

# **EXTERNAL ACCOUNT IMBALANCES, ACCUMULATION AND PRODUCTIVE INVESTMENT**

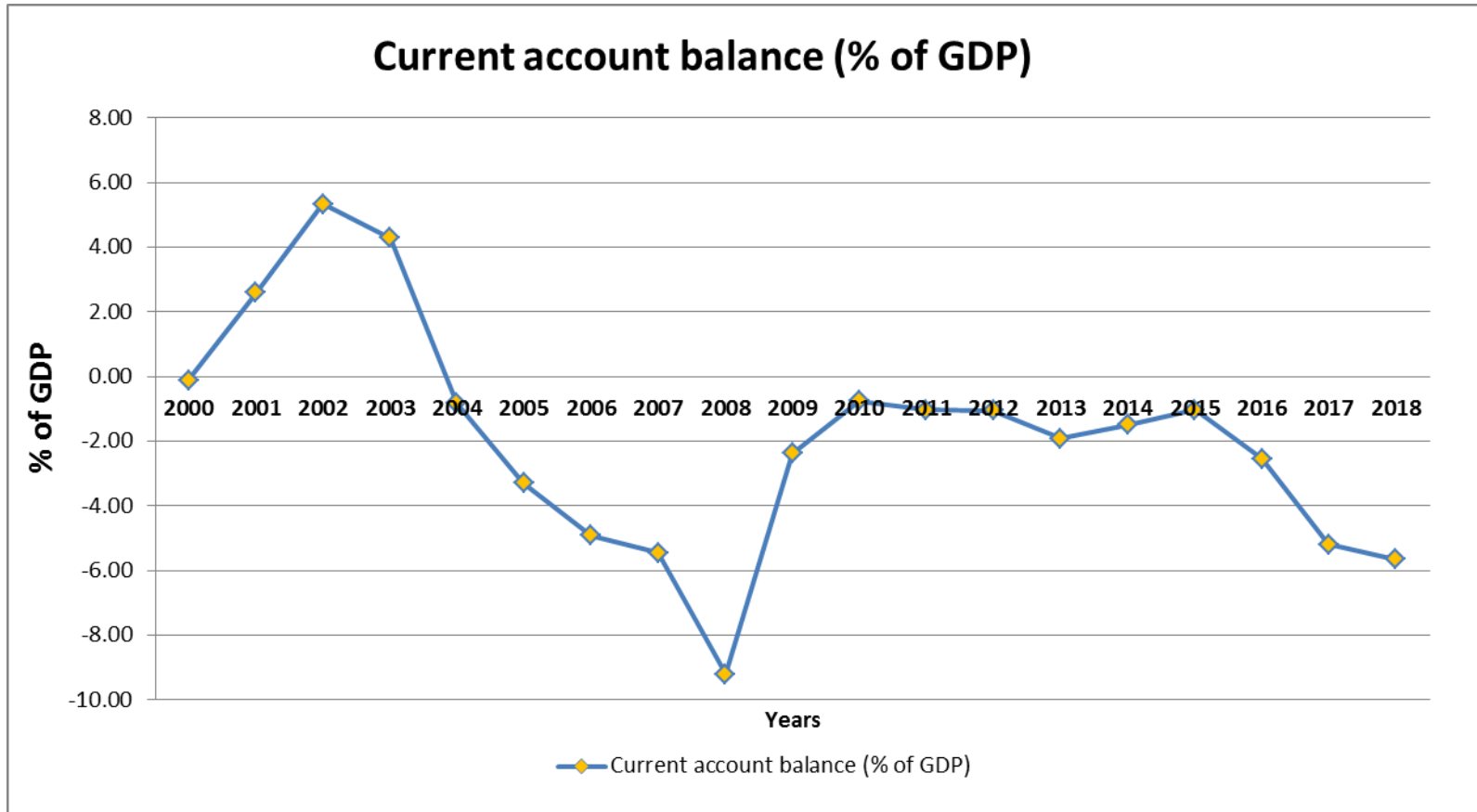
**ASAD SAYEED AND RASHID MEHMOOD**

30<sup>th</sup> October 2018

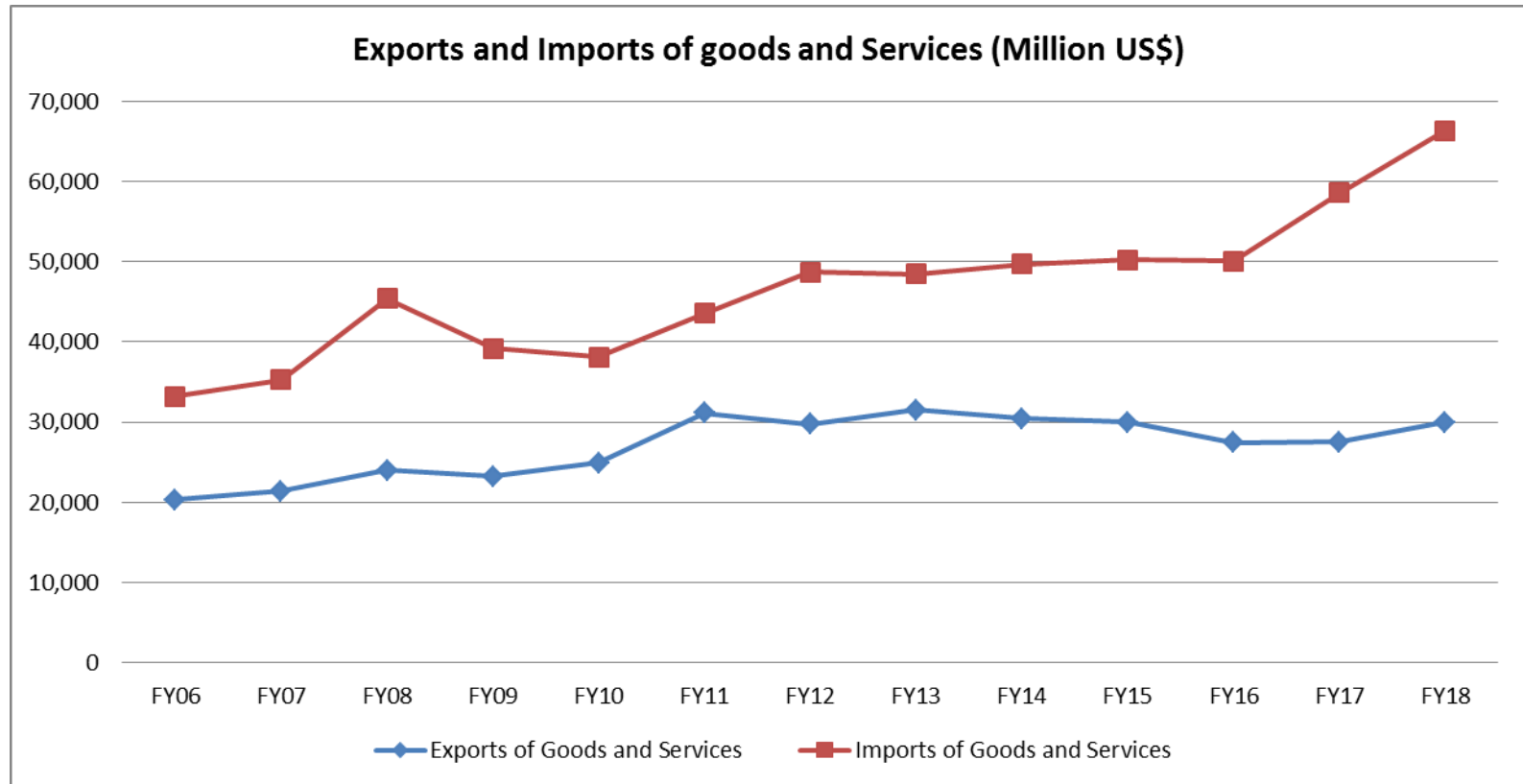
# **THE PERENNIAL BALANCE OF PAYMENTS PROBLEM**

- **Since the 1980s Pakistan Gets into a Balance of Payments Trap that Shakes its Economic Foundations**
- **Pakistan is Unique in the Frequency of Recourse to the IMF**
- **Demoralization (or elation as the case might be) because of 'beggary'**
- **Perhaps the most commented and analysed economic issue is Pakistan; both in terms of causes of the BoP Crisis and outcomes of the IMF Programmes**
- **Attempt here to go beyond the symptomatic to the Structural and address some underlying Issues**

# CURRENT ACCOUNT DEFICIT



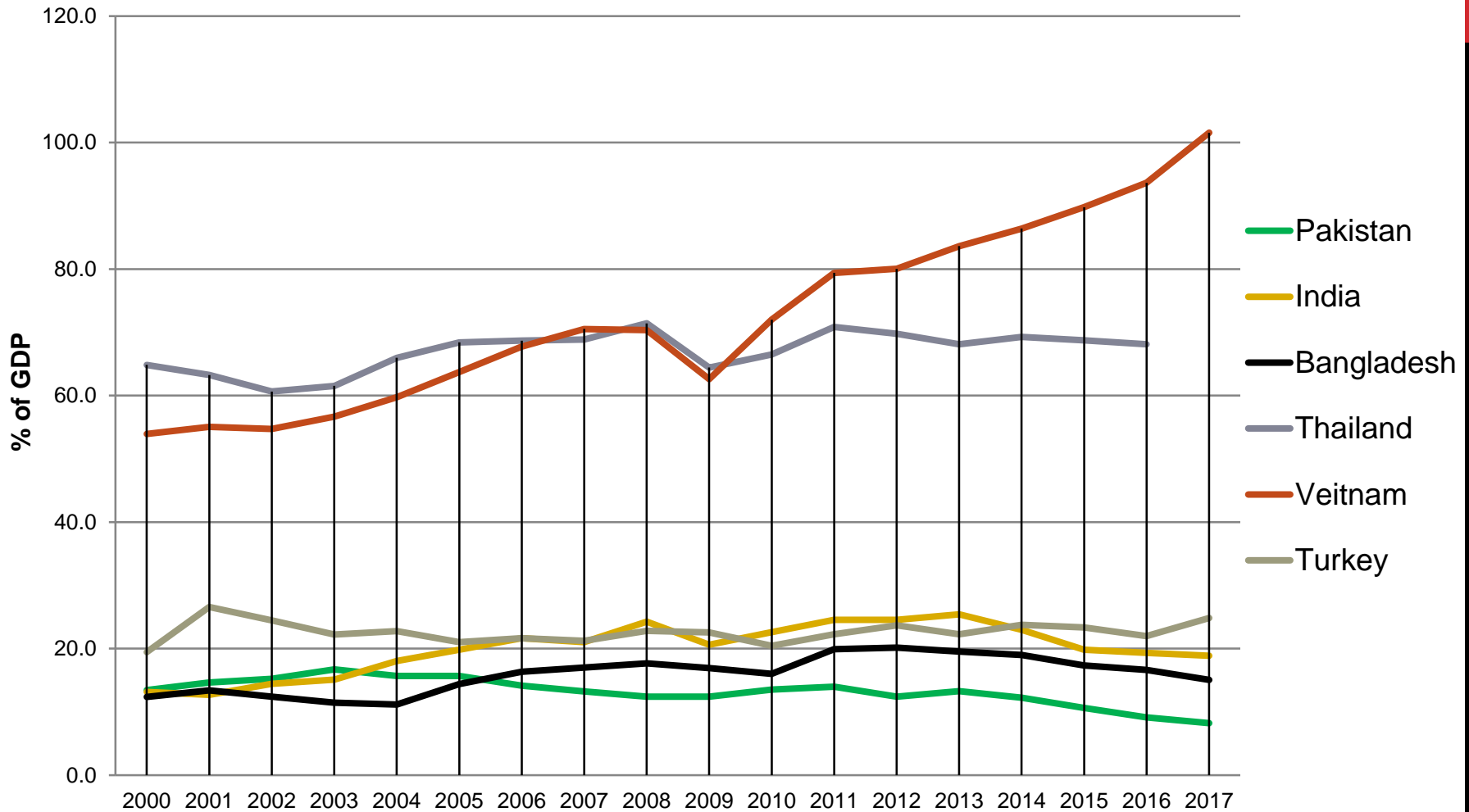
# TRADE DEFICIT IS THE LARGEST COMPONENT OF THE CAD



# **DISMAL EXPORT PERFORMANCE**

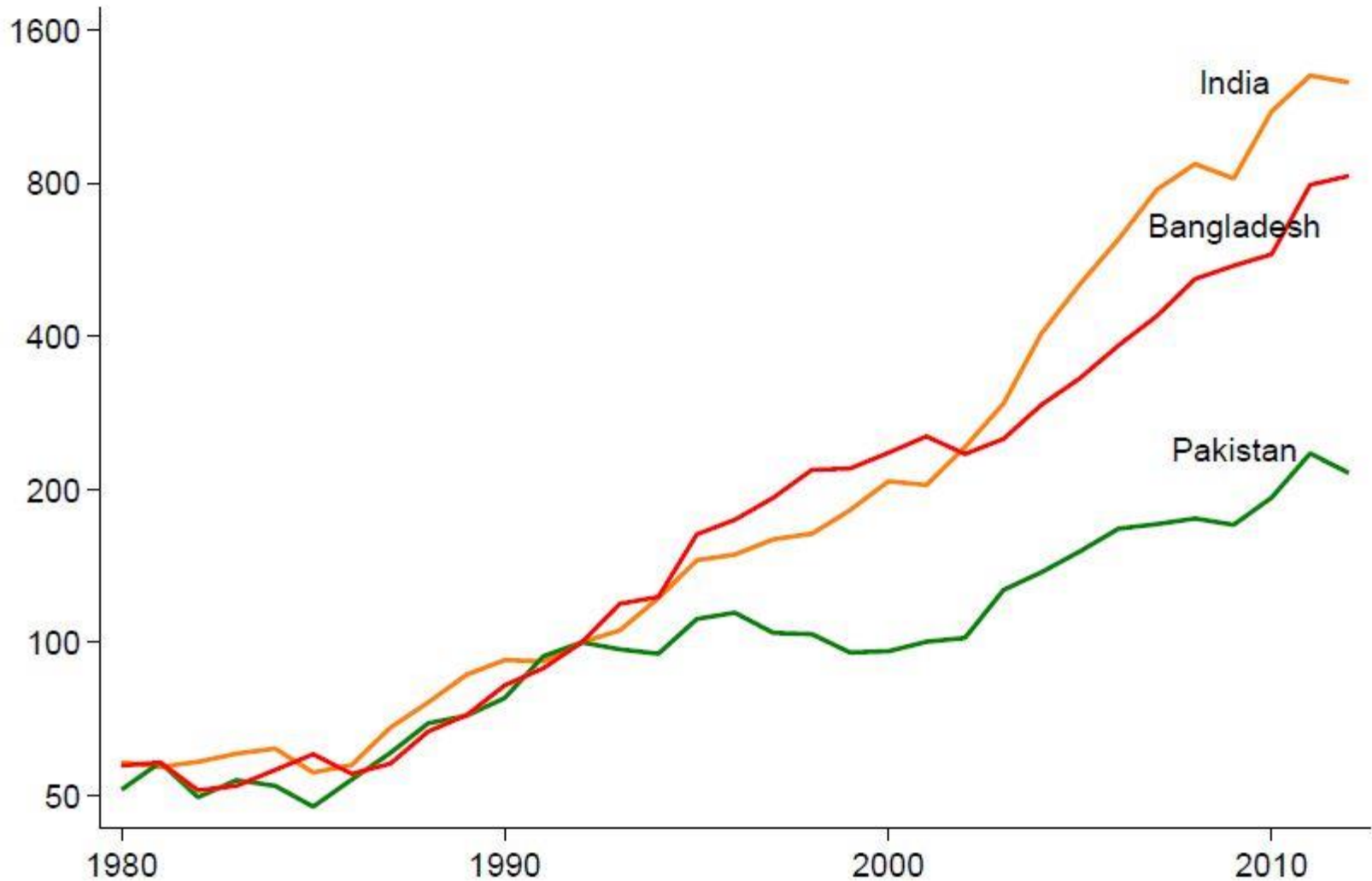
- **Exports are not only important because of balance of payments;**
- **More Importantly they demonstrate competitiveness levels in the economy**
- **In turn it is a good measure for productivity growth and technology diffusion**
- **Depending on what is exported, indicates level of integration with the global economy**

# Exports of goods and services (% of GDP)



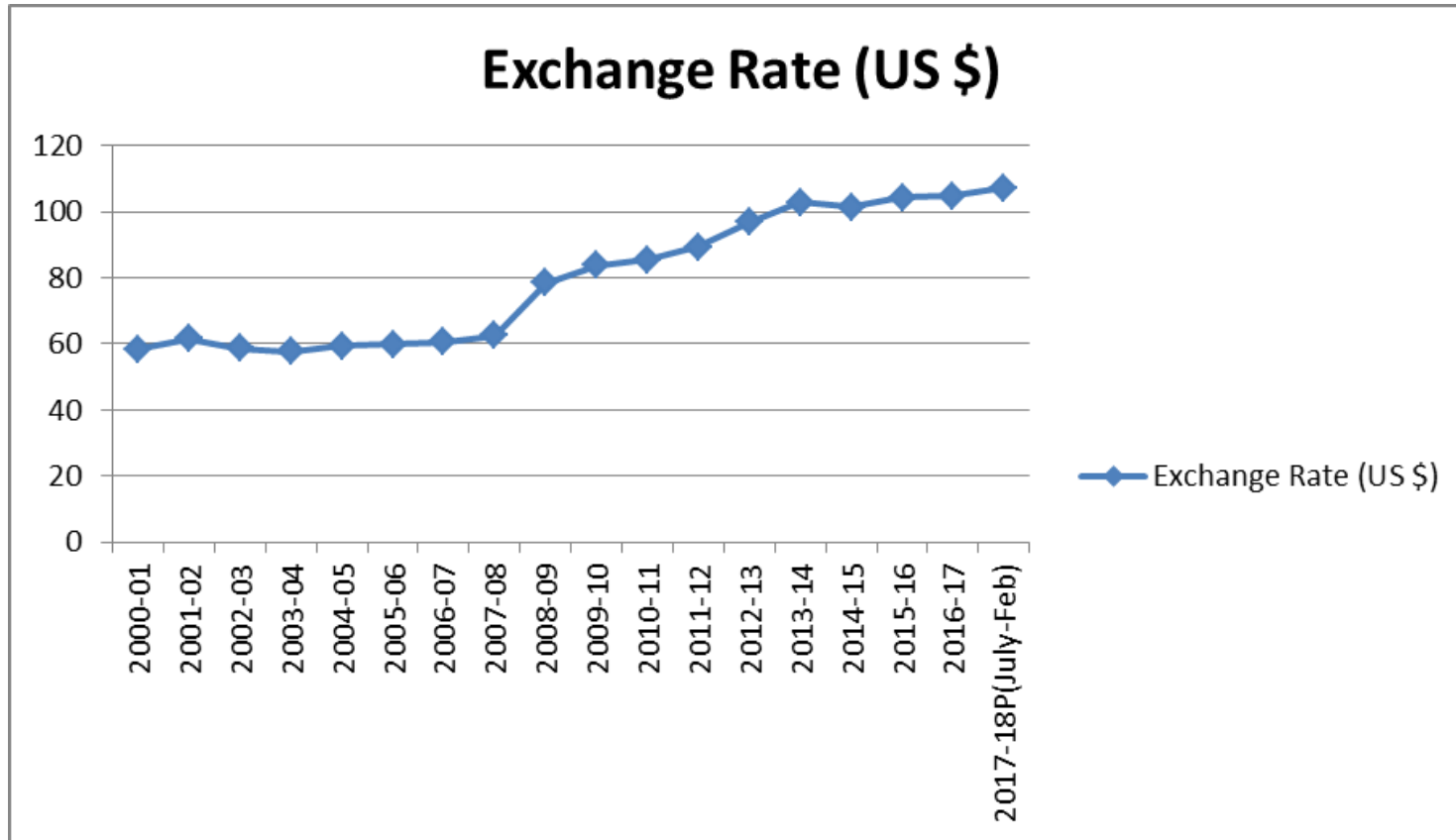
Source: World Development Indicators

# DIVERGENCE IN EXPORTS: LOG RUN



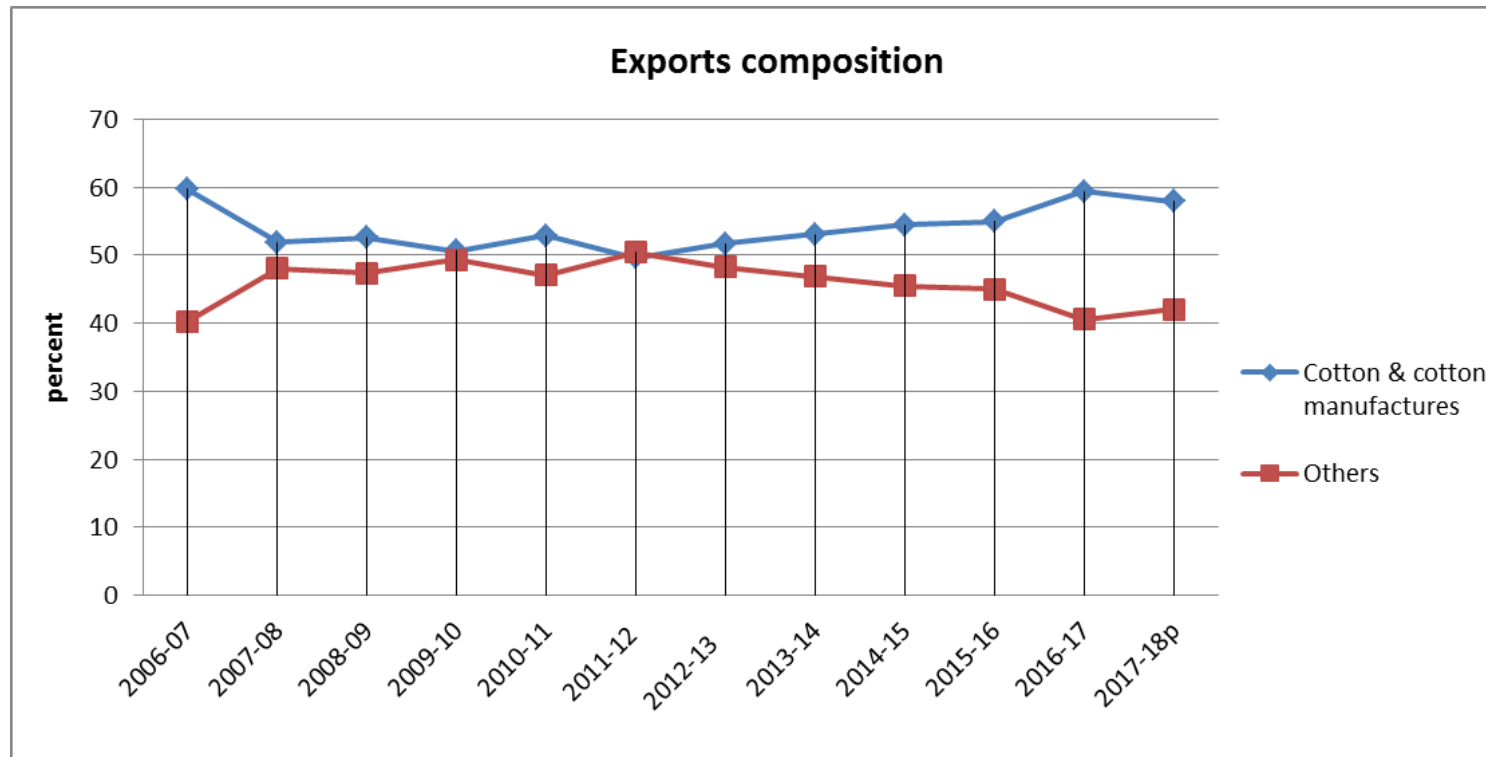
Source: Atif Mian. "What are Pakistan's Long-run Growth Prospects?" IGC Presentation. 2014

# EXPLAINING LAGGING EXPORTS: OVERVALUED EXCHANGE RATE

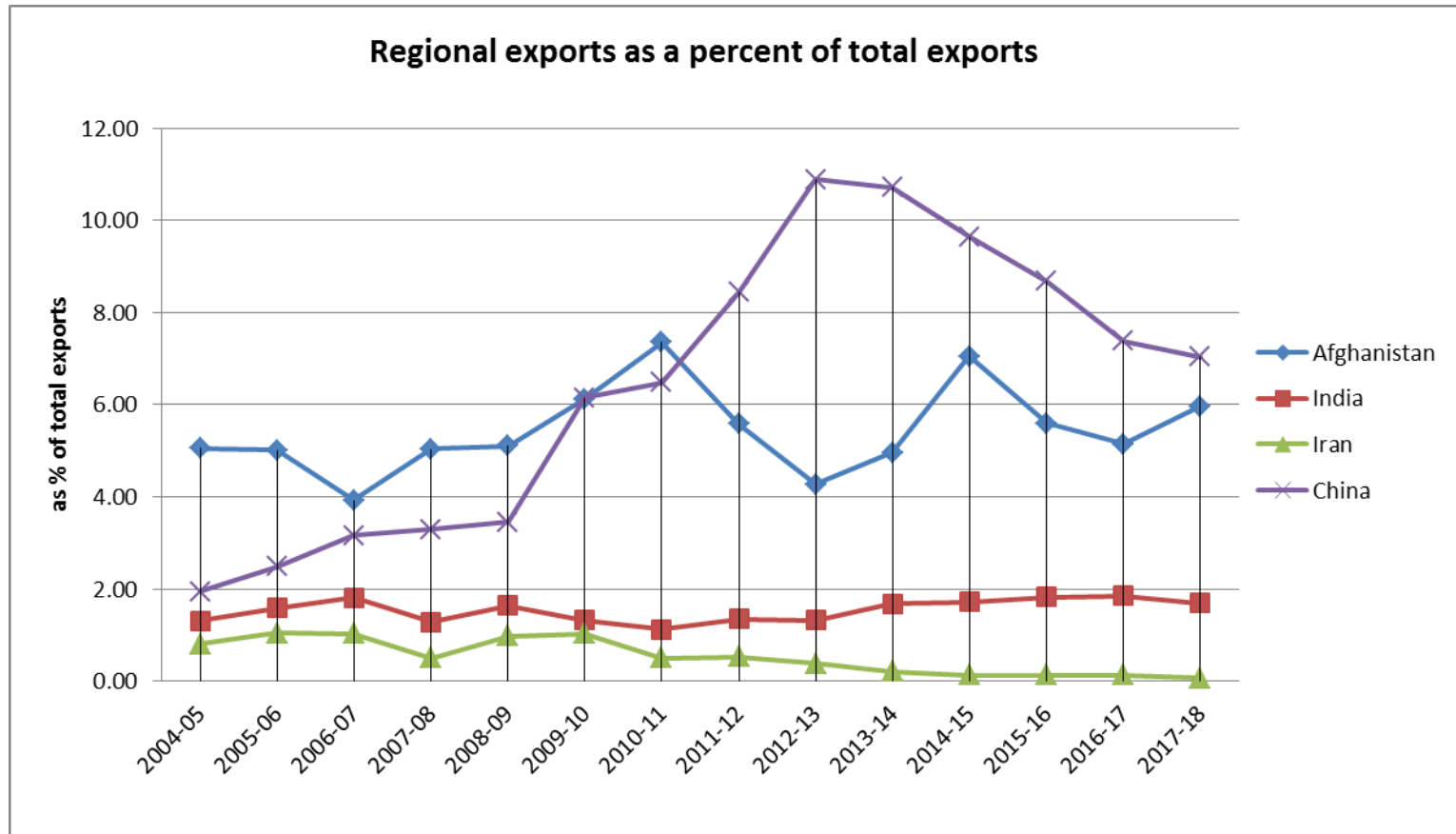




# COMPOSITION OF EXPORTS MIRROR LACK OF STRUCTURAL CHANGE



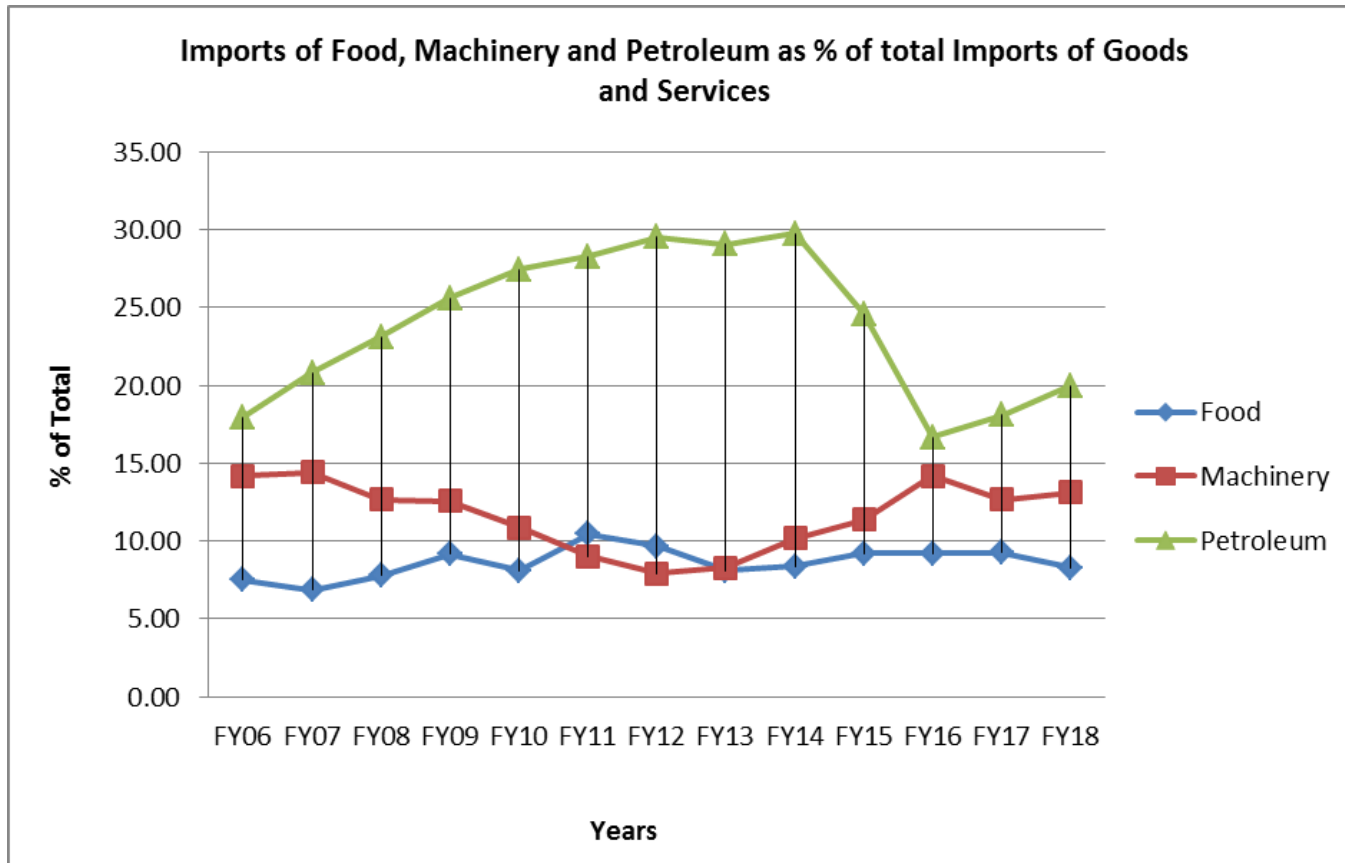
# GEO POLITICS TRUMPS ECONOMIC INTERESTS



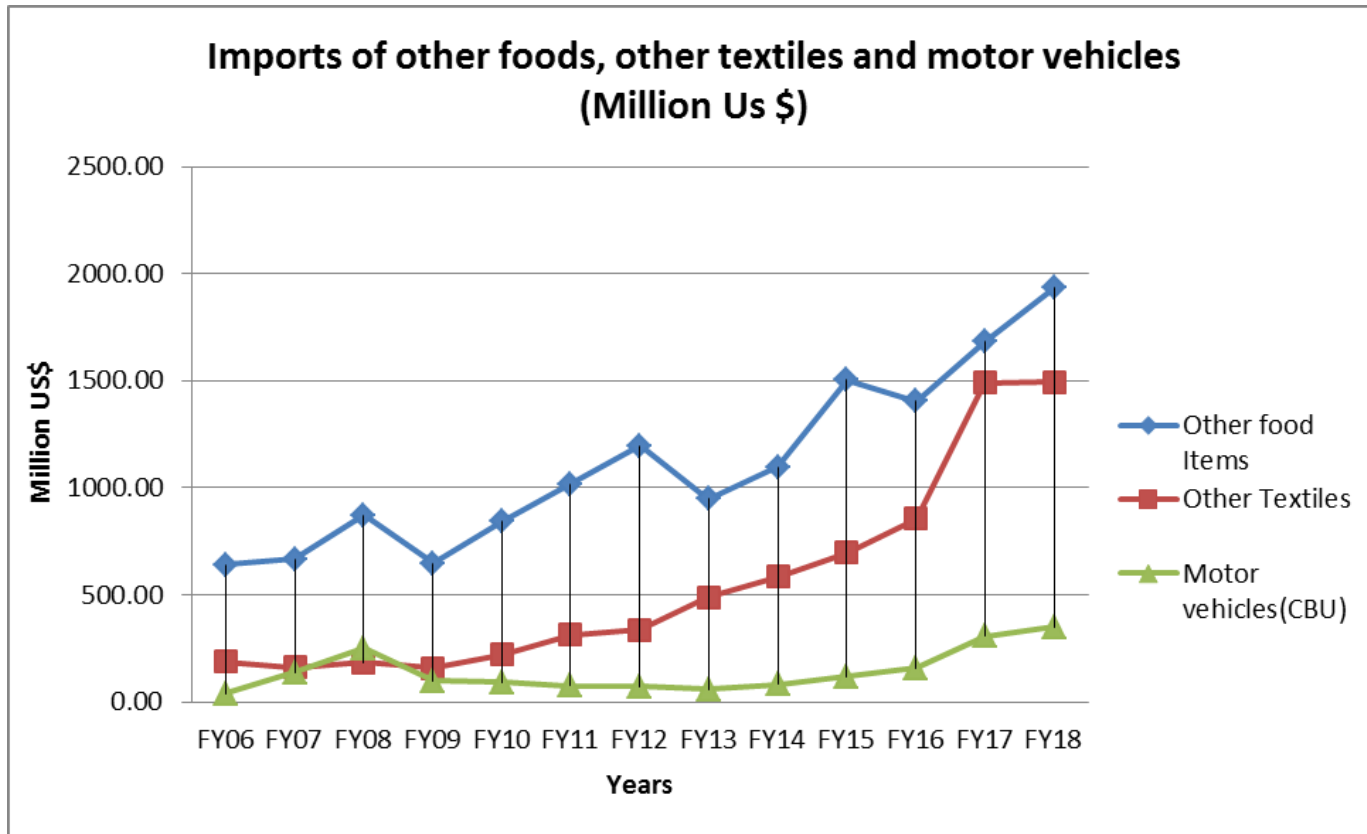
# IMPORTS

- **Imports can be disaggregated across three main categories**
- **i) Inelastic (or necessary imports)**
- **ii) Imports that demonstrate lack of (doable) import substitution**
- **iii) Demonstrative of High (and increasing) Inequality**
- **iv) Luxury Consumption**

# INELASTIC IMPORTS

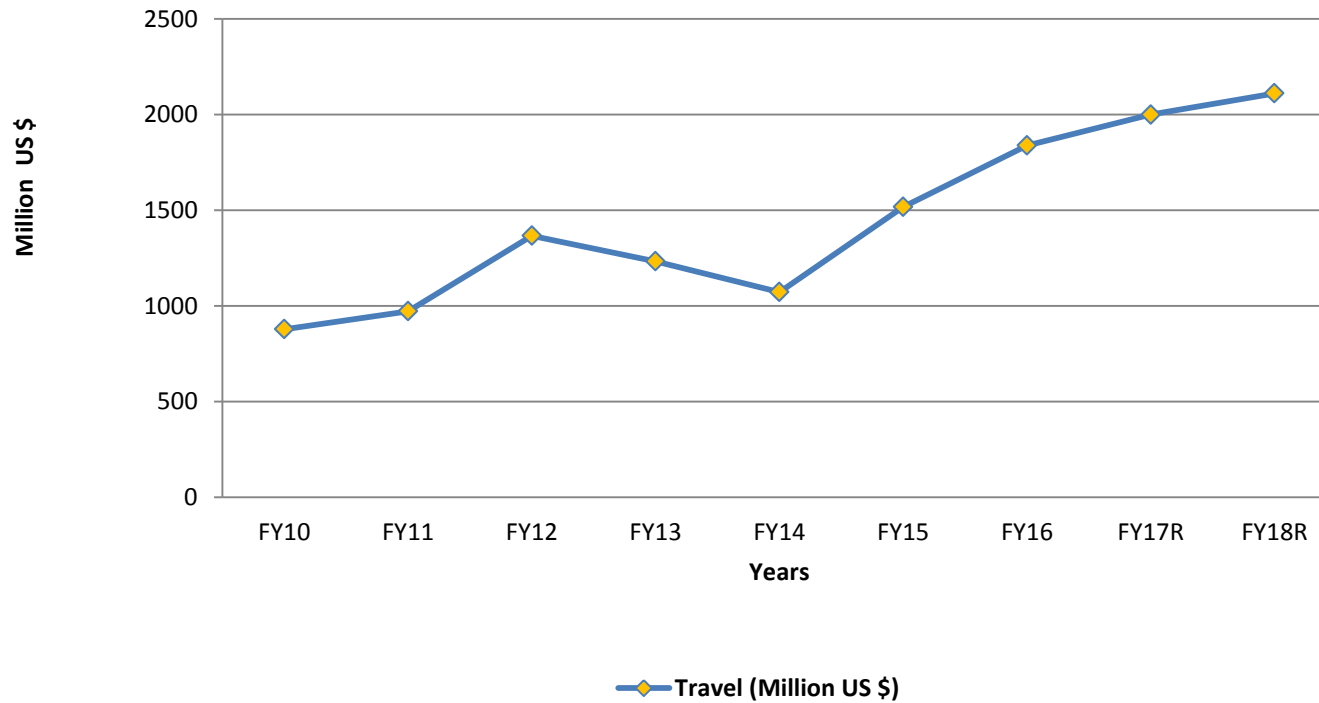


# IMPORTS OF FOOD, CLOTHING AND CARS



# TRAVEL

## Travel (Million US \$)



# **IMPORT SUBSTITUTION POSSIBILITIES**

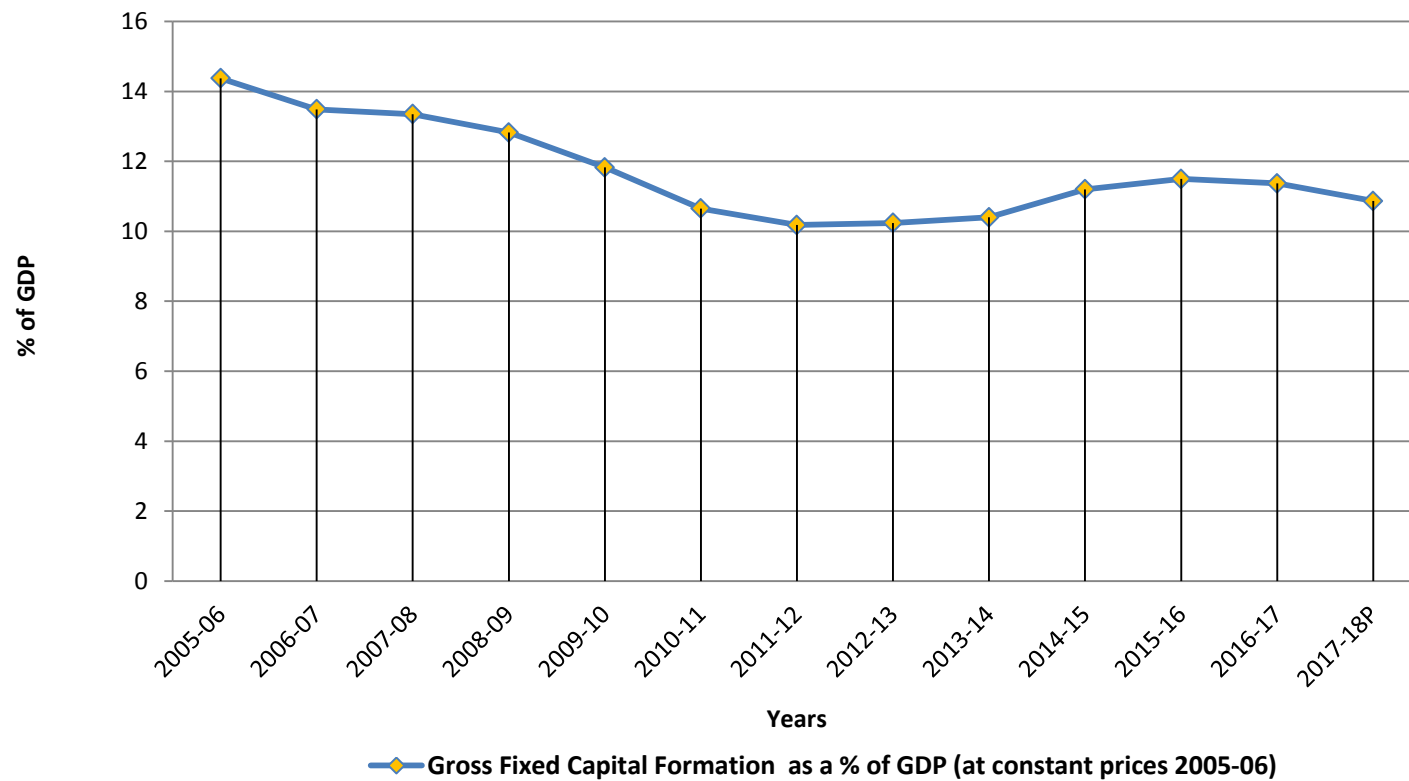
- **Pulses**
- **Edible oil**
- **Chemicals?**
- **Ready Made Garments**
- **Even Travel if PIA gets its act together**

# **ACCUMULATION – PRIMITIVE OR OTHERWISE**

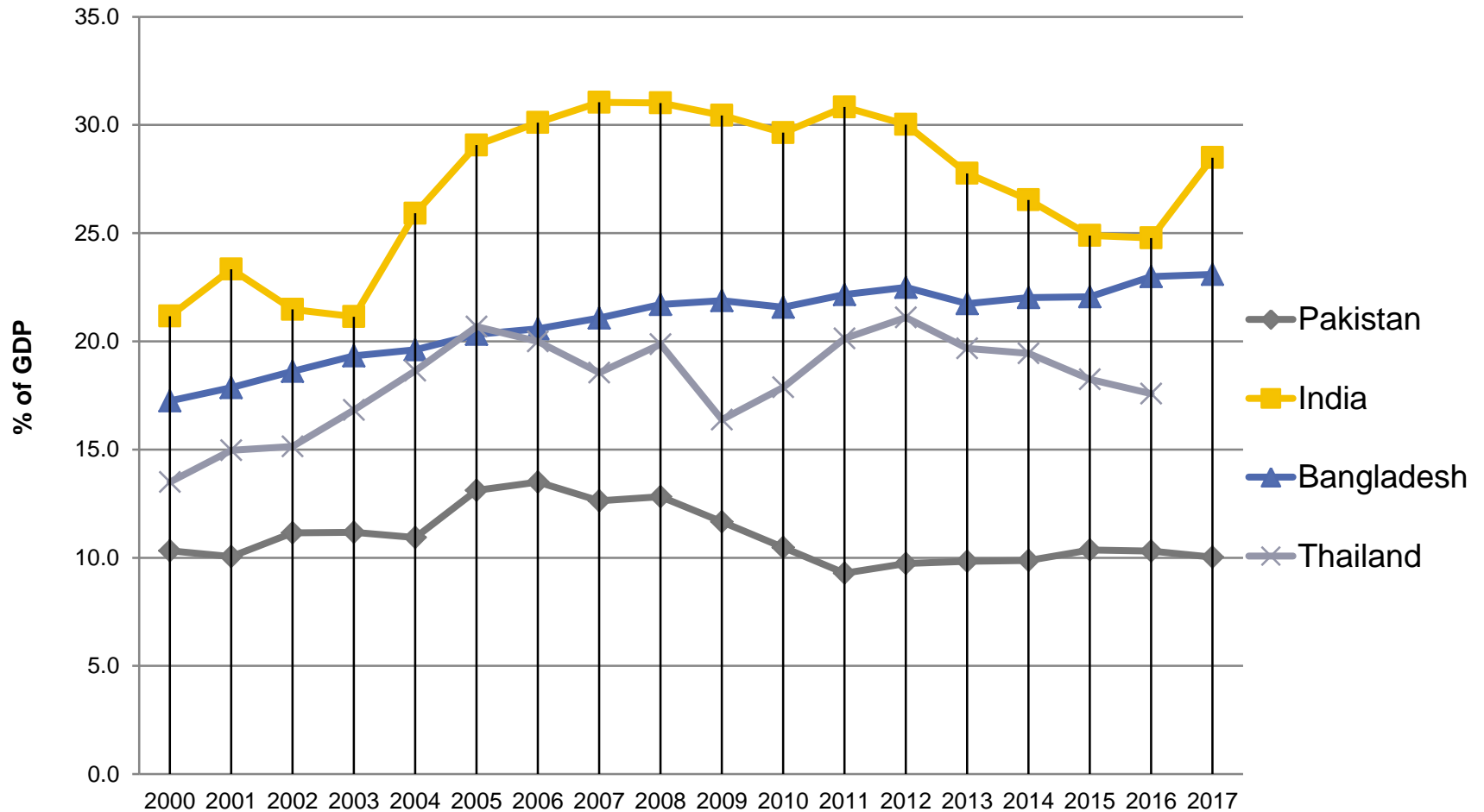
- **Pakistan's Import Profile demonstrates that there is a lot of money around**
- **Accumulation is Outcome of high levels of rent-seeking and outright loot and plunder**
- **Not Unique to Pakistan**
- **The story of successful capitalist development (amongst other things) is one where accumulation has been channeled into productive investment.**



# PRIVATE INVESTMENT IN PAKISTAN



## Gross fixed capital formation, private sector (% of GDP)



Source: World Development Indicators

# **EXPLANATIONS FOR LOW LEVELS OF PRIVATE INVESTMENT**

## **Less Substantive Reasons**

- **Energy Bottlenecks**
- **Human Capital**

## **More Substantive Reasons**

- **Land Speculation**
- **Increasing International Isolation**
- **Misplaced Economic Consensus Around Neo-Liberalism**
- **Underpinned by State Fragmentation and Political Polarization**