

Report Prepared by
Wajid Islam

Why Businesses Don't Grow in Pakistan



Atif Bajwa
(President, Bank Alfalah)



Waleed Saigol
(CEO, Kohinoor Group)



Alman Aslam (Ex Corporate
Consultant, Citi Bank)



Mohsin Iqbal (Ex Country/ Regional
Manager, Intel Corporation &
Hewlett Packard)

Business in Pakistan after 20 years of protection and subsidy still remain SMEs by international Standards

Local corporates are family owned with a small share on the stock market, hardly any is professionally managed or run

Few have innovated in product or process or broken into new markets

No country can grow without corporate growth. What are the reasons for this corporate malaise on Pakistan?

Pakistan is the 5th largest country by population in the world. According to the World Bank 64% of Pakistan's population is under the age of 30. The country is full of natural resources, with vibrant population and myriad opportunities. Unfortunately, after 73 years of independence we have not capitalized our resources and population to improve businesses in our country. On the other hand, our regional competitors and other countries have managed to grow very rapidly in a very short span as compared to Pakistan. Here our main concern is

why Pakistan has not managed to improve its business environment in the presence of humongous opportunities for businesses growth.

As the famous saying goes that data and facts speak louder than words. We are lacking some measures due to which businesses do not thrive in Pakistan. Firstly, our credit to GDP ratio is extremely low, that is only 18%, while India and Bangladesh are far better than us. According to an approximation they are 3 times better than us in this regard. Secondly, collateral-land value is locked in Pakistan. We

have only 10 to 20% of land for collateral. Thirdly, we completely lack better bankruptcy laws. Moreover, our government has high credit demand from the banking sector as compared to our competitors. Furthermore, our investment to GDP ratio is very low.

Regrettably, the business environment has not improved in our country with the passage of time. In 1986, our exports were 3.8 billion dollars and the exports of Vietnam were only 0.8 million dollars. But currently, Pakistan exports are only 24 billion dollars, while Vietnam

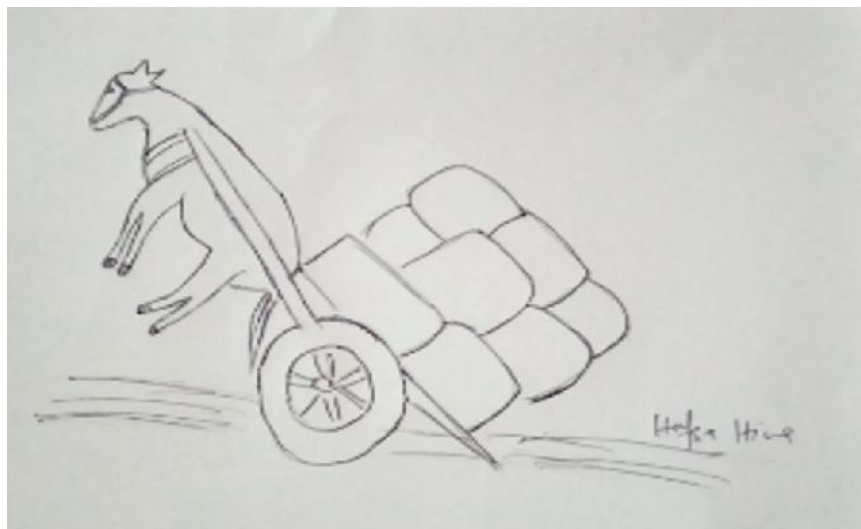
exports have sky-rocketed to 264 billion dollars. Pakistan has only managed to improve its exports 6 times, while Vietnam exports have grown exponentially by 330 times. Apart from the export sector, we have failed to improve the market Capitalization of our large sectors like; OGDCL, MCB, Power sector, PTC, ENGRO etc. The market cap of our large firms is about 2.8 billion dollars, however, in India it is 13 billion dollars. We have miserably failed to improve our financial, power and export sectors.

Why have we failed to spur businesses growth in our country? Is the culture not suitable for growth? Does the mindset of people a hurdle? Is the government failing to provide opportunities for businesses growth?

These are some of the reasons, which is adversely affecting businesses. The first barrier is the lack of professionalism in our business community. Our local businessmen do not invest in professionalism. On the other hand, international businesses Mughals invest heavy sums on improving professional ethics and environment.

Moreover, our local businesses are not adopting the modern ethos of businesses, by failing to establish good organizations and suitable environments. They are only busy in the blame game by blaming the government for not providing a feasible macro-environment. Furthermore, we lack innovation and entrepreneurships. There is no trend of risk taking. They all are in the search of a golden way to boost their profits by avoiding risk. Contrarily, the trend is different in the international arena. Large businesses are investing hefty amounts on innovation and new ways of improving businesses growth. Moreover, foreign firms hire their human resources on merit basis, which then prove their worth.

Apart from business community failures, the role of government is also not very supportive. The market is overregulated by the government. Rent seeking is widespread. FBR policies are making barriers for a growth environment. Moreover, the corrupt and inept elements in FBR are making the survival of businesses difficult. In addition to this, we lack a vibrant legal system for businesses protection. We still rely on old colonial laws. Government is only supportive to elite groups, who actually run the governments. Perks and privileges are only awarded to a few selected ones, which further deteriorate the competitiveness of the market. New players cannot afford to enter the market, as entering needs linkages in bureaucracy, government and heavy bribes for the authorities.



The list of impediments to businesses growth in Pakistan is very lengthy due to which we have failed for 73 years. But now it needs drastic reforms, if we want to create a viable and vibrant environment for businesses thriving. First, the government has to implement business friendly laws. Moreover,

changes its monetary and fiscal policies according to the needs of circumstances for growth. In addition, stringent reforms in institutions will also help to develop good business practices. Providing facilities to the firms will enhance their productivity. Bringing good legislation and implementation will

attract large businesses from abroad as well as from the local market. Without reforming the current faulty system, the revival of businesses growth is near to impossible. We can only hope for the best and can struggle to bring the growth on the right track.

