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Time to give up dole Dependence

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M Ziauddin

For the third time in its history Pakistan is seeing off a seemingly lost decade in terms of the economy. The first time we had such an experience was during the 1970s. Next was during the 1990s.

During each of the three lost decades, our relations with the US had remained troubled. Not that a slowdown or a complete cutoff of US assistance as a consequence had contributed decisively to what had seemed, each time, like an imminent economic meltdown of the country. Nevertheless, during each of these three different decades it had appeared as if the days of 'free lunches' were over for good.

Coincidently, during the decade from 1960 to 1970, Pakistan had had the best of relations with the US. We were part of the US bulwark against the Soviet and Chinese communism. It was during this period that we were members of military pacts styled as CENTO and SEATO. Midway through the Cold War, we were described as the most allied ally of the US. During this period, we had managed to grow at an annual average rate of over 6 per cent.

During the decade between 1977 and 1988, we fought an almost a decade-long war on behalf of the so-called free world against the Soviets in Afghanistan and were generously compensated for our troubles. According to one rough estimate, we had received almost about $70 billion, all unencumbered, during this period with the money pouring in from the four corners of the world, including from the oil-rich countries, Japan and China. And our annual average growth rate during this period once again was over 6%.

And during the decade between 1999 and 2009 we were right there backing up the American troops with men and material when they landed in Afghanistan to liberate the war-torn country from the clutches of the Afghan Taliban. Once again, we were generously rewarded, enabling the country's economy to grow at an annual average rate of nearly 7% by 2007-08. During this period, we were described as a Non-NATO ally.

The lost decade of the 1970s had begun with the culmination of a war with India resulting in the dismemberment of the country. The political seeds of this war were sown in the stalemated 1965 war with the same enemy.

The lost decade of the 1990s had started with Pakistan's armed-to-teeth non-state jihadis joining in the ongoing Intifada in the India-occupied Kashmir and had ended with retaliatory nuclear tests and a brief Kargil military misadventure.

The outgoing lost decade between 2009 and 2018 has seen our army fighting a three-front hot war — one at the Line of Control (LoC), escalating to new heights by Indian PM Narendra Modi; the other on the Durand Line following a falling out with the US because of the Salala incident and the American Seals' raid on the Abbottabad hideout to capture and kill Osama and; the third against the TTP which has already taken a toll of thousands of Pakistani lives both civilians and soldiers and had also caused financial losses of an estimated $128 billion. These wars were waged through three highly effective military operations — Rah-e-Rast, Zarb-e-Azb and Radd-ul-Fasaad.

And it was during these three different periods of the lost decades that we went frequently to the IMF for short- and medium- term emergency bailout packages. In fact among the regular recipients of IMF's assistance, Pakistan perhaps tops the list with the largest number of bailouts but we could complete just one and that too because the loan disbursement was conditioned on completing the programme first. And the next one was completed with as many as 17 waivers.

As opposed to the three decades of 'free lunches' the three lost decades have been periods of shortages of funds, making it impossible for successive governments to meet even the minimum of legitimate development, defence and non-development obligations.

However, when compared cursorily Pakistan, during the three decades of 'free lunches' seems to have managed the national economy more efficiently than during the three different lost decades which, it is generally believed, ended up lost because of the corruption allegedly indulged in by the elected civilian rulers who, according to what is called the officially certified truth did not have even the rudimentary knowledge of economy.

Now that Pakistan is once again facing a dire economic situation with no hope of returning back to the days of 'free lunches' at least as long as the US does not need us once again to fight its battles we must prepare a politically bipartisan economic policy blueprint to make the most of indigenous comparative advantages for enabling the national economy to come out of its dependence on dole while at the same time developing into an essential socio-economic clog of the interdependent world order.

According to Thomas Piketty (Capital in the Twenty-First Century — Pp 491), the development of a fiscal and social state is intimately related to the process of state-building as such, "Hence the history of economic development is also a matter of political and cultural development, and each country must find its distinctive path and cope with its own internal divisions." So, it is imperative that Pakistan should try to find its own distinctive path to progress.

But no matter how distinctive the path is, unless both the national incomes and tax collections rise to a reasonable level, the economy of developing countries like Pakistan would either continue to remain dole-dependent or trapped into a stagnant mode going south.

Piketty's research states that when the four rich countries of the world (Sweden, France, Britain and the US) collected less than 10 per cent from the national income by way of taxes they could afford to fulfill only their central 'reglian' functions (police, courts, army, foreign affairs, general administration, etc.) but not much more. This was the situation in these four countries during the 19th century up to the First World War. Between 1920 and 1980, the share of national income that the wealthy countries chose to devote to social spending increased considerably as in just half a century, the share of taxes in national income increased by a factor of at least three to four and in Nordic countries by more than five.

The growing tax collection enabled the governments of these rich countries to take on ever broader social functions which now consume between a quarter and a third of national income of which one half goes to health and education, the other to replacement incomes and transfer payments. All told, the total social spending, broadly speaking, amounts to 25-35 per cent of national income. "In other words, the growth of the fiscal state over the last century basically reflects the constitution of a social state."

After 1980 the new ultraliberal wave emanating from the developed countries forced the poor countries to cut their public sectors and lower the priority of developing a tax system suitable to fostering economic development. Recent research has shown that the decline in government receipts in the poorest countries in 1980-1990 was largely due to a decline in customs duties which had brought in revenues equivalent to about five per cent of national income in 1970.

Trade liberalisation is not necessarily a bad thing, but only if it is not peremptorily imposed, and only if lost revenue can gradually be replaced by a strong tax authority capable of collecting new taxes and other substitute sources of income. Today's developed countries reduced their tariffs over the course of the 19th and 20th centuries at a pace they judged to be reasonable and with clear alternatives in mind.

The biggest problem that is looming large on our economic horizon is the widening gap between the amount we need to meet our import bill obligations and the amount we seem to be earning through exports. Since we are today essentially an import-based economy, there is no way we could curtail our essential imports. Exports, on the other hand, are stagnating mainly because we do not have adequate supplies of exportable surpluses.

One could get a good idea about our export potential by taking a quick glance at the list of our main exports: cotton and knitwear (28% of total exports); bedwear, carpets and rugs (8%) and rice (8%). Others include leather, fish, sports goods and fruits and vegetables. This list has remained almost unchanged over many decades. Our main export partners have also remained unchanged: the US (15% of total exports), the UAE (10%), Afghanistan (9.5%), China (9%), the UK (3%) and Germany (2%).

And here is a list of our main imports: machinery, petroleum and petroleum products, chemicals, transport equipment, edible oil, iron and steel, fertiliser and tea. These items account for over 70% of total imports. Among these categories, machinery, petroleum/petroleum products and chemicals account for over 50% of total imports. This list too has remained unchanged over many decades.

An over-valued rupee invariably ends up subsidising imports, encouraging unnecessary imports leading to worsening of trade deficit. This without fail enhances current account deficit to cover which we are forced to borrow. This increases the debt burden. And in case the country at some point in time is forced by domestic and/or global circumstances to devalue the rupee to its realistic worth the debt burden without fail would skyrocket as a consequence.

Currently, we enjoy a number of comparative advantages: 1) We are an agricultural country; 2) We are a market of over 200 million consumers; 3) Pakistan is located at the crossings of trade routes from Casablanca in Africa to Kashgar in West China's Xinjiang Uyghur autonomous region and from Thailand in Southeast Asia to Turkey beyond the Middle East; 4) China and Pakistan are engaged in building a 3,000km economic corridor connecting Kashgar in China to the port of Gwadar. And one cannot also rule out the possibility — in a couple of years — of overland transit trade route through Pakistan linking India with Afghanistan and beyond to Central Asia.

Such a policy would also attract FDI in avenues in which it would be more economical for foreign exporters to fabricate inside Pakistan items that are in demand in the country and also to re-export the surpluses to the four corners from the 'hub'. This will also facilitate the transfer of technology and open avenues for training of skilled manpower. Transfer of appropriate technologies would also open the way for Pakistan to graduate from being an agricultural country to a leading high quality processed food exporter.