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The Current Economic Situation

The problem of the balance of trade and the lack of dollars for the payment of imports is a consequence of the Capitalist economic system being implemented upon us. The balance of trade, that is the balance of exports versus imports, is the difference in what we export and import in a monetary sense. So, for example, when we import from the US, we need to pay in dollars. To pay them dollars we need to export so that people pay us in dollars so that we can then pay for our imports in dollars. Because the world currency is dollars, the predominant currency in which the world trades is in dollars and, hence, most countries hold dollars. Therefore, our balance of payments status is given in terms of dollars.

Hence, the principle problem in the current context is the fact that we do not export enough, and we import too much. In the first 11 months of 2017-18, imports stood at $55.23 billion. The absolute level of exports is just $21.35 billion, paying for only 38.7 per cent of imports.

In order to be free from a balance of payments crisis, one should not need to import, and if one is importing, the distribution of what we import should not be such that we are unable to pay for our imports. This means that the economic policies of the country develop the local resources to ensure that needs are met via local production, and specifically essential needs. This is the meaning of development. Let us illustrate this practically. Asad Umar in a tweet[1] stated:

“Excellent day from a foreign investment perspective. Global Chairman Suzuki Motors visited & expressed interest in investing $450 million to expand car production in Pak & world’s biggest energy company Exxon Mobil reopened their office in Pak 27 years after leaving the country.”

Suzuki will invest $450 million to assemble cars in Pakistan, and repatriate the profits back to their homeland. The first question that one has to ask is that will the $450 million come from abroad, or will they borrow from local banks. Then all the parts of the car will be imported, so it will increase our import bill. There is no discussion of how much dollars it will generate in exports, which means that export is not the focus. Then there is no technology transfer to enable us to use our indigenous resources to design and build our own engines and parts and sell them in Pakistan. So exactly why is it an excellent day?

With Exxon Mobil opening their offices again, we all know that they will use their expertise, import their machines and then drill for oil of which we will give them a large portion. This is the model in Saudi and across the world.

Even though capitalism is a corrupt ideology, the governments of the capitalist countries have developed their indigenous technologies so that their dependency on imports is reduced. Does the US, UK, Germany or France have their oil, steel and agriculture industry developed by the Chinese?

The detail of what we import is as follows:

1. The Petroleum Group valued at $12.93 billion or 23 per cent of the total.

2. The Machinery Group comes next with a share of 19.3 per cent in the total imports. Power-generating machinery, electrical machinery and apparatus, telecom and textile machinery are the major items in the group.

3. The third group is the Agricultural and Other Chemicals Group, with a share of 14.7 per cent.

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[1] https://twitter.com/Asad_Umar/status/1067443406333517824

4. The fourth-largest group of imports is the Food Group with an expenditure of $5.72 billion to import food items. The share in total imports was 10.3 per cent.

a. Around half of the amount went to the import of edible oils and tea due to insignificant local production.

b. The other half of food import bill was on milk and its products, dry fruits and nuts, spices and pulses. Despite being among the top milk producers of the world, the country imported $252 million worth of milk and related products in 2017-18.

c. Pulses (daal) import cost the country $483 million. Domestic production of masoor has remained unchanged and that of moong has actually declined by 8.7 per cent.

5. The usual commodities, such as cars and motorcycles, cost $1.3 billion, while buses and trucks cost $581.

6. All other items claim a $4.6 billion.

The Oil Group

The subject of the sincerity of the government is indicated by the policies undertaken to not just reduce the imports and increase exports, but fundamentally develop indigenous self-sufficiency. In order to evaluate this, let us look at the policy options to reduce our oil imports.

1. Drilling for New Oil and Gas Wells.

a. There is existence of oil and gas wells around Baluchistan. The exact amount and potential is filled with disinformation, and hence difficult to estimate.

b. In Sindh, near the opening of the Indus River, proven wells of oil exist, as fossils of algae and organisms have been found in the region.

But there appears to have been no urgency on funding and finding new oil wells. Even if there was a new find, we have not developed the technology to locate, drill and extract our oil. We depend on foreign technological help to extract our own resources.

2. Alternative Energy Sources

In 2003, the government of Pakistan instituted the Alternative Energy Development Board (AEDB) to develop alternative energy sources. To date the results are as follows:

a. Pakistan has 2.9 million megawatts of solar energy potential. As per the AEDB, there are more than two dozen solar projects under various stages of development. The AEDB believes that the country’s annual cumulative solar power capacity will grow from 400MW in 2016 to 1,556MW in 2018, whilst current usage is around 22000MW. The timescales indicate the lack of urgency.

b. Pakistan’s wind corridor in the district of Thatta alone has the potential to generate up to 50,000 MWs electricity. In 2006, the then government set the target of increasing the share of wind energy to 5% in the total energy mix by 2030. The timescales indicate the lack of urgency.

c. Biodiesel is a fuel developed from vegetable oils, which are derived from plants. If Pakistan makes use of all untilled land for biodiesel manufacturing, it will yield 56 million tons of biodiesel annually, while the current demand is about 8.5 million tons. The initiatives to develop biodiesel fuel was started in 2008, with a recommendation to meeting the requirement of blending 10% of biodiesel with mineral diesel by 2025. The timescales indicate the lack of urgency.

Whether these targets come online or not (and most have not), the targets are indicative of the lack of urgency in achieving a reduced dependency on oil. Note that the CPEC power development projects were initiated and completed within 5 years, so why was the same focus not placed on these projects, which would have yielded significantly cheaper electricity? The alternative energy consumption in Germany has risen from just 3.4% in 1990 to around 34% in 2017. Hence the transition is perfectly possible.

Therefore, the potential for completely moving away from fossil fuels exists, but there has been no desire in developing the capacity.

The same method of analysis can be applied to the remainder of the import items. The issue is not about whether it is possible, the issue is the sincerity and the will. Developmental polices focus on establishing the capacity to perform the activity through completely indigenous means thereby removing any external dependency. So in the total policy declarations of Asad Umar and the government of Imran Khan, where are the policies for indigenous development?

There is an obsession within our economists and politicians about foreign direct investment (FDI). The practicality of FDI is given clearly by the CPEC agreements. Chinese investment (FDI) in which the development support will be used to build infrastructure. But the fine print[2] details that the steel, cement, trucks and even labor for CPEC will be imported from China.

According to the State Bank of Pakistan statistics, telecom companies borrowing from commercial banks reached Rs 55 billion (~$400 million) by March 2016, primarily for the expansion of their infrastructure network. So the telecom sector borrows from our banks (means our money) to develop the infrastructure to make money from us, which is then repatriated back home. According to the Business Recorder[3], there was a net outflow of $72million by the telecom operators. But no technology transfer to develop telecom equipment indigenously has taken place. Hence, all this euphoria with foreign investment is a veil hiding the repatriation of profits abroad, with government connivance.

One of the greatest economic weaknesses of Pakistan is that it remains primarily an exporter of primary commodities, such as rice, or commodity-based manufactures, such as textiles and clothing and leather products. Our top 5 exports in 2017 are shown below:

1. Miscellaneous textiles, worn clothing: US$4 billion (18.1% of total exports)
2. Cotton: $3.5 billion (16%)
3. Knit or crochet clothing, accessories: $2.5 billion (11.5%)
4. Clothing, accessories (not knit or crochet): $2.5 billion (11.3%)
5. Cereals: $1.8 billion (8%)

For several years, the textile and clothing sector has accounted for less than 5% of the global trade. Pakistan's share in global textile and clothing exports is only 1.83%. The engineering sector, accounts for nearly 60% of global trade, but accounts for merely 1.17% of Pakistan's total exports. Hence, does it make any sense in focusing our export sector to feed an already shrinking and competitive market? So where are the policies to develop the engineering sector?

In 2017-18, the share of primary products and semi-manufactured products in the country's total exports of $23.22 billion was $21.81 billion or 93.92%. In the same year, the share of vehicles, machinery and capital equipment in the country's non-energy related imports of $46.25 billion was $15.94 billion or 34.46%. So 94% of our exports paid for only 35% of our imports.

External debt servicing is a drag on national resources and leads to widening of the fiscal deficit. Where our debt service obligations are in dollars, our hard earned foreign currency has to be used to pay for them. The situation worsens when any borrowed money generates import demand. Practically this means that when the IMF loans money, the dollars will go to pay for the items that in origin generated the deficit in the first place. Further, there is no IMF conditionality to establish indigenous developmental programs for self-sufficiency. So

[2] https://www.dawn.com/news/1345741

[3] https://www.brecorder.com/2018/11/20/453674/telecoms-big-on-repatriation-short-on-fdi/

when Asad Umar said on October 21st that this will be the last IMF programme, one has to wonder is he lying and cheating us, as he must know the state of economic affairs.

Islam defines rules for managing the people's affairs that must be implemented. It is through the implementation of these rules that our indigenous capabilities will be established.

As an example the rule of Jihad necessitates the development of weapons to strike fear in the hearts of the enemy. The consequence of this obligation means the development of an indigenous defense industry. It is the same defense industry that will provide offshoots to develop cars, trucks etc. It is the same defense industry that will drive research and developments in universities that will support the strengthening of the Jihad. All the factories established to support the Jihad will be able to support all our machinery requirements, explicitly or implicitly.

The Islamic rule of not allowing agricultural land to remain untilled for more than 3 years will force all lands to yield a crop. The rule of satisfying man's basic needs of food, shelter and clothing will result in policy to grow crops to feed the population, not to grow cash crops for foreign exchange. It is established that the agricultural land of Pakistan is capable of producing 3 to 4 times as much as it currently does.

The rule of Islam with regards to public property means that Thar coal would have been mined and developed within months of its discovery, not decades. Further, the rule of Islam regarding public property means that the gold and mineral reserves in Baluchistan would have been developed to provide benefit for the people, not mined by foreigners who would be given a cut of the resources. Foreigners would be employed as individuals to provide services and technology transfer.

So the real wealth in the country are the resources that can be worked on by humans, giving rise to products that satisfy society's needs. The production of these goods requires the provision of services to develop the products and deliver them to the people. All economic activity revolves around this. It is this thinking that will lead to economic self-sufficiency.

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