

Pakistan's daunting deficits

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Problems in the short term that affect day-to-day life are quite naturally given centre stage by both policymakers and the government's critics. How much fiscal deficit is real, how much contrived? What has gone into computing the rate of inflation? What is the composition of foreign exchange reserves in terms of borrowed money and own money? These are pertinent questions that need to be raised. The government of the day has to answer these questions and satisfy its critics.

But this excessive preoccupation with short-term issues leads to the neglect of long-term issues that responsible governments must address. It is hard to predict where we would be in the next 10 to 20 years but evolving global trends do leave some pointers. Action will follow only if the gravity of the situation is realised.

Benchmarking Pakistan of 2015 with other countries at the same level of development in the past and taking stock of the future determines that a few big deficits are critical for our future development.

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Coping with climate change

The risks to energy, water and food security arising out of patterns of climate change are now well documented and substantiated by strong scientific evidence. The vast network of irrigation canals, barrages, headworks etc. has allowed us to be self-sufficient in food. But the global warming that will melt the Himalayan glaciers — the source of our rivers — would result in floods and then prolonged droughts. Already a water-stressed country, the non-availability of irrigation water for our major food and cash crops would be simply devastating. Population growth by that time would add another 100 million mouths to feed. International trade in food would be minuscule as the extreme weather would hurt the harvest in the surplus countries also. Pakistan has hardly done any preparatory work to develop drought-resistant, high-yield varieties of major crops that can be grown in a highly water-scarce environment.

Governance deficit

Underpinning most of the challenges and crises facing Pakistan is the deep-rooted governance deficit. Energy shortages are not due to inadequate generation capacity but to theft, losses, non-recovery of dues, and mismanagement by electric and gas companies. Low-tax revenues accrue due to inefficiency, lack of effort and connivance between taxpayers and tax collectors. Public enterprises incur heavy losses subsidised by the exchequer because of nepotism and favouritism in the appointments of chief executives. Poor law and order, arms, drug smuggling, terrorist hideouts all owe their sustenance to the auction of thanas to the highest bidders. A neutral, competent civil service imbued with a sense of public service can alone fill this deficit.

Trust deficit

Pakistani society has become more fragmented, highly divisive, excessively polarised and stubbornly intolerant. Mistrust, intolerance, sectarian rivalries, religious and ethnic divides have gradually eroded social capital, the glue that binds diverse communities. In a deeply divided, suspicious and insecure society the transaction cost becomes high and the speed of the economic vehicle is slowed down. Post-9/11 events have exacerbated these cleavages and nurtured new forces of violence, extremism, radicalism and terrorism throughout the country.

Skill deficit

The average schooling years of the labour force in Pakistan is low and the demographic dividend is unlikely to be cashed if the present educational policies and management practices continue to persist. Thousands of unemployable graduates produced by the universities are either attracted to terrorism, crime or suffer misery and deprivation.

Conversely, garment factories are looking for stitchers and construction companies are short of welders. Technical and vocational enrolment is less than 1pc while the country needs five times more technicians, mechanics, welders, HVAC operators, nurses, paramedics. These can be absorbed not only in the country but also abroad. Internet penetration, mobile phone, broadband wireless and fibre optic backbone have not been used for training or upgrading the skills of the existing workforce or others living in the country's remote areas.

Gender deficit

Gender disparity (only 20pc of women participate in the labour force, most of them unpaid family workers in rural areas) has sapped the economy's vitality. Bangladesh which was lagging behind until the early 2000s has been able to overtake Pakistan in key economic and social indicators. High rates of female literacy and female labour force participation explain much of the variance. Unless one half of the population is empowered to take part in production and services sectors, economic stagnation is likely to persist.

Technology deficit

Japan, Korea and China have been successful because of technology diffusion and application in their production processes. They went through a cycle of learning by doing, by reverse engineering, imitating and adapting the techniques of production to their factor endowment and selling them at competitive prices. New firms and start-ups replaced old firms. In Pakistan, the industrial production base has remained unaltered for several decades. Rent-seeking and extracting concessions by existing firms have become commonplace. Innovation, new start-ups and entrepreneurship are sadly missing. R&D institutions are mired in red tape and academic-industry interactions are almost non-existent.

Competitiveness deficit

Pakistan inherited one of the world's finest irrigation systems covering 80pc of arable land. The Indus Basin Works, dams and reservoirs, barrages and link canals and a large reservoir of groundwater added to our capacity. Any other country would have utilised such a scarce resource for producing high-value crops and their industrial derivative for exports. But we are contented with producing low-value crops. Water losses, neglect of maintenance and desilting of canals, the poor state of barrages, absence of lining water courses, waste and inefficient utilisation, inadequate assessment and weak recovery of water charges have eroded the natural resource-based comparative advantage. Cotton yields in India have more than doubled in the last decade while our national average has remained stagnant. The productivity gap between the average farmer and the progressive farmer, if narrowed, could restore this advantage. Pakistan's export structure has remained unaltered since 1990. Consequently, our share in the markets is declining while that of India and Bangladesh has doubled and tripled.

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