**How to avert default**

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The recently elected Pakistan government faces the uphill task of tackling the economic crisis. The IMF has completed its second and final review of Pakistan’s economic programme, supported by the $3 billion IMF standby agreement. And while its response was positive, it has raised concerns about the lack of implementation of macroeconomic fiscal reforms.

Pakistan may apply for another IMF programme for its economic stabilization to help avoid sovereign default. However, experts are concerned about the debt-ridden economy and the time it will take to break away from the crutches of loans. A critical question is: how successfully can we get our economic ship safely to the shore in these critical years? I believe that the only way forward is to immediately undertake structural reforms in the greater interest of the country’s economic growth.

How can Pakistan get rid of this debt crisis and its aid packages? What structural reforms should ideally be undertaken for the overhaul of the economy on a long-term basis? The country needs macroeconomic stability and a near-perfect balance of monetary and fiscal policy reforms.

Pakistan needs to undergo strategic structural reforms to enhance exports through massive industrialization, IT-led exports, and the green initiatives-backed agricultural revolution, and by reducing reliance on imports to effectively tackle its balance-of-payment problems and current account deficit in the short, medium and long term.

The IT sector is another economic frontier that needs to be tapped in owing to Pakistan’s huge young population, which can contribute towards increasing exports and promoting e-commerce. A two-pronged policy of privatization and public-private partnership (PPP) needs to be seriously adopted to achieve economic growth and self-reliance. Revenues are to be raised by expanding the tax base instead of heavy taxation as is currently implemented these days, which is the worst policy by any standard. The policy rate has to be brought down to a single digit to help boost investment in the country.

The economic path to prosperity lies in political stability and peace in the country. This needs to be addressed through political dialogue as part of an inclusive political system passing through reconciliation at all levels. Security is key to progress, and a peaceful environment needs to be ensured for investment and economic growth in the country. No economic policy initiative can work and succeed in the absence of these important factors.

The structural reforms model can only succeed in the presence of the right policy options, facilitated by an atmosphere of consensus advancing the concept of security to investors. Security includes and covers both physical security and the safety of their investments in the country. The fear of the unknown leads to insecurity, where no one would like to take a risk. This is unfortunately true in our case, which needs to be dealt with.

The SIFC forum can be effectively utilized to undertake structural reforms and promote investment in the country. But for that, one must keep in mind that IMF programmes should not be an unending story of getting loans for an unlimited period. The vicious cycle of debt and recurrent loans has marred our economy. The subsequent IMF conditions adversely affect the economic growth model, as they focus on taxes instead of incentives for investment in the country.

Pakistan needs pro-growth policies in place of anti-growth taxation – such as tax cuts, free trade and minimum regulation – to help boost growth. Long-term reforms and incentive packages should be introduced by the government to boost investment in the country. This is the only way forward to get rid of huge loans hindering our economic growth.

Strategic structural reforms should be aligned with the country’s strategic interests. Pakistan should not accept any conditions to restrict payments to investment projects under CPEC and Chinese power plants. Such restrictions will cause a huge loss to the interests of Pakistan, especially when we have no headway to improve the economy without the support of our strategic partner, China.

Also, any such restrictions are a violation of the Energy Framework Agreement 2015 which gives a margin to pay outstanding dues to CPEC projects covering the energy corridor without any delay. The finance minister is already emphasizing tapping the full potential of the Chinese market and is planning to launch Panda bonds.

The irony is that Pakistan’s GDP growth is less than its population growth for the year 2023. The country’s 250 million people need fast-depleting resources. Population growth is another problem that needs to be tackled. A well-thought-out population policy needs to be devised immediately. That policy should not be a cosmetic step like family planning schemes but a large-scale one. There is also a need to include religious parties and scholars to reduce population growth.

Other South Asian countries have adopted several policies to improve their economies. Bangladesh has 97 special economic zones, so why can’t Pakistan, with such a huge population and areas stretching over 881,913 square kilometres, adopt a similar approach? The worrisome factor is that the large-scale manufacturing (LSM) sector is contracting in Pakistan instead of expanding. The main reason is the high input and operating costs, thanks to the conditions imposed by the IMF.

Pakistan needs tax holidays in special economic zones, which should be expanded on the pattern of Bangladesh. Pakistan needs to go for industrial clusters by expanding special industrial areas and zones and extending tax holidays for them. The incentives need to be extended to the large-scale manufacturing sector, which is the engine of growth generating a lot of employment. Job opportunities should be created for the young generation, and measures should be taken to expand the scope of the industrial, business and IT sectors on a large scale.

Pakistan should expand its special economic zones, from the current 27 to at least 100, by extending tax holidays for the next 15-20 years. China can be engaged in this regard as a partner through CPEC’s next phase for industrialization, enhancing exports through large-scale manufacturing.

Economics is an intricate subject that needs to be studied closely. There is no economic theory that promotes higher taxes to achieve economic growth. Pakistan is a prime example of a thriving informal economy with a stagnant growth rate owing to heavy taxation on the formal sector of the economy. This is why the tax-to-GDP ratio remains stagnant at about 9.0 per cent. Only economic growth can ensure a higher tax-to-GDP ratio in the long run.

Pakistan has been underperforming due to the implementation of the wrong economic policies. Pakistan needs to adopt pro-growth policies through tax cuts and minimum regulations. At present, we have an overheated economy due to pressures on the demand side requiring a lot of foreign exchange.

Once the annual GDP growth of 6-8 per cent is properly ensured for at least 8-10 years through industrialization, industrial clusters, IT growth, the agricultural green revolution, and corporate farming, Pakistan can easily prosper. Exports should reach at least $100 billion in the next 5-10 years if we are to get rid of the vicious cycle of debt and interest payments.

Pakistan needs to get out of IMF programmes and their attached conditions as soon as possible through structural reforms to achieve the desired economic growth and macroeconomic stability in the long run.

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