RE-ORIENTING PAKISTAN'S ECONOMY

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National and international economic and political crises – aftermath of the COVID-19 pandemic and the Ukraine war induced return to cold war era 'ghettoization' into blocs – offers an opportunity to reorient the economy towards more sustainable bases. Essentially, the two events have upended the neo-liberal globalization-market economy template.

Herewith, a shift is envisaged for Pakistan; whereby, the economy is less open and powered more in terms of domestic production and consumption. While complete autarky is never an option, Pakistan's resource base is large enough to sustain the alternative economic architecture. Export income is always indispensable to finance essential imports; however, 'export-oriented growth' is proposed to be less of a basis of economic development and 'import-substitution' to govern certain sectors deemed strategic for public welfare.

The defining characteristic of Pakistan's economy is its narrow base, across the board as well as sector-wise. Crop agriculture is dominated by one food crop and three cash crops. The one food crop is wheat and cash crops include cotton, rice and sugarcane. The former two of the cash crops cater largely to exports and the latter to import substitution. Manufacturing and exports are dominated by textiles. Revenues are dominated by general sales tax (GST), accrued largely from the textile-dominated manufacturing sector. Imports is dominated by petroleum, oils and lubricants (POL).

The economic management model has been driven over the last three decades by two parameters: globalization and market-orientation. It has been assumed that open trade will benefit consumers in terms of price and quality and

exports will pay for imports: a globalization postulate. Efficient management has been delegated to the market; the assumption being that the market is best placed to determine what and how much will be produced and what and where the produce will be sold. Neither assumptions have delivered promised results.[1]

The economy has performed well only in spurts, with each spurt lasting not more than one or two years. That the economy has come to be repeatedly on the verge of default and increasingly dependent on bailouts is a telling comment on the growth model being followed.

The case for reduced reliance on exports as the primary engine for development is as follows. Pakistan has been developed essentially as a cotton economy. Textiles comprise two-thirds of exports and major markets are USA and Europe. Recessionary conditions in the two regions, now on the horizon, can see a decline in Pakistan's already stagnant exports.

The decline in textile exports can lead to closure of textile mills – some permanently – and consequent reduction in demand for raw cotton; extending the impact of global recession to the agriculture sector. The reverse chain of textile exports, textile manufacturing and cotton cultivation appears be weakening and is unlikely to remain the mainstay of the economy[2]. The golden age of the cotton economy appears to be over and the 'globalization' model of generating growth is passé.

[1]The assumption that economic activity generated by the neo-liberal "globalization-market economy" model will generate jobs, raise incomes and reduce poverty has also not been borne out. The economy has served the interests of particular sections of society and state and inequality has increased, with the rich becoming richer and the middle class getting poorer. Luxury housing schemes have proliferated and quality education and health care has become a preserve of the rich. A new genre of middle class poverty has emerged and hunger among the poor has now begun to surface in household surveys. While inter-personal inequality is generating social pressures, regional inequality is contributing to political tensions.

[2]The combined impact of a slowdown in manufacturing and agriculture can result in increased unemployment and social unrest.

Pakistan will need to re-orient its economy to revolve around domestic supply (output) catering to domestic demand (consumption). Reduced export receipts will need to be balanced with reduction in non-essential imports. The luxury of meeting consumer needs through imports is no longer available. Faced with the decline of foreign exchange inflows, Pakistan will have to produce what it essentially needs, irrespective of world price differentials. For essential and strategic commodities, considerations of comparative advantage will need to give way to autarky or self-sufficiency models.

The State will have to re-assert responsibility for directing the economy and for provision of employment and social services and for meeting the basic needs of the people. That is the only rationale for the State to exist. The primary and singular objective of the State will have to be food security, housing and utilities, education, health, and public transport enabled via employment and social security support. The real sector production structure will have to be re-engineered to meet the above objectives. Correspondingly, the public finance (taxation and expenditure) regime will also have to be re-engineered accordingly.

In agriculture, survival will have to take priority over comparative advantage. Food crops will need to take priority over cash crops. The objective will have to be self-sufficiency in essential food commodities: wheat, pulses, sunflower oil, onions, potatoes, vegetables, milk, meats, eggs, etc. Part of acreage will have to be reallocated administratively towards producing the above crops. Agro-ecological zones will have to be designated for specific crops and appropriate fiscal incentive (subsidy) regimes put in place.

The manufacturing sector will have to be re-based on local (agricultural and mineral) raw materials and developed for value addition. For example, cotton and rice in Punjab and Sindh, minerals in Balochistan, and fruits in Balochistan, Khyber-Pakhtunkhwa and Gilgit-Baltistan. Industrial revival and promotion will require reduction of GST rate on manufacturing to single digit, even as low as 5 percent – with the resultant revenue reduction balanced by reduction of non-development expenditure.

The State will need to return to the economic arena and lead the industrial development process. A major plank, herewith, has to be revival of the Pakistan Industrial Development Corporation (PIDC) – but with a nuance. Earlier, PIDC's mandate was to set up industries with government finance and government management. It then carried the unit to the commercial production stage and privatized it. The new PIDC mandate will require units to be set up in Public-Private-Partnership (PPP) mode: government finance and private management. The latter party or another private party may have the option of buying out the unit upon reaching commercial production.

The hypothesis here is that the food crops and domestic raw material based manufactures will be largely consumed domestically. Thus, what is produced domestically will largely be consumed domestically.

However, the implicit assumption here is that the purchasing power to clear the market is available, which is clearly not the reality.

As such, the gap will need to be addressed. Part of the purchasing power will emerge from employment in the farms and factories that are producing for the domestic market. The balance will have to be generated by a universal social security regime. Social security payments to low income families will enable to them to purchase their needs; thus, creating the aggregate demand for output – and completing *the circular flow of income.*

The above model opens wide a window for rupee and dollar financing needs for subsidies for agriculture and social security and for essential imports; with both creating unsustainable budget and trade deficits. Thus the imperative for an overhaul of the fiscal and tariff structures.

The avenues for raising revenues in the short run are limited; given that the economy has become structurally weak, on account of decades of inattention to infrastructure development. Thus, the onus for bridging the budget deficit will have to fall on reducing non-development expenditure, including non-combat defence expenditure. Significant scope exists for both.

The avenues for raising exports in the short run are also limited; thus, the onus for bridging the trade deficit will have to fall on reducing the foreign exchange intensity of the economy, i.e., reducing imports. There are three major avenues whereby foreign exchange drain can be reduced.

1. Ban on import of all non-essential consumer imports: food, clothing, cosmetics, building materials, home furnishings, and so on; including pet food and shampoos! The foreign exchange savings in absolute amounts is not likely to be large, but important to signal to the country's elite that they cannot continue to live first world lives, while the mass of the people face varying degrees of malnutrition, hunger and homelessness.

2. Phasing out power generating plants using imported fuels – furnace oil, coal, gas – and greater reliance on hydel, domestic coal and solar. Additionally, major efforts towards conservation by enhancing energy efficiency of farms, factories, offices and homes will be called for.

3. Shifting long-distance goods transportation from road to

to rail. Rail uses one-third less fuel per kilometer/tonne compared to road transport; thus, saving on oil imports and foreign exchange. The Railway network will need to be rehabilitated and upgraded technically as well as institutionally.

The growth and development model outlined above amounts to a major restructuring of the economy, but is deemed urgent and imperative to rescue it from the perpetual state of crises and debt-dependency and to ensure sustainable growth and development that caters to the needs of the people.

A three-fold strategy is needed in order to combat the current situation as well as to prevent such calamities in future. First, relief to the affectees is of upmost importance by providing them with the food, shelter, and social protection. Second, as a medium-term strategy, we have to restrict encroachments in river waterways by enforcing the River Act and making necessary legislation with regard to "Shamilat Deh" in the country. Finally, as a long-term strategy, we need to adapt ourselves to climate change and control deforestation. Only these measures could enhance our resilience to climate-led catastrophes and could be productive in reducing the losses to the public and private properties and precious human lives from the likely floods in future.

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