

### **We cannot print US\$ – II**

There is a need to understand the core issue of shortage of USD or excess of imports over exports. The primary cause, in this writer's view, is short-term, ad-hoc economic decisions adopted for political expediency since 1947. In other words, an unstable political environment in Pakistan since 1947 has led to unstable economic policies that has not allowed this state to achieve its desired economic growth pattern. From 1947 to 1971, there was implied and inherent political tensions between Eastern and Western wings of the country that hampered sustained concentration of economic policies for the country. The period from 1947 to 1958 was filled with political turmoil that did not allow the country, as a state, to create infrastructure that is required for sustained development. Some economic stability, not supported by political consensus, was achieved between 1958 to 1969 during the martial law regime and whatever industrial development we find today is the result of that stability. However, as stated earlier that stability was not supported by 'political consensus', therefore, the whole paradigm eroded in 1969 and 1970/1971 with introduction of a different model of growth. The 360 degree turn we adopted in 1970 to 1977 can be reviewed favorably or otherwise; however, there is no denial that private sector investors' confidence was substantially, though not completely, eroded due to the policies adopted during that period. Within this regime, the responsibility of providing an industrial base was left to the government. Whether or not government was able to provide that support is a separate question; however, in substance, there was no substantial increase in the volume of exportable products or import substitution in the country. The requirement for import continued to increase due to increase in population, consumption patterns and tacit support of policymakers. In short, the country remained in economic turmoil.

Then came the period from 1992 to 2018. This, in this writer's view, was worst period if we take into account the matter of trade deficit and outflow of USD. During this period, we forgot all consequences on the other side in the sweet dreams of 'deregulation' and illusion of private foreign investment.

During that period, as a state, the following policies were adopted. Each matter referred to in the following paragraphs requires detailed deliberation; however, for the sake of brevity, the core issue has been identified:

100 foreign ownership in any business ventures with full right of repatriation of profit or capital was allowed. This could have been a right step but not for every kind of business activity. There has to be selectivity in national interest. The negative results are obvious. It is considered that during the year 2017-2018, the outflow of remittance of dividend exceeded foreign investment. The tragedy is aggravated by the fact that in many cases, profits repatriated represented gains on consumer product businesses, etc.;

No concept of transfer of technology for foreign owned industrial companies was incorporated in policy framework. For example, there has been no major investment in basic raw material for pharmaceutical industry, etc.;

Substantial reduction in duties on finished and semi-finished products without taking into account the 'cascading' issues for local industry. Tariff Commission is virtually not a party to economic decisions;

Generous one-sided 'Free Trade Agreements' with various countries. For example, we shifted from local cotton seed oil to palm oil for various reasons; Unguided 'Open Air Policy' for aviation leading to huge outflow of USD to foreign airlines and virtual bankruptcy of local aviation industry;

Free movement of USD outside Pakistan for individuals under Protection of Economic Reforms Act; Mismanaged regulation of banking sector not focusing diversion of 'savings' for industrial growth;

Introduction of taxation system that provided non-level playing field for the importers; Abolition of Development Finance Institutions and any other form of support for industrial development. It was wrongly assumed that commercial banking can fill that gap;

As a policy measure, provision of infrastructure development for industrial development was solely left to be arranged by the private sector. In the last 40 years or so, there had been no development of any international level industrial development park. SITE in Karachi is still a better managed industrial hub than any other made in any other location;

Practically relaxed commercial banking environment allowing prevalence of 'fake' and 'benami' transactions. This led to evolution of a third class of economic system. In the past, there were two classes, (i) documented and (ii) undocumented. This relaxed system gave way to three categories, being (i) documented, (ii) documented but not regulated and (iii) undocumented sector. The size of this new sector is substantially large and was duly aided by relaxed foreign exchange regime. The result is transfer of USD outside Pakistan out of untaxed money and evolution of a different kind of parallel economy of Pakistan.

All the factors, and many others were naturally geared to 'premature deindustrialization' of Pakistan and consequently an undesirable increase in import bill. Now, we have reached a level where the trade gap has reached a staggering level of USD 35 billion. This situation is totally unsustainable and any temporary package, as the one being considered from the IMF, is only a measure to support us for the next one to two years. This is not a new 'recipe' for our country.

The ultimate solution lies in a concrete and simple strategy of 'industrialization' and 'value addition' to substitute imports and promote exports that is the only way to stop inflation and provide employment to the large number of unemployed and under-employed youth. Present position raises the following fundamental questions:

Is the public at large, including parliamentarians, aware of the fact this is not a temporary problem?

Is the public at large aware of the fact that this situation is not the result of financial corruption of a few individuals?

Is there a need to demonstrate to general public that in the present world, Pakistan as a country is not an ideal place for investment by residents and or non-residents. It cannot be so in a short period of time. There is an urgent need to dispel the general impression that there is any short-term personalized solution to make Pakistan an attractive base for industrialization.

There is only one long-term solution for Pakistan. That is 'industrialization'. The industrialization that should have been taken place in the 1950s and the 1960s is already late by 50 to 60 years. Industrialization requires long-term, commercial viability of the project. Guaranteed return by the Government or Sovereign guarantee is not the solution. Government should provide guised and disguised support in the form of taxes and tariff, financing and provision of infrastructure for industrial development. The answer is to create commercial and economic viability. Patriotism does not lead to investment.

For that purposes, at the initial stage, the government would have to play the role of 'motivator' in addition to 'facilitator'. The housing project by the new government is partly the same approach as government adopting a role of a motivator.

Detailed solutions to the issue under consideration will be discussed in the following articles; however, the broad guidelines for long-term solution are:

1. Fiscal and tariff corrections to clearly differentiate between trade and industry;
2. Financial sector regulations to compulsorily divert funds from trade to industry. For that purpose, special incentives can be provided to loans and advances to industrial sector;
3. Industrial parks for every piece of population exceeding 1 million people;

The aforesaid solution looks simple; however, if we analyze the whole issue, the underlying theme is the government's role and policy in creating tax and tariff equity, financing and land acquisition advantage to industry against non-industrial activities. Every country does it. It is totally not understandable why Pakistan, as a state, is 'apologetic' internally and academically whenever there is a discussion of industrialization and export promotion. In the following article, each of the three fundamental subjects will be discussed in detail.

ARTICLE  
SYED SHABBAR ZAIDI

(Concluded)

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