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Economic Management of Pakistan

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In economics, economists use a term "necessary but not sufficient". Parameters of defining the necessary and sufficient change according to situation. For revival of economy necessary indicators are five which includes debt to GDP ratio, interest rate, inflation, exchange rate variation and fiscal deficit. These are indicators key to determine the stability of economy, but they are not sufficient for the growth and development of economy. Sufficient indicators include performance of productive sectors of economy including industry, agriculture, services, SMEs, livestock etc. The indicators of necessary and sufficient categories need to move hand in hand for meaningful improvement of the economy and society.

Unfortunately, the reform debate in Pakistan remained focused on the necessary conditions and left the sufficient indicators to the mercy of time. International Financial Institutions (IFIs) remained consistent to push Pakistan for reforming the indicators of stability of economy. They have offered programs by one name or other to reform the economy. Structural Adjustment Program (SAP) and standby loans stand alone in this club of reform programs. Starting from 1988 to present day, Pakistan is struggling to fulfill the requirements of SAP and IMF. Conditionalities become stringent with time and every program. It has become extremely difficult for Pakistan to fulfill the requirements as the economy became weak except during the period of 2003-2007.

The question is why IMF or IFIs failed in Pakistan to made positive contribution. Why after every five years government is asking IFIs and IMF to give bail out package. The answer is very simple but complicated in detail. Simple answer is Pakistan could not deliver on commitments or introduce the reforms. The complicated answer is that IMF packages and successive governments ignored the growth and development (sufficient conditions) side of economy for sustainable solution for the economy of the country. There are multiple factors which contributed to low performance on the industry, agriculture and other sectors. The most prominent ones are natural disasters, conflicts, atomic explosion and war on terror for almost two decades.

However, the mismanagement, lack of understanding of economic systems and bad governance are the main culprits. Lack of understanding of the economic system is evident from the importing the finance ministers and economic teams. A good number of governments felt proud to import the finance minister from the IFIs or somewhere else. The same is true with the economic experts with minor changes but majority of the experts are educated and trained in western countries. Imported finance ministers and experts always tried to lecture on the what need to be done but forget to demonstrate on the ground. They failed to understand Pakistan is not a developed country, it is a developing country and has multidimensional dynamics. The usual recipe does not work here. Moreover, they also could not give desired attention to economic sectors to ensure growth and development in the economic context of Pakistan.

For example, every government know that agriculture is backbone of economy and major employment provider. It is key to economic growth and exports of Pakistan. Despite the immense importance successive governments and experts continued to ignore it. They only provided the relief to sector by run of mill statements. Governments and experts also failed to understand ground dynamics of agriculture and behavior of farmers. The list of agriculture and farmer's problem can be long but the most important issues are weak financial support, badly governed market and outdated supply chain management etc.

Government tried to provide credit to farmers to overcome financial problems but forget to realize the Islamic laws on interest rate and religious belief of farmers. Majority of farmers, on the basis of interest and Islamic ideology did not approached the facility. If government really want to help small and poor farmers, they need to come up with an interest free scheme. Lack of interest free loans compelled the farmers to go to middleman and sell pre-mature crops and orchids without knowing the actual prices of their products.

Second important element is structure of markets, both input and output, markets and supply chain management. Presently, markets are dominated by the middlemen and their agents. Farmers have minimum say in management. Markets also lack storage facilities especially for the perishable products like vegetable, fruits and livestock products. Farmer cannot afford to wait for long or access to far off markets. Therefore, they have to sell their products at middlemen's prices. Government will have to invest in storage facilities at markets free of cost for small farmers. Government also will have to invest in supply chain management and modern transport for the perishable commodities.

Further it is painful reality that it is not only agriculture which suffered due to lack of vision and investment from government but there is a long list of sectors like industrial, livestock, services etc.

Now again Pakistan is approaching IMF and it is perceived that this program will not be different from the previous programs. IMF has come up with a long list of conditionalities before the approval the package which focus on the stability of economy. The conditionalities are very tough and will add to difficulties of people. PTI government tried to avoid and experiment this time by not approaching IMF at first hand. He looked towards the friendly countries and tried to work with them. Government strived hard but could not acquire the required resources from friendly countries. As a last resort government had to approach IMF to secure enough funding to cover the current and fiscal deficit. Government is trying hard to buy best package for Pakistan.

Mr. Asad Umar was also trying to strike a balance between stability and growth and development indicators. He was also launching durable programs for the recovery of economy. For example, he was negotiating with China to make Pakistan part of supply chain of their some leading exports. Presently about 80 percent world trade by multinational companies is routed through the supply chain. It is one of most suitable and viable option for Pakistan to enhance trade and cater for local industry, agriculture, services sector and SMEs. Now we have to wait, what new finance minister introduce to country to tackle the issue of export and economic revival.

New finance minister definitely will try to follow the existing policies of government for economic revival. But he can also learn from the experience of Turkey, how they work with IMF programs and national economy. During the period of 2002-2007, Turkey strictly tried to implement the reform agenda. But at the same time Turkey gave equal importance to macro-economy and fiscal side of the economy. They prioritized the investment in industry, agriculture and other productive sectors. Dividend of efforts paid back and Turkey's economy started to revive and grow. Now Turkey is in club of G-20. The most important lesson to be learnt from the Turkey is that government will have to give equal importance to induce growth in production and services sectors along with stability factors of economy. IMF should also understand the needs of Pakistan and should give space to introduce some policies which can boost economic growth. Local economic growth and development is only sustainable solution for the economy of Pakistan in long run.