COVER PIECE

ECONOMIC RECOVERY

INVESTMENT, EMPLOYMENT & PRODUCTIVITY

As at February 2023, Pakistan teeters on the brink of sovereign default. With reserves currently standing at approximately USD 3 billion and the 'twin' deficits (fiscal and current account) remaining central problems, it seems increasingly likely that the country will be unable to keep up with its debt obligations to external parties.

The fiscal deficit, which represents the difference between government expenditures and revenues, stood at Rs. 1,683 billion at the end of December, 2022. This represents a whopping 2% of GDP. One explanation is the rapidly expanding current expenditures during the first half of fiscal year '22-23, which rose by 77% compared to the previous year, ultimately reaching Rs. 6,061 billion. A fair chunk of these expenditures, as is commonly known, are frivolous in nature – going into sketchy PSDP projects, blanket subsidies for unproductive industrialists, non-combat defence expenditures, etc. Despite this, the IMF's focus remains on the revenue side of the equation: advocating for higher General Sales Tax, for instance, exacerbating inflation woes.

The current account, on the other hand, has shown major signs of improvement albeit remaining in deficit. As of January 2023, the deficit was recorded at USD 240 million – down 90% from the previous year. This is despite the fact that remittances have fallen considerably, going from USD 2.1 billion in December 2022 to USD. 1.9 billion in January 2023. One of the primary reasons for this is the recovery made on the balance of trade front following the decision to move towards a market-determined exchange rate, which has made import expensive and export cheaper. Furthermore, import restrictions have been imposed across the board – other than essential food items and medicines.

On the flip side, however, the consequences of a rapidly weakening exchange rate has meant rampant inflation across the country – largely due to oil/gas import, a non-negotiable, constituting almost 1/4th of the total import bill. The war in Ukraine has not made things any easier either, with sanctions on Russia resulting in lower supply of oil and gas and, consequently, much higher prices – a situation that has meant a slowing down of the global economy as a whole, right when the first signs of a post-COVID recovery were beginning to emerge. All this has meant huge spill over effects, adversely impacting food security most of all in Pakistan: the disproportionate effects of which are borne by the most vulnerable sections of the populace. In January 2023, food inflation stood at 45% in rural areas and 39% in urban ones – a situation that carries grave potential consequences, with some commentators deeming it the seed of popular uprisings around the country.

With most companies unable to keep up with the rising cost of operations, a wide-ranging wave of unemployment seems to be sweeping across the nation. In the formal sector, some have estimated that around 500,000 people have lost their jobs over the course of the previous year – representing 4.7% of personnel in the arena. Indeed, if the situation is this precarious for folks in the formal sector, it would not be an exaggeration to claim that the informal sector's predicament is likely multiple times worse. In short, what is being observed can be described as a severe stagflation crisis unfolding in real time.

One measure to tackle the sort of precariousness that the vast majority in Pakistan is currently facing social safety/protection. While the Benazir Income Support Programme is a fairly detailed and comprehensive mechanism in place for this purpose, it leaves much to be desired: with a significant percentage of its funds generally lost in the vast bureaucratic apparatus that is part and parcel of the initiative. Of course, this is not a problem specific to any particular arena in Pakistan: as per the UNDP, approximately Rs. 2.7 trillion are extracted from the economy on an annual basis in the form of 'elite capture'. These constitute perks, benefits, preferential access, lax taxation, unjustifiable subsidies, special prices, and more, that collectively form the larger political economy and prevent comprehensive policy reforms that can reorient the economy in a positive direction via democratisation, intrinsically linked to governance.

In order to make up for the two aforementioned deficits, the government of Pakistan has had to borrow. As per data from the State Bank of Pakistan, total sovereign debt stood at Rs. 60,717 billion at the end of December, 2022 – a 23.3% rise from the previous year. Of this, debt owed to external creditors such as multilateral donor agencies, international financial institutions, and bilateral partner countries was Rs. 26,127 billion – approximately 43%. Naturally these figures are expected to dramatically rise following the release of the IMF's upcoming tranche of USD 1.1 billion as part of the ongoing Extended Fund Facility – which will restore perceptions of creditworthiness around the globe and likely lead to a domino effect of further loans. A significant proportion of these will be the materialising of pledges from the international community for 'climate justice' in response to the devastating floods of the previous year – estimated to have caused losses of over USD 40 billion to the Pakistani economy.

Another key development over the past few months is the return of terrorism, with the TTP infiltrating various parts of Khyber Pakhtunkhwa and re-establishing a presence in the region. The recent attack on the police headquarters in Karachi was part of this resurgence. This is likely to have extremely adverse consequences in terms of investment in the country, with potential buyers now no longer certain that they will receive returns on their resources. This is, by no means, a new problem: and indeed has been one of the primary deterrents to foreign direct investment in particular – especially since the Soviet conflict in Afghanistan during the 1980s – largely due to the rentier economy model that Pakistan's de facto ruling institution has adopted in an effort to attract resources in exchange for 'strategic' use of its geopolitical location.

Even in terms of human capital, Pakistan's higher education arena has failed to produce graduates that can contribute to the prosperity of the country via entrepreneurship, innovation, trade, freelancing, and more. While India exports over USD 120 billion worth of IT-based services to the global economy on a yearly basis, the figure for Pakistan stands at less than USD 3 billion. One of the primary reasons for this is the well-planned and executed initiative of the Indian Institute of Technology in India under the Nehru administration in the early stages following partition – which set in place the facilities and knowledge-sharing platforms that, over the long haul, produced highly skilled personnel that could generate high levels of income.

Pakistan's situation in this regard is the exact opposite, with 31% of university graduates currently unemployed and likely an equal number underemployed. Employers frequently complain of the lack of technical/interpersonal ability of young recruits – which compels them to administer short courses in order to bring them up to speed. The primary reason for this state of affairs, as per former Chairman HEC Dr. Tariq Banuri, is the politics of patronage that the higher education landscape is constantly engulfed by – with appointments for key personnel taking place on the basis of little beyond links to certain networks.

Without any bottom-up pressure from the central stakeholders at the university due to the almost 40-year ban on student unions, authorities essentially run their respective institutions akin to personal fiefdoms. This has also led to a situation of subverting the university's research activities to the interests/objectives of big donor agencies, which funnel large sums of money (mostly in the form of loans) into the arena – capturing budding academics and subverting their activities to promote certain agendas. The middlemen in this process are the authorities, who will ensure a substantial cut for themselves in exchange for access to their faculty, researchers, students, administrative staff, etc. without any real contribution to the project(s). Higher education is a reflection of the larger governance arrangements in Pakistan, which have always excluded ordinary citizens from decision making processes: with ruling elites perceiving them, in colonial fashion, as puerile, ignorant and backward communities that must be lorded over: for their own good.

The overarching objective of this issue of Discourse is to kick-start a conversation on how Pakistan can hope to correct its economic trajectory, in terms of priority areas, technical interventions, and the political economy of reform. Naturally there is a short-term (immediate) set of tasks that will be required in this regard, as well as a medium to long term horizon that can revivify the economy in a sustainable manner. It is in this spirit that we have brought together some of the best minds in the country to offer a diverse set of perspectives on this critical juncture that Pakistan finds itself in.

We hope you find it insightful!

Sincerely,

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