<u>Action at full speed</u>
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PAKISTAN has successfully completed the Extended Fund Facility arrangement with the IMF. The economy has stabilised; inflation has been subdued and initial investment under CPEC has begun. We now stand at a crossroads. One road leads to sustained growth and prosperity, the other to a place where our preoccupation with election-year politics can push us back into the IMF's arms. The first road requires acting on policy at full throttle so that there are perceptible economic dividends by 2018. What is required to tread this road? There are many stumbling blocks but actions to remove five of these deserve priority.

Macroeconomic management has improved in the last three years but the external sector must be strengthened. Exports used to finance 80 per cent of imports in the early 2000s, but this ratio has declined to less than 50pc in recent years. Global commodity prices are partially responsible, but it is the loss of competitiveness because of a penal tax regime, energy shortages, difficulties in doing business, bureaucratic hassles, high import tariffs and lack of coordination among various government tiers and departments that hurts our exports.

Over the last decade, our exports have grown by 4pc compared to 12pc in Bangladesh and 10pc in India. As remittances and oil imports are negatively correlated, the former would no longer be dependable if oil prices remain low. Oil-producing countries would cut down investment projects and retrench foreign workers. Repatriation of profits and dividends of almost $2 billion, external debt servicing on existing loans and disappearance of Coalition Support Funds inflows would amplify. The current account deficit should be filled by non-debt-creating flows such as FDI, failing which we'd have to draw down our reserves.

Energy shortages and circular debt can be resolved not only by additional capacity expansion in generation and transmission but also by creating a functioning power market. Producers, bulk consumers and distributors should be able to deal directly under transparent regulations without the intervention of myriad government agencies. End-use prices are likely to come down because of competitive forces, losses and thefts would be minimised, billings would be accurate, recoveries timely, and full customer satisfaction achieved. It was inconceivable a few years ago that the enterprise value of K-Electric would reach $2bn and load-shedding become minimal.

The taxation structure, policy and administrative machinery must be re-hauled. To meet the IMF programme’s quarterly targets, tax revenue collection by any means became the primary preoccupation. This single-point agenda distorted the investment and business climate as those in the formal sector and tax net were squeezed so that collection targets could be met. Refunds were withheld, advance taxes recovered, surcharges imposed and rates raised.

Expansion of currency in circulation and employment in the unorganised sector testify to the flight to ‘informality’. Indirect taxes through presumptive and withholding taxes are not only regressive and inequitable, they are also inefficient. Amnesty schemes to appease traders and retailers have created a perverse incentive to resist inclusion in the tax base. Pakistan’s tax capacity is 22.3pc of GDP while it is collecting 11pc. The database of 3.2 million potential taxpayers should be used to bring new taxpayers into the net. The tax code must be simplified, tax administration and audit improved and alternative dispute resolution put in place.

The planned retreat from the sale of non-strategic public enterprises has fortified the hands of those who think they can stall the process through agitation. Privatisation has been on the agenda of every major political party. The irony is that when one party comes to power and attempts to pursue this, opposition parties offer enormous resistance. When the opposition party takes over, the roles are reversed.

Meanwhile, the damage to the economy worsens over time. Outstanding debts and liabilities already amount to Rs666bn; these enterprises account for 10pc of GDP. Careful cost-benefit analyses would show that if each employee is paid a monthly salary without turning up for work and the enterprise is managed by a strategic investor we’d be better off. Increased dividends, taxes and avoidance of losses would be more than enough to offset these payments.

Pakistan Steel is a glaring example of dillydallying in the decision-making process — with the plant shut down, losses are being incurred and foreign exchange is spent on importing steel products.

The common citizen sees the economy from his own prism — livelihood, children's education, healthcare, potable water, clean sewers, paved roads, inexpensive transport and cheap, speedy justice. The majority is least concerned whether or not the macro economy has stabilised, forex reserves have increased, or the tax-to-GDP ratio has gone up. Thus there's a disconnect between the country's economic managers (who previously included this writer) who proudly present these metrics as evidence of an economic rebound and the majority who feel their actual plight has not improved.

This results in mistrust and disbelief in government pronouncements, and suspicion fuelled by the opposition and media. The only sensible way to remove this mistrust is to devolve the delivery of all these services to the lowest tier of government. We have taken a step backwards from the 2001 local government system. Punjab and Sindh have concentrated all powers at the level of the provincial government after the 18th Amendment and the seventh NFC award.

The road to prosperity requires sound macroeconomic and external-sector management, energy-sector restructuring, revamping of tax policy and administration, transfer of non-strategic assets, export-sector revival and empowerment and strengthening of local governments. Can our political leaders bear the pain of sacrificing their narrow, short-term interests for the larger benefit of the majority in the medium term?

If the answer is no because of the electoral cycle's political compulsions, we would be treading the other road taking us further downhill. We have already seen the economic crisis following the 2007-08 and 2012-13 election years and should avoid the same mistakes. We are already behind Bangladesh and this road may take us behind Nepal. New governments, whether the present ruling parties or the opposition, would face another financial crisis and rush to the IMF for a bailout — and the cycle would end up repeating itself.

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