Pakistan's elite and the current economic crisis

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By Tridivesh Singh Maini February 1, 2023

Former Pakistan Finance Minister Miftah Ismail in a media interview made some very interesting points. While Ismail lashed out at his successor and current Finance Minister Ishaq Dar saying that the latter's Anti International Monetary Fund (IMF) approach was one of the key reasons behind the current economic crisis in Pakistan. He also underscored some other points.

First, he said that if countries like Bangladesh and India have left Pakistan behind, there are some serious deficiencies in Pakistan's governance model.

Second, Ismail stated that different forms of government – democracy, parliamentary democracy, dictatorship – have been tried out, but the country is invariably ruled by a small elite, and this is amongst the key reasons for the numerous challenges the country is facing today.

In recent years, has been increasing criticism of Pakistan's foreign policy and its excessive economic dependence upon other countries for its economic survival. While earlier strategic commentators and analysts questioned the skewed nature of Pakistan's ties with the US, in recent years several strategic commentators have begun to question the excessive dependence upon Islamabad and the terms and conditions of China Pakistan Economic Corridor (CPEC), and the lack of transparency of the project.

If one were to look at the current economic crisis which has engulfed Pakistan, there have been a series of opinion pieces critical of domestic policies, the country's dependence upon external sources for aid not just the US, but also Gulf Countries and China and how the IMF rescue program would impact certain sections of the population more than others.

Maleeha Lodhi, a former Pakistani diplomat, and a prominent writer and commentator, in a hard hitting article titled *Elite Politics*for *Dawn* (December 5, 2022)argues:

'The availability of external resources as a result of Pakistan's foreign policy alignments during the Cold War and beyond created a habit of dependence on 'outside help'. This habit urged successive governments — representing rural and urban elites — to avoid economic reform, mobilise adequate revenue or tax its network of influential supporters'.

Touqir Hussain in an article *An underwhelming foreign policy*written for *The News* (November 23, 2022) highlights how Pakistan's dependency upon China could harm the bilateral relationship. Says Hussain:

'Because of the dependency syndrome, even the China connection has become ever more important for Pakistan, and not for all the right reasons. It is fomenting a popular view that with China at its back Pakistan does not need to care about other relationships, inciting anti-Americanism which has become in the public mind a badge of 'independent' foreign policy'.

S Akbar Zaidi in an article *IMF as Saviour* for the *Dawn* (January 26, 2023) makes an interesting point about how the unequal impact of the IMF program and how the elite would not just be able to deal with it but also benefit in the long run. Says Zaidi:

'A fistful of dollars coming in, prices being upwardly adjusted, an exchange rate which is supposedly 'market-driven', will offer false hope to our elite while it grumbles about the tough measures of the IMF'.

There has also been a suggestion to rethink Pakistan's approach towards India and focus more on geo-economics. Shahzad Chaudhry, a prominent strategic commentator, in an opinion piece published in *Express Tribune*praised India's foreign policy for managing to balance ties between the US and Russia, in the aftermath of the Ukraine crisis. While praising India for having been able to strike a balance he dubbed this as diplomatic coup. Chaudhry also said that Pakistan should rethink its foreign policy vis-à-vis India and focus on 'geo-economics'.

Pakistan PM, Shehbaz Sharif in an interview to *Al Arabiya* TV (a Dubai based channel) had himself stated that Pakistan could not afford another war with India and had also alluded to his willingness to resume talks (The Pakistan PMO however said that Pakistan would only resume talks with India if the latter reversed the decision to revoke Article 370 in Jammu and Kashmir).

In conclusion, while Pakistan clearly has its task cut out if it is able to realize the pitfalls of excessive dependence upon external countries will it be able to put its economy firmly back on track. It is also important for Pakistan to strengthen economic ties with neighbours in South Asia rather than looking at the outside world. For this it will require Pakistani leaders to think out of the box.

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Economy

The suffocating economy of Iran

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Iran’s economy is on a roller coaster. The past year saw a dramatic rise in inflation rates and a historic fall in the value of the rial. The protests which followed the death of a 22-yar old Kurdish woman Mahsa Amini have magnified the creaks in the country’s economy.

On January 22, The Iranian rial was selling at an exchange rate of 450,000 against the greenback, an all-time low. The rial has lost 29% of its value since the time the protest started. Iran’s statistical agency reported an inflation rate of 48.5% in December 2022, the highest level since 1995. November data recorded food inflation of above 70% in 12 provinces of the country.

Reports from the country suggest that more than half of the population is living below the poverty line due to spiraling prices. As per the latest forecast, the World Bank predicts a GDP growth of 2.9% for Iran in 2022 which will slow down to 2.2% in 2023 and 1.9% in 2024 owing to “slower growth in key trading partners and new export competition from discounted Russian oil”. However, the government’s response to the bleak economic indicators so far had been subtle and unperturbed.

Causes

The unilateral withdrawal of the US from the nuclear deal in 2018 and the sanctions that followed on oil exports and international banking has put heavy stress on the country’s economy.

The country's government debt-to-GDP ratio rose to 45% in 2020. According to World Bank, Iran's unemployment rate reached 12.2% in 2020 before narrowly dipping to 11.5% in 2021. Iranian daily Etemad had reported that at least 23 workers have committed suicide since March 2022 in the country due to reasons like dismissal, punishment, or threats.

The government lifted import subsidies for essential goods in April 2022, to ease the pressure off the strained government budget, which subsequently triggered rapid spikes in food prices during May-June.

The Federal Reserve in November tightened its control over Iraqi commercial banks to restrict the illegal siphoning of dollars to Iran and other Middle-East countries. The new regulations blocked a huge chunk of daily dollar wire transfers to Iran. The Taliban takeover in 2021 had previously blocked access to hard currency to Iran via the Afghan route.

Amid the uprising, European Parliament approved a resolution designating the Iranian militia, Islamic Revolutionary Guard Corps (IRGC) a 'terrorist' organization. It also called for sanctions on Supreme Leader Ayatollah Ali Khamenei, President Ebrahim Raisi, and others. The US and UK too imposed fresh sanctions on Iran.

Response

Iran retaliated on January 25th by imposing sanctions on 34 British and European individuals and entities.

Former Central Bank of Iran governor Ali Salehabai had been sacked in December due to failure to control the rapid depreciation of the rial. According to analysts in the region, the Central Bank is injecting dollars into the market to thwart further depreciation.

In late January, the Central Bank decided to raise the maximum amount of currency that can be sold to individuals annually from 2000 euros to 5000 euros, to instill confidence and ward off fears about the availability of currency. The cap was initially introduced to stabilize the currency after the US pull-out of the nuclear deal in 2018.

Iran has not resorted to austerity to tide over the crisis. Instead, President Ebrahim Raisi presented a noticeably enlarged national budget in January to boost growth. Valuing 21,640 trillion rials, the budget is 40% larger than the previous one. The Islamic Revolutionary Guards Corps (IRGC) was allocated $3 billion registering a 28% rise over the last year, in a taunting message to the west.

Recently, Iran introduced gold coin certificates in the stock market to raise cash and mitigate inflation. The government is desperate to raise cash as the government budget is posting a deficit of $9.75 billion. Critics point out unrealistic revenue estimates riding on oil sales and over-optimistic tax collection figures.

To raise revenue, Iran has increased its oil exports to China to more than 1.2 million barrels per day over the past three months. The sanctions have in effect caused Iran to warm up to western rivals like China and Russia. Iran and Russia are reportedly in talks over the introduction of a stablecoin, backed by gold, to bypass western sanctions in cross-border transactions.

Iran's response to the looming economic crisis was devoid of any extreme desperation. The government took all necessary steps to keep the dread within bounds. The present security situation in the country could go haywire if the economy collapses.

It remains to be seen how fast the government can ensure reliable alternate arrangements in place to sustain the economy. If not immediately, chances are high that the country may drift to panic mode.

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Economy

Prospects of Vietnam's Economic Growth in 2023

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Prof. Pankaj Jha

The ongoing war in Ukraine and increasing commodity prices across the world have impacted the developing countries. Countries in Asia which were recovering from the COVID-19 impact on their economies have to rework their recovery process by looking for alternate supply chains and reducing their financial responsibilities towards social sector through budgetary management. Among the developing economies in Asia , Vietnam showed an economic growth of nearly 3 per cent even when many of the countries were witnessing recession and reduced production because of adverse impact of COVID-19 .The stimulus packages that the governments across the world have to give to the manufacturing sector to accelerate production and meet the demands of the people. In a report released by World Bank in August last year it was stated that the Vietnamese economy is likely to grow by nearly 7.2 per cent in 2023 and it is going to sustain itself in 2024 with a likely growth projection of 6.7 per cent. These are encouraging signs .Few of the sectors which might be accelerating the growth process would be in the field of footwear and electronics. Vietnam itself has been undertaking strong anti corruption measures so as to facilitate stronger economic fundamentals and recovery from the COVID-19 impact.

The economic growth of Vietnam has been accelerating and the agricultural sector has been productive in ensuring food security for Vietnamese citizens. As per one of the estimates this sector contributed more than 14 per cent in national gross domestic product and has engaged more than 35 per cent of youth in the year 2020. This sector also earned valuable foreign exchange of more than U.S. dollar 48 billion. One of the interesting achievements of Vietnam has been increasing life expectancy, and its universal health coverage which covers more than 87 per cent of the population.

As per the plan of action which has been envisaged for Vietnamese economy by its leadership it aspires to become a high income country by the year 2045. It is expected that with the sound economic fundamentals and more than 5.5 annual average per capita growth for the next 2 and a half decades it can reach that milestone. Vietnamese population is also young and is adapting itself for digital economy and building core fundamentals for its membership in different regional economic organisations such as RCEP and CPTPP.The bilateral free trade agreement with EU is also facilitating its growth in several sectors.

There have been significant structural improvements ushered through policy documents in terms of improving financial architecture, accepting global norms related to climate and environment, comprehensive security for population against poverty , and extensive investment in infrastructure development both in rural and urban areas.

In one of the articles written in Bloomberg it has acknowledged that Vietnam is now is one of the Asia's fastest growing economies which has grown to 8.02% last year and it even surpassed government assessment of 6 to 6.5 per cent growth. The article also acknowledged the fact that manufacturing has been growing to near 10 per cent mark in comparison to last year and there is strong development in the services sector as well. Among the economies Vietnam's inward foreign direct investment has also been doing quite well and it has received nearly US $27.72 billion last year .Asian Development Bank has forecasted that Vietnam is going to grow at the rate of 6.3% in the year 2023. Also the unemployment rate has reduced and with inflation clearly under 5 per cent , showcases that the long term decisions which we have taken with the initiation of *Doi Moi(economic liberalisation process)* in 1986 has been bearing fruits.

In terms of sectoral assessment, the real estate as well as construction sector ,the growth was about 7.78 per cent last year and the services sector growth was closer to 10 per cent. There have been increase in exports last year as well and an increase of 10.6% was noticed. One of the core arguments which have been given with regard to Vietnam's impressive growth has been related to trade liberalization, increased deregulation and improvement in the ease of doing business, investment in human resources and stable government were seen as critical attributes for this impressive growth in Vietnamese economy.

Major companies in footwear, electronics, and mobile production have invested in Vietnamese economy and few of the companies have shifted base from China to Vietnam. Improved congenial economic environment has been appreciated by companies such as Adidas, Nike and Samsung to list few.

Owing to the development of new kind of digital technologies and better consumer awareness Vietnam is preparing itself for a major impetus in the E- commerce sector and therefore has been making extensive changes in digital based economy and more stress on science and technology development. Vietnam has acknowledged the fact that with the changes in sectoral composition of the economy, it is pertinent to develop necessary skill power and human resources which can seamlessly integrate Vietnam into global value chains and also help the services sector in exploring new markets.

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Economy

The Crippled Economy

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Abu Huraira

Lack of money is the root of all evils. Facts do not seize to exist because they're ignored.

Lack of money is what Pakistan is experiencing and dealing with every now and then for the major part, since it came into existence either due to incompetence of our political leaders, their corruption, fighting wars of someone else or due to lack of long-term vision. Pakistan is currently in the middle of a turmoil trying to recover from devastating floods of 2022, facing the after effects of the withdrawal of USA from Afghanistan in the form of resurgence of terrorism, dealing with the political chaos created by the politicians who claim to be leaders of the state. Another yet most important, severe and devastating challenge that Pakistan is facing is its economic downfall. In one sense the lack of money is the root cause of all the problems mentioned above except the political chaos.

The economy of Pakistan, like a battle-hardened warrior has built resilience battling several challenges over the course of seventy years and is trained to survive but the recent political turmoil and the difficulty caused by nature (Floods), the burden of debts repayment, the threat of resurgence of terrorism and international indicators pointing towards an economic recession in 2023 has almost crushed the backbone of Pakistan's economy.

World bank has recently released its latest report forecasting Pakistan's Gross domestic product (GDP) to grow at only 1.7% for the fiscal year (FY) 2023 that is less than the half of what it predicted to during last June (4%). It has also predicted a near to recession economic situation of the world economy characterized with high inflation, increasing interest rates and the circumstances caused by the Russian Invasion of Ukraine.

Pakistan must reportedly payback 73$ Billion in the next three years till the end of FY2025 and central bank of the country also known as State Bank of Pakistan currently has Foreign exchange reserves of about only 5.6$ billion. This debt repayment is the key challenge for Pakistan's economic survival and other challenges such as ever-increasing inflation, high interest rate, the growing unemployment, the decrease in imports are all byproducts of the main challenge. The threat of a possible default is becoming evident and is looming over fiscal horizon.

Monsoon on Steroids, a phenomenon directly linked with climate change played havoc with Pakistan. These floods added a profound risk to the country's economic outlook. The country lost infrastructure worth of billions of dollars and floods effected 33$ million people and 1700 people lost their lives. According to Ministry of Planning and development of Pakistan, Pakistan has faed the loses of more than an estimation of 10$ billion. The catastrophe of floods also played with agroeconomics as crops were destroyed causing destruction of agriculture sector which makes up to 24% of country's GDP. A comprehensive recovery policy is needed and with the helped promised by international community at Geneva, government has passed one hurdle but to make the sustainable recovery abundance of resources, capacity and transparency is needed.

The policy uncertainty has been a major cause in creating a mistrust among investors and has almost ceased foreign direct investment in Pakistan. This policy uncertainty is due to lack of will of national leaders to take tough decisions. For Example, former prime minister of Pakistan rolled out of International Monetary Fund's (IMF) program fearing his ousting and to gain public support he reduced prices of commodities such as Petrol & Gas and took country almost on the verge of default.

The policy uncertainty is caused by Political uncertainty which in turn lead towards economic uncertainty. Economic stability can only be achieved by political stability and there's no other way around. Political stability can be achieved through free and fair elections and elimination of the role of establishment in political process of Pakistan. And if a government takes long-term policy goals into account while formulating a policy rather than short-term goals to gain public support and trying to keep hold on the reins of Government. The selfish politicians have to play selfless and put Pakistan's benefit before their own benefit to get Pakistan out of this political and economic turmoil.

The only solution in sight for Pakistan is to carry on with the 6$ billion IMF program and to try for rescheduling of depts repayment as it owes more than 70$ billion to be paid by the end of 2025 that is currently not possible. Another step from international community can also help Pakistan that is if a country makes an investment of 10-20$ billion directly rather than in the form of loans as happened in CPEC. Moreover, help from rich friendly Muslim countries can also provide an array of hope for Pakistan.

But these steps won't address the clear underlying malaise of the economy and the fact that something fundamentally will need to change, in terms of how much the economy produces versus how much it spends, to avoid default down the road. But none of Pakistan's political parties seem to have the political will or ability to bring about such change. Priorities needs to be shifted from personal interest of political elite to national interest. They must be ready to sacrifice their political image and interest for the greater good and to save the country from default down the road.

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