



Navigating Pakistan's Economic Challenges: From IMF Dependency to Strategic Solutions

Why does Pakistan need the IMF? What are Pakistan's economic structural problems? What are the continuous current account deficit problems? What are their remedies?

The current balance of Pakistan's current account stands as follows:

Export in FY 2022	US\$39.42 billion
Remittances in FY2022	<u>US\$31.27 billion</u>
	US\$70.69 billion
Imports in FY 2022	<u>US\$82.28 billion</u>
Deficit	US\$11.59 billion
External Debt in FY 2022	US\$131 billion

Pakistan's exports continue to be dominated by manpower export, cotton textiles and apparel. Imports include petroleum and petroleum products, chemicals, fertilizer, capital goods, industrial raw materials, and consumer products. Pakistan exports of goods and services as percentage of GDP is 9.06% and imports of goods and services as percentage of GDP is 17.99%

Major Imports

1) Machinery from China	\$16 billion
2) Fuel/Oil from UAE, Saudia, Qatar	\$17 billion
3) Edible Oil	<u>\$4.5 billion</u>
Total	\$37.5 billion

if this amount is paid under a Chinese Yaun Facility Amount to be managed by Pakistan own resources become $US\$82.28 - 37.5 = US\44.78 . In such a situation the demand for Dollar will be less than its supply. Dollar prices will decline to Rs.100 parity or even less. This will reduce energy prices, reduce cost push inflation and make our industry more competitive.

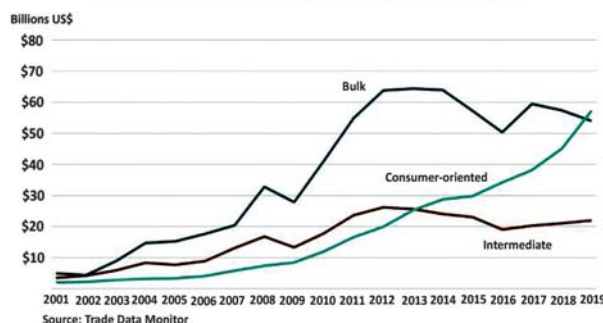
How can this be done?

According to the WTO's report for 2022, China's exports of goods and services amounted to US\$3.9 trillion, while imports reached US\$3.1 trillion. In the same year, China imported US\$261.4 billion worth of agricultural and related products, as reported by Sander Trade.com and the USDA Foreign Agricultural Service. These imports included items such as milk, poultry, soybeans, processed foods, meat, grains, and vegetables. For further information on China's evolving demand in the agricultural import market, refer to the International Agricultural Trade Report by Hui Jiang, dated September 29, 2020.



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China's Agricultural imports from the World, 2001-2019



Pakistan currently contributes 20% of China's agricultural imports, totaling approximately US\$50 billion annually. This substantial volume of imports necessitates a well-organized arrangement.

The Zarai Taraqiati Bank Limited, also known as the Agriculture Bank, has been experiencing continuous losses over several years and is currently listed for privatization. If 60% of its shares were acquired by Chinese investors, they would likely make significant investments in Pakistan's agriculture sector, particularly in the production of goods they intend to import. This could lead to a surge in the importation of Chinese agricultural machinery and the implementation of innovative methods to enhance yield per acre. However, Pakistan's yield per hectare remains comparatively low in comparison to other nations.

Rice yield per hectare (M. Tons)	Wheat Yield per hectare (M. Tons)
Pakistan	2.7
Indian Punjab	4.3
Bangladesh	4.3
China	6.5
Philippine	6.0
South Korea	5.2
World	4.2

Source: Wikipedia

Current Status of Internal Revenue Management in Pakistan

- Domestic public debt stands at Rs. 25.8 trillion, which is 45% of the GDP.
- Banking deposits amount to Rs. 26.11 trillion, with a Profit After Tax of Rs. 307 billion, primarily sourced from government bills.
- The GDP for 2022 is US\$353 billion, with a tax ratio of 10.4%, amounting to Rs. 7.1 trillion.
- The GDP is Rs. 68.26 trillion, with a budget deficit of 9.5%, equivalent to 6%.
- The shortfall in government revenue compared to expenditure is covered through various means, including direct public borrowing via National Saving Schemes, bank borrowings utilizing various instruments, and partly through deficit financing.
- Pakistan's GDP tax ratio stands at 10.4%, reflecting the inability to effectively tax various sectors such as agriculture, transport, wholesale retail, and other services.
- In comparison to Pakistan, several other countries have higher GDP tax ratios, such as Malaysia (13.6%), Azerbaijan (13.3%), Bhutan (13.6%), the Philippines (14.2%), Egypt (15.2%), Kazakhstan (16.4%), Morocco (21.8%), and Turkey (24.9%). These figures are based on data from the List of sovereign states by tax revenue to GDP ratio (2020) on Wikipedia

The Economic formulae for economic development :

National Income = Consumption + Saving (Investment)

In Pakistan, public savings deposited in banks are often utilized for government consumption through various instruments such as T-bills, leading to a shortage of funds available for lending to the private sector for development purposes. This practice not only affects the government budget but also impacts other areas where the government has failed to deliver effectively.

Comparatively, during the 1970s, several countries, including Iran and present-day Bangladesh, experienced annual population growth rates exceeding 2%. However, many of these countries, including Iran and Bangladesh, have successfully reduced their population growth rates over time. In contrast, Pakistan and Egypt continue to face annual population growth rates of around 2%. Additionally, public education, healthcare, and other social sectors in Pakistan are not performing satisfactorily.

These challenges highlight broader issues within governance and policy implementation in Pakistan, indicating the need for comprehensive reforms across various sectors to address socio-economic concerns effectively.

Out of Box Solutions to some National Key Issues

1) Pakistan Steel Mill

Instead of viewing a financially struggling entity as a burden, it should be seen as an economic opportunity. The proposed way forward is as follows:

The Government of Pakistan should consider offering the opportunity for an investor willing to establish a steel mill four times the size of the current one at Port Qasim. In exchange, the land and location of the existing steel mill should be included as part of the government's investment. A condition of this arrangement would be that only Pakistan's abundant minerals would be utilized in the production process, with no raw material imports allowed.

Potential investors, whether from Japan or China, would be required to construct their own power plant for the mill and invest in mining and railways necessary for transportation.

The steel produced from this new facility would fulfill Pakistan's domestic steel requirements, with any excess production earmarked for export. Consumer prices for steel within Pakistan would be determined based on variable costs plus overhead, excluding depreciation.

The government would impose a sufficient tax on domestically sold steel, while also extracting a portion of profits from exported steel through a 35% charge on export prices. Contracts with investors would span 50 years, ensuring long-term stability and commitment.



No employees would face termination; instead, they could be transferred to any facilities owned by the investors, whether within or outside the country.

To formalize this proposal, a bill should be introduced and passed in the Senate of Pakistan.

2) Pakistan International Airlines (PIA)

PIA has been facing consistent losses over several years, leading to a negative capital situation according to balance sheet analysis. In contrast, Middle Eastern airlines have been thriving due to advantageous arrangements, including low fuel costs and joint ventures with Western aircraft manufacturers. Pakistan lacks its own fuel reserves and commercial aircraft manufacturing capabilities, putting PIA at a competitive disadvantage against these Middle Eastern airlines.

Instead of a purely financial solution involving heavy loan write-offs and extensive staff layoffs, an economic model could be considered.

Under this model, PIA would become a subsidiary of Air China while retaining its identity. This arrangement would not involve loan write-offs or significant layoffs. Fuel procurement would be conducted in Yuan through a contract with the Chinese government, and all US aircraft in PIA's fleet would be replaced with Chinese models. This strategic partnership could benefit both airlines involved.

Employees of PIA could be offered opportunities for postings abroad within the broader Air China network. To formalize this proposal, a bill should be introduced and passed in the Senate of Pakistan.

3) Sindh Farmer Social Contract

In the waning days of the Turkish Khilafat in the previous century, the Nawab of Hyderabad (India) married a princess from the Usmani dynasty and established an Usmani University in her honor. His vision was to promote excellence in education and facilitate the translation of knowledge into the local language. Today,

a century later, scholars from Usmani University, regardless of their religious affiliation, are renowned for their teaching prowess in leading US universities. Furthermore, South India has emerged as a hub for information technology, with IT exports reaching US\$104 billion in 2022 (Statista IT Services).

However, in Sindh, Pakistan, haris (agricultural laborers) are subjected to poor treatment, living in dire conditions with limited access to education and healthcare facilities. Despite significant increases in crop yields since 1947, the wealth generated has not translated into improved conditions for the haris. It is imperative that laborers, the backbone of agriculture, receive a fair share of the wealth they help create.

To address this issue, a bill should be introduced and passed in the Provincial Assembly of Sindh, Pakistan, ensuring that haris are granted their rightful share in the creation of wealth and are provided with essential amenities such as education and healthcare.

4) Exploitation of Minerals, Oil & Gas

Russia's expertise in this area could greatly benefit Pakistan and positively impact its balance of payments. However, the United States may not extend assistance unless Pakistan agrees to grant them military bases and control over its nuclear assets, reflecting an outdated colonial mindset.

A potential solution lies in Pakistan's cotton production capabilities. Bangladesh imports yarn from Pakistan and exports garments to the US, amounting to US\$45 billion in 2022, according to Textile Today. If Pakistan were granted the garment export quota to the US, it could effectively mitigate its balance of payment issues. This strategic shift could potentially create a win-win situation for both countries involved.

In conclusion, it is evident that Pakistan is consuming more than it produces, indicating a significant imbalance in its economy. Furthermore, Pakistan's ability to effectively address its challenges is hindered by weak governance, lack of leadership sincerity, and a clear sense of direction. Without concerted efforts to rectify these underlying issues, improvement is unlikely to occur. Therefore, it is imperative for Pakistan to unite under sincere leadership and establish a clear direction for progress if meaningful change is to be achieved.

Reference

– All figures related to Pakistan taken from State Bank of Pakistan

About the Author: The writer is a Chartered Management Accountant and a Fellow member and the former Executive Director of ICMA. He is presently a faculty member at PAK-KIET University.