

# Why do we go to the IMF?

*Shahid Mehmood*

THE resumption of the IMF package, that was badly needed to avert an external payments crisis, has reignited passions. As most countrymen wrestle with the question of whether or not the Fund is a tool of neocolonialism to keep countries like Pakistan sedated and subservient, what is lost in the debate is why we always wind up at its door. Let's take a peek.

Energy is the relevant sector to get this conversation going as it constitutes the largest portion of our import bill. Economic growth and economic mobility depend on energy, whose demand rises as economies expand (along with other factors like population growth). A large portion of Pakistan's entire energy edifice is dependent on imported fuels, given our meagre internal energy sources.

Aside from raw material, the machines and equipment underpinning our power production are also imported — from turbines at hydel power plants to equipment at LNG, coal and furnace oil plants. So, not only are we importing raw materials, we are also importing services to sustain them over the long term. All these have to be paid for in dollars.

**Read:** [\*Wanted — a non-partisan economic plan\*](#)

Here, let me address a misconception, that 'indigenous' sources of power will take care of the matter. Think again. These can't be utilised without outside help. Decades after the construction of the Mangla and Tarbela dams, we still need foreign experts to solve critical issues related to them. Consider the Neelum-Jhelum run-of-the-river hydel power project, which has extracted gazillions from Pakistanis under the label of 'surcharge'. Meant to utilise an 'indigenous' source of energy, hardly a year later it is down due to a 'fault' that required the services of foreign experts because our own 'experts' could not identify it. (It meant inflicting losses in the billions on consumers due to power production from expensive, imported fuel).

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The case of other indigenous sources is somewhat similar: we cannot build nuclear power plants without foreign help; we had to hire foreign experts to determine whether our coal plants could use Thar's indigenous coal, etc.

This is not a revelation: there has been recognition for long that Pakistan creates problems for itself that, in turn, generate a demand for dollars, which we are usually short of. The Economic Survey of 1980-81, for example, recognised that long-gestation projects under the public investment garb was the main reason for saddling Pakistan with an external debt of \$9bn. Yet, PSDPs refuse to budge! It's still about grand projects like roads that incentivise an increase in vehicular traffic, in turn creating more demand for dollar imports,

as the main components of the products of our highly protected car manufacturers are imported.

Let's move to the role of public regulations. A few of endless examples will suffice. We have this infinite fascination with horizontal sprawls, complemented by 'housing societies' in the public and private sector. Aside from cities becoming administratively difficult to govern, a result of these endless sprawls is the need for more vehicles, leading to greater demand for energy products such as oil and diesel. There has, arguably, never been an estimate of the increase in energy imports that accrued to the country due to this endless expansion. But if ever such an exercise is carried out, the results will make other import-related issues — like IPPs — look puny.

These endless sprawls have resulted in millions of acres of fertile agricultural land being gobbled up over time. Given that more than 100 agricultural 'research' institutes are producing little or nothing in terms of higher land and crop productivity, complemented by a rapidly expanding population, there is little choice but to import food staples to meet our food requirements — so much for being an 'agricultural country'.

Another good example: the illogical fascination with uniform pricing. In terms of the ultimately imported energy products, it leads to waste. Pakistan's fast-depleting natural gas reserves are an apt illustration of this phenomenon. First, it was Balochistan, and now it is Sindh whose natural gas reserves are dwindling fast. There has, historically speaking, always been an incentive to consume it inefficiently because they have been under-priced, primarily due to uniform prices that are way below the market prices. Had the pricing been market-based from the start, there might not have arisen the need for importing expensive LNG or coal, which severely taxes our dollar earnings.

Moving away from big-ticket items, even the micro level does not inspire much confidence. Consider the common office chair. Some time back, they were in short supply, carrying a premium. That's because they are merely 'assembled' here from imported parts. Most other products fare little better.

To summarise, Pakistan's economic edifice is built in a manner that, unless we import, our economic activity will come to a standstill. And as GDP inches up, we end up importing more — to the extent that our dollar earnings will never be enough to pay for our imports. So whether it's the IMF or anyone else, Pakistan will sooner or later knock at their door for dollars.

How to change all this? Before someone presents 'import substitution' as the Holy Grail, God save us from that predicament. Our earlier experiments only ended up producing rent-seeking seths and the likes of the car industry that sells low-quality tin for millions — the promised 'localisation' never happened. For a start, enough of brick-and-mortar 'plans' that create more liabilities than assets, besides raising pampered generations of subsidy-sucking businessmen under the banner of 'infant industry' and 'qaumi mufaad' (national interest). Neither do we need NOCs or hundreds of regulatory agencies to scare away foreign and domestic investors.

The way out of our dollar cash-flow troubles lies in greater global integration and trade, promoting competition and developing our human capital base. For a change, take the government out of business and let Schumpeterian creative destruction prevail on a level playing field.

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