

Misplaced mercantilism and the case for domestic markets

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We are being told that the economy of Pakistan is in absolute free fall. Allegedly, the dominos of economic doom are in motion, and despite all our countless stopgap measures, we are destined for default.

These are the clamors that have been reverberating across the plethora of news channels on Pakistani television – often being touted by half-experts on economics. Although it is indeed true that we are in times of extreme economic distress, one has to take the assertions of these casual television commentators with a pinch of salt.

The ineptness of their policy analysis can be gauged by the pedestrian prescriptions they give on how to fix the ongoing economic bedlam. One chief piece of advice that they dispense in their typical braggart manner is that in Pakistan we should focus on increasing our exports – as export-led growth is the only ultimate way through which we can earn the coveted foreign currency and achieve long-term macroeconomic stability.

This policy prescription of export-led growth is indeed an important one, yet without any working mechanisms on how to achieve such growth, are just empty calls that we have been hearing for several decades now.

But perhaps what is even worse is when some of these commentators take the issue further and call for mercantilist-leaning policy frameworks to increase export earnings. The persistent policy of successive governments targeted at giving subsidies and breaks to “export-oriented” industries – whatever that term means, has not worked.

What these commentators often miss is the critical role that vibrant domestic commerce markets have to play when it comes to immediate growth of economic activity and preparing an emerging market economy for competitive international trade. Talking about industrial and export-led economic growth without stressing the need for vibrant domestic markets first is akin to putting the cart before the horse.

One example of an ignored sub-sector is the domestic retail sector in Pakistan. The retail sector is one of the fastest-growing sectors and now makes up almost one-fifth of the total GDP.

The sector also employs about 15 percent of the labor force, a number that is similar to the manufacturing sector, and second only to the agriculture sector. Yet despite its growing size and influence, the sector is a story of immense unrealized potential. The sector is overwhelmingly comprised of informal setups with only 3.5 percent of workers working in formal retail setups.

Despite recent marginal moves towards the establishment of supermarkets and departmental stores in urban centers, the retail landscape in Pakistan is still dominated by typical mom-and-pop shops which leave a lot to be desired in terms of consumer experience and satisfaction.

One reason for this poor consumer experience is our epistemic bias that favours facilitating producers and manufacturers instead of consumers – something that is indicative of our persistent mercantilist inclinations of import substitution and export promotion. But leaving our overall mercantilist leanings aside we need to question why most businesses in the domestic retail market are small, informal, and typically provide limited and low-quality products and services.

The standard rationalization that these businesses stay small and informal in order to escape the tentacles of the tax bureaucracy simply won't cut it anymore. Such simplistic rationalizations do more harm than they do good. The fact is that human nature fundamentally is similar, yet there are examples of once-comparable developing countries that have successfully transitioned from informal retail and commerce activity to formal and high-end retailing.

It is about time we reevaluated our priorities. And by “we”, I mean policymakers and commentators who are keen on championing export-led prescriptions without realizing other equally important facets of the economic ecosystem. An ecosystem, of which, the domestic markets including the retail sector are an integral part.

The inescapable truth is that stories of most export-led economic miracles first start at home, i.e., in vibrant domestic markets. These markets and their local consumers serve as ideal training grounds for local producers who can learn to refine their products and create high-value brands before venturing into competitive international trade and export.

Professionalization of our domestic markets is the real game changer that we should aim for. Agreed that such professionalization will not happen overnight, but an appropriate starting step would be for us to start talking about it and forgo our persistent mercantilist inclinations.

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