OP-ED

Too many regulations, not much competitiveness

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MAY 31, 2021

Recently, Pakistan Institute of Development Economics (PIDE) has published a comprehensive reform agenda elaborating on all the necessary steps and processes that are deemed as essentials for accelerated and sustained growth of the domestic economy. The 8th pillar of the agenda titled as openness, competitiveness, and comparative advantage accentuates on market regulations that ensure healthy competition for economic efficiency and protection to consumers from anti-competitive practices. There is no disagreement on these regulations as far as their role in economic growth, poverty reduction or reducing inequalities is concerned. However, their success is highly dependent upon their effectiveness in terms of creating competition in the market as well as boosting a vibrant private sector. We could not achieve these twin objectives despite the fact that we are pursuing the policies of deregulation and liberalisation since the last four decades.

Market regulations like competition policy incorporates the structures that governments have in place for creating competitiveness by regulating monopolies and controlling restrictive trade practices or barriers to entry. Markets in Pakistan are not as competitive as is stressed in economic theory. Instead, they are presumed to be concentrated and controlled by a handful of powerful lobbies, having close ties with either government officials or politicians. According to the Bertelsmann Stiftung's Transformation Index (BTI) which is ranking developing and transition economies in terms of the quality of market economy, Pakistan is ranked among the group of poorly 'functioning countries' in 2020 with regard to organisation of the market and competition policy. Similar is the case with the rankings in terms of trade liberalisation and banking system. Likewise, in terms of the Global Competitiveness Index (GCI) of the World Economic Forum, Pakistan is ranked 110 out of 141 countries, with corruption, ambiguous tax system, inadequate infrastructure, economic and political instability, skills deficiency and poor capacity to innovate as the main hurdles that dampen competitive economic activities in the country. Pakistan's lower competitiveness is manifested in both the domestic as well as foreign markets. The domestic competition is constrained by structural regulatory barriers to entry, market dominance by few firms, and lack of effective competition policies. Likewise, foreign competition is restricted by the prevalence of trade barriers, which are still high as compared to the comparable countries. The trade barriers also indirectly affect domestic competition by curbing the availability of inputs or making them more costly.

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In addition to causing poor competitiveness, regulatory capture or lack of the effective competition policies have kept the development of private sector stagnant. For instance, according to another study titled as “Framework for Economic Growth, Pakistan” by PIDE, market constraints are causing deterioration to the formal sector, with around 70 percent of firms are classified as small. In particular, the costs associated with the formalisation of large businesses, the aspiration for the business community to expand in scale seems to be low. If we compare Pakistan with other comparable countries, we have only 8 percent of Pakistani firms as ‘large’ compared with 54 percent in Sri Lanka, 52 percent in Indonesia, and 47 percent in Thailand. Consequently, since 2003, Pakistan’s share in global market has declined by 19 percent despite an increase in the overall shares of SAARC region by 186 percent and ECO by 127 percent for the same period. In particular, persistent protection to domestic industry through tariff and non-tariff trade barriers has created inefficiencies in the manufacturing sector, which is unable to compete even in the domestic market, leaving alone its competitiveness in the international market. The National Tariff Policy 2019-24 is still claiming to provide a time-bound ‘strategic protection’ to the domestic industry against foreign competition, albeit the structure and duration of such protection is still not clear.

What needs to be done? I would like to posit that, in order to encourage competitive business environment, a two-pronged strategy should be pursued. First, Pakistan must promulgate and enforce effective competition laws and policies which not only prohibit structural barriers to entry for new firms but also discourage dominant position in the market. Likewise, such laws should bar deceptive marketing practices by ensuring openness and protection to consumers from any anti-competitive behaviour. Further, mergers/acquisitions, cartels or joint ventures that restrict free trading and competition between business entities should be on the priority list of such policies. Second, protection to the domestic industry should be rationalised by reducing its impact on budgetary allocations and safeguarding necessary market-related facilitation. In particular, direct subsidies or rebates need to be phased out; instead, investment on hard and soft infrastructure should be undertaken. Such a policy will not only provide business friendly environment with level-playing field for all the entities but will also reduce the burden of the protection on domestic consumers by matching domestic prices with those of the international market. Recently, Pakistan climbed 28 places and rose to a rank of 108 in the global Ease of Doing Business rankings in 2020 from 136 in 2019 but still a lot needs to be done in terms of ease in starting a business, dealing with licenses, getting utilities, paying taxes, and trading across borders. These points if taken would have an impact not only on the enhancement of competitiveness but also on the development of an assertive and vibrant private sector.

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