

So what`s wrong here?

By Afshan Subohi 2021-08-16

PAKISTAN turned 74 last week.

It has travelled a long distance since then, but, with 8.5 million people currently unemployed and around 40 per cent surviving below the poverty line, its economic performance has been far from being enviable.

Pakistan ranked a low 129th amongst 193 UN member states in the 2021 Sustainable Development Report, slipping 14 steps in five years since 2016.

Pakistanis deserve better. What has kept the fifth most populous nation which is naturally resourceful, geographically well-positioned, and harbouring a 990km hot water coastline, from realising its potential? Was there a systemic fault, mishandling of national diversity, weak institutional setting, capacity deficit, deepseated corruption, culture of patronage, political immaturity, democratic miscarriages, fragile legal framework, some genetic flaw in the citizenry, incompetent political and corporate leadership, archaic power structure or a delusional economic policy framework compromising the very fundamentals of market economy? Better performing peers, like India, Bangladesh, Indonesia, Iran, Turkey, Sri Lanka, Brazil, South Africa, and South Korea, are all inflicted with their own complex sets of problems. They have seen several bouts of turmoil in the past, but still managed to do better.

So what`s wrong here? Experts have traced Pakistan`s economic trajectory based on documented facts and identified bottlenecks impeding development. It might have improved the understanding of economic history, but seems to have done little to chart out a course for the future.

It is relevant to mention that all three major political parties PPP, PML-N and PTI drew on the work done on the subject and global conventions evolved over the years. They have broadly similar positions on the economy though they differ in their order of priorities. They all commit to a marketbased economy for capital formation and promise to limit the government`s role to guarantee a level playing field in a conducive business environment.

They pledge to ensure rule-based governance in order to keep dominant players from abusing their positions and to achieve distributive justice and environmental sustainability.

As far as the single biggest hurdle on the path to development is concerned, the consensus has yet to emerge. Most economists, thought leaders, and business representatives reached to identify the single most important drag on development were either reluctant or confused.

Many identified a mix of factors responsible for the laggard pace of growth.

Dr Nadeem ul Haq, Former deputy chairman of the Planning Commission and Vice-Chancellor of the Pakistan Institute of Development Economics (PIDE), who revitalised the dormant premier institution and initiated a public debate on critical subjects, felt that `policies and projects have both failed us`. He lamented the lack of interest in re-visiting and revising the current approach. He was critical of an overarching state.

To hammer this point, he recalled Pakistan`s participation and performance record in the recent TokyoOlympics. `Pakistan`s Olympic squad had eight athletes and 24 officials, no medals, only one sportsman shone in Javelin, but without government`s support. Even Qatar, the size of a minor Pakistani city, won two gold medals.

The ratio 24:8 explains clearly why Pakistan is where it is.` He was critical of what he calls the `brick-and-mortar` approach to development. `Without systematic cost-benefit analysis, we build roads and bridges on the whims of leaders to the benefit of the contractors, losing control over time and expense.

Dr Rashid Amjad, an economist and a former PIPDE vice-chancellor, talked about the 'low level of investment in both physical and human capital by businesses despite earning high profits'. He blamed the 1992 PML-N government for relaxing rules for transferring foreign exchange abroad that continue to date with minor adjustments. He saw business 'mafias' controlling and manipulating output and prices for reaping monopoly profits as an impediment. He mentioned the adverse impact of the Afghan war and termed Pakistan's problems 'structural and not cyclical'.

Nadeem Akhtar, a political analyst, was clear and direct. He saw the politicisation of economic policy at the root of the overall mess. 'As long as rulers continue to fiddle with the market fundamentals, I see no hope for the country and its future. If Pakistani businesses can't access huge markets next door, are nudged to source their imports from certain nations and export to less attractive destinations, it says it all.

They can't beat the competition as they can't afford and see a point in investing in technology or innovation. Till such time when budget allocations are captive to dictates instead of needs, the country will continue to flounder'.

He mentioned the growth rates of India and China of yore. 'Double-digit growth in India and China were unimaginable 40 years back. It was only when they finally embraced the market economy and opened up for international trade the pace of development gained momentum. Pakistani economy has to break free of the political shackles for the sake of the future of the teeming millions,' he stressed.

Mian Nasser Hyatt Maggo, President of the Federation of Pakistan Chamber of Commerce and Industry responded thus: 'In simple words, it is the tax policy, tax collection investigation, prosecution and adjudication with one agency the Federal Board of Revenue that held development hostage'.

Some leading economists blamed instability. Dr Ali Cheema, an economist associated with multiple elite institutions, was one of them. 'Political instability and the failure of state institutions to develop a consensus on fundamental reforms of the governance system and the economy are the reasons,' he said.

Dr Nadeem Javed, a former chief economist of the Planning Commission, concurred. 'Political instability ruptured the natural process of nation-building and resultantly we lagged behind.

Ehsan Malik, CEO, Pakistan Business Council, emailed a detailed response that was difficult to reproduce in the limited space. He regretted the lack of trust in the business class among other impeding factors. 'Of the several factors, the most important are poor long-term national planning, fragmented and silo-centred decision-making, colonial-era regulatory environment, a civil service that misunderstands and often mistrusts business, decision-making which is paralysed by fear of NAB investigations, gross mismanagement of agriculture and last, but not the least, knee-jerk changes in policies for short-term revenue objectives, mostly overburdening existing taxpayers, given the weak political will, and so far the ability, to broaden the tax base.

Identifying weak data resulting in the mismatch of demand and supply leading to poor policy decisions, he mentioned the energy sector. He recalled times when the 'Planning Commission was a model that other countries emulated, notably South Korea and Malaysia'. Fragmentation of authority between the federation and provinces on the one hand and between the various federal ministries on the other, he said, created complexity and slowed down decision-making.

'Investment, especially in the new sectors, has been thwarted by lack of policy consistency... hence, exports have suffered from low value-addition. Ominously, over half of our exports are in categories for which global demand is declining. It is premature to celebrate recent upsurge in exports which is principally due to the diversion of orders from Bangladesh and India because of the Covid pandemic rather than gains in our competitiveness.' He was critical of weak economic diplomacy costing the country dearly and mentioned free trade agreements that serve partners better.

'The narrative on foreign direct investment (FDI) is misplaced. The FDI policy has failed to differentiate between market seeking and export-oriented industries.

Mr Malik bemoaned the perpetual neglect of agriculture. 'With Pakistan now a net importer of food, the mismanagement of agriculture has become a matter of food security and unbearable inflation. Textiles, the

major export sector, is also denied adequate supply of cotton its principal input.

He was critical of the knee-jerk reversal of supportive policies reflecting the bureaucratic mindset that mistrusts businesses. The attitude disrupts the natural progression of the industry.

`Competitiveness is a function of scale and synergies. The evolution from single sector family-owned companies to diversified professionally managed groups with external minority shareholding is not only desirable for scale, but also the development of capital markets,' he concluded. □