

Promoting Domestic Commerce for Sustainable Pro-poor Growth

Nadeem Ul Haque

Domestic commerce is the most pro-poor growth possibility in the country. Currently, it employs about 40 percent of the labour force and contributes about 52 percent to GDP. If it can be provided with an enabling environment, our estimates suggest that it could help increase the growth rate by at least 2 percentage points. To fix ideas, recall that evidence from history testifies to the following five propositions:

Proposition 1. Trade is the original human activity that underpins all production and innovation.

People have been trading through history, before industry and long before even settled agriculture and domestic commerce. Indeed, it is trade that facilitated all innovations including the industrial revolution. It may be recalled that England was known as a “nation of shopkeepers” before the industrial revolution. Moreover, it was shop keeping and trade that propelled England towards empire.

Proposition 2. Open markets organise economic activity.

Consumer demand is revealed in markets that are open and competitive. From that demand, producers learn of what needs to be produced. Industry and production that is not founded in such markets may not survive the test of time and competition.

Proposition 3. Markets where consumer preference rules establish brand names.

Local competition in open economies develops innovative business processes, branch networks, and growth of businesses. Brand names and innovative business processes are then exported overseas once they have stood the test of local markets. The idea becomes immediately obvious when one thinks of the following example: McDonald's first established itself in Chicago. It was then exported beyond Chicago through Illinois and the U.S. Once established there, it went overseas.

Proposition 4. Industries organic to local trade and marketplaces are “survivors”.

Put differently, industries that are satisfying local demand and are being continuously tested by local consumers will grow beyond local markets to become export entities. Industries that are only transplanted to a region and remain inorganic to the local market often die out when the subsidy or incentive that attracted them peter out. Production that is totally alien to local market does not take root. Numerous examples of this principle are available. Several efforts to transplant industry to many African countries have failed. In our own backyard, the example of Kala Shah Kaku looms large on the GT Road.

Proposition 5. Trade has historically developed in cities and market towns which have been friendly to commerce.

It is those towns and cities that have been friendly to commerce where innovation has taken place and where history has been made.

■ Key constraints for domestic policy development

- 01** As is well-known, property rights are weakly defined and enforced in Pakistan. Land titling is not secure. This makes it extremely difficult for any type of activity, including domestic commerce, to find space for development.
- 02** City zoning remains extremely unfriendly to domestic commerce. Not enough space is allocated to commercial activity. Even when it is done, the process of commercialisation is extremely cumbersome and expensive. Height restriction and density restrictions are also imposed. In short, commercial construction has been made prohibitively expensive.
- 03** Primitive tenancy laws that excessively protect the incumbent discourage commercial ownership and development.
- 04** In light of points 1-3 above, banks are extremely shy of financing commercial construction.
- 05** Agricultural markets remain highly regulated, with the government controlling prices, market space, storage, etc. Unless the government withdraws from this role, private agricultural marketing and storage will not develop. History shows that many of the towns in the Punjab began as small market and storage centres. We have to revive market and storage as an important activity in our small towns.
- 06** The Government has made a large number of industrial parks in the country. There has never been any effort at making retail offices and warehouses. Perhaps we should begin to think about this.
- 07** The law and order problem and contracting difficulties impact on activities like retail and warehousing far more than industry. We need a favourable environment for domestic commerce.
- 08** Many old markets are in a dilapidated state. Renovation of these could facilitate large employment as well as big pick up in activity.

