



# **PAKISTAN'S PERENNIAL CRISES AND LESSONS FOR DEVELOPMENT**

**ATIF MIAN**

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# **A PAPER FILLED BY BIG QUESTIONS**

- **THIS IS NOT THE KIND OF PAPER IN WHICH WE FIDDLE WITH A MODEL OR WORRY ABOUT THE IDENTIFICATION STRATEGY**
- **WHY HAS PAKISTAN PERENNIALY UNDERPERFORMED?**
- **WHY HAS IT DONE WORSE THAN INDIA OR BANGLADESH?**
- **WHAT KIND OF UNDERPERFORMANCE IS IT?**
- **THE ROLE OF STRUCTURAL FACTORS (SLOW GROWTH, CLOSED ECONOMY, WEAK PRODUCTIVITY GROWTH, POOR GOVERNANCE)**
- **THE ROLE OF MACRO FACTORS (FISCAL AND MONETARY POLICY, SEMI-FIXED EXCHANGE RATE, REGULATION AND SUPERVISION)**
- **THE POLITICAL ECONOMY OF IT ALL**

# **ONE THOUGHT CROSSED MY MIND**

- **UNLIKE THE AUTHOR AND THE OTHER DISCUSSANT, I HAVE NO EXPERTISE WHATSOEVER ON PAKISTAN**
- **BUT... PAKISTAN IS A BIT LIKE A LATIN AMERICAN COUNTRY**
- **NOT A LATAM COUNTRY OF THE 2020S, BUT THE 1960S**
- **CLOSED ECONOMY, LOTS OF EXCHANGE RESTRICTIONS, PERENNIAL FISCAL DEFICITS, EXCESSIVE MONEY CREATION, SEMI-FIXED EXCHANGE RATES, REPEATED BALANCE OF PAYMENTS CRISES**
- **LATIN AMERICA CHANGED IN THE 21ST CENTURY: THE REGION STILL HAS LOTS OF PROBLEMS, BUT MOST COUNTRIES HAVE STAYED AWAY FROM REPEATED BOP CRISES**
- **THERE MAY BE SOME LESSONS THERE FOR PAKISTAN**

# MAIN HYPOTHESES OF THE PAPER

- **PAKISTAN HAS A GOVERNANCE PROBLEM**
  - **NON-CONSOLIDATED DEMOCRACY**
  - **POLITICAL INSTABILITY AND FREQUENT EXECUTIVE ROTATION**
  - **SEESAW BETWEEN MILITARY AND CIVILIANS**
  - **SHORT-HORIZON POLICY-MAKING**
- **BAD GOVERNANCE CAUSES STRUCTURAL PROBLEMS**
  - **SUPPLY SIDE: LOW PHYSICAL AND HUMAN CAPITAL INVESTMENT**
  - **DEMAND SIDE: RELIANCE ON REMITTANCES AND DEBT-FUELED CONSUMPTION**
- **THE STRUCTURAL PROBLEMS CAUSE MACRO PROBLEMS**
  - **PERSISTENT CURRENT ACCOUNT DEFICITS**
  - **EXCESSIVE DEBT, ESPECIALLY PUBLIC DEBT**
  - **REPEATED BOP CRISES, LOTS OF IMF PROGRAMMES**
  - **IN 2022/23, THE MOTHER OF ALL CRISES: TEXTBOOK BLOWUP**

# SOME ILLUSTRATIONS: STRUCTURAL

Figure 5: Pakistan - actual versus counter-factual growth trajectories

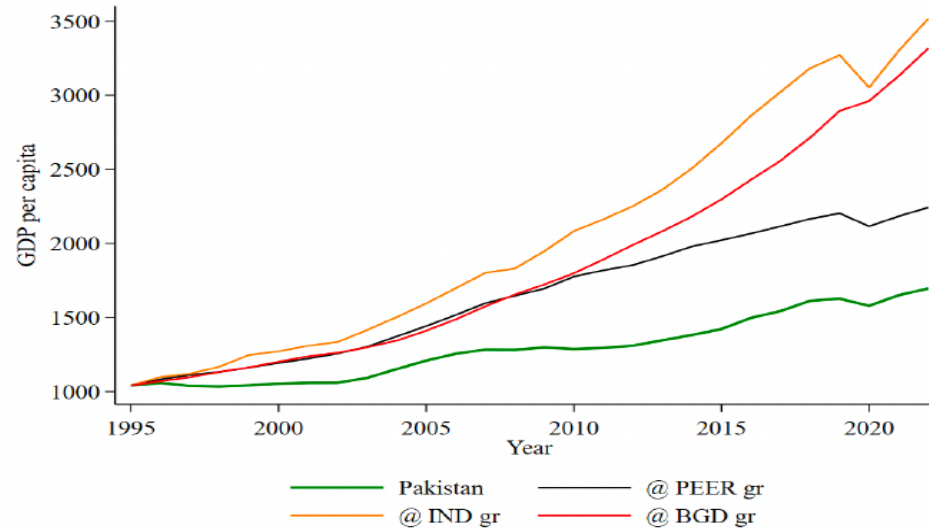
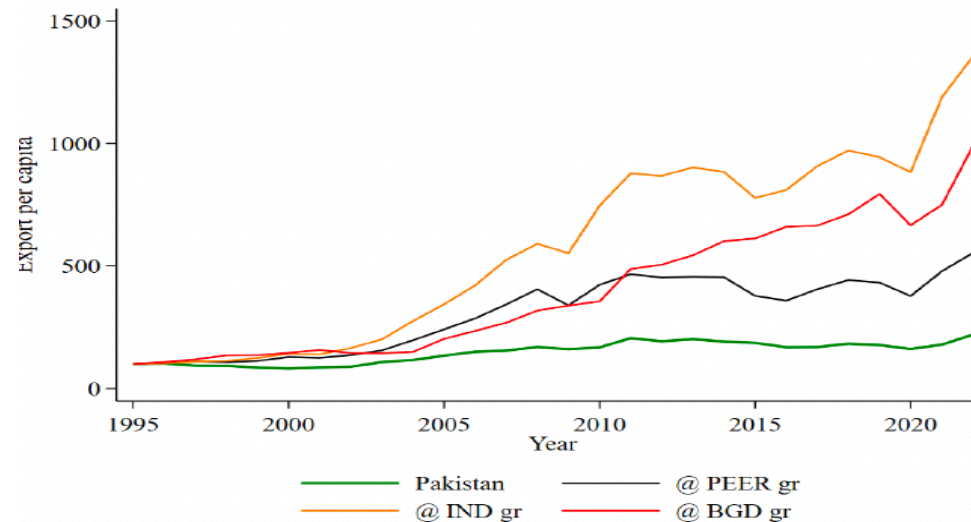
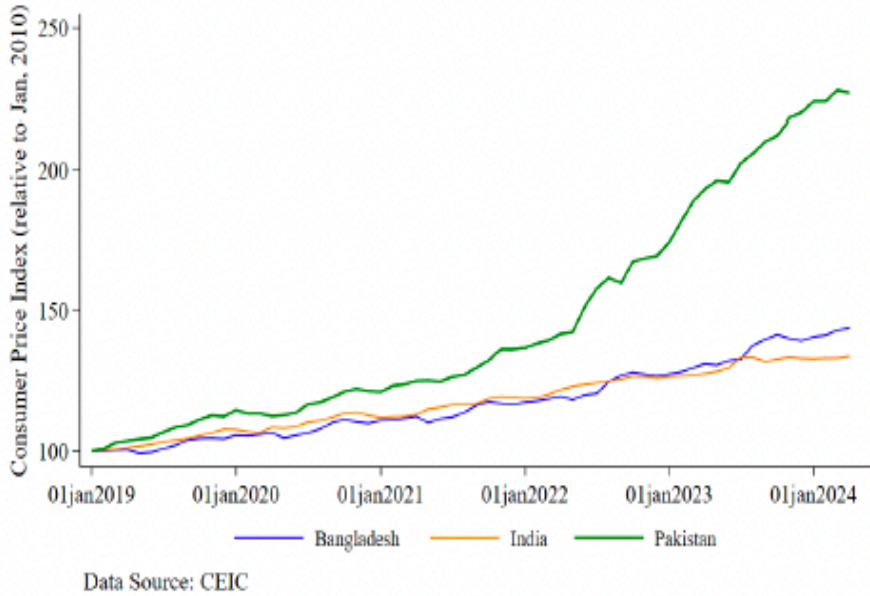
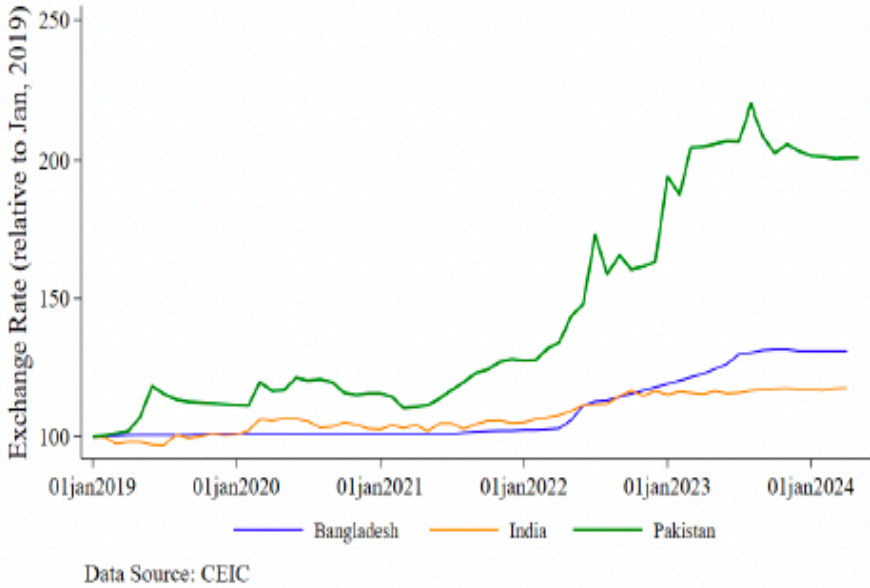


Figure 8: Pakistan's export performance



# SOME ILLUSTRATIONS: MACRO

Figure 2: Exchange Rate and Inflation



# WHAT IS TO BE DONE? 1ST BEST

- **CHANGE THE POLITICAL EQUILIBRIUM**
  - **GET THE CIVILIANS AND THE MILITARY TO AGREE TO A TRUCE**
  - **WEAKEN THE RENTIER ELITE**
  - **IMPROVE STATE CAPACITY AND POLICY-MAKING**
- **THEN, DO WHAT NEEDS TO BE DONE**
  - **RAISE TAX TAKE: 14% OF GDP!**
  - **IMPROVE PHYSICAL AND HUMAN CAPITAL INVESTMENT**
  - **TARGET EXPORT GROWTH AND DIVERSIFICATION**
  - **IMPROVE GOVERNANCE OF SOES**
  - **ELIMINATE GIVEAWAYS TO THE RICH: LAND POLICY**
- **SOLVING STRUCTURAL PROBLEMS HELPS SOLVE MACRO ISSUES**
  - **SMALLER FISCAL DEFICITS (IDEALLY, SURPLUSES)**
  - **LESS DEBT, ESPECIALLY PUBLIC DEBT**
  - **TARGET MONETARY POLICY ON INFLATION**
  - **AVOID REPEATED BOP CRISES**



**PROBLEM: WE HAVE NO  
IDEA HOW TO DO THAT**

**(MAYBE ATIF DOES, BUT I DO NOT)**



# WHAT IS TO BE DONE? 2ND BEST

- **FOCUS ON THE MOST BINDING CONSTRAINTS TO GROWTH**
  - DO NOT ATTEMPT TO REMOVE ALL CONSTRAINTS AND GO TO THE FIRST BEST
  - SIMPLY ATTEMPT TO REMOVE SOME CONSTRAINTS, WHICH IDEALLY ARE THE MOST BINDING
- **WHAT ARE BINDING CONSTRAINTS ON GROWTH IN PAKISTAN?**
  - MICRO: WEAK EXPORT PERFORMANCE
  - MACRO: CRAZY FISCAL/MONETARY POLICY MIX
- **IF LIFTING THOSE CONSTRAINTS REIGNITES GROWTH, THEN BIGGER SURPLUS MAY ALLEVIATE POLITICAL ECONOMY PROBLEM**
- **GROWTH OF THE EXPORT SECTOR CHANGES POLITICAL ECONOMY**
  - LOBBY TO AVOID OVERVALUED EXCHANGE RATES
  - LOBBY TO GET THE GOVERNMENT TO PROVIDE PUBLIC GOODS
  - CAN LEAD TO IMPROVED GOVERNMENT PERFORMANCE
  - FLEXIBLE EXCHANGE RATE INCREASE THE POLITICAL SALIENCE OF INFLATION

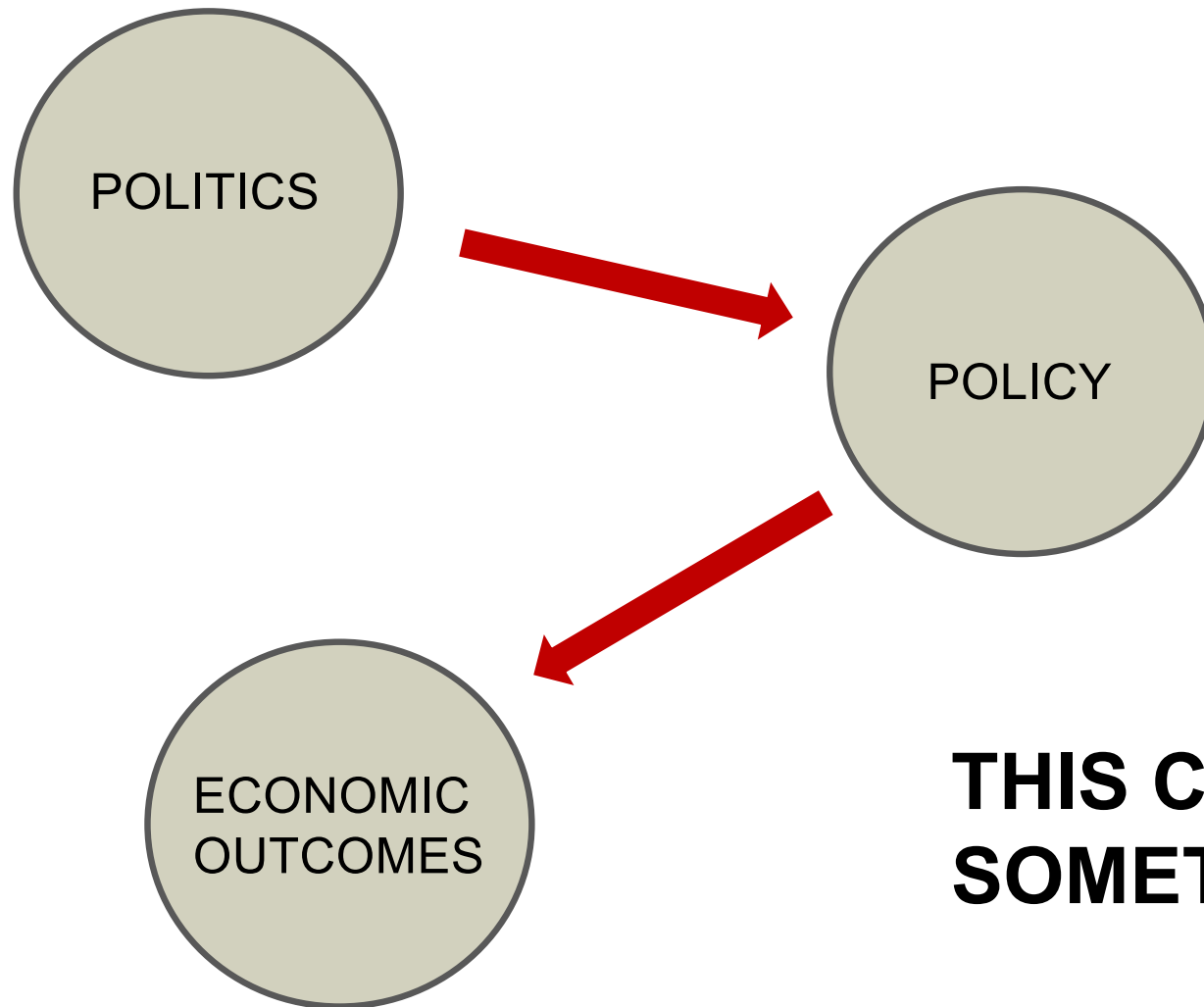
# WHAT IS TO BE DONE? MICRO

- **PLENTY OF EVIDENCE EXPORTS HAVE POSITIVE EXTERNALITIES**
  - **FIRMS LEARN, BRING GLOBAL BEST PRACTICES HOME**
  - **LIFTING THE FX CONSTRAINT ALLOWS OTHER SECTORS TO GROW**
  - **RICH COUNTRIES TEND TO EXPORT PROPORTIONALLY MORE THAN POOR COUNTRIES**
- **CAN WE TARGET SOME (A FEW) EXPORT SECTORS?**
  - **TARGETED AND LIGHT-TOUCH INDUSTRIAL POLICY**
  - **EXPORT SECTORS REQUIRE SECTOR-SPECIFIC PUBLIC GOODS**
  - **EXPORT-PROCESSING ZONES WITH SPECIAL REGIMES?**
- **START AT THE INTENSIVE MARGIN (EXISTING PRODUCTS INCREASE THEIR VOLUME), THEN MOVE TO THE EXTENSIVE MARGIN (NEW PRODUCTS START BEING EXPORTED)**
- **CAVEAT: THIS REQUIRES ABLE BUREAUCRACY**

# WHAT IS TO BE DONE? MACRO

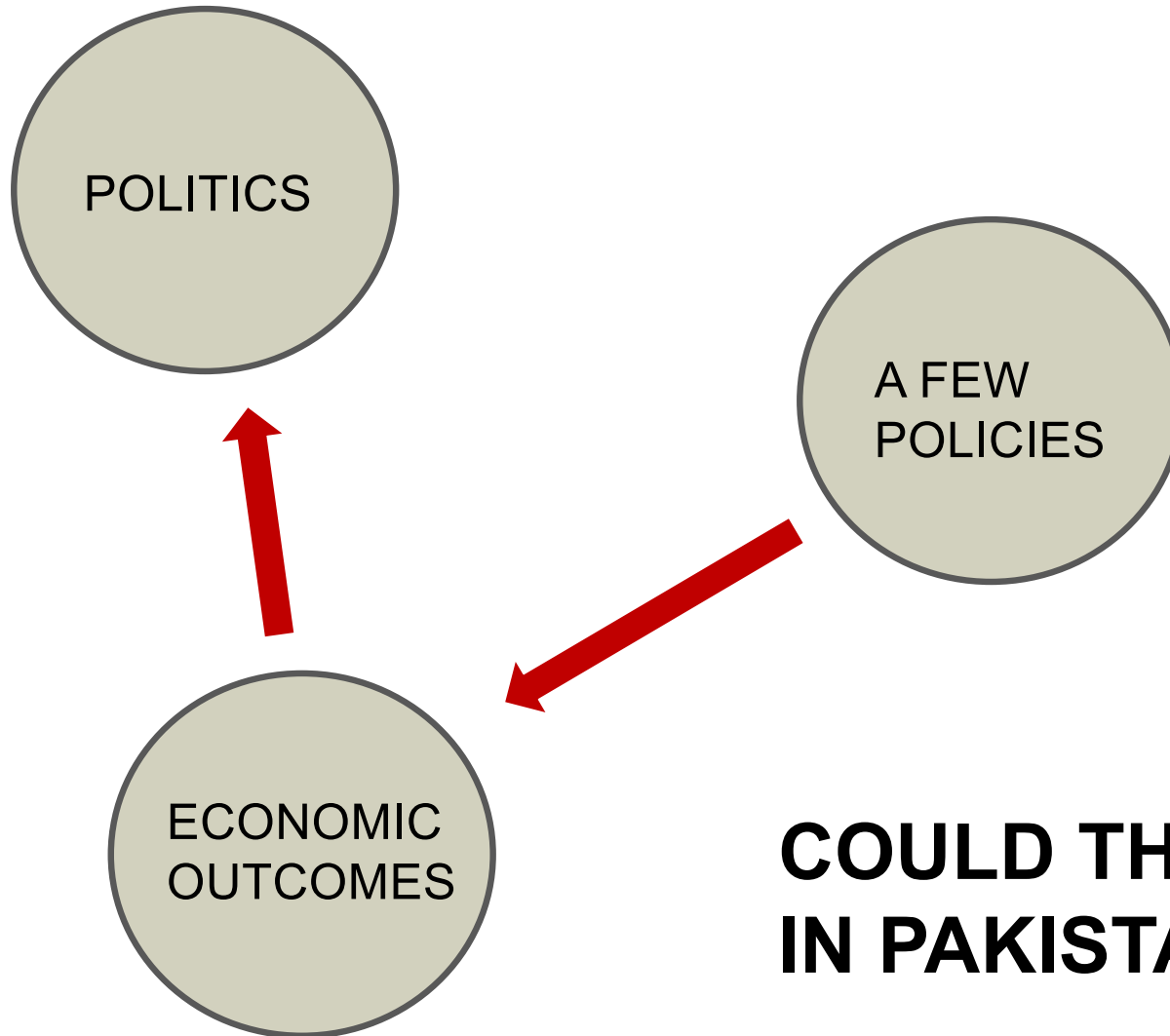
- **FIXING THE MACRO IS A NECESSARY CONDITION FOR GROWTH**
  - **IT IS NOT SUFFICIENT, BUT IT HELPS**
  - **WITH THIS MUCH VOLATILITY IN RELATIVE PRICES, EXPORT GROWTH AND INVESTMENT IN PHYSICAL CAPITAL WILL NEVER TAKE OFF**
  - **THE POLITICAL COST-BENEFIT RATIO OF MACRO STABILIZATION IS LOW**
- **THE LATIN AMERICAN EXPERIENCE**
  - **PLENTY OF GOVERNANCE AND POLITICAL ECONOMY PROBLEMS**
  - **BUT MACRO IS MUCH BETTER IN ALMOST ALL COUNTRIES**
  - **GFC AND COVID PROMPTED NO BOP CRISES**
  - **DURING COVID, MOST COUNTRIES MANAGED COUNTER-CYCLICAL MONETARY AND FISCAL POLICIES, AND KEPT MARKET ACCESS**
- **KEY MEASURES**
  - **INDEPENDENT CENTRAL BANKS (PAKISTAN IS GOING THERE)**
  - **FLOATING EXCHANGE RATES (WITH VERY OCCASIONAL INTERVENTION)**
  - **CYCLICALLY-ADJUSTED FISCAL RULES (WITH ESCAPE CLAUSES)**

# STANDARD ACCOUNT OF REFORM



**THIS CAN WORK  
SOMETIMES!**

# ALTERNATIVE ACCOUNT OF REFORM



**COULD THIS WORK  
IN PAKISTAN?**



## **COULD IT WORK IN PAKISTAN?**

**“PAKISTAN’S ECONOMIC SITUATION TODAY IS THE WORST IT HAS EVER BEEN IN TERMS OF FUTURE OUTLOOK (...) UNFORTUNATELY, THERE IS LITTLE EVIDENCE THAT THOSE IN POWER ARE WANTING TO MAKE A REAL CHANGE. FOR THE SAKE OF THEIR ALMOST TWO HUNDRED AND FIFTY MILLION CITIZENS, WHO HAVE TREMENDOUS POTENTIAL, I HOPE THEY REALIZE THERE IS A BETTER WAY.”**



**THANKS!**