

Asserting economic sovereignty | The Express Tribune

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Persistently high rates of inflation are the result of current account deficits, i.e. when the import bill exceeds proceeds from exports and remittances, the price of the dollar rises, leading to more expensive oil and gas and higher overall prices as businesses pass on these costs to consumers. In order to correct this, 'economic experts' claim international trade must be liberalised and the dollar rate allowed to 'float' in the open market. In theory, the resulting effect is that exports get cheaper, and imports become more difficult to obtain, eventually leading to 'equilibrium' and the introduction of 'incentives' to improve efficiency. Alongside this, the interest rate should be raised to 'slow down'

the economy by driving up the cost of borrowing — which will reduce demand and hence ease inflationary pressures. Both propositions are woefully mistaken.

Pakistan's exports are directly dependent on imports of oil and gas and various raw materials used as inputs. This naturally means that as a move towards the 'open market' is embraced and the dollar rate begins to rise, exports will become more expensive to produce and consume. On the other hand, higher interest rates slow down the economy and lead to lower overall output, triggering a wave of stagflation, i.e. the simultaneous growth of unemployment and inflation. Since consumer loans are hardly ubiquitous in Pakistan, the intended effect of this policy (to reduce aggregate demand) is rendered void at the outset — with the only outcome being impeded domestic commerce.

In order to genuinely address this vicious cycle, Pakistan must reassert its sovereignty and regain a sense of autonomy over its policies rather than mindlessly adhering to the diktats of predatory international financial institutions. Approximately a quarter of our import bill constitutes oil and gas because IPPs in Pakistan have a strong preference for them. To prevent this, all agreements with IPPs must be revised to eliminate sovereign guarantees and encourage renewable energy sources. Furthermore, cheaper alternative sources of oil and gas must be sought out — beyond the Gulf. This could see the revival of the Turkmenistan-Afghanistan-Pakistan-India (TAPI) Corridor and the Iran-Pakistan Gas Pipeline, which were suspended due to US geopolitical interests. Oil import from Russia could also be explored — a comparatively cheaper source — even if refineries have to be invested in. Alongside this, the import of luxury items must be curtailed by controlling LCs and imposing tariffs, customs duties, embargoes and outright bans whilst incentivising exports via the strategic incubation of industries — particularly within large-scale manufacturing — through subsidies, research and development support, training and procurement of manpower, etc in the same way all developed nations did in their takeoff stages. Lastly, Pakistan must seriously push for inclusion in intergovernmental associations such as BRICS — which will allow it to trade with member countries in local currencies, thus eliminating pressures on the current account.

On the flip side, rather than tinkering around with interest rates, a much superior approach is to focus on rethinking fiscal policy — in terms of both tax administration and government expenditure. Collection must move away from GST, which will also help curb inflation, and taxes on land, wealth, property, inheritance, and capital gains exceeding a certain amount must all be explored. Furthermore, unnecessary ministries that have been devolved to provinces must be shut down and cantonments that no longer have tangible use value sealed or repurposed. Similarly, non-combat defence expenditures must be minimised, and allocations to industrial rent-seekers who do nothing to demonstrate improvement following the receipt of subsidies have to be ceased. It is also imperative to avoid further brick and mortar projects like road infrastructure and buildings in universities and redirect funds to improving the 'software of governance' by promoting public transit and faculty acquisition, ensuring access to Internet, and restructuring the civil bureaucracy.

Pakistan's economic problems are actually political in their fundamental essence.

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