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Imran Khan's New Pakistan: Meeting the Challenges of Governance

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The author, using his many years of experience working in the countries around the globe, suggests that the new administration in Islamabad should not panic into taking economic actions not warranted by the situation the country faces. The doom and gloom talk in the press, both inside and outside the country, could result in the government taking actions that would do long-term damage to the economy. He argues against rushing into the arms of the International Monetary Fund (IMF) as that would result in imposing conditions that would squeeze growth out of the economy. The gross domestic product is growing at the healthy rate of 5.8 per cent this financial year and net foreign reserves of US$9 billion (S$12.3 billion) can finance two months of imports. This is below the three-month criterion of good health used by the IMF but not by such a large amount to induce panic. Instead of moving in haste, the country should make an intelligent use of the resources flowing in from China as a part of the China-Pakistan Economic Corridor investment programme. Rather than panicking into taking hasty actions, the new rulers should prepare for a better future.

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Is the Pakistani economy on the brink and moving towards a collapse? Should it go to the International Monetary Fund (IMF) and secure an emergency loan to avert a possible financial disaster? What are the policies the government-in-the making should adopt to deal with the many problems the economy faces? Having relied for decades on the American largesse for developing the economy and with the United States (US) President Donald Trump not well disposed towards the country, what options are available to the government to stabilise the economy? How should resources be mobilised to put the economy on the path to recovery and move it towards sustainable growth? The new government would need to find answers to these and other questions as political power transfers to it.

Based on the author's experience serving as the World Bank's Vice President in charge of Latin America and the Caribbean region for over five years, it is his suggestion that Pakistan should not rush into the arms of the IMF to obtain a large dose of finance to restore health to what is deemed as an ailing economy. To stretch the health metaphor a bit, Pakistan may have an ailing economy; it is yet not quite sick. Also, the country has a number of positives about its economic situation that can become the basis of devising a strategy that would allow it to develop fast and well. The debt numbers that are being bandied about do not tell the author that the new policymakers should begin to panic.

The author also has the experience of working as the Pakistan Finance Minister in the interim government that took office in November 1996 following the dismissal of Prime Minister Benazir Bhutto. Then, Pakistan's total net foreign assets were US$42 million (S$57.4 million), equivalent to less than a day's worth of imports. A week after the author took office, the country owed US$200 million (S$273.2 million) to the IMF and the World Bank. These are called "preferred" creditors since defaulting on them leads to severe punishment. Bankruptcy stared Pakistan in the face but the author was able to avert it by securing a US$500 million (S$682.9 million) emergency loan from the Chinese government. This was provided at Libor, a rate considerably lower than would have been the case had Pakistan borrowed – as it was doing at that time – from the market. What explained this Chinese generosity?

Before moving to the World Bank's Latin American region, the author had served for almost eight years as the Director of China operations. Beijing was pleased with the way he had handled the World Bank's operations and policy work. They were very grateful when he took a very strong position against the Group of Seven's decision about China following the June 1989 Tiananmen Square incident. The World Bank and other multilateral institutions were directed to stop all work in China. However, the World Bank continued its work. The author has written about this personal experience in this paper to underscore the point that China, now under tremendous pressure from the US, needs to reorient its economy and, in this endeavour, Pakistan is likely to play a critically important role. The China-Pakistan Economic Corridor (CPEC) investment programme is a key component of what Beijing calls the Belt and Road Initiative. Given that, Beijing will most certainly not allow Pakistan to sink economically or suffer financially. Beijing also recognises that, with the CPEC in place, Pakistan's economy is likely to add something like 2 percentage points to the rate of growth currently estimated at 5.7 per cent a year. The potential rate of growth in the neighborhood of 7.5 per cent a year is not the sign of an economy on the brink. Today, foreign exchange reserves are over US$9 billion (S$12.3 billion), equivalent to two months of imports.

Going by the author's experience at the World Bank's Latin American region and relating that to the talk of Pakistan returning to the IMF for support, it should be emphasised that the conditions that come with that help invariably lead to short-term hardship. The IMF is obliged to focus on the near-term. When the author worked on resolving the Mexican commercial banks crisis in December 1994, the government there took the decision to seek help from the World Bank rather than go to the IMF. The crisis was the result of a major downward adjustment in the dollar value of the domestic currency. The commercial banks that had borrowed heavily in dollars now had to find much larger domestic currency amounts to service their debts. That was a situation tailor-made for the IMF but the Mexicans came to the World Bank instead. The author arranged to funnel US$1 billion (S$1.37 billion) of fast-disbursing money to recapitalise the Mexican banks, a move that had the full support of Lawrence Summers who was then-US Treasury Secretary. In return for this help, the World Bank had the Mexicans work on increasing their exports within the North American Free Trade Area framework.

The new government in Islamabad should resist the pressure to go back to the IMF. If they do that, it would be the 13th time the country would have sought the Fund's help. The last time the IMF was approached (July 2013), it provided US$6.6 billion (S$9 billion) worth of support over a period of three years on conditions that were relatively mild. That was due in part to the support provided by Washington, under President Barack Obama. The current US

President is less well disposed towards Pakistan. Already, the US Secretary of State Mike Pompeo has declared that his government would oppose the IMF rescuing Pakistan if that effectively meant servicing the loans Islamabad is receiving under the CPEC programme.

Upon assuming office, the Imran Khan administration should, within 30 days, draw up plans for the short term and focus on easing the financial strains under which the economy is currently labouring. That may involve some additional financial assistance from China. It should be followed with a medium-term programme to realise Pakistan's considerable growth potential. Both should use the CPEC as the central plank to build new economic structures. The CPEC investments could prepare Pakistan to become a major hub of international commerce. Its location is such that it connects the rapidly growing China and India with the energy-rich countries of the Middle East and West Asia. For that to happen, some significant policy changes will need to be made by Islamabad. Improving relations with India is one part of this approach.

Pakistan should open its borders for the passage of goods and commodities through its territory to other countries. It should, for instance, allow India to use its space for its merchandise and commodities to flow to Afghanistan and points beyond. The road infrastructure is already there in Pakistan and it should be used to earn foreign exchange. The Lahore-Peshawar Motorway, built at a tremendous cost, does not carry the amount of traffic for which it was designed. It can easily handle the increase the flow of the Indian goods and commodities to Afghanistan and points beyond would bring about. Appropriate fees should be charged and the goods and commodities passing through Pakistan should use the country's equipment. This will create a boom for the trucking industry as well as additional employment for those servicing this trade. Once the CPEC infrastructure becomes functional, Pakistan could become the focus of land-based commerce linking the landlocked countries of Central Asia with one another and with the world outside.

Another CPEC-related opportunity presents itself if China were to be invited to invest in developing Pakistan's underused but large agriculture sector to produce high-value products. Pakistan's northern areas could become major supply points for fruits, vegetables and livestock products the Chinese will need as they begin to move their people from the crowded eastern part of the country into the sparsely populated western provinces. That China needs these kinds of links with Pakistan was pointed out to the author as long back as 1993 when

Vice Prime Minister Zhu Rongji took him aside and asked him to convey an important message to the senior people in Pakistan. He said it was necessary for China to ease the pressure of population on its eastern coast – the only coast the otherwise landlocked country had. Opening the sparsely populated provinces in the country's west was an obvious strategy to work on but it needed Pakistan's cooperation. To supply this population with imports from the east would be expensive. Doing it by linking up with Pakistan was an obvious choice, provided the Pakistanis were cooperative. This conversation took place 25 years ago and the author related to Pakistan's President Ghulam Ishaq Khan in Islamabad but Pakistan was tardy in responding.

Over the medium-term, Pakistan should develop its large human resource to take advantage of the enormous investments the Chinese are making in developing their high-tech sectors including robotics, electric cars, self-driven vehicles and facial recognition products. This would need the development of teaching institutions in Pakistan that could link up with those in China. Foreign universities would be interested in investing in these facilities as they have done in places such as Singapore. Also, the skills-based small and medium-sized industries could become a part of the supply chains that are linking various production facilities with the major centers of production around the world, in particular in China.

Over the medium and long term, Pakistan would need to raise its own resources to pay for the programme the government must implement and the investments the state must make in developing the economy. Depending on foreign goodwill is only a temporary fix. The most obvious approaches are to increase the earnings from exports and to get private foreign capital to flow into the country. However, it would take time before the economy becomes export-oriented. Production systems will need to change and the direction in which exports go will have to be rationalised. Economists have developed the gravity model of trade in which bilateral trade between two countries is proportional to their size, measured by gross domestic product, and directly proportional to the geographic distance between them. Implementing this model would mean increasing the share of exports from Pakistan going to the countries in its immediate neighborhood.

The other approach is to attract more private foreign direct investment into the country and also to encourage private portfolio flows. This would only happen if the Pakistan narrative changes and the country begins to be viewed as an attractive destination for private capital. Currently, Pakistan is viewed as the hub of Islamic extremism and associated terrorism. It is also considered to be politically and economically unstable. A few years ago, the World Bank, in its report on the world's fragile countries, included Pakistan in the list. Managing the narrative, therefore, will need serious attention by the new ruling group in Islamabad.

All this is entirely possible provided those in power do not get overwhelmed by the doom and gloom talk they are hearing from the people who have always been skeptical about Pakistan's prospects. Teams of experts could be assembled and tasked to produce plans and programmes for Khan's *naya* (new) Pakistan and these plans should receive wide publicity both inside and outside the country.

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