

An interview with Professor Dr. S. Akbar Zaidi

# ‘What is the plan beyond stabilisation?’ – Dr. S. Akbar Zaidi, Executive Director, IBA

Professor Dr. S. Akbar Zaidi has been the Executive Director of the IBA since January 2020 and his second tenure runs till January 2028. He is a renowned political economist with an experience of more than four decades of teaching and research in Pakistan and abroad. His areas of interest in research include political economy, development, the social sciences, and history.

He completed his PhD in History from the University of Cambridge in 2009, MPhil in Economics from the University of Cambridge in 1993, MSc in Social Planning in Developing Countries from the London School of Economics and Political Science in 1982 and BSc (Hons.) in Economics from University College London in 1980.

Prior to his appointment as the Executive Director, IBA Karachi on January 7, 2020, Dr. Zaidi served as Professor at Columbia University, New York and held a joint position at the School of International and Public Affairs (SIPA), and at the Department of Middle Eastern, South Asian, and African Studies (MESAAS), from 2010 to 2020, when he became the Executive Director of the IBA. Previously he taught at the School of Advanced International Studies, Johns Hopkins University, from 2004-2005 as a Visiting Professor, and was also associated with the Applied Economics Research Centre, University of Karachi, as a Senior Research Economist between 1983-96.

BR Research recently engaged in an insightful conversation with Dr. Zaidi, where he candidly addressed the challenges facing Pakistan's economy, the evolving relationship between industry and academia, and IBA's growth trajectory. Below is an edited excerpt from the discussion.

**BR Research: Let's begin with a broad overview—how do you assess the current state of Pakistan's economy, particularly over the past two years?**

**Akbar Zaidi:** There is no question that the economy seems to have stabilized quite markedly. Key indicators, which matter a great deal—after the interim government and then with the IMF program—have stabilized. Inflation has come down remarkably. The rupee-dollar parity is now going to shift a little bit. The current account is now positive. So, the numbers are all very good.

**BRR: While the macro-economic indicators appear to have improved, do you believe this stabilization has translated into real economic recovery and growth?**

**AZ:** The numbers are good. Is the economy good? That's the question.

What does it mean to say that the numbers are good? Certainly, you need stability; you need the right indicators. Our entire economy is being run by the IMF to the extent that we don't even need a finance minister. The IMF is determining what our economy is like and how it is stabilized. One has to give credence to the fact that they have managed it a little bit.

But some numbers are really, really worrying at the moment. I think the likelihood of rain and the climate effect on agriculture is very severe. The cotton crop this year is bad. There has been an abundance of wheat this year, but the indications are that wheat production may not be good—and even next year, it might not be good.

Large-scale manufacturing is hardly moving; it is, in fact, negative. Our exports have not grown substantially. And now,

with the Trump tariffs, I think other countries with lower tariffs will have a slight advantage—but there is room to capitalize on this as well. Importantly on account of our economy slowing down over the last five years, poverty has risen to 44 percent and unemployment remains very high. Without growth, we are stuck in a stable poverty trap. What is the plan beyond stabilization?

**BRR: Remittances now play a central role in the economy. Do you view this growing reliance as sustainable, or does it present long-term structural concerns for Pakistan?**

**AZ:** Our economy has become remittance-driven. I think about 8 or 9 percent of our GDP is from remittances. I am not a remittance fan. I think it is very important—it supports the balance of payments, it supports our current account, and so on—but it compromises us on many levels. I mean, like with Saudi Arabia, the UAE, and now increasingly with the US.

There are sovereignty and political economy issues which compromise us. Our economy is subservient to geopolitical and non-economic concerns since we are dependent on remittances. Questions of autonomy and sovereignty loom large. I think we are the sixth largest in the world in terms of generating workers' remittances. It should ideally be a safety net. For us, it is a main export. We are very proud of the fact that our remittances may be \$41 billion this year. Good—but we are also losing a lot of talent and qualified people who want to go abroad.

One very prominent Pakistanicalled this a 'brain gain', which I think is a ridiculous assessment. This is not a brain gain. You are losing quality people. When it comes to academia, a lot of good faculty members are leaving.

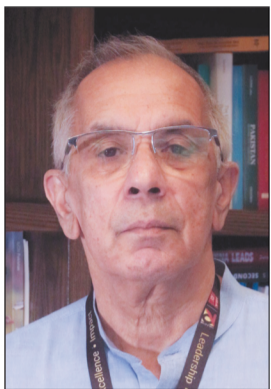
Coming back to the economy—there is no question that we are in a position of stability. From chaos, from going down, there is a great deal of stability. I think we have managed the Imran Khan political problem because the military and the civilian government are one and the same. They are not even on the same page anymore. They are one government.

I give full marks to the government and the IMF for stabilizing the economy. That said, I am still worried about what happens next because I don't think there's been enough structural transformation. I don't think there's been enough intervention in our economy.

**BR Research: Do you think part of this perceived economic stabilization is simply because the economy had already hit rock bottom, and there was nowhere left to go but up?**

**AZ:** No, I think rock bottom was Sri Lanka. Rock bottom could have been Bangladesh or Argentina—although Argentina has completely had a turnaround in recent months. They are doing exceptional things. We've been catching up on Argentina because it is, in many ways, very similar. We have had 24 IMF programs; Argentina is at 23.

But was it our rock bottom? Not necessarily. I think the dollar-rupee rate was getting out of hand and has been much more stable since. The IMF and World Bank have reduced our GDP growth projection for this year from about 3 to about 2.7 percent. But that's also significant—and that's the problem: we are going to have a trade-off or a problem of stability versus growth. Once we start growing, our imports increase, and that brings



current account issues. So, this trade-off always remains once we start growing. We haven't had that spurt of growth for any length of time.

**BR Research: Do you think we may not even have the capacity to grow at 5 percent for at least three years?**

**AZ:** Our poverty rate is 44 percent, as quoted by the World Bank, and has not come down. To tackle that, you need high growth; you need some form of equitable distribution. I don't see any policy toward that. Holding steady for a year is good—but you can't continue to hold steady forever. If you do, poverty will grow, growth will not take place, and you will have that problem.

**BR Research: Where do you see the growth coming from, in terms of sectors? The LSM is in the red, and there are few sectors at a level even below the base period of 2016. A lot of that probably will never be recovered. Agriculture is barely hanging in there. So where will this growth come from if we talk about it on a sustainable basis?**

**AZ:** I think it will have to be in the long term—basically the software services sector, like IT, for example.

IT is the fastest-growing export, and these people don't realize that by cutting Twitter, by cutting the internet—they're hurting it. There's one shark in the ocean who only says that where the "Pakistan's cable" is written, go and cut it. That's the most ridiculous policy the government has. On the one hand, it talks about exports and growth, and on the other, it puts restrictions on the internet and hence, on technology. The possibility of growth in AI means nothing with such constraints and hurdles.

I think we need to open up for freelancers and give tax rebates—because that's also foreign income coming in. It creates employment, productivity, brings in export earnings—and people don't have to leave Pakistan.

I don't really see a substantial increase in manufacturing.

There is a political economy problem with our economy. It's not just the tax rate. There are other institutions that are very powerful, which have an impact on the economy and also on the politics of this country.

I think another major problem that these guys have not been able to address is the solar tariff issue and the IPP issue. It is still a major overhang and has implications for the economy, for costs, and for our exports. Exporters are also suffering because of the cost involved in production.

**BR Research: You mentioned solar and IPPs—could you clarify what specific issues remain unresolved in this area?**

**AZ:** I think one good thing that has happened due to high electricity tariff rates on-grid is that people have shifted to solar. The bad thing is that only the rich have been able to shift.

They should rethink the whole strategy—which we have been talking about. My preference would be that anyone who has solar should use it. Nobody needs to buy that energy. I mean, it should not go

back into the transmission line. We are already over-producing. We have excess capacity—and that's especially true at night.

But I think solar should be encouraged for private users and for commercial users. There should be a policy to allow solar to be sold to other users as well.

**BR Research: Yes, and you do not advocate for being in the business of buying it back at lucrative rates?**

**AZ:** Not at all. I think there should be a separate market for solar selling and buying.

If it's not the government, big companies should be allowed to produce solar or wind electricity and rent government transmission lines if they want. But the government should not be the sole purchaser. I think a secondary market should be allowed to emerge for solar.

A major burden on consumers, industry, and exporters has been electricity—and I think that is the starting point. They have made some progress—they have renegotiated some contracts—but I think a more aggressive policy is needed.

**BR Research: In your view, what are the top two or three structural reform areas that Pakistan must urgently focus on to ensure long-term economic stability?**

**AZ:** It's a cliché, but rationalize the taxation structure. What they are doing is taxing high-income earners more and more. It's a disincentive to hire more people; it's a disincentive to expand your business—and it's an incentive to leave the country.

So, it's one way of pushing out talent, discouraging talent. I think trade and retail, which they are afraid to tax, must be brought into the tax net. It's a political issue, but somebody has to bite the bullet. This is a major failure in our economic system.

Second, there has to be far greater documentation of the economy—not just who is paying taxes and who is not, but land taxation and land records, for example. Yes, a lot of these issues related to taxation are now provincial subjects. The provinces need to be held more accountable. The provinces are actually very happy because they don't have to worry about the federal debt. They don't have to deal with reforms and institutions.

So, taxation is the biggest reform needed. And they don't need another taxation commission. There have been about 17 commissions. They are all saying the same thing. It is time to act.

Additionally, it is probably not the best time to say this, but India and Pakistan have to sort out their political and trade relations.

I think regional trade has to be an important element. We might start some trade with Bangladesh now because of changes there. That has to be built up. There is a growing market—smaller in size but growing. The growth rate is better. They are sorting things out.

But I think India and Pakistan must sort out their political, foreign, diplomatic, and economic conditions for the betterment of this region.

If you want to look at reform, we are way behind other countries in all forms of education—and girls' education needs to be at the forefront of any sort of reform we talk about.

Another step should be the disbandment of the SIFC. The military should not be involved in the economic management of this country.

I have been saying for a long time that there should be devolution. You can go beyond the four provinces and make some of the Divisions into provinces..

There has to be some demographic restructuring of our provinces. There has to be more accountability of provinces.

My assessment is that urban Pakistan is now about 65 percent of Pakistan. We are now primarily an urban society, an urban country, and urban economy. Look at our economic consumption, where people live, access to services, and all of those things.

Urban property tax, for example, needs to be a major potential source of revenue for local government and provinces.

**BR Research: While property taxes do exist in various forms, are you suggesting a transaction-based tax, an annual ownership tax, or something different altogether?**

**AZ:** Both—owning property and on transactions. Agriculture tax should be a major source of income.

The federal government should reduce its payments to the provinces because the provinces are not contributing enough. They need to match the resources that are being provided.

**BR Research: Are you in any way suggesting a revisit of the NFC Award or a complete overhaul?**

**AZ:** I think there should be more distribution to provinces; however, provinces need to match the resources coming from the federal government. I like the 18th Amendment. It should be made stronger.

There is always room for discussion. But the Seventh Finance Commission Award was many years ago. There is a need for another one. So, the provinces and federation need to sit together, and the CCI needs to meet regularly to address the Finance Commission.

**BR Research: We keep talking about the government's excessive footprint in businesses. You used to support the government's active role in running businesses at one point. What is your view today?**

**AZ:** I was less in favor of privatization earlier but have moved closer to the view that there needs to be restructuring, reform, and, if necessary, privatization. However, there also have to be regulatory bodies with teeth that monitor the nature of reforms taking place.

I think there is a major need for restructuring or privatization of PIA and Pakistan Steel Mills. These are not functional and should be closed down. I don't want taxpayers' money going to pay 11,000 people who are employed only on paper—much of this money is lost in patronage and leakages.

**BR Research: When you refer to regulatory bodies, are you also suggesting that they should have a role in price control, or should prices be determined purely by market forces?**

**AZ:** Price determination, when left to market forces, could be a better option in most cases. But there has to be some oversight in many cases. The market is never enough, regulation is essential where needed.

**BR Research: Do you believe that foreign investment potential is influenced in countries like Pakistan, where governments may lack broad public support?**

**AZ:** I do not think foreign investors look at a regime's democratic credentials or lack thereof while investing in any country. There's a lot of authoritarianism in the world. India is an example. Indonesia is another. The Philippines another, China, perhaps the best example. That doesn't stop foreign investors.

When the central bank put a cap on the money that foreign investors could

take out—due to a foreign exchange crisis—that impacted investor sentiment. Why would anybody want to invest here?

To answer your question, I don't think foreign investors are shying away from Pakistan because of the political situation. They're shying away because the broader conditions are not being met. There are geopolitical consequences in Balochistan, Khyber Pakhtunkhwa, and other areas. There is broader instability, but it's not about who is running the government.

If I had money, I would think of investing in Bangladesh, Sri Lanka, India, and Vietnam, as many Pakistani entrepreneurs are doing.

**BRR: As we discuss the evolution of Pakistan's economic landscape, has academia also recognized these changes over the past five to ten years? Is there an understanding that Pakistan's next phase of sustainable economic growth may not come from the traditional sectors?**

**AZ:** Excellent question. I think we are way behind the world in academia, and academia itself is behind the real world. We're not even catching up.

I think we're beginning to understand what's happening. One thing is that we have started producing graduates for export. A lot of our students—once they graduate, not just from IBA but from quality institutions all over the country—want to move abroad. I'm not in favor of this migration model because it feels like the eighteenth century. We are sending educated slaves abroad to send us money. But it is something that's going to continue, and can't be stopped.

Two or three things can be done: we need to give skills to our graduating university students, who represent a very small percentage—just 4 to 5 percent—of our population. We need to equip them with skills that allow them to interact with what's happening, if not globally, then at least regionally, in terms of tech, finance, and medicine.

We are not producing quality graduates who can address many of the problems that exist in Pakistan. We're producing some

who can go abroad and get us foreign exchange, but that's not a model I endorse.

I think there are far greater possibilities within Pakistan that these graduates can pursue. For example, if capital is available, many of our graduating students can start entrepreneurial ventures and local enterprises as well.

You're right that large-scale manufacturing, small-scale manufacturing, and the export market are going to take a hit because of electricity costs, tariffs, and other issues. But we need new ways of thinking about how academia can interact with industry. I think elite institutions are in tune with what's happening in the industry. But beyond that, we are just producing generalists. Universities in Pakistan give degrees not education.

The area of science and technology is completely ignored. There is very little research taking place. In terms of research across social sciences, natural sciences, and other disciplines, we are far behind.

Academia, in terms of technology, ideas, knowledge, and regional and a global footprint, is lagging far behind where the demand exists—both in the local and international markets.

One trend that has emerged in the last 10 to 15 years is that fresh graduates are moving away from the typical corporate 9-to-5 jobs. Academia, overall, is not doing well in terms of aligning with market demand or ensuring quality. However, certain sectors—like social sciences—are seeing graduates enter financial services, media, and tech firms.

One aspect is that students are studying political science, history, or psychology, and they're being trained in a way that equips them with skills to think critically, write effectively, and communicate—skills that companies increasingly require.

The most competitive program to get into at IBA is not BBA or Accounting and Finance, Business Studies—it's now Computer Science, and IBA's program is one of the best in Pakistan. This year, we are also launching an undergraduate program in Business Analytics.

We are now trying to respond to domestic, regional, and global market demands, while acknowledging that we are still far behind. The unemployment rate of IBA students is almost zero.

**BRR: IBA has just completed 70 years. What is your message on the occasion?**

**AZ:** This is the 70th year of IBA, but sometimes legacy can be a burden. I am only interested in the last five and the next ten years. Just last month, IBA was awarded the prestigious Association to Advance Collegiate Schools of Business (AACSB) accreditation, joining the top 6% of the world's leading business schools with this highly sought-after recognition. Only 1,060 universities worldwide have this accreditation. It's a great achievement for us and affirms that we've been doing something right. We feel very privileged and proud, especially as a public-sector university in a province like Sindh.

IBA also carries a lot of social clout and influence, which naturally helps us. Although we are owned by the Government of Sindh, they do not interfere in our management affairs. As a public-sector university, we welcome students from all backgrounds, and 30 percent of our students are on financial aid. We spend Rs1 billion annually on financial aid, thanks to our strong financial position, bolstered by endowments and alumni support. Financial independence is one of the reasons we've been able to meet international standards.

Our financial systems are transparent. We are audited by international firms like KPMG, BDO, as well as by the Government of Sindh and our internal auditors.

We are in a financial position that allows us to make decisions that other public-sector universities cannot. I believe we are a strong example of how the public sector can function effectively—and that others in the public sector can too. The IBA is a model of remarkable success of the public sector and other public sector institutions, especially universities, all across Pakistan, should learn from such success stories.

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