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|  | Risky business |  |
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|  | **By Dr Ishrat Husain** |  |
|  | Pakistan’s growth rate during the last five years has averaged about three percent and, in per capita terms, has stagnated at almost one percent. Living standards of the middle- and lower-income groups have been threatened by double-digit inflation, weak growth income, shortages of energy, deteriorating security of life and property and a lurching sense of despondency. The best stimulus to address these problems is to encourage investment, expand production and incomes and raise the demand for employment. Unfortunately, the trends in investment – public, private and foreign – are negative. Besides law and order, widening fiscal deficits, red tape and bureaucratic delays, corruption, infrastructure deficiencies and inadequate supply of skilled manpower, another set of risks of doing business has begun to deter investment in the country.  The uncertainty about policy changes, uneven interpretation and application of rules and regulations, exercise of discretionary powers by those in authority is well documented. As this type of uncertainty has lingered consistently over many decades, a lot of investors have factored this in their cost calculations. It is only major deviations from these calculations that disrupt their plans; otherwise, they continue to muddle through.  The new sources of risks have, paradoxically, arisen from the increased assertiveness of the parliamentary committees, media, civil society organizations and judiciary. The newfound independence of these institutions, minus a deep understanding and knowledge of the subject matter or an appreciation of the complex nature of issues, has inadvertently generated inaction among economic actors. Honest public servants are scared of making any recommendations or taking decisions where financial transactions of a substantial nature are involved. Suspended over their heads is the sword of Damocles in the form of audit paras, Public Accounts Committee and other parliamentary committee deliberations, the National Accountability Bureau as well as sensational headlines in the newspapers and the electronic media.  Significantly, the cumulative cost for the nation (in terms of benefits and incomes foregone) of delayed or postponed decisions along with the cost over runs in implementation and completion of all projects far exceed the total leakages, bribes, commissions and all other forms of corruption prevalent in the country. Heightened risk aversion among honest and well-meaning public servants, including some ministers, is resulting in the crippling of badly needed investment projects in the country: LNG, Thar coal, civil aviation projects, Gwadar Port expansion, oil refining, petrochemical complexes, expansion in steel production as well as the construction of hydropower dams, highways, canals and irrigations works are all held up for one reason or the other. Had the public commitments about development projects and private investment made by various governments in the last two decades translated into action, the economy would have been in a much better state than it is today.  Democratic institutions should hold those found guilty accountable for their misdeeds in an open and transparent manner but a general atmosphere of retribution, witch hunts, the chasing shadows and ghosts and point scoring is surely a recipe for national disaster. Rule of law with due process should form the basis of all punitive actions.  However, the intrusive role of the government and parliamentary committees are not the only reason for the investment environment in Pakistan having turned unfriendly. The new factor is the unpredictability caused by judicial activism in the policies and management of economic affairs. With due respect, the knowledge and expertise of our highly competent legal brains – whether on the bar or the bench – in the art of economic policy formulation and management are not compatible with the enormous powers they have exercised over these matters in the last few years. The interconnectedness of economic policy levers that have positive or negative impact on other parts of the system are not always well understood by even well trained and highly experienced economists. How can we expect the judges of our superior courts who are neither trained nor experienced enough in these matters to take decisions that have profound implications, not only for the immediate matter in hand but also for larger market response and reactions induced by the judgment?  Markets and investors act on sentiment and future expectation. Recent interventions such as the annulment of the Steel Mills privatization, the arbitrary fixing of the prices of sugar and CNG, suspension of LNG contracts, the Reko Diq mining agreement etc. have shrouded in darkness the expectations of investors about the profitability of these businesses in the future. The addition of ‘litigation risk’ to other risks such as ‘reputation risk’, ‘market risk’, ‘political risk’, and ‘country risk’ make this bundle of risks so heavy that a very courageous few will have the strength to carry it through a long gestation period from conceptualization to implementation to completion of the investment cycle. Enterprising Pakistani investors are able to find investment opportunities in many countries – including in South Asia – with much lower risks and higher returns. Why shouldn’t they relocate or make new investments in these countries? Or conversely, how can these risks be mitigated?  The federal, provincial and local governments have to work in sync (rather than at cross-purposes), abandon confrontational postures and adopt a more cooperative approach. They must realize that in doing so, everyone will be a winner. NAB and the parliamentary committees should have qualified and expert staff who should first investigate the nature of the allegation before bringing the issues for public hearings. The judiciary should take cognizance of cases where individuals or firms have been grievously hurt or their rights infringed by violations of laws, rules and procedures.  But they must resist the temptation to sit in judgment on complex public policy issues. The media must act as a watchdog and bring serious matters of malfeasance and misappropriations of public money to public knowledge, after establishing the veracity of the matter in question.  Pakistan is going through an uneasy transition in which each organ of state is trying to find its own space and, in the process, displacing others. But all organs and institutions have to stop playing the blame game and carry out a self-introspection exercise to determine whether their ‘collective’ actions are helping the country move forward or not. At the time of their independence in 1971, Bangladesh’s exports were only one third of ours. Last year, they attained $24 billion, which is almost equal to our exports. During the last decade, they were able to quadruple their exports while we are struggling to achieve twice the level we had in 2002. This is a lesson for all of us.  The writer is a former governor of the SBP. |  |

The News January 14, 2013