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OPINION

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Last week, Pakistani Prime Minister Imran Khan inaugurated the New Pakistan Housing Project that aims to build five million houses. The next day, after weeks of dithering, his government began the formal process of approaching the International Monetary Fund (IMF) for a bailout. The public housing programme represents a down payment on the promise of fiscal largesse that ran through Khan's electoral campaign. It was an ill-considered promise that seems more so now in the cold light of the IMF's inevitable preconditions.

Back in 2016 when Pakistan completed its last IMF programme, it held over $18 billion in forex reserves. Those reserves have now halved to a level barely sufficient to cover two months' imports. A $15 billion current account deficit (CAD) then is likely to grow to $20 billion this fiscal. Add to that a likely $11.7 billion in external debt servicing and a budget deficit that was hovering at the 6.5% of gross domestic product mark around the time that the Khan government came to power. The revised budget presented last month aims to trim this to 5.1% of GDP by the end of the fiscal year. That is a tall ask and one deeply at odds with Khan's promised land of an Islamic welfare state.

China's role in this dysfunction is known. For all the rhetoric about the China-Pakistan Economic Corridor (CPEC) being transformative, it has been supply driven. This has been distortionary on multiple levels. Islamabad now finds itself holding the bag for 85 CPEC projects at various stages of planning and completion worth about $90 billion. Commercial and bilateral loans made by Chinese banks, such as the China Development Bank and Industrial and Commercial Bank of China, add to the mix. Consequently, China now holds a significant proportion of Pakistan's external debt. The experience of a number of Belt and Road Initiative countries has shown that Beijing knows how to leverage this. This will come into play as the rumblings in Islamabad about reassessing CPEC projects grow louder.

The structural problems in Pakistan's political economy, however, are more dangerous in the long run. Pakistan is a power-hungry country that has been singularly unsuccessful in meeting demand. This almost came to a head in the 1970s; hydro power from the Mangla and Tarbela dams bailed Islamabad out then. The tipping point came in the 1990s. In 1994, the Pakistan Peoples Party government under Benazir Bhutto launched a power policy aimed at privatizing the sector and attracting independent power producers (IPPs). It might have worked under a cleaner administration. Under the PPP, corruption—IPPs were given sweetheart deals guaranteeing high tariffs without competitive bidding—hollowed out the sector. It hasn't recovered since.

This had ripple effects through the economy. It has led to poor investment in resource extraction; the fact that much of those resources are in Balochistan hasn't helped. Consequently, Pakistan's energy import bill has ballooned, leaving the CAD vulnerable to exogenous shocks such as the current spike in crude prices. Shortfalls in power and high tariffs have gutted Pakistan's manufacturing base. In the 1960s, its manufactured exports were higher than those of the countries that would go on to become tiger cub economies. Today, uncompetitive and low value exports, and imported machinery mean that the balance of payments deck is stacked against it.

Lack of political stability and, consequently, coherent economic policymaking haven't helped, of course. Neither has the extractive, rent-seeking nature of the economic elite, the state among them. When the Pakistani army's Fauji Foundation, one of the country's biggest conglomerates, has stakes in the power sector, for instance, reform doesn't come easy. There have been attempts. Zia-ul-Haq moved towards deregulation, if half-heartedly. But it is no coincidence that the economy's stabilization under him ran in parallel with the Soviet-Afghan war and capital inflow from the US. Perhaps the most serious attempt at privatization, liberalization and widening the tax base was made by economist Mahbub ul-Haq who was appointed finance minister in 1985. The *ancien régime* didn't approve; he lasted less than a year. His second coming in 1988 ended in a political crisis.

This is the system the Khan government has to work within. It hasn't had an encouraging start. Its preliminary step before it appealed to the IMF—earlier this month, the State Bank of Pakistan let go of its informal rupee-dollar exchange rate band—triggered the steepest single-day depreciation ever. It will be wary in any case of a repeat of the 2008 crash brought about by a previous round of IMF-mandated belt-tightening.

Khan's Pakistan Tehreek-e-Insaf regime is between a rock and a hard place. Propped up by Rawalpindi, beholden to a religious right that compelled it to get rid of economic advisors who had the heft it sorely needs, and to a populist moment that it cannot sustain, it has shown little evidence so far that it has the chops or wherewithal to find a way out.

What can Pakistan do to bring the economy back on track? Tell us at views@livemint.com

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