



Exploring Alternatives to IMF Support: Diversifying Economic Strategies

Pakistan is a member of IMF since 1950. To date, Pakistan has relied on 23 IMF relief programs¹. IMF unlike any other typical lending institutions does not act as a temporary bail-out institution. Unlike banks or any other financial Institutions, its policies do not tend to focus on loaning for a defined maturity period and then negotiating yet another loan at the end of that period.

The IMF's insistence on long-term structural reforms and fiscal consolidation underscores that it is instead conditional upon hardwired structural and policy reforms to support macroeconomic stability and fiscal consolidation. To date, Pakistan has not implemented IMF reforms consistently due to political uncertainty, changing political conditions and multiple other factors.

In the current circumstances although Pakistan has no other option but to continue the existing IMF program, However, many financial experts believe that Pakistan should not seek a bailout package from IMF which is beyond three years as a longer and larger program would be an economic disaster, potentially making Pakistan another Argentina, which is stuck in a debt trap.

It is very important in the country's interest, that the newly elected Government not only successfully obtain a medium range loan from IMF but also to form long term plans to ensure that in future the economy of the country is dependent more on internal factors rather than factors which are beyond its control such as IMF, Aid and other such factors.

A few of such reforms which in the opinion of author are critical for future growth and unwavering continuity of the county's economy are explained in the subsequent paragraphs.

Structural Reforms:

The country's economic team should primarily focus on attracting foreign investments through its SIFC (Special Investment Facilitation Council) platform. There is a significant gap in infrastructure development, considering the young population of the country, which provides ample labor force for development plans. Equally important is to provide a hassle-free environment for investors by adopting consistent economic policies. With over 9 million Overseas Pakistanis, they could serve as a significant source of FDI (Foreign Direct Investments) if the current government's policies win their confidence.

Furthermore, SIFC should expand its reach by engaging major corporations globally and inviting them to make profitable investments. The government should also collaborate with other countries, offering profitable business opportunities on a shared basis, utilizing its labor force as the primary bargaining offer for such projects.

Taxation Inclusion/Documentation of Economy

Tax collection has consistently been a challenge for Pakistan's economy, leading to heavy reliance on IMF programs due to the government's inability to gather sufficient revenues domestically. The taxation system in Pakistan necessitates significant involvement from top-level government officials, and bold decisions must be made in this regard.



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¹ <https://www.stimson.org/2022/pakistans-fatiguing-interest-in-the-imf-reform-program/>
#:~:text=While%20Pakistan%20does%20not%20have%20any%20alternate%20short-term,fiscal%20prudence%20and%20better%20management%20of%20state%20resources.

Firstly, a comprehensive technology-driven system should be implemented, accessible to the public, displaying all inflows and outflows related to tax collections. This system should transparently show the total taxes received and their allocations, enhancing taxpayers' understanding and confidence.

Secondly, an inclusive media campaign should be initiated to encourage the general public to fulfill their tax obligations. This campaign should raise awareness about Pakistan's taxation system and highlight the personal and collective benefits of timely tax payments.

Thirdly, the government should introduce emotional incentives to promote tax compliance. For instance, upon project completion, pictures of the highest taxpayers in the area could be displayed instead of those of ministers or MNAs. Alternatively, inviting top taxpayers to inaugurate projects could boost their confidence. The government should also express gratitude to every taxpayer who meets their obligations promptly.

Lastly, taxpayers should enjoy a higher social status compared to non-taxpayers. While the current status of being a filer or non-filer exists, it has flaws. Firstly, anyone can become a filer by filing a return, regardless of whether taxes are paid. Secondly, the benefits received by filers are limited, usually tied to investments like property or cars. The filer status should be linked directly to tax payments rather than return submission, granting higher status, such as respect and privileges, in government institutions and departments, surpassing those of non-taxpayers.

These measures would not only enhance awareness and transparency regarding the tax system but also incentivize the general public to fulfill their tax obligations. By fostering a culture of tax compliance, the country's reliance on IMF programs could be reduced significantly.

Nation-wide Industry Development

Given the recent successes observed in other countries through nationwide industry development initiatives, the SIFC, along with the economic team, should prioritize the establishment of one or more industries to be developed on a national scale. Potential sectors



for focus could include Information Technology, Freelancing Services, Agriculture, or others based on international demand. The economic team should collaborate with foreign investors, such as countries and large corporations, to propose and support the development of these selected industries in Pakistan. Ideally, Pakistan would emerge as a pioneering force in these industries, with minimal or no direct competitors operating at a national level.

Pakistan's strategic location and access to vast markets should be leveraged to facilitate revenue growth within the country. Strong government support for selected industries is crucial, as it can unlock the untapped potential of the nation and lead to increased revenue generation, reduced dependence on imports, and higher tax collections. However, this approach carries the risk of reducing demand for existing products or services. Extensive research and careful consideration of long-term impacts are necessary before initiating any industry development endeavors.

Export Boom



Pakistan, with its diverse array of resources and industries, finds itself at a critical crossroads where the necessity for an export surge transcends mere economic strategy. Historically, Pakistan has grappled with numerous trade imbalances, highlighting the urgency for an export boom to recalibrate this equation, thereby fostering a trade surplus that contributes to a more robust balance of payments.

While the country's exports have remained modest, there exists untapped potential waiting to be harnessed. Establishing an export commission with the primary mandate of identifying global demands and matching them with the country's production capabilities is paramount. Through meticulous research, the commission should select at least 5 to 10 industries, ensuring a continuous assessment to maintain the relevance and applicability of the opportunities and strengths matrix.

An export-driven economic growth emerges as the cornerstone in unlocking prosperity, mitigating trade imbalances, bolstering foreign exchange reserves, spurring job creation, promoting economic diversification, and capitalizing on global market prospects.

As Pakistan embarks on its transformative journey, integrating export-focused growth into its economic framework emerges as a pivotal strategy to propel the nation towards sustainable and resilient development.

Imports Policy Improvement



Pakistan must reassess its import policy in light of persistent trade imbalances. While essential imports such as medicines should continue, measures should be implemented to minimize spending on luxury items like cars, possibly through increased taxes.

Additionally, special considerations should be given to the import of machinery that could enhance the production of exportable goods in the formulation of the import policy.

Development of Under Developed Area

The vast land and underdeveloped population within the country present untapped potential that must be maximized. The economic team should devise plans and foster joint ventures with larger corporations by offering tax incentives in these underdeveloped areas.

Energy Crisis

Pakistan has grappled with severe energy crises, which have significantly impacted its financial well-being. The initial shortage of energy led certain producers and exporters to relocate their operations abroad, consequently reducing the country's exports and production capacity.



Currently, capacity payments to Independent Power Producers (IPPs), established to address the energy shortage, are adversely affecting the balance of payments. It is imperative to review and revise these agreements in line with the country's future energy requirements.

Furthermore, the import of crude oil remains a major contributor to foreign exchange depletion, perpetuating trade imbalances. The government must facilitate a transition from reliance on crude oil to more cost-effective energy sources. Encouraging the use of electric vehicles is one such strategy, which not only addresses the issue of underutilized capacity payments to IPPs but also reduces dependence on crude oil.

Additionally, the government should facilitate and promote the use of solar power batteries by making them available on installment plans for installation in households and workplaces. This initiative not only diminishes dependence on crude oil but also alleviates the burden of high electricity bills on the country's citizens.

Conclusion

Indeed, while the suggestions outlined above are aligned with the goals of national development, growth, and reducing dependence on external financial assistance like IMF funds, it is crucial that policies adopted by government officials remain consistent regardless of political turbulence in the country. Consistency in policies ensures stability and predictability for investors, businesses, and the general public, fostering an environment conducive to sustainable economic growth and development. Regardless of changes in political leadership or dynamics, maintaining a steadfast commitment to sound economic policies is essential for long-term prosperity and resilience against external shocks.

About the Author: Mr. Saeed Akhtar, a Fellow member of ICMA, currently serves as the Principal and CEO of Al-Saeed Consultancy Services, specializing in Business, Tax, Management, and Corporate Consultancy. Prior to this role, he held the position of CEO at Falcon Services (Private) Limited. Additionally, Mr. Akhtar has contributed as a visiting faculty member at ICMAP, University of Lahore, and various other organizations.