) takes refuge behind measures that do not target the poor directly. All mega development projects and aims of high growth do not necessarily translate into poverty reduction as had happened during the high growth of economy in Ayub Khan's first half of the so-called 'decade of progress'. The failure of three and a half year of economic restructuring can be more glaringly witnessed in the continuing haemorrhaging of public sector enterprises, especially Wapda and KESC. Similarly, privatisation has not taken off due to bureaucratic resistance and a lack of investors' confidence because of what the Wapda chief, who failed to bring down the losses of the white elephant, did to the IPPs.

What is most needed is a big supply-side doze into the economy with a bigger public sector development programme, beside an aggressive pro-investment policy. Main focus should be on human resource development and the real economy. A well targeted poverty eradication programme will have to be redesigned to directly reach the poor. The new finance bill lacks both in promoting investment and reducing poverty. In the absence of new financial award, provinces will remain on the tight leash. The reforms that have lagged behind, such as in the CBR and civil services, should be undertaken. Similarly, measures should be taken to reduce the cost of production. Privatisation process should be expedited to get rid of the heavy losses being caused by public sector corporations. Most importantly, modernization of our education system and expansion of social services should be given a top priority. But more than anything else the crisis of governance and political instability will have to be addressed.

This is just not the economics that has been wronged over the years. More than economics, this is politics and governance that has been damaged beyond repair. Starting with the misadventure of Kargil to continuing to cling to Taliban and pro-militancy policy before 9/11, hesitation in the eradication of well pampered terrorist outfits, a worst Gerrymandering of political system and a systemic crisis caused by the Legal Framework Order have sustained a most unfavourable political environ. Not only that transfer of power to the civilian facade has not taken place, the LFO continues to keep the political system in a state of perpetual crisis and conflict. The military-led quasi-civilian system marginalises civilian participation and effectively excludes major political stakeholders. The COAS-President centred system as defined by LFO perpetuates political uncertainty and keeps the whole constitutional and institutional system a hostage to one-man.

In such a tension-ridden political system, even if you have sound economic policy, you cannot have stability and legitimacy necessary for investment and growth. More than the current adverse political arrangement, the inverse civil-military relations are the main cause behind the breakdown of institutional governance and constitutional structures. Pakistan is faced with a vicious cycle of commander-led interventions and commander-dominated systems that did not last beyond one-man rule. Due to army interventions, Pakistan has, unfortunately, failed to evolve a constitutional and institutional system of governance in more than fifty years. It had to suffer great damages at the hands of military dictators. This must now come to an end, if we are to survive in a very competitive and challenging world.

General Musharraf did well by reversing a most devastating pro-Taliban policy and has reaped its benefits. But the failure of Agra summit, continuing terrorism and a prolonged deployment of forces by India on our borders have had extracted a big cost from the economy. Initiation of peace process with India, if sustained on sound footings, can have a very positive impact on the environment for investment. Now the conflict over LFO will have to be resolved if the economy has to be put in a take-off gear. Various political managers of General Musharraf are causing greater confusion. A quid pro quo is possible and i[s] a must for both economy and governance.

Since General Musharraf cannot be removed by democratic means, the political forces will have to come to terms with him. Similarly, General Musharraf cannot impose his will the way he could prior to elections. General Musharraf can be accepted in an interim arrangement till 2005 and allowed to settle our disputes with India in return for a complete restoration of the Constitution and full democratic order, if he doesn't have a life-long design. Without a political settlement both within and with India, the economy has no future. The opposition has behaved during the budget session, so should the government. But if the COAS-President did not show flexibility, everything will be blown up in an environ of uncertainty.

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