

THE BROOKINGS INSTITUTION

WEBINAR

PAKISTAN'S ECONOMIC CRISIS

WASHINGTON, D.C.

Wednesday, February 1, 2023

INTRODUCTION:

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DISCUSSION:

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**Suzanne Maloney:** Good morning from all of us here at the Brookings Institution. I'm Suzanne Maloney, vice president and director of foreign policy here at Brookings. And I'm delighted to welcome you on behalf of foreign policy and our Center for Middle East Policy to today's event on Pakistan's economic crisis. We welcome the chance to gather virtually today for such an important conversation on the many challenges facing Pakistan. 2022 was a very difficult year for the country, with catastrophic flooding, political turmoil and economic crisis. Pakistan has been dealing with backbreaking inflation and dwindling foreign reserves. Our conversation today is an opportunity to explore how the country might address its deep economic challenges in 2023 and in the longer term.

I couldn't imagine a better panel to discuss this pressing topic. Miftah Ismail brings firsthand expertise with the challenges we'll be discussing today as he served as finance minister of Pakistan from April to September of 2022 and previously served in the same position in 2018. Joining him on screen is Atif Mian, the John H. Laporte, Jr. Class of 1967 professor of economics at Princeton University. Finally, moderating today's conversation is our own Madiha Afzal, fellow in the Center for Middle East Policy and here at foreign policy at Brookings. We'll be taking questions from viewers which can be submitted via email to events at Brookings dot edu or via Twitter at hashtag Pakistan economy. With that, I'll hand the mic over to Madiha and welcome the start of this wonderful event.

**Madiha Afzal:** Good morning, everyone. Many thanks, Suzanne. Good morning to everyone tuning in. I am delighted to hold this important discussion at such a critical time for Pakistan with two such esteemed speakers. Just an additional word on each of the speakers. First, Miftah Ismail, Dr. Ismail not only was a finance minister of Pakistan last year and before that in 2018, he also brings excellent academic insight into the policy debate in Pakistan with a Ph.D. from the Wharton School at the University of Pennsylvania. Dr. Mian, Dr. Atif Mian, professor at Princeton, brings insight to these very topics from both a wide as well as very deep perspective. He is the coauthor of a very influential book, "The House of Debt," which came out in 2014 on the Great Recession. So thank you very much to both of you for joining us today. Without further ado, I will get started on, on the discussion. I will engage the panelists with my questions for about 40 or so minutes. And then for the last 15 or so minutes, I'll weave in audience questions that we've collected. And you can, as Suzanne mentioned, email events at Brookings dot edu for your questions or submit questions via Twitter using the hashtag Pakistan economy.

I just want to set the stage before my first question with some sort of statistics about the depth of Pakistan's current economic crisis. Pakistan's foreign reserves, as Suzanne mentioned, are dwindling. They have fallen below \$3.7 billion, covers less than three weeks of, of imports. Its currency saw its largest single day devaluation last week. It's now trading at around ₹270 per U.S. dollar. Inflation in recent months has been about 25% per month, and more will follow post this devaluation. Fuel prices went up about 16% this weekend. There's a concurrent energy crisis with power outages and loadshedding. And just last week, Pakistan, Pakistan had an entire day without power across the country. Of course, this comes all on the heels of— and it started you know, it started before and has continued after— a summer of biblical floods in Pakistan, which in themselves had clear economic and humanitarian repercussions in addition to, of course, the 1700 lives lost, caused billions of dollars in infrastructure damage in the country. So Pakistanis across the board are really hurting.

The question of default comes up, and this is a question I posed to the other speakers as well. And just yesterday, Reuters reported and I'm quoting, that Pakistan could face a crunch in fuel supplies this month as banks have stopped financing and facilitating payments for imports due to depleting foreign exchange reserves. So there are severe liquidity issues here as well. As we speak, the mission of the International Monetary Fund, the IMF, is in Pakistan to resume talks that had been stalled on a loan tranche that was supposed to have come through last November, November 2022, a cap on the exchange rate had stalled the IMF talks and in some ways caused the current spiral. So having set that stage, I want to start with a very basic first question that, you know, is being discussed in Pakistan constantly these days that I'm sure those watching from there as well as elsewhere would want your views on: what are the short term causes of Pakistan's current economic crisis, if we just look through it over the last one year and then we'll delve into the longer term causes. So I'll start with Dr. Ismail.

**Atif Mian:** You're, you're.

**Madiha Afzal:** You're muted.

**Miftah Ismail:** Thank you. With the, the right now the biggest cause, of course, is that we have only three and a half billion dollars or so in reserves and we still have to pay about 9 to \$10 billion between now and the end of June. And we already have to pay about \$27 billion in the years to come. So that's the biggest problem right now in Pakistan. And the fact that we were not talking to the

IMF or not meeting IMF conditionalities that we had agreed to in a few months back made things more difficult.

But now that the IMF delegation is in Pakistan and Pakistan has taken the cap off foreign exchange reserves, off foreign exchange rates and has led rupee float against the dollar, if Pakistan is able to get IMF tranches in, and that would also start some payments from some, some loans from World Bank and Asian Development Bank, but will also start some deposits from Saudi Arabia and UAE and perhaps hopefully some, some money from China as well, then I think that we should be able to at least avert the default that is, you know, that has caused the probability of which has got a huge problems right now.

**Madiha Afzal:** Atif, turn to you, and then if you want to sort of delve on to that probability of default. Are we just kicking the can down the road? You know, will Pakistan need debt restructuring? From one source, it seems that Pakistan owes about \$73 billion by 2025, and it needs, it ultimately will need to do some kind of, engage in some kind of debt restructuring. So just over to you on sort of the proximate causes here.

**Atif Mian:** Thank you, Madiha. So your question on like the short-term causes, first, I don't think there is much of a difference between short term causes versus long term causes, first of all. I think they are pretty much the same. People often ask me, you know, if you could do three things, what would you do for Pakistan. That's the unfortunate nature of being an economist these days. In my mind, I think there's, the most important duty of a political leader, you know, political leader, no matter how competent, no matter how genius he or she might be, they also have 24 hours in a day and the need to deal with 220 million people. So the most important responsibility of leadership is to appoint competent people and team at the helm of affairs to deal with the most important issues of the day, which for Pakistan have been economic issues for a long time. But if when you are making those decisions, you choose to bring family over competence, if for all important positions, you choose to appoint your brother, your brother-in-law, your daughter and your nephews, and, you know, the line continues and so on, you cannot run a country of 220 million people like that. That's just the basic fact. So if you want to learn about the short-term cause that is literally the short-term cause of the, and we need to call it out.

What has happened in Pakistan over the last three or four months, as unfortunate as the situation was, and I was on record as saying that when this government came in, that the

responsibility for all the mess was on the hands of the previous government because they also refused to do what was their primary responsibility, which again, was to appoint a competent team, who understood the issues, who could handle the issues, and who could speak credibly with the international world, so they actually believe in what they say. Instead, the previous government appointed people with the only requirement, it seemed to me, at least from the outside, was how boisterous can you be, how good you are in name calling and that sort of stuff. I understand there might be a space for that in the political arena in some quarters, but again, when you are talking about very important questions such as the economic lives of 220 million people and the country is in such a mess, you better appoint people who have some level of competence.

So I think I you know, obviously I didn't go into the details in terms of how tax policy should be, how exchange rate policy should be and so on. And many people have talked about that already, so I don't want to beat the drum again, but I want to highlight one main issue in my mind. And unless the leadership understands this and they are willing to take serious decisions in terms of understanding their responsibility in appointing someone with some level of credibility and competence, I mean, what useful purpose will it serve, Madiha, if you and I will sit here and talk about what needs to be done. You know, who is in charge and what kind of credibility and competence they have. I mean, you tell me. Sorry to put you on the spot, but does it make any difference? So that's why we must talk about the deeper reason we are in this today.

Let me now come to, actually let me push on this a little bit more, because I do want to compare you know, you can say about dynastic politics, which is obviously a theme here. But dynastic politics is not only here in Pakistan, it's there in South Asia as well. But again, there is a level of how far you push dynastic politics. In India, for example, where the Nehru dynasty has been in power or what used to be in power for a long time, but even they understood in the nineties, early nineties, that to turn the country around, they need competent people. Who did they bring in? They bring in people like Manmohan Singh, a very accomplished, respectable person. He did not even share the religion of the main people. They didn't care. They appointed him. For appointing people as State bank governor, they pick people of the caliber of Raghuram Rajan. You can't get any better than that.

I mean, this is how countries turn around. This is why I keep coming back to what kind of people you appoint in important positions. In the case of Bangladesh, another country with dynastic politics, we know Hasina's in power, but who has she appointed in positions of power out of her

family? I don't know of a single one. I don't think that her children are even living in Bangladesh or holding any powerful position. The only other country I can think of with this level of incompetence at the top is Sri Lanka. And what happened to Sri Lanka. So this is the short-term cause, and this is the long term cause as well, whether we like it or not.

Now, let me move to your other very important question of debt restructuring. And I want to make, I think a very important point that gets missed when we quote these numbers \$100 billion in debt, for example, or as you very rightly put in \$70 billion that is due in financing in the next few years, the debt that we have is much more than that. Because debt means the liabilities that you have on your head that you, those are fixed liabilities that you must pay back because of obligations that you have, and you just don't have enough revenue to pay for those. Let me just give you one example of that. You mentioned the fuel shortage. You can go and you can look at recent history, last year or so, let's say, and compare the price of petrol or gas in Pakistan relative to the rest of the world. What you will find is that in dollar, Pakistan actually has been selling petrol at cheaper prices than the average price in the rest of the world.

So the question we must ask ourselves is, despite selling petrol at possibly the cheapest price we can, why do we still have a shortage? Why do we still have these power breakdowns and failures? We have the capacity to produce power, but why can we not produce it? The reason is because we cannot afford it. So this brings me to the second very important issue in question, which is the lack of productivity and productive capacity in Pakistan. I've already taken a lot of the time, but if you allow me, at some point, I'll talk more about that as well.

**Madiha Afzal:** Excellent, that, that, you know, really sort of highlighting the, the personnel issue in some ways, you know, is something that doesn't really get talked about much. And I'll turn over to you, Miftah, for any response you have for the short term as well as the long-term causes. And then I do want to drill into those long term causes this this question of low productivity, because this is you know, that that's sort of the, the two buzzwords. Right? But they're not really buzzwords, they're actually the, the real problem, low productivity, poor governance. They keep coming up. But I want to turn over to you to see how you would address these issues.

**Miftah Ismail:** I would just add to Atif was saying and just say that when we came in power in April and had gone to Saudi Arabia to, among other things, asked for some deposits, at that point we were selling diesel in Pakistan cheaper than Saudi Arabia. And we were selling petrol and diesel both

cheaper than the UAE. So it's not just the average of the world. I mean, we were selling cheaper than Saudi Arabia and UAE. And even today, after the 16% increase in prices, our fuel prices are still cheaper than India, for instance, and I think perhaps even cheaper than Bangladesh. And what that does is actually then it actually then increases demand so that then you have to spend a lot of foreign exchange to to buy this. And, you know, this is something that the state bank and myself had been, you know, saying that, you know, to, to increase the prices domestically so that the demand would be curtailed and hence, you know, our foreign exchange going for imports of fuel would be less.

**Madiha Afzal:** This brings me to the question of political dynamics. You know, I think you both touched on, on this a little bit. But, you know, I'll pose this question, how do Pakistan's political dynamics, its sort of perennial state of political instability, you know, there was a vote of no confidence last year. Only two governments have completed their constitutionally mandated terms in office in Pakistan's history, one elected in 2008, one elected in 2013. Even those prime ministers did not complete their, their full terms. So how do Pakistan's political dynamics contribute to its economic troubles? You know, one example that I can see just right off the bat, you talked about fuel prices. The fuel subsidy was partly politically motivated. You know, this, this capping of the exchange rate decision that has led to the current economic spiral. That is politically motivated. There's an election coming up this year. So how would you relate politics to the, to the economy? And then I'd like to delve in a little bit more into those, those longer-term roots.

**Atif Mian:** Madiha, the political pressures and incentives that you talked about elections coming up so you want to give subsidies and things of that nature, that's, of course, is true everywhere. You know, it's not a problem that is unique to Pakistan. Indian elections have the same issue. Bangladesh elections have the same issue and so on. So the question is, why is it that we are particularly, you know, exposed to these kind of temptations? Again, I will go back to, you know, at the end of the day, society has to govern itself. And we can talk, you know, there is, has to be some level of responsibility of those in charge. That's why I started off with the appointment of competent people at at least some positions, if not most of them. And the question is, where does that awareness and responsibility lie and what have those individuals done? I mean, I've already maybe bashed the two main political parties, so but, but I think they are responsible.

But let's also on the political instability question, focus on sort of the establishment side of Pakistan, right. General Bajwa are no longer there, but there was an explicit acknowledgment through

a press conference that, yes, we had been interfering in the political cycles in the past at least. He problem is never to do it again. God knows if that promise will ever be fulfilled, but we know that they acknowledge the past. It's totally unconstitutional. It's totally illegal. You know, all the stories from all the political scandals that are left and right, somebody being dragged to court, somebody being dragged who, what was the point of all of that after 20, 30 years, if you and I were to sit down and analyze, has that gotten rid of any of the maladies that the society or the country faces? It was all a show, a show done to leverage political gains through using instruments of the state, from the courts to the police to violence and so on. If people at the top do not understand their responsibility, I just don't understand what people like you and I can say and do.

But they acknowledged it, as I said in that press conference, they acknowledge that that's what we have been doing in the past. And the issue is the question is, if you don't accept the truth, if you do not face the facts, if you do not take at least some level of responsibility for the very basic things that you're supposed to do, again, like appointing people who have a level of credibility and competence, the rest of the world is not going to take you seriously. And this is one of the big problems Pakistan is facing right now. Making boisterous statements that we will look IMF in the eye, and they will know what metal we are made of. Well, we know the answer to that now, don't we? You know, the next thing that is going to happen in Pakistan is when it does go into the IMF program, because it has to, there is just no other way around it, people will blame IMF policies and IMF programs. And some of that might be right, might be genuine. But the more important question is, do we have a Pakistan plan or not? I have never seen a Pakistan plan. From any political party that is, you know, worth the paper it is written on. So those are the realities.

**Madiha Afzal:** Miftah, do you want to jump in?

**Miftah Ismail:** I mean, I think that what Atif said is largely true, I would just add that one reason why we have these, you know, political cycles, the political business cycle is also because politicians feel that they have very limited space. So they're always looking behind their shoulders and hence they don't think that they have the time or the space to make difficult decisions. Maybe the first year for government, they make difficult decisions. But you know, in 2014, for instance, you know, there was a sit in against government. You know, Imran Khan sat in 126 days and all that stuff. So it during that time and people only got one year really of peaceful governance and after that there was a



lot of political pressure on that. So that's, you know that's always going on at the same time and that limits the pressure.

But I want to just add one other thing and Atif is right, you know, about competence or lack thereof in Pakistan. But, but, you know, sometimes I feel that even the even the total is less than the sum of the parts, that even if you have competent people, you know, and you put them in a room, the decisions that we make are just not, you know, the right decisions. And I now feel that Pakistan probably has one of the worst governance in the world. Nothing gets done. I mean, nothing gets done. My favorite example is that of a power sector deficit, you know, circular debt, what we got in Pakistan, actually. It's been going on since Musharraf's time. And, you know, every government comes, Musharraf left at 100 billion, People's Party left at 500 billion, we left 1100 billion, PTI left it at 2300 billion. And it keeps going and nobody's been able to address it. So. So there is a lack of competence, yes. And sometimes serious lack of understanding, certainly of economics, but also the governance systems are such in Pakistan because of accountability and toxicity in the process and all that stuff, that even when there are competent people, there is very little room that they have to get anything done.

**Madiha Afzal:** So you've both pointed to, you know, really important points on sort of the politics and the establishment side of things. I just want to, you know, sort of highlight them, you know, the lack of space to get anything done, because there's constantly, you're looking over your shoulder to see if the opposition is, is basically out to get you. And that has been egged on by the establishment, of course, throughout Pakistan's history. It's a, it's a dynamic where it's not just the incumbent and the opposition, but the establishment in the background playing both against each other. And then the other thing, you know, Atif you pointed to the establishment. The other thing is that, you know, it's a reality that Pakistan's military has been dominant through the decades in the country, even when it's not ruling directly. And it has been preoccupied with strategic concerns as opposed to, you know, focusing on the economy. I think only very recently has Pakistan explicitly shifted to a realization that the economy matters. You know, we are looking at a geoeconomics model is, you know, the previous chief of Army staff words. But, but that's, in my view, taken a toll. And I welcome your your your thoughts on, on that.

I do want to go back to sort of the longer term, you know, causes. And, you know, Atif if you want to jump in here on sort of the question of low productivity, the question of the tax base, the

question of poor governance, if you wanted to sort of expand on those issues a little bit so that when we come to solutions, we know what we're trying to fix.

**Atif Mian:** Yeah, sure. I've already said, right, the core long term issue is productivity and productive capacity. But let's dive a little deeper into what constitutes productivity and productive capacity in an economy. In fact, Miftah also highlighted the issues of governance and so on. The reality of what an economy is that it's a function of people coming together. So that the sum is bigger than the parts, not less than the part, as Miftah has said. The question is how does that happen? It happens through what we technically sort of use terms like complementarities and externalities and so on. But in simple words, what that means is that people have ways of connecting themselves, connecting among themselves to form complex institutions like firms, like local governments, like provincial governments, like federal governments, and so on. And one of the most important ingredient, as we are coming together to form these entities that ultimately lead to productivity, to value added stuff and so on, is that people with knowledge, who, who have the highest productivity, are willing to stay in your country and to come to your country.

Okay. Let me give you a few anecdotes. You know, I just don't like to talk in terms of abstract. And, you know, as much as I like writing models and so on. But we sometimes just need to say things very simply. And I can just tell you some stories and you'll understand why we don't have productive capacity. There's one person I know who happens to be a Hindu from Sindh, very well educated, a specialist. He wanted to set up a sort of a medical facility in the village that he grew up in. But he was a Hindu. You know all the reasons why he couldn't do that. So he ended up setting this up somewhere else outside of Pakistan. I know another, I know of another physician specialist trained in the US. His father told him, I didn't raise you for you live and serve other people. You better come back to Pakistan and serve your own people. So he did. He came back and he served in a small town in Sindh. You know, small town, not in Karachi, Lahore. You know what happened to him? He was targeted and killed because he happened to be an Ahmadiyya. I know of other stories. A classmate of mine, his father, a competent civil servant, was murdered in daylight because he happened to be a Shia. And I can continue to go on, this is just me knowing people personally, Madiha, multiplied with how many stories you know of and other people might know of.

If we are not willing to take this issue on, nobody talks about it in. Now we are willing to, we have gotten the courage to talk about establishment, but nobody will talk about this issue, I promise

you, our journalists will not talk about it. Certainly our politicians will not. But a society with this level of intolerance and violence that we have engineered, we have no one else to blame. I grew up in that country. I know exactly what we were taught, how we were taught, the lies we have been told, the lies we continue to get told. Economy does not live in an abstract. It's not an equation that I can fax to the Ministry of Finance and they can run it, and GDP will come out the other end. An economy exists in a society, in social structures where people have some peace of mind.

I mean, I haven't even, even talked about women. If there is bright light in Pakistan, it is what women have achieved over the last 20 years in education and so on. But what are we doing to them? Do you see women in positions of power, in positions of leadership? No. Even though they are, you know, they are twice as likely to get an A-grade as boys or men. But I don't think we have even half the women in positions of leadership. We have should have at least two times the positions that men have in positions of leadership. There was a recent story right now where someone blocked a woman who had talked in the exam that was required for position to lead the Directorate of Hajj believe. And some cleric basically was blocking her appointment. That's just one example.

And so, again, if this is where productivity comes from, every productive person today, professional, the fact of the matter is they have become increasingly globally mobile. We know they can go to Canada, they can go to Australia, they can go to the Middle East, they can go to every other country, the UK and so on. You have to tell them why should they live in Pakistan, especially if they have a strike against them like they are a woman. Or they don't subscribe to the right school of thought or the official school of thought. You cannot run a country like that. You cannot develop a productive capacity without dealing with those issues. So the question is, are we willing to deal with those issues?

**Madiha Afzal:** Those are those are, those are the big questions. I mean, you've really sort of brought in the third layer to this discussion of, you know, productivity comes from people. And if we are not using all our people, if Pakistan is not using its women, its minorities, then, then it can, then is going to suffer from that. I want to turn to you Miftah on any response that you might have on that. And then again, your take on the, on the longer-term roots. I mean, Pakistan has been in one IMF program after the other, right. You know, these are you know, an IMF program is not a one off for Pakistan. That in itself is an indication of economic malaise. You know, where do you think it comes from?

**Miftah Ismail:** Well, I mean, as I was saying before and I mean, I agree, again, I agree with Atif, but as I was saying before that. I mean, you know, we have a very ineffective government. I mean, look at population growth, for instance. We, we produce 55.5 million babies every year. You know, that's second highest after India, actually almost as much as, in fact, slightly more than China. So, I mean, you have, you know, population growing by 5 point, newborn kids being, you know, 5.5 million new kids being born, population growing by 4.5 million people. You know, we just don't have the infrastructure and the capacity to, to feed these people or to educate these people. Half of the children of school-going age in Pakistan are not in school. 40% of Pakistani kids are stunted, another 17% are [inaudible] and another 28% are malnourished. So, so, you know, there are like 86% of Pakistani kids are underweight. And now if a child has not had a dinner last, in the last evening, you're not going to be able to teach them anything this morning.

So, you know, I mean, I think about 60% of Pakistanis have family income of less than ₹40,000 a month. So, I mean, we are desperately poor. You know, 80 million Pakistanis are now living below the poverty line. So, I mean, you know, but this country has done nothing. I know of nothing being done in the last 20 years about population control. Other Islamic societies, Muslim societies, Bangladesh, Tunisia, other countries, they've been able to do it. Iran has been able to do it. We can't do it. Pakistan has the second worst infant mortality rate after Lesotho, meaning of of babies dying in the first four weeks of their life.

So, so that's another issue. You know, and in terms of our competitiveness, I mean, our exports to GDP has been going down since the last 20 years or so. I mean, it was 16%. Now it's about 9%. You know, we can't compete with the rest of the world. And then you not training your kids. So many Pakistanis bemoan the fact that we can't export IT, whereas you know, a lot of IT is exported from India, 150 billion or so. And then we have like maybe two or 3 billion. But then you don't have, you know, good universities in the schools that are teaching kids IT. So, so we've really not, you know, been fair to our young people. And I think that one of the important things that we need to do is to, is to, is to control population. And then educate them, educate them properly. But my theory is that, you know, in terms of the government schools and government education departments, at least in two provinces, these ministries are run as employment agencies and not to educate our children. The idea I mean, the education of the children is just, you know, a thing that we used to, you know, to, to employ, to give, you know, patronage, you know, to to distribute jobs to your favorite people.

So and then what I just talked about the law and order issue, you know, intolerance, yes. And the law and order issue. I mean, and if you don't have in Pakistan, you know, foreigners coming to Pakistan, how can you export? How can you get foreign direct investment? And we've had these problems with our law and order for the last 20, 25 years. We've not been able to solve it. And it's actually getting worse. And even the Taliban is for some you can argue that it's because of our religious intolerance that this has come about. So I mean there are lots of other issues, supposedly non-economic issues that you have to solve before you get your economic right.

**Madiha Afzal:** No, that's exactly right. Insecurity, obviously, is a huge issue, and it had abated somewhat in the years after 2016, and it's back. We see this in the Peshawar bombing two days ago. You know, more than 100 people killed in a supposedly secure area of, of, of the city. And if, if and just regular policemen now are not feeling secure, I mean, they want guarantees of, of security. So that obviously impacts investment and so on as well. And you've touched upon issues of education, of health.

So let me, let me ask a question. Placing Pakistan in the South Asian context, right, Atif has mentioned India, Bangladesh, you have mentioned that. So Pakistan's GDP per capita, 2021 was 1500, about 1500 dollars. India's was about \$2,250. Bangladeshis was about \$2,450. It wasn't always this way. In 1990, going back to 1990, Pakistan had the highest GDP per capita of those three countries. Pakistan's at that point was \$495, Bangladesh's was \$324, India \$374. And that's just one point in time, of course, these varied over the years. Why has Pakistan faltered? And you have touched upon some of these issues, while its two neighbors have not, the neighbors that actually were, were all part of the same country, you know, pre-1947. Why has Pakistan faltered when its two neighbors have not. To either of you.

**Atif Mian:** Yeah. I mean, it's, you know, it's because we chose a different model. I think the trajectory Pakistan is on is maybe the closest I can think of is like Haiti, when India and Bangladesh had different countries, they chose a different model. Why do I pick Haiti? Because, you know, and we haven't, you know, whoever is in power will call them a leader, whatever. You know, they say we export our people, they send dollars back and we use that to buy things for ourselves. And we don't care about the productive capacity of the people at large. That's sort of the model that Pakistan chose to adopt, that sort of the Haitian model, if you will. And I mean, I was surprised, actually, you know, just a few years ago, two, three years ago there was this national security, some big thing, everybody

put their heads together and they came up with a plan. You know, I said Pakistan needs a plan. And I was, you know, this is what tells you that, you know, there's the lack of insight into what governs long term growth.

You know, one of the big strategies was that we will promote remittances as an engine of growth. I mean, I don't know where to start. Even the accounting is not done properly if you think about GDP actually is. I think this is just transferred, you cannot grow like that. And so there is just even the misunderstanding of, you know, remittances is actually, could even be bad for you. You need to unwind some of the negative effects of remittances. But, you know, [inaudible] you know, I mean, this is why I go back to the fundamental issues as to, but I knew all of these questions are coming, it's not the first time I've been invited to this Pakistan in crisis seminar, Madiha. And so you have to just start with the honest truth.

Let me just close on this. I just want to say something personally to Miftah's term. I think in my adult life, for the first time, I saw a finance minister who did three things that I've not seen anyone do all three at least together. The first one, he spoke the truth, just being honest with his people when he was in a position of power. Our people, when they're in a position of power, they tell lies, they try to deceive people, they try to blame the guy before them. He just spoke the truth, telling people that the situation as it is. Number one. Number two, he actually showed that he cared about the people. I actually I mean it's just a simple thing. All these boisterous talks, you know, do you genuinely care about the poor child who's dying at the highest rate in the world. He actually showed that he cared. And perhaps most importantly, he put the country over party and politics. And, you know, more power to him. It doesn't matter how long you stay in a job, it's how you, how you how you deal with it. So I just wanted to say that at the person level, thank you.

**Miftah Ismail** Thank you.

**Madiha Afzal** I completely second that. I think you couldn't have put it better—.

**Miftah Ismail** I wanted him to go on more, but.

**Madiha Afzal** In a very bleak year, you know, it was, the way you led from that position was a, was a, it was a bright spot. And Pakistan, once seemed, it seemed, had averted crises in August when that first IMF tranche came through, only to plunge into an even deeper crisis after that now and we're seeing sort of the results of that. So, so let let's if you want to add anything on sort of the comparative perspective and then—.

**Miftah Ismail** I just wanted to, I just wanted to say one other thing. I mean, that that Bangladesh and, and India and I'm not absolving our mistakes, but, but Bangladesh and India were not Afghanistan's immediate neighbors, and the effect of the war in Afghanistan has really been very pernicious on Pakistan. I mean, I mean, at that point when, when we went into these wars and all that stuff, we thought that, you know, okay, Western countries are writing off our debt, or rescheduling our debt, but these things really have cost us a lot of, a lot of, cost us a lot in terms of our economic growth. I mean, the fact, I mean, you know, some years ago I did this calculation that Hawkeye Airport gets more airlines, foreign airlines come into and Dhaka than we have Karachi, we have foreign airlines coming into Karachi, Lahore and Islamabad put together. And this you know, the law-and-order issue is a very, very serious issue for our export growth, for foreign direct investment. And when you know, when that doesn't happen and then, of course, you know, the like Atif said, you know, we've chosen these policies, you know, of of of setting them, erecting these barriers that that does make some families really well-off, you know, who are producing for domestic market and the cost of everybody else. So in that sense, you've chosen a different model. Yes, but, but there were also some bad lotteries here.

**Madiha Afzal** Sure. Pakistan's, Pakistan's strategic position, which, which many thought might be an advantage, has really turned out not, not to be. So where do we go from here? Right. I mean, this is you know, I don't, I don't want this to be all doom and gloom, though, you know, given the situation that that's, that's where we are. Well, how, how do things get fixed both in the short term and in the long term rather than just kicking the can down the road. You know, have debt payments coming due, how do we go about fixing things? I mean, what would be your, if you were finance minister, if you were in power, what would be your first two, three steps? I'll start with you, Miftah, then go to Atif.

**Miftah Ismail** Well, I mean, look, things are going to be very difficult right now in the short term for the government to do what they need to do. But you have to understand that in Pakistan, you know, you're prime minister for two, three years on average, and, and these things keep rotating. So to losing one election is not such a big deal. And the government should just figure out, you know, figure that what the hell? I mean, let's just do the right thing, let history judge us correctly and do the right thing. So at this point, seriously I think that the short-term thing is to just get the IMF on track so that we at least avert a default. Otherwise, that's just going to be really bad. Once we avert a default,

then we are at the lowest ebb, you know, that we've been. Then, we actually think about what is it that you're doing wrong and that that list is not really short.

But nonetheless, there are some very important things that we need to do. Every year now we'll have to return 20, \$25 billion every year to foreigners. So far, what we do is we borrow from country A to, you know, to return to country B or reusing one credit card to, you know, pay off another credit card. This can't go on. So you have to actually somehow come up with ways to earn foreign exchange. And I know of nothing else, except to increase exports, not reducing imports, but increasing exports and come up with policies that do that, educate your people. You know, I mean, you're spending ₹2,000 billion on education, but, you know, after that ₹2,000 billion, the average student in Pakistan gets only 27 points in math in 2010, and 31 points in science, failing both math and science. You cannot do this in Pakistan. Even, even, I'm talking about only the half who then go to school, the other half the don't go to school. We are not measuring. You can't in this day and age, you know, not expect, expect to grow your economy when your children are not educated.

So that's the other thing. You know, nothing stops us from population planning. Nothing stops us from, from, from investing in, investing in agricultural productivity. Then we do, you know, agriculture subsidies. We are basically subsidizing large fertilizer companies. We are not subsidizing agriculture productivity, you know, in terms of better seeds and stuff like that. I mean, seriously, it's not that difficult. It's not rocket science. It's very simple economics. You know, anybody can write this, you don't need to be a Princeton professor to do this. You know, but seriously, but you have to do these things.

**Madiha Afzal Atif.**

**Atif Mian** I mean, you know, get things done. I mean, you know, Miftah's already said it very correctly. You don't need a Princeton professor, so I should stay quiet, you know? You know.

**Miftah Ismail** It's good to have one, but you don't really [inaudible].

**Atif Mian** You know, you need you know, you need to have, as I said, there needs to be a Pakistan plan. What is that? What does it look like? I'm happy to go into the details, I'm happy to write one down. But there's no interest in anything like that right now. They could not even understand that there is no other way beyond IMF, you know, when you don't have dollars for whatever reason, we've talked about the details. The way the international world is structured it, you either go through a very



messy default, very disruptive, very dangerous, or the only other place is IMF. That's how, just how you like it, you don't like it. If you don't like it, then you should have behaved better in the past.

**Miftah Ismail** Can I just interject that even if you went through a very messy default at the end of that, you still have to go to the IMF—.

**Atif Mian** Exactly, you know. Well, [inaudible] sorry, I'm switching languages. But, you know, there is this joke in Punjabi, right, [speaking Punjabi] and, you know, it's like, you know, you know.

**Madiha Afzal** Do you want to translate that for our audience?

**Atif Mian** Yeah, I guess it's like, this is the punchline of the joke, right? That you, you're given multiple choices and you just misbehave so much that you end up getting the worst of all choices, so you end up getting beaten by sticks and you end up having to eat all the raw onions as well, right? Because you're just so screwed up in your decision making. I have said it repeatedly that Pakistan's nervous system is broken, Pakistan's decision-making process is broken. I started off with that. We need to fix that. We need to fix that at the, at the top. People need to understand the responsibility, whether they are in the establishment, whether they are political leaders. You know. And if you don't do that, then, you know, I mean, you can say X, Y, Z, of course, invest in people and productivity, but who will do it?

**Madiha Afzal** Just to do sort of drill down on, on, on points that you both have made. You know, when political parties campaign, when they run for election in Pakistan, the discussion, the debate is not on the issues. The contenders don't come on national TV as they do in the United States and discuss their sort of plan for the country in debates, one, you know, facing each other. They'll, they'll go, you know, they'll talk to people, you know, different interviewers, but they won't face off against each other. You know, again, you can, you can criticize the debate process in the United States, I think that's, that's helpful. But there is no, as you said, there's, there's no plan, written down plan. You know that that's a party plan from, from each of the main parties on, let's say, the economy. You know, how would we fix this? And then and then sticking to it. It sounds, it sounds so basic when, when they say it this way. But but but that's that's—.

**Atif Mian** Let me give you, sorry to interject you. But I just want to give an example of what I mean by there is no plan, because I occasionally have conversations. Can I just give you one example of that? Maybe I'll give you two depending on how much time you have. But you know, when they were thinking about CPEC, I came across a gentleman at the very top end of things and, you

know, talking about money will come, this will happen, that will happen. I said, can I look at the plan? Can I look at the numbers that you run to say, okay, this much billion will take, what will it do, what will? And it took a while to get anything back. But when I get something back, you know, there was nothing, just marketing brochures. There was actually no numbers run to see what will be, can you even pay it back? Because the reality is, if you look at CPEC, even just at the very broad basics, the projects are not feasible actually the way things currently are in Pakistan.

But no one, I forget, you know, you don't have to take my word for it. Nobody had done the sensitivity analysis, the fertility analysis, its impact on balance of payment and so on and so forth. And here we are today. That money is part of the debt overhang that we have. This is one example, but I can give you the other example, which was in the housing scheme. It was just absurd, the assumptions on which it was based, and we'll build 5 million homes. It's practically not possible to do that. But the other thing is, even, you know, the number was coming from the fact that there are 10 million households who don't have a home, which is, [speaking Punjabi] as they call it in census. They just picked that number out of that, and [inaudible] 5 million. You know, the income of those individuals, they're earning less than 30,000 a month. Even if you were to finance those houses with mortgages that are to be paid with government interest rates, the interest rate alone is more than their salaries and monthly income. How can you build them? How can they afford it? How can you pay? Because there was no budgetary allowance for that. But the big flagship program there.

So how will you implement it? Nobody even did the basic Excel sheet that someone at undergraduate level would be able to do. This is what I mean by there is no plan. This is what I mean. The nervous system is broken. There is no decision making. You cannot wing it, it's a country of 220 million people. You cannot even wing a household. You cannot wing a country like this. Have some seriousness when you're making these decisions at the top.

**Madiha Afzal** You brought up, you brought up CPEC. I also want to start weaving in audience questions. I mean, we received dozens and dozens of audience questions in advance of the event, and I'm looking through them now. And, you know, we've already addressed many of the issues, you know, because these are, these are the crucial issues. But, you know, there was a question about CPEC, and I have, I have that too, you, you mentioned so, so Pakistan owes China about 30% of its foreign debt. That's \$30 billion right now. You know, sort of an evaluation of CPEC, if you, if you can. Was it, you know, how beneficial has it been for Pakistan? I mean, China would argue it's, it hasn't

been too beneficial for it either in the sense that, you know, Chinese citizens have faced insecurity in Pakistan. So it's, it's you know, there, there have been problems on both ends. But, but just a question on, on how beneficial CPEC, in your view, has been for the country. Go ahead.

**Atif Mian** If you can't even pay back the loan, obviously it hasn't been beneficial. I mean, simple as that. If it were beneficial, you would have been growing, it would have easily paid off the loan because, you know, the rest of the equity is all yours. You can't pay it back, so it hasn't been beneficial. End of story. We can go into the reasons I'm happy to, but you know, we don't have time for that.

**Miftah Ismail** Of the 30 billion that we owed China, I think 4 billion is just a plain deposit that the Chinese have put in place and our state bank. I think another five, 6 billion is loans from Chinese banks, commercial bank, so 20 billion is about project loans. And we have about 10 to 11 billion project loans from Paris Club countries as well. But then, for instance, you know, if I were setting up a business and I do a feasibility and even if I have imported machines, I don't worry about that because I pay Pakistani monies to our bank, and they will convert into dollars. And so I don't really worry about what happens to the dollar situation of the country, I only worry about what happens to my business in Pakistan Rupees. Then the government is doing something, let's say setting up a powerplant, or roads and stuff like that, the government also has to figure out what is happening to the foreign exchange component of it. It's not just that it's it's, it's viable in Pakistani rupees, it has to also generate enough dollars so that you know, that you can pay back.

Now, if you set up a power plant, for instance, which is Chinese people giving their savings to us, and we just don't use this to produce exportable goods or we don't produce it to increase industrial production and exports, then we're not going to generate additional dollars to pay for that, neither for the fuel nor for the plant itself. So that's the only issue that when you set up these power plants, you also need to set up, you know, the industries, you know, that export from this. Another thing, I mean, one example I want to give you here is that in previous government, you know, the State Bank of Pakistan gave ₹570 billion in something called tough loans, which was 1% loans to the richest Pakistanis, you know, top business houses, maybe the 25 top business houses got 90% of, of that money, ₹570 billion and 1%. So, so the business has set up these factories, and yet it turns out that government doesn't have gas or electricity to give to them, and certainly not at the competitive rate.

So a lot of these industries that are set up actually are shut down because there is no gas, there's no electricity.

So, I mean, there is, there is a lack of coordination and there's a lack of, you know, doing the homework and figuring out that, you know, if you set up a power plant, is it going to generate enough dollars? If you set up a road, you know, you build a very nice highway. Is it going to have enough dollars generated by it? You know, is it going to improve your productivity so much, you know, your poor productivity so much that it's going to generate dollars? That's not happening.

**Atif Mian** Madiha, I just want to jump in, if you will, because I think Miftah is raising a very important point. And I want to tie it back to again, this issue of not having a plan, not having a nervous system and not having a theme sort of issue. He's absolutely correct that when a private business, for example— he gave the example of his own business— there are implications at the national level that have to be taken account by the policy makers. And so the central bank, for example, is key here. This is something that is well known, it's called macroprudential policies. You must have a mechanism in place to think about the risks of external exposure that you face, both in the private sector and certainly through the government guaranteed sectors like the, like the power sector in Pakistan. This is, there is a whole science behind it.

One of the things we have learned over the last 20, 30 years is the destructiveness of what is referred to as the global financial cycle for weak developing countries. There is a whole sort of science of how to deal with it. You have to build protections ex-ante. After the fact it's too late. You have to build protections ex-ante by building buffers to withstand shocks of the global financial cycle, to withstand energy shocks. What happens if there is a war like Ukraine and so on? That analysis has never been done in Pakistan. Our central bank does not have the capacity right now to do something like this if you asked it to do because they've never, I think— I hope I'm wrong— I don't think they really thought about this. This is what I mean by build teams. You know, we have to have competent people who can deal with these issues, who can think about these issues, who can come up with plans. Some random person sitting in some office who has no idea of these issues in international finance and so on, if they are the ones pulling the trigger without any due diligence, without having a nervous system to think through these issues and deciding on CPEC and housing and all the other stuff, of course, you're going to get stuck in these issues time and time over again. This is the structural problem we have, so we need to address it.

**Madiha Afzal** So in the last few minutes we have left, again, you know, we have received so many questions and they all run around the same thing. How does Pakistan increase exports? How do we reduce our reliance on imports? You know, if you want to, you know, in the, I'll give you both a couple of minutes each to wrap up. But one question that really stood out for me is, has Pakistan already crossed the tipping point? I mean, is there a way back from here or if what you know, or is it almost too late, if one could change the sort of fundamental culture, you know, to do, you know, build a nervous system that works, if one starts implementing sort of these things that Dr. Ismail spoke about, right. So sort of, you know, sort of fix the education system, fix, you know, start looking after infant and maternal health and so on, you know, start doing those things, can we basically come back from the, from the brink? So with that or with any other thoughts you might have on the issues, sort of, I'll go to you, Miftah first and then Atif.

**Miftah Ismail** Well, I mean, I think absolutely we can come back from the brink. First, I mean, it's going to be very difficult in the next 6 to 8 months are going to be very difficult. You know, the inflation is going to be fairly high, but the inflation would be much lower than if we didn't do the IMF program. So, I mean, you know, so, I mean, we have to understand that that at this point, doing the IMF program, staying on track, we'll probably go into a back-to-back IMF program because we won't have enough reserves, you know, come June, to again survive without the IMF program. But if you if you stayed with the IMF tutelage, if you will, or policy paradigm and then start to talk about, you know, and we are, like I said, you know, at this, you know, lowest point.

And if we start talking about population planning, if we start talking about educating our children, educating our children better, if we start doing a few things, you know, like the power sector in Pakistan is one of those sectors that's really a big drag on the economy. If we try to change those things, if we tried to change some of gas distribution systems and at the same time, at the same time, you know, like the Pakistani, the, I mean, the Benazir Income Support Program, Income Transfer program is about a less than half percent of GDP. I think that that probably needs to be increased both by the provinces and the federation to maybe one, one and a half percent of GDP. And that would really help, you know, with education and with poverty reduction, but also, you know, with the stunting and things like that, if we did all of those things, I think it's possible. And if other countries can do it, if Bangladesh with very little resources, can do it, if India can do it, if Vietnam can do it. You know, there is no reason why Pakistan cannot do it.

But as a nation, we have to think that, you know, we are going to, now going to develop our economy, you know. And so our priority should be that we will do all those things that need to, that help us develop our economy and not do things that that that, you know, that are otherwise distractions. And if we did this that, then I think it would be useful. And it's possible for us to, you know, to, to get a good footing. Look, you only need 20 years. I mean, you know, other countries, Japan, Korea, you know, China, you just need to grow by eight, 9% for 20 years. And you can have a substantial middle class, you know, you can quadruple your income in those years. And so we just need those 20 years. And, you know, the world is not going to wait for us. So it's about time that we start doing that.

**Atif Mian** I think, if I will, very quickly, you know, I want to end on a positive note here. It's never too late, first of all. So I think that's just sort of negative thinking. But the positive thing is, you know, it's actually, it's amazing how small Pakistan's problems are. You know, you might say, I'll give you an example. Like, you know, think of you know, you and I are living in the U.S. What's the price of a like a cheap burger and fries? It's like maybe \$10, right? If we could only raise Pakistan's productivity so every citizen of Pakistan can just sell one burger to the rest of the world in a year. You know, that's like \$2 billion. You just, sell a few burgers and you've sold all the problems that we're talking about today. IMF loans, you won't need any of this. This is how small, we're talking peanuts for the country. This is the, this is the good news as well as the depressing news. That for peanuts, we have made 220 million people to suffer like the way they are suffering today.

So if you start, if you changed, if you were to change today, you, what will you need? I think you need to, to Cs, you know like in business school they like, say, 5 Cs and 3 Cs. You need competence. You need courage. Why competence? Because we need to figure out what to do. You know, [inaudible] I've said this before, so you need competence. The other thing you need is courage. Because you're talking about changing the way things have been done before, when you do that, people will get angry. Those that made all their money in land and real estate, they will not like it when you say get up and sell burgers to the rest of the world. So you will have to have courage to stick with your decisions. And, but first, you'll have to have your competence to understand what you need to do. And then things can change very quickly. Yes, in 20 years it will be a whole different story. But you will not have this despondency within what is an electoral cycle. I fundamentally believe that if a

government comes in with these things in line, within their tenure, they can turn things around. In the sense there will be hope going forward not despondency like the one we are talking about right now.

**Madiha Afzal** Well, we could go on for hours, days in this discussion, but we really got to some important points and most importantly, did not end on a note of doom and gloom. You know, ended with, with hope and optimism, it's possible to turn things around and rather quickly. So on, on behalf of the Center for Middle East Policy at Brookings and the Foreign Policy program at Brookings, thank you so much to our esteemed panelists. Dr. Miftah Ismail, Dr. Atif Mian, for joining us. Two of the brightest and best minds Pakistan has, has produced. And to the audience for tuning in and for sending in your questions, look forward to seeing you at our next event. Thank you.