

## Exclusive Talk with

## Dr. Ashfaque Hasan Khan Renowned Economist and Former Advisor to the Ministry of Finance



Currently, he is also serving as the Principal and Dean at the School of Social Sciences & Humanities, National University of Sciences & Technology (NUST)

**ICMA:** What obstacles are impeding Pakistan to become an economically self-reliant country?

**Dr. Ashfaque:** This is an excellent question and to respond to it, I will divide Pakistan's economy into two periods i.e. pre-1988-89 and post-1988-89. If we analyze the pre-1988-89 period, we would find that Pakistan's economy was doing reasonably well. Pakistan's economy grew at an average rate of over 5% per annum for almost 40 years since independence in 1947. Industries were growing robustly and there was not any significant increase in our public debt.

On the contrary, the post-1988-89 period was an altogether different decade. What was the cause of this difference? The period of 1988-89 was very historical in the global context as the former Soviet Union was defeated and had to withdraw forces from Afghanistan; subsequently, in 1991, the Soviet Union collapsed and disintegrated into different independent states. The fall of the Berlin Wall on 9th November 1989 ended the era of the cold war and the USA emerged as the sole superpower.

If you recall the period of 1987-88, in particular 1987, Operation Brasstacks took place in which India conducted a military exercise on Pakistan's border with all its war machines. General Zia ul Haq, the then President of Pakistan, visited New Delhi as part of his "cricket diplomacy" and this visit was highly successful as the Indian forces had to move back and disengaged from their military exercise at our border.

Since the nuclear tests conducted by Pakistan in May 1998, it has constantly been facing difficult times of economic implosion. Pakistan was dragged into the IMF program. From 1988 to 2022, almost 34 years (barring four years that is 2004-2008) have passed and still, we are under the IMF Program. If we compare the four years (2004 to 2008) with the thirty years when we remained under the IMF, one can see a significant difference. The thirty years of statistics show that Pakistan was not in control of its economic policies and the same continues even till present.

**Zoom Interview Session with Dr. Ashfaq Hassan Khan, Renowned Economist**


**Mr. Awais Yasin, Chairman**  
Research and Publications Committee ICMA

**Dr. Ashfaq Hassan Khan, Senior Economist**  
and Former Advisor to the Ministry of Finance

**Mr. Shehzad Ahmed Malik**  
Vice President ICMA

“ The State Bank increases the policy rate for controlling inflation; however, empirical evidence suggests that a one percent increase in the discount rate increases the inflation rate by 1.3 percent in one year ”

Pakistan has been pursuing IMF dictated policies since 1988. These policies are also known as the Washington Consensus and behind it is the new liberal economic order. Washington consensus is a consensus built among the IMF, World Bank, and the US Treasury; whose offices are located within one-kilometer premises in Washington D.C.

The Washington consensus is based on four policies viz. a tight monetary policy meaning increasing the interest rate; a tight fiscal policy meaning cutting expenditures and enhancing revenues; a market-based exchange rate means devaluing the currency and finally increasing the utility prices. Brazil, Argentina, and Chile went to the IMF during the 1970s and they are still following these four policies. Pakistan is also following these four policies since 1988 and its fate seems similar to these countries.

**ICMA:** What are the implications of these four policies of the Washington Consensus on our economy?

**Dr. Ashfaq:** We need to understand the implications of these four policies on our economy. As you know very well the combination of labor, capital, energy, and raw material lead to the production of goods. Almost 60 percent of the inputs of the Pakistani industries, on average, are being imported. When the IMF gives a condition to devalue our currency, the landed cost of all the industrial inputs goes up which leads to an increase in the cost of raw materials and the cost of production.

Secondly, to tighten monetary policy, the interest rate is raised, which in turn increases the cost of borrowing. Again the factors of production become expensive. Thirdly, increasing the prices of gas and electricity would increase the cost of production. When these policies are implemented, the pressure then comes on the industry to increase the minimum wage. All these combined increases the cost of factors of production of the industry which makes them noncompetitive in the international market. From 1988 onwards, Pakistan has been experiencing de-industrialization and as a consequence, the share of large-scale manufacturing in GDP has been shrinking. The root cause of de-industrialization in Pakistan has been the IMF Program.

The State Bank increases the policy rate for controlling inflation; however, empirical evidence suggests that a one percent increase in the discount rate increases the inflation rate by 1.3 percent in one year. In Pakistan inflation, especially the food inflation, originates from the supply side, supported by increases in the government-administered prices, whereas the interest rate is a demand-side instrument that is not meant to control inflation originating from the supply side. Wrong medicine is being used, thus slowing down growth and promoting high inflation, commonly known as stagflation.

A one percent increase in the interest rate by the SBP leads to around Rs. 200 billion increase in interest payment which ultimately increases budget deficit. During the last three years, the budget deficit has remained at 8.0 percent of GDP, on average. Similarly, when we devalue the currency by Rs 1, it increases the public debt by almost Rs. 90 billion on which the weighted average interest rate is 4 percent.

“ A one percent increase in the interest rate by the SBP leads to around Rs. 200 billion increase in interest payment which ultimately increases budget deficit ”

“ The external debt of Pakistan is around \$127 billion and almost two-thirds of these debts were accumulated during the decade of the 1990s and later in the decade from 2008 to 2018 ”

This results in a further increase in interest payments and public debt. During the period of the last Government in Pakistan, over one-third of the increase in public debt was due to the devaluation of the currency.

How can economic progress be made in a country where a high-interest rate prevails and where the public debt is persistently increasing? Joseph E. Stiglitz who, in the year 2001, received the Nobel Prize in Economics, observed that poverty prevails in those developing countries where high-interest rates exist. So, I think the only root cause is the IMF program and my humble suggestion would be that we should not go to the IMF for seeking financial support. I remember that in Sept 2018, I had requested the then Prime Minister not to go to the IMF otherwise in just one or one and half years he would lose his popularity but ultimately we were dragged into the IMF program. IMF program has two outcomes; debt and poverty. These outcomes have become our fortune which has been carried forward since 1988.

Dr. Ishrat Hussain had observed that the decade of the 1990s was the 'lost decade for Pakistan' and in my view the decade of 2008 to 2018 was the second lost decade for the country. Can we afford yet another lost decade? Certainly not but unfortunately we are moving in the same direction.

The external debt of Pakistan is around \$127 billion and almost two-thirds of these debts were accumulated during

“ People do not prefer to come into the tax net as they observe that the existing taxpayers are much perturbed over the frequent receipt of notices from the FBR. So, they avoid disclosing their actual income and keep themselves out of the tax net ”

the decade of the 1990s and later in the decade from 2008 to 2018. The previous government also added around \$27 billion to \$28 billion to the debt in its three years. From 2008 to 2018, around \$50 billion was added and it seems that we would be adding another \$50 billion in the current decade. In this scenario, how can we come out of the debt trap and make our own policies? It seems that we would remain under IMF influence in the future as well.

**ICMA:** How do you see the role of international lending institutions in keeping Pakistan a debt-ridden country? Who is responsible, they or our policymakers and successive Governments?

**Dr. Ashfaq:** I have dealt with these international lending agencies for eleven years in the Ministry of Finance and my observation is that they gradually drag us to take loans from them by first providing funds for doing research on projects. This funding not only brings money but also attached benefits that create an urge in our bureaucracy to sign agreements for their personal interests.

“ Every year, FBR publishes a Tax Directory yet no one is notified to pay their due taxes. When the writ of the State becomes weak, every person will try to evade tax ”

People often say that if you do not accept the IMF program, the World Bank and the ADB will not provide you with loans. This is a wrong perception. During the 1990s, the IMF program was interrupted several times yet they did not stop lending to our country. From 2004 to 2008 during General Musharraf's tenure, we were not part of the IMF but still, loans were received from the World Bank and the ADB. Unfortunately, an ecosystem of the IMF has been developed in Islamabad that keeps the government under pressure. It is in the interest of these donor agencies to give loans as their performance evaluation in Manila or Washington is based on how many loans they have disbursed during their tenure.

**ICMA:** Do you agree that there is massive tax evasion in every sector of the economy? What measures need to be taken by the Government to enhance tax revenues, especially from tax evaders and those paying fewer taxes than their potential?

**Dr. Ashfaq:** People do not prefer to come into the tax net as they observe that the existing taxpayers are much perturbed over the frequent receipt of notices from the FBR. So, they avoid disclosing their actual income and keep themselves out of the tax net.

“ My suggestion is to alternately create a Pakistan Revenue Authority (PRA) where qualified graduates and post-graduates in the disciplines of accountancy, economics, law, public policy, etc. may be inducted after taking the competitive examination and the successful candidates may then be given specialized training and posted in the PRA ”

They know well that if they pay fewer taxes, they will not be questioned by the tax authority. Further, we also do not have a proper audit system in our country. This is how our system is built and continues to move with a faulty system. The Government does not have any clear strategy to get hold of the tax evaders and extract actual tax from them.

Secondly, to convince the people about their moral obligation to pay their due share of taxes, it is of utmost importance that the Prime Minister of the country should himself pay the right amount of tax. This would set an example for his cabinet Ministers and other parliamentarians to follow the suit. Only then the government will have the moral authority to ask the people to pay their taxes. Unfortunately, this is not so.

Every year, FBR publishes a Tax Directory yet no one is notified to pay their due taxes. When the writ of the State becomes weak, every person will try to evade tax. Secondly, the income tax return filing system is very cumbersome and the reason behind this is that a simplified tax return filing system does not suit those vested elements within the bureaucracy who intend to run their post-retirement tax consultancy firms.

The previous government aimed to achieve a Point of Sales (POS) of 500,000 big departmental stores and shopping malls but as per my knowledge so far only 4,500 have been registered. Why couldn't they achieve the target? There is resistance from inside the tax authority and that the IT system doesn't work well. Although around the world there is limited contact between the tax collector and taxpayer and taxes are filed through the electronic system so the POS system is very good but unfortunately our system is weak which needs radical reform.

My suggestion is to alternately create a Pakistan Revenue Authority (PRA) where qualified graduates and post-graduates in the disciplines of accountancy, economics, law, public policy, etc. may be inducted after taking the competitive examination and the successful candidates may then be given specialized training and posted in the PRA. If we hired say 1000 candidates annually then in only 3 to 4 years we can build a new tax administration. I am not saying that we should fire the existing employees, rather they may be readjusted in other government departments wherever required. So, there is a big structural problem in our tax system and this could not be rectified by taking small corrective measures.

**ICMA:** ICMA has been suggesting to the Federal Government to bring a fixed tax system for the small businesses instead of a POS system to ease their operations and generate revenue. However, these suggestions are not being considered favorably. What are your views in this regard?

**Dr. Ashfaq:** I would like to say it again that the POS system will not be successful due to the lack of interest of the tax authority as they are more accustomed to the status quo and a technology-based tax collection system is not in their interest. If you keep increasing the tax rate, you will lose taxpayers.

**ICMA:** Why our Government is not realizing that going to the IMF will not resolve our economic issues. Why can't we curtail our government expenses and increase revenue to meet our development needs?

**Dr. Ashfaq:** The short answer to this question is that the governments are forced to go to the IMF and some people are strategically placed in the government who drag the government to the IMF to take loans. I advised the former Prime Minister not to go to the IMF but he also had to succumb to the pressure.

“ I would like to say it again that the POS system will not be successful due to the lack of interest of the tax authority as they are more accustomed to the status quo and a technology-based tax collection system is not in their interest ”



“

To correct our economy, we need to make our economic policies by engaging sincere and well-versed people in the country. We are only implementing the given policies of the foreign donor agencies

”

To correct our economy, we need to make our economic policies by engaging sincere and well-versed people in the country. We are only implementing the given policies of the foreign donor agencies.

**ICMA:** What should be the priority areas in the upcoming Federal budget to achieve industrial growth?

**Dr. Ashfaq:** We all know that the country is going through an uncertain period. Political instability always leads to economic instability and vice versa. To achieve rapid economic progress, we need to first bring down the political temperature and resolve political instability as soon as possible. Otherwise, providing incentives in the coming budget would be useless and irrelevant as our industry and investors are presently in the 'wait and see' mode due to the current uncertain political scenario in our country. I am not a political person so I can only say that without political stability we cannot achieve economic progress.

**ICMA:** What are your proposals for reducing the huge trade deficit? Can we go for import substitution industries to curtail our imports which have been persistently increasing?

**Dr. Ashfaq:** Import substitution is a medium to long-term measure. In the short term, we need to focus on how to earn and save the dollar. A dollar saved is a dollar earned. I would suggest that a Committee may be constituted with the task to identify those imported items which are fast-moving, of high value, and non-essential. It is a pity that a country that faces a BOP crisis is importing BMW cars and food and shampoos for cats and dogs. I think 15 non-essential imports can easily be omitted from which we can save almost \$10 billion, which means we have earned \$10 billion. This is a short-term measure.

Now, in the medium to long term, we must establish a "Permanent Commission on Import Substitution" to be headed by a leading private sector industrialist and comprising representatives of key industries and relevant government ministries. Its primary objective should be to

identify those imported items which could be produced locally and what initiatives need to be taken, including tax and other incentives, to encourage the setting up of such industries in the country. For instance, we can go for the production of palm oil locally instead of its bulk import. Similarly, we have installed coal-based power plants for which we are importing coal. The coal prices have increased manifold in the international market and it would not be feasible for our energy plants to remain sustainable. We should, instead, utilize the coal in the Thar region to save dollars. Similarly, we also need to use renewable energy. Wind Mills can be installed in Gharo, Sindh region.

**Awais Yasin:** What's your point of view on decreasing imports and increasing exports, in particular, how can there be betterment in agriculture self-reliance as Pakistan is an agricultural-based country?

**Dr. Ashfaq:** First of all, if all countries are self-reliant how can there be international trade? International trade occurs only if we cannot locally produce cost-effectively so in turn, we trade. Every country has its competitive advantage.

“

We are in CPEC but have we asked Chinese experts about how we can increase our agricultural yields. The reason is that we are ourselves not willing to improve agriculture output

”

As far as agriculture is concerned, I may say that in the year 2010 per capita availability of wheat was 145 kg per person but today it has decreased to 110 kg per person during the last 12 years. Just like this, Pakistan also produced 13m-14m cotton bales but today it has come down to 7-8 million bales. I appealed several times to the former Prime Minister to enquire about this as to what went wrong. But no action was taken. We are in CPEC but have we asked Chinese experts about how we can increase our agricultural yields. The reason is that we are ourselves not willing to improve agriculture output. That's how a country's economy declines.

**At the conclusion of the interview, the Chairman R&P Committee invited Dr. Ashfaq Hasan Khan at the ICMA for a lecture to students which he very kindly accepted.**

*The Editorial Board thanks Dr. Ashfaq Hasan Khan, Renowned Economist and Former Advisor to the Ministry of Finance for giving his exclusive interview for Management Accountant Journal.*