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Stunted growth: the economic stalemate of Pakistan's business landscape

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As nations across the globe, particularly within the developing world, experience rapid economic advancements and entrepreneurial breakthroughs, Pakistan finds itself at a critical crossroads.

The country's business landscape remains severely constrained, characterized by a longstanding dominance of companies led by seths and their families.

A lackluster economic growth rate, dismal per capita GDP, and various structural and institutional barriers have perpetuated a cycle of stagnation and inertia.

The stagnancy of the local business environment becomes evident through the research carried out by the Pakistan Institute of Development Economics (PIDE).

In the 1960s, 22 families controlled 66% of the country's industrial assets. By 2021 this number had barely expanded, with 31 families now dominating the Pakistan Stock Exchange (PSX).

Exacerbating the situation even further, the KSE-100 index is purportedly filled with directors close to these 31 families, consolidating an exceedingly small "elite club" that possesses disproportionate economic might and influence in a country of over 240 million people. This dominance by a select few thwarts new entrants and undermines competition, severely limiting the potential for entrepreneurial ventures to emerge.

Illustrating this point, discussions at PIDE's Econfest session on "Stunted Seth-State Owned Companies" highlighted that only 6 to 7 companies in Pakistan have a market capitalization above $1 billion, while the highest valuation company, OGDCL has a market cap of around $2 billion.

This is a mere fraction of the market capitalization of the biggest Indian companies like Adani and Reliance, which exceeds $200 billion. In fact, in February 2024, Tata's market capitalization alone was estimated to be around $365 billion, larger than Pakistan's entire economy.

Adding to the already dismal business environment is the paltry rate of economic growth. From FY13-14 to FY23-24, Pakistan's average GDP grew by a mere 3.51%, which has had profoundly negative implications on the business environment.

The situation becomes even more bleak when per capita GDP is considered, especially vis-à-vis our regional counterparts. Both Bangladesh – part of Pakistan until 1971 – had a lower per capita GDP till 2015, and India used to have a lower per capita GDP in the 1990s and early 2000s till 2008.

However, ever since, both countries have overtaken Pakistan and the gap has continued to grow wider, with the average Bangladeshi now being 1.69 times richer than the average Pakistani, and the average Indian being 1.52 times richer.

This stark difference underscores how on average, Pakistani consumers have comparatively less disposable income to spend, which in turn has led to a decrease in the overall market demand.

Not only does the lower demand reduce the business revenues and reduce their attractiveness to lenders due to the higher risk of default, but also limited domestic savings, constraining capital availability in the financial system, exemplified by a low 18% credit to GDP ratio in Pakistan.

This, along with stringent government regulations, licensing requirements, and heavy protectionism, has inhibited new market opportunities and severely limited the scope of business expansion in Pakistan as opposed to its regional peers.

Besides, low prioritization of Research and Development (R&D) has led to limited innovation and product development due to the tendency of local businesses to adopt a risk-averse mindset.

In sharp contrast, entrepreneurial success stories like Elon Musk, Steve Jobs, and Bill Gates showcase how overcoming personal adversity and embracing risk can result in trailblazing innovations that dramatically alter the course of humanity as seen in ventures like Neuralink, Tesla, Apple & Microsoft.

The absence of platforms like “Shark Tank”, which have been pivotal in promoting entrepreneurship in other countries, underscores the absence of an entrepreneurial culture in Pakistan. For instance, “Shark Tank India”, has accelerated startup growth through providing visibility and funding opportunities.

Furthermore, Pakistan, despite having the fifth-youngest population globally, with over 60% under 30, there has been very little entrepreneurial activity among Pakistani youth in their part.

A core reason for this is the paucity of industry-academia linkages, which prevents students from up-skilling themselves per industry needs and inhibiting a vital source of talent development.

Poor coordination between industry and academia also means that startups don’t have access to much-needed funding, and expertise, stymieing entrepreneurial activities and innovation.

Ultimately, the doldrums in which businesses find themselves in Pakistan are multifaceted and entrenched in structural, institutional, and cultural factors. Addressing these issues necessitates wide-ranging reforms. By learning from international best practices, promoting competition, privatization, credit provision, R&D, fortifying industry-academia linkages, and tapping into its youthful population, Pakistan can embark *on a journey where businesses can finally become unstuck and flourish while paving the way for sustainable economic growth and development.*

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