

An interview with Dr Vaqar Ahmed, Joint Executive Director, SDPI 'Trade diplomacy only hope to raise exports'

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Dr. Vaqar Ahmed is the Joint Executive Director at the Sustainable Development Policy Institute (SDPI), which is a think tank based in Islamabad. Before joining the SDPI in 2011, Dr. Vaqar served as a UNDP advisor, besides working for the Asian Development Bank, World Bank Group, and Pakistan's Ministries of Finance, Planning and Commerce. He is also the author of the book: Pakistan's Agenda for Economic Reforms, which was recently published by the Oxford University Press.

Dr. Vaqar has also been a technical member of various federal government task forces, including Advisory Panel of Economists (2008), Task Force on Private Sector Development (2009), Working Group on Macroeconomic Framework for the Tenth Five-Year Plan 2010-15, and Working Group on Social Sector Development for Pakistan Vision 2025. He has experience of working on policy matters in other South Asian countries as well as in Kenya, South Africa, United States, and the European Union. He is a visiting faculty member and researcher in international institutes like the University of Le Havre (France), National University (Ireland), and IMT Institute of Advanced Studies (Italy).

BR Research recently sat down with Dr. Vaqar in Islamabad to discuss the economic challenges facing the next government. Selected excerpts are produced below. (The sit-down took place a day prior to the July 25 election).

BR Research: There is a sense of déjà surrounding political transition and economic worries building up around it. The incoming government will confront many economic challenges. On the macroeconomic front, if the IMF programme is indeed inevitable, how large a programme should it seek to negotiate?

Dr. Vaqar Ahmed: Whether it is the IMF or no IMF, we know that preventing a currency run is going to be new Prime Minister's first priority in office. So can we, as a government, as a country, do an envisioning exercise, led by the PM, to answer the question: what kind of an economy does people of Pakistan need going forward? If anybody says to me that there is a consensus, I'd say, no, there isn't. Political parties have some very different visions of the kind of economy they want. We have seen this during the SDPI's recently-concluded exercise which aims to compare economic manifestos of parties. Still, it is important to do this visualization exercise.

About the IMF programme size, the next fund programme would have to take account of the economy's larger size, higher import bill, and a larger fiscal deficit, compared to five years ago. It also depends on the negotiators who will be in office – typically, Pakistan gets around one-third of the size its negotiators target.

But, perhaps more important than the size of the programme, it is the structural targets in the energy and tax regime that are expected to be more stringent this time around, based on experience from the last programme. There can also be demands to reduce debt exposure in terms of sovereign guarantees. Pakistan's commitment to the FATF may also be built-in to the

programme as a structural indicator.

BRR: Is there a chance that the vertical distribution under the NFC formula might also come under consideration?

VA: It is possible, though it will be fraught with political risks. However, targets regarding provincial surpluses and measures regarding the revenue mobilization at new provincial revenue authorities can be expected to be in the list.

BRR: Should we expect privatisation in the next government?

VA: It looks less likely, especially if it is a hung parliament.

BRR: Do you see, then, prospects for restructuring at the public-sector enterprises?

VA: Even a hung parliament or a weak coalition should not prevent the new government from at least bringing the measures that can reform the boards and management of loss-making organisations.

BRR: There is criticism that the IMF's macroeconomic models are often optimistic on the hit that GDP growth takes as a result of the austerity measures taken under the programme. How do you see this?

VA: Most independent analysts are suggesting that the buyout demand and consumption seen in the economy in recent years may be lost. Under an IMF programme, the cost of doing business may go up as energy tariffs would be increased, for at least the first 24 months. Exemptions and refunds will be frowned upon.

BRR: The source of growing macroeconomic instability has been the shortage of dollars earned, which can be traced to the stagnant share of exports in GDP even as share of imports has been growing. What hope is there for exports for an economy soon to be put in an incubator?

VA: For exports, it needs to be seen whether the recent up tick can last under the business-as-usual scenario. I am referring to the impact of a series of currency devaluation, tax rebates and textile package of the federal government. The currency slide may be too much by now. Already, two major business associations – the All Pakistan Textiles Manufacturer Association and the Pakistan Automotive Manufacturers Association – have raised concerns that dollar rising beyond Rs125 has hurt their competitiveness.

In my view, in this environment, Pakistan's best bet for exports in the next five years is trade diplomacy, in the following ways. One, seek an extension in GSP+ status (and negotiate similar long-term arrangement with the US); two, re-negotiate a favourable free-trade agreement with China; and three, improve regional connectivity, in particular with Afghanistan and other neighbours.

BRR: Your organisation recently conducted an exporter survey. What is the main finding regarding export stagnation?

VA: The main learning from the SDPI survey, which was conducted with 300 exporters across Pakistan, was that without a whole-of-the-government approach, it will be difficult to boost exports. Such an approach is a difficult thing to achieve in a situation where the federal and

provincial governments are not on board vis-à-vis each other's export-promotion measures. Primary example is the taxation issue faced by the exporters. Exporters have complained that they get notices from, say, SRB or PRA, when they are dealing on the same tax notice with the FBR. All this is leading to double taxation and higher compliance costs.

On their own, a government in Islamabad or Lahore or Karachi cannot fix the export-specific tax regime. Now, the Council of Common Interests (CCI) cannot be expected to provide this whole-of-the-government approach. So, where do we go from here? What is the forum that can provide advisory on reforms?

BRR: Exactly, how can we have better federal-provincial coordination?

VA: A temporary solution is to create inter-governmental working groups on export-specific issues like tax, energy and credit. Such bodies can come up with technical advice for the CCI. But since this is a temporary solution, exporters will always keep facing these problems. And new problems will arise over time.

Also, not all provinces can be expected to be on the same page, something which the previous federal government learnt when it took the working-group approach. Then there is the matter of reviving the export industries of Balochistan – an aspect on which even private-sector associations do not have a clear view.

We need to look at the capacities of CCIs in other countries. Economist Dr. Pervez Tahir has advocated the idea that the Planning Commission of Pakistan should become the secretariat of the CCI. I agree that this arrangement can provide the much-needed technical capabilities to the CCI. Such a political model can lead to a whole-of-the-government approach.

BRR: Also on federal-provincial relations, how do you fix the situation where agriculture is a provincial subject but it is the federal government that fixes the prices of key inputs? Moreover, can pricing of natural resources be divorced from consumption patterns?

VA: Those issues are there because Pakistan hasn't completed the Eighteenth Amendment. The legal and institutional mechanisms for all the devolved subjects were required to be completely devised by December 2015. That has not happened. So, no long-term formula for fixing prices has been arrived at. As a result, provinces like Balochistan and Khyber Pakhtunkhwa cannot effectively operationalise their mineral policies. Market participants are also facing issues: take fertilizer, for instance, where pricing is under the federal domain but quality standards fall under the provincial domain.

The issue is that while we have brought in a good supra-model of fiscal decentralization, we really do not know how to operationalise it. This is no rocket science, as experts and consultants with knowledge of comparative politics can advise on these issues. I think that the Planning Commission should take the lead in this regard.

BRR: There is another economic issue on which the clock is ticking for Pakistan to take action until September 2019: the to-do list under the Financial Action Task Force's joint action plan. As this issue also has geo-strategic undertones, where do you see things headed on this front?

VA: The immediate repercussion is that compliance cost has increased for Pakistan's financial and insurance sectors. The other effect has been that it has slowed the CPEC-related dynamism in the banking sector. Now, international banks will find it very difficult to expand their

branch networks. Pakistan being on the watch-list affects financial institutions as well as financial services built around them.

International investors usually do not lock themselves into longer-term arrangements under such a scenario. Going beyond, if we land into a situation where sanctions are imposed ala 1999, then it's an altogether different ballgame. This is the time to step up political and economic diplomacy and seek help and support from friends of Pakistan.