

Secondly, Pakistan carries an inherent weakness in the trade account and since 2003 the country has been running persistent and expanding trade deficits. However, in 2008 a decline in the capital inflow cover to 59 percent of the trade deficit, led to a US\$4.4 billion reduction in Pakistan's Forex reserves. This was caused by a 38 percent year on year reduction in foreign investment inflows with FDI remaining stagnant at US\$5.1 billion in 2008. Considering that G-8 countries are currently in recession while construction activity in the Middle East has slowed down, there is high likelihood that home remittances and investment inflows into Pakistan will also slowdown further in the current fiscal year as cash flows of the Pakistani expatriates are affected. Therefore, high dependence on capital inflows in the shape of remittances or foreign investment to finance the trade account deficit is no more a sustainable option. Therefore, the only viable solution to alleviate the prevailing balance of payment distress is to equilibrate the trade account. This would include serious structural reforms to spur exports through quality improvement, product and market diversification.

Thirdly, Pakistan needs to develop a proactive and integrated energy policy. This would involve utilizing all local energy resources like coal, wind power, solar and hydel power on a fast track basis. This would cushion the country from external oil price shocks in the long term. The policy should target power generation of approximately 5,000 mega watt from these sources over the next five years under a crash program. In addition, the government should also consider fixing the estimated 100k barrels of oil per day (bopd) oil import from Saudi Arabia at current price for a period of five years. This would provide the basis for reducing inflationary pressures while the real economy should benefit from a much needed boost in the form of lower input costs while domestic demand would continue channeling towards the formal sector. This would provide Pakistan relief in an already distressed balance of payments position while simultaneously preventing exposure to further commodity price shocks as seen in the past.

Furthermore, although the government has implemented an austere fiscal regime the need to resolve the circular debt issue as soon as possible becomes very important. With Pakistan's internal debt at around US\$40 billion i.e. 25 percent of GDP, the government can effectively resolve the circular debt issue by structuring five year bonds against them. This strategy was effectively followed by the government of India in the past to meet its financing needs.

In line with other commodity prices, international DAP prices have come off by 56 percent since reaching their peak of US\$1,250 per ton in September 2008 and currently stand at US\$550 per ton. This translates into a landed price of PKR2,450-2,550 per bag, vindicating the case for elimination of subsidies on DAP which should further contribute in reestablishing fiscal discipline.

Lastly, there is a need to not only pass on the entire benefit of the rapid decline in the international commodity prices onto the domestic consumers in the shape of reduced domestic prices but also to watch that the sale price is actually reduced and middleman does not take undue advantage because of his monopolistic position for e.g., as we have seen recently that the rice crop was not picked up by PASSCO at the harvesting time and middleman exploited the situation. The government has not yet completely passed on the recent rapid decline in global commodity prices. This has caused the differential between domestic and international prices to rise in the country which can have harmful consequences for the economy. This is because this differential presents a clear arbitrage opportunity to smuggle cheap commodities through the Iran/Afghanistan route. An influx of cheap smuggled commodities will be highly detrimental to the domestic manufacturing sector which is already facing high distress caused by power shortages and high financial and production costs. There is a clear need to pass on the benefit of the downturn in commodity prices which will not only lower inflationary pressures but also close an unhealthy arbitrage opportunity.

In a nutshell, the economic situation is improving. However, there are many medium to long term structural weaknesses in the economy that continue to pose risk to recovery. I have highlighted key policy challenges, which if handled carefully should accelerate the pace of recovery and growth. In every challenge lies an opportunity and while the recent measures undertaken by the Government of Pakistan lend credence to an expected gradual recovery, I believe further proactive policy response in implementing the aforementioned steps would underpin a resurgence in confidence accelerating Pakistan's overall macroeconomic well-being.

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Ten Recommendations for Economic Prosperity

Dr. Khawaja Amjad Saeed

Prelude

Pakistan's potential for growth and development is tremendous. We need to comprehend the nature of the economic problems facing our country and develop strategies for way forward. This piece addresses three aspects namely:

- ✎ Ten Prerequisites to Economic Stability
- ✎ Ten Symptoms of Economic Instability
- ✎ Ten Suggested Strategies for Way Forward

Ten Prerequisites to Economic Stability

1. Global economies of developing and developed countries are interconnected. The world has become a global village. Any major event which occurs in respect of investment flows, import and export of goods and services, movement of people across borders, perceptions developed due to terrorism and other destabilizing factors have great impact. Therefore, leadership of any country must ensure that prerequisites to economic development and stability are ensured.
2. We must establish various committees of the Parliament and support these to function impartially. Some belated work has been done and other aspects appear to be on the upcoming agenda. Therefore, whatever legal framework exists, it does not instill confidence in stakeholders.
3. A clear cut guideline for implementation must exist within an economic system. The Quaide-e-Azam had promoted an economic system based on Quran and Sunnah. In the last 62 years of our existence, we have not yet succeeded in evolving and implementing an Islamic Economic System in our country. In fact we have no clear cut economic system.
4. The 1973 Constitution of Pakistan requires the Parliament to eliminate social evils, ensure socio-economic development and guarantee the wellbeing of the people. Several articles of the Constitution have hardly been addressed.
5. A clear cut economic strategy with well defined goals and well formulated policies to serve all segments of society must be evolved and implemented.
6. Standard of living and purchasing power of the common man must be elevated to keep the economic wheel of the country moving.
7. GDP must increase with sustainability and the gap between haves and have-nots must be bridged to ensure social stability.
8. Social sectors must receive substantial budgetary allocations to ensure reserves of duly trained, well qualified human resource for socio-economic development.
9. Gini Index, highlighting declining economic disparity, must be available.
10. Unemployment levels must go down.