

## **PERILS TO PAKISTAN'S COMPETITIVENESS**

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There can hardly be any two opinions on the proposition that the virtuous cycle of economic growth, employment generation and poverty reduction in Pakistan has to be sustained at least during the next decade to bring about a lasting and benign change in our economic landscape. The list of constraints that can impede the achievement of this objective is quite well known-low domestic savings and investment ratios, weak institutional capacity, inadequate physical infrastructure etc. In addition to these constraints, a newly emerging phenomenon of growing shortages faced by the various sectors of the economy in finding right skills has not drawn much attention.

A few decades ago, development economists believed that expansion of international trade would increase the demand for unskilled workers in developing countries, provide employment to masses and reduce poverty. The actual experience has proved that this is only partially true. The spread of new technologies has led to new techniques of production and processing which have sharply increased the demand for knowledge based skilled workers. More recent studies on economic rates of return have concluded that earnings have risen substantially in developing countries for workers with higher degrees and skills relative to those with high school diplomas or lower skills. It has been shown that a workforce with higher skills is an important part not only for maintaining the engine of growth but also improving the climate for investment and acquiring a competitive edge in the global economy.

Against this background the skill shortages faced by Pakistani economy are posing a very serious challenge for future growth and competitiveness. The two cases of textile industry and irrigation sector amply illustrate the opportunities that have been missed in the past.

Pakistan has been one of the major textile producing and exporting country for over five decades. By now, we should have been a major global provider of skilled and managerial talent to the newly emerging and aspiring developing countries trying to establish themselves in textile industry. But what is the reality? Our own firms are poaching the experienced and well performing employees from other competing firms within the country escalating the compensation packages and personnel costs. We

should have had a large network of world class Textile Universities, Colleges, Institutes, Faculties, Technical Training Facilities producing world class professionals, managers and technicians for the whole value chain of this industry. In fact, a few of these institutions that exist are sub-par and not upto the standards required for the industry to remain fiercely efficient. Industrial magnates and their associations in Pakistan keep barking at the wrong tree - extracting concessions, tax breaks, subsidies, low interest rates etc - little realizing that they are not tapping the hidden wealth in the industry i.e labor productivity gains, hiring professionals in finance, branding, marketing etc. organizational restructuring and revamping logistics, acquisition, delivery and sourcing methods. The cost savings and revenue increases that can be effected through these means far exceed any concessions and subsidies that can be granted by any government. Relatives, kith and kin should be accommodated by all means provided they are qualified, trained and capable of performing well. Their loyalty and commitment to the family owned companies are important but these attributes should be combined with professional and technical skills to realize the productivity potential.

Pakistan undertook one of the massive engineering projects in the developing world in the 1960s i.e Indus Basin Works. This experience of constructing large dams, link canals, barrages, head-works and hydraulic structures should have created a pool of world class engineers and technicians for large scale irrigation and dam projects and given birth to companies of international stature bidding for consultancy services and construction projects all over the world. WAPDA at that time boasted of some highly respected professionals who were grabbed by multilateral development banks. These professionals could have been given incentives to groom the talent pool of younger engineers and technician staff within W APDA but they were forced to leave the country in desperation. Today WAPDA is almost devoid of high quality technical expertise and skills and we may have to invite highly paid foreign consultants to plan, design, and supervise the Bhasha Dam Project. There are hardly any construction companies in Pakistan that will be able to compete with other foreign companies in international competitive bidding for the construction of this Dam or future Dams.

The two examples presented above vividly illustrate the problem the country faces acutely in its quest for making a headway in the global economy. In one case, the captains of our textile industry, (that remained unscathed from the nationalization of 1970s) diverted their energies and attention to short term

rent seeking activities rather than building solid foundations for future growth, expansion and acquisition of market share by capturing productivity gains. Training of labour force at all levels - post induction, on-the-job, refresher, managerial-was totally neglected with the result that a World Bank study finds that our textile industry is operating at only 40% productivity levels of China. Low labor costs can no longer be a source of comparative advantage unless the productivity of that labor is able to bring down the Unit Costs of production. This case represents the market failure or the failure of the private sector.

The second case i.e. of WAPDA is a classic example of losing the comparative advantage that was acquired forty years ago by erosion of the hard acquired skill set. The multiplier effect of a strong and vibrant water reservoir related engineering consultancy services and construction industry would have generated demand in the ancillary engineering industries. The Universities, engineering Colleges and technical Institutes would have produced thousands of graduates in these areas and the surplus skilled and manpower could have been exported to the Middle East, East Asia and Africa. The international experience gained by our engineers and construction companies would have benefited us once we were once again embarking upon new large water reservoir projects. This second case typifies the government failure or more precisely the failure of W APDA and our planners in not making use of our experienced engineers and pushing them out of the country.

It is time that we learn from the lessons of these two cases and avoid the mistakes committed in the past. The imperatives of deregulation, liberalization and privatization have nurtured competition domestically and internationally. To meet this competitive pressure Pakistani businesses have no other option but to enhance productivity. But this is not possible as the country is faced with serious skill shortages in the fields of engineering services, telecommunications, media, Civil Aviation, financial sector and accountancy etc., in addition to the textile industry. All industries suffer from shortages of middle managers and project managers. Education, training, skill development and up gradation are public goods and the recent initiatives of the government to strengthen and upgrade our Universities, and Engineering Colleges, open up higher education to the private sector and establish NEVTA and TEVTAs are the steps in the right direction. But these initiatives can come to fruition if we have a stamina for persistence of policies, along with provision of adequate financial resources, imaginative,

competent and committed leadership in our Institutes of higher learning, good internal governance and autonomy, incentives for better performance by teachers, and close linkages with industry. Our college education standards have to be improved too so they can feed our universities with the right quality of intake. The HEC with its sincerity of purpose and strong leadership and the NEVT A and TEVT As would not be able to bring about success on a sustained basis in absence of the above mentioned reforms.

But more important the private sector particularly the family owned business houses in the country would have to rethink and change their mindsets and modus operandi. They should cease to consider training or nurturing of human resources as an expense or cost but think it as an investment. Rigorous on the job and in house training should be imparted by every single Unit and plant if our business houses would like a piece of the pie of the world market. Professionals should be inducted, paid well, provided opportunities to rise to the top and in fact given profit sharing incentives. Relatives, kith and kin who come up to the standards should, of course, be given preference but in the long run incompetent or dead wood relatives would become a nightmare threatening the survival of the companies themselves. Management Consultancy firms should be engaged to look at the work processes, factory layouts and flow of work, inventory management, logistics and sourcing methods and asked to come up with specific recommendations for improvement. Indian companies work with international consultancy firms and have in fact become global players. In 2006 these companies acquired 22 billions of dollars worth of companies all over the world more than the foreigners invested in India through FDI. Even our large firms have remained shy of engaging global consultancy firms to develop strategic plans for the future because they simply think in terms of high costs without taking into account the large benefits that will accrue to them. According to World Investment Report of UNCTAD, multinational firms from the developing countries are becoming the fastest growing companies. We may be losing out. The tendency to understate the balance sheet, earnings and profits for concealing tax tantamount to shooting on the foot. The more transparent the company is the more financial resources it would be able to attract from within and outside the country. The scale of economies with limited financial exposure of the owner would provide profits several fold higher than earned by concealing taxes. It is time that our private sector abandon this myopic view of business and take a more broad based view of how successful business ought to be conducted. Market failures and Government failures which have proved costly for us in the past have to be tackled forcefully by both

our planners as well as the private sector.

The problem of skill shortages has also to be resolved for reducing income inequalities too. When the country has skill shortages those possessing the requisite skills are able to command high premiums on their earnings. These benefits widen income inequalities which, in turn, slow down the process of poverty reduction despite reasonable growth rates.

Investment in basic education, training and skill up-gradation has been neglected for so long in Pakistan but the imperatives of competitiveness, poverty reduction and improving income distribution dictate that the supply of skilled manpower be increased in the coming years. An active partnership between the planners, economic, managers, private business leaders, research and training institutions, universities and providers of technical and vocational skills has to be forged in order to meet this challenge within a time frame of next five years. If we are not able to produce a pipeline of skilled manpower demanded by market by then we are certainly going to miss the boat and imperil our economic future.