BUSINESS RECORDER

Pakistan's stunted business landscape needs a revamp

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In Pakistan, the business milieu has been held back for decades by multiple factors like institutional and structural barriers, political unrest, government footprints, etc.

The stagnancy of the business landscape in Pakistan can equally be attributed to one of the most entrenched obstacles of the dominance of the wealthy business magnates normally called "Seths" and their families. This Seth culture has eroded the economic machinery in Pakistan.

With roots embedded in the colonial system, the dominance of Seths and their families in Pakistan's business sector is deeply embedded in the social structure.

Wealth and opportunities are concentrated within a small group of the population, thus exacerbating income and social inequalities, thus, resulting in monopolistic or oligopolistic practices in the market and slowing down the economic growth. This oligopoly offers friction to new entrepreneurs, particularly those without the family or political influence.

Since the 1960s, the control of major industrial assets in Pakistan has shifted from 22 families to 31 families, what Dr Nadeem-ul-Haqque rightly calls a small "elite club". In Pakistan, the corporate culture has the dominance of Seth mindset, which puts bars to innovation and expansion.

PIDE under the mentorship of Dr Nadeem-ul-Haqque has conducted extensive research by identifying causes and by proposing solutions to address the economic upheavals in Pakistan. Among various factors, the Seth culture, in particular, has significantly eroded Pakistan's business landscape with its risk-averse mindset and unwillingness to embrace innovation and to encourage competition or to venture into new markets.

Owing to the prevailing lack of competition, Pakistan could not achieve competitiveness and growth targets owing to market stagnation and other factors like political upheavals, regulatory burdens, limited human capital development, financial constraints, etc. Unlike its regional counterparts like India, Bangladesh, and Vietnam, which have diversified their economies and grown their exports significantly.

The government over-protection policies have shielded the local industries from foreign competition so much so that their failure to go into the value-added segments at the right time has allowed new entrants like India, Bangladesh, Turkey and Vietnam to share the market. Pakistani companies lag way behind international competitors in terms of high-tech, value-adding, and capital goods production and exports.

There is an across-the-board failure to diversify be it manufacturing, exports, or domestic markets. Pakistani businesses have very little global presence for various reasons. One reason these companies do not venture into international markets can be attributed to their exorbitant local profit margin; they earn from the domestic consumption led economy of 25 crore Pakistanis. Pakistan's largest conglomerates operate in industries like fertilizer, energy, cement, sugar, and automotive – all meant for the local population, where they can hold and exercise their network influence.

They invest in the sectors that promise incentives like protection and subsidies in the form of high tariffs on imports, tax breaks, subsidized energy tariffs, etc.

The government policies incentivize these companies to compete domestically through protection and opportunities such as IPPs, privatization, subsidies, etc. PIDE under the directions of Dr. Nadeem-ul-Haqque on multiple platforms has raised the concern that Pakistan's economy suffocates owing to market stagnation. The fate of the business milieu in the hands of the elite club has hampered the country's productivity and competitiveness.

The reins of economic power in their hands limits the economic opportunities for others, making entrepreneurialism hard to grow. The economy of Pakistan is political and cyclic, in nature.

The authority centered within a small hub of people has political ties. This allows them to influence the policy-making in their favor to dispense the national resources for their self-interests, limiting competition in markets, thus, retarding entrepreneurship. This, in turn, restricts the economic growth of the people, thus, lowering their purchasing power and limiting the demand.

The need is to break this cycle. These coalitions are symbiotic in nature, where business owners can influence policy-making to increase their profit margins exponentially.

Likewise, rent seeking is the by-product of the elite-controlled business culture in Pakistan. Pakistan needs policy reforms to promote competition and innovation for its organic growth. In this perspective, research in PIDE proposes to re-orient the subsidized credit from financing working capital for long-term financing for investment expansions and innovations.

Besides, political interference should be minimized to free the market to ensure steady economic growth. A free-market mechanism could lead to a win-win situation for all stakeholders, i.e., consumers, producers and the government.

Seth-occupied business culture is fostering an environment favorable for tax evasion for their owners, who deliberately do not list their companies on the stock. The business activities of the companies greatly affect the stock market of an economy.

The Pakistan Stock Exchange (PSX) is thin with few Initial Public Offerings and limited stock trading activities in Pakistan. Out of 421 companies owned by 42 business conglomerates, only 24% are listed on the Pakistan Stock Exchange. This practice of an undocumented economy retards the adoption of efficient corporate culture in Pakistan. This culture should be revitalized to allow domestic businesses to compete and grow organically.

The barriers like onerous and expensive tax policies should be revisited to attract more investments- domestic and international. PIDE's extant research establishes that in an economy investment and productivity are two key drivers of growth, which are not only quite low but have been in a downward spiral over the years in Pakistan.

Dr Nadeem-ul-Haqque has not only proposed various solutions but has also propelled researchers at PIDE to show how the policy should focus on developing large, exporting, listed, outward-looking, professionally-run corporations driving the economy.

The need is that the government should give incentives to companies by lowering the high tariff cascading in Pakistan despite the tariff rationalization to promote export growth. Likewise, the need is to incentivize listing with a tax incentive of 1–3% in corporate income tax for each 10% listed on the stock exchange for 5–10 years.

Double taxation should be avoided. The market should be allowed to determine the takeover price. The holding companies should be allowed to operate and develop a market presence. The policy should focus on developing large, exporting, listed, outward-looking, professionally-run corporations driving the economy.

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