

The Business

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Foreign investment

The State Bank of Pakistan (SBP) has announced that higher investment is a manifestation of growing trust of foreign investors in the positive outlook of our economy. Market-based exchange rate system now in vogue has addressed the previous concerns of these investors about the sustainability of the exchange rate regime. These investors have been investing in Pakistan's equity market for a long time and such investments are considered portfolio investments, just like investments in government debt instruments, and the same framework of Special Convertible Rupee Account (SCRA) is used for the purpose. The investors in these securities have always been able to move capital in and out of Pakistan's financial markets without any problems. Together with continued reforms and improvement in our balance of payments and reserve, the comfort level of these investors in the local currency denominated financial assets has increased. Regarding the benefits of higher foreign investment in government securities, the SBP has highlighted that such investments help deepen the capital market by increasing the pool of funds available in the local market and allow banks to deploy available funds for lending to the private sector.

The interest by international investors also raises the demand for government securities and reduces the cost of borrowing for the government. Besides, the growing role of international investors in the local debt market may serve as a positive feedback mechanism for further improving domestic practices, policies, systems and institutions in line with international best practices. The risks posed by such investment are, however, limited on account of lower share in outstanding external debt. The current level of international investment in debt securities is only \$1.2 billion and accounts for less than two percent of the total outstanding marketable government securities and less than 0.5 percent of GDP.

No doubt, there were certain apprehensions in some quarters about the rising level of international investment in government securities (T-bills and PIBs) and these apprehensions were growing especially after these investments had exceeded the one billion dollar mark. It was argued that such investments are just like portfolio investment and will leave the country immediately when there are certain indications of uncertainty in the market or the economy is expected to perform poorly. The risk of default by the country or the expectations of better returns in other countries could also result in the outflow of foreign exchange when it is most needed by the country, destabilise the market and have an adverse impact on the financial system of the country. The central bank could be right in saying so but, given the present level of reserves, the sudden outflow of this investment in a short period of time could have a very negative impact on the exchange rate of the rupee and increase the cost of production which could fuel inflationary pressures in the

Power, justice and democracy



AMIR HUSSAIN

As a nation the world views us as synonymous with people of unpredictable talent – from politics to cricket. Our happiness is short-lived and so are our sorrows. Every now and then, we find a reason to be excited and then sadness engulfs us beyond prediction. We have accepted these mood swings as the reality of our social and political life. With each passing day we have something to celebrate or mourn about and hence ours is a happening country. Emotions are so deep-rooted in our culture of celebration and mourning that we do not care about the broader spectrum, the bigger perspectives and the concerns beyond daily life.

It seems we react only to appease power which is external to us but which determines our happiness and sorrows. We fear the wrath of power and we have been taught not to raise critical questions to invite its wrath. It would rather be sacrilegious or treacherous to question the purity and piety of this external power. The external power or the foreign masters we obey could otherwise be deemed as invaders by an independent reader of political history of the Sub-

continent. Our education breeds emotions and jubilation which were brought to us by others. All our heroes are foreigners who came to civilize us, who set the rules of politics and principles of morality for us. Though we became independent with the departure of the colonial masters, then we re-wrote a new history to educate our children, glorifying foreign heroes sans the British. We are not done yet; none of our heroes are statesmen, scholars or philosophers but all of them are good fighters who with their God-gifted fighting skills and religious belief were able to conquer the Indian subcontinent.

From a common man in the street to a privileged parliamentarian and from a TV anchorperson to an opinion writer, we are driven by emotions and we enjoy it. We have seen bloodshed in our streets, our schools have been bombed and even our worship places have not been spared but we continue to live with emotions and excitement. Isn't it interesting and wonderful?

This is perhaps why the world says that we, Pakistanis, are one of the most resilient nations on earth. Poverty, deprivation, terrorism, unemployment and natural disasters have hit us hard but life goes on with the resolve that God will help us weather all our political and natural storms. Once I did not believe that we can make any distinction between nations on the basis of their collective political behaviour. To me nationhood was an artificial geographical division of humanity for political and economic controls with no significant effect on the trajectory of national progress.

Postcolonial critical theory was also predicated upon this premise, that postcolonial states must essentially have a unified political and economic agenda to counter the dominance of West. Ironically, the idea of protecting indigenousness against the outsiders could only help protect the interests of the local elite in most of the cases. The local elite, in turn, failed to provide leadership in advancing the economic development

and democratic transition of postcolonial state. While it is true that geographical boundaries have been drawn for political and economic reasons in a world driven by inequality, there is something more to it too. Within the geographical confines of a nation-state, people develop certain political and economic behaviour based on the institutions they develop for political governance and economic distribution. Almost all decolonizing nations started their political and economic journey from a relatively similar state of affairs but over the years they landed in a different set of political and economic situations. Depending upon the political choices made by their leaders, with or without the acquiescence of the citizens, some of the nations evolved strong economies and functioning democracies while others did not. Some of these postcolonial states have emerged as leading economies of the world outside the Global North – while others continued to function as satellite nations and peripheral clients of global economic and political giants. These postcolonial states could neither develop a strong economy nor are functional democracies and they are some of the lowest ranked nations on the Human Development Index today.

Pakistan is one of those lowest ranked postcolonial nations where strong personalities, self-proclaimed messianic leaders and actions of individuals rather than strong institutions set the tone of the national debate on politics, justice and economy. From judiciary to parliament, all state institutions have been subservient to unaccountable powerful interests. Perhaps not very long ago some of us were criticising the judiciary for being biased and for protecting the rich and affluent. And suddenly we started to heap all praises upon the same judiciary for its verdict against Pervez Musharraf for upholding the supremacy of law. There is no doubt that the verdict against Pervez Musharraf is an historic one but the question is whether the judiciary as an institution will continue to

function to dispense justice. Will it be ruled by the discretionary powers of a strong chief justice and some honest judges with integrity or will it function as a key pillar of the state to ensure the supremacy of law and sanctity of parliament in a true sense beyond the whimsical opinions of strong men?

Will parliament function as the protector of the rights of citizens and as an institution to strengthen democracy rather than protecting the interests of powerful groups? These questions still remain unanswered in Pakistan. It would not be too Platonic to say that in a state of moral vacuum all we produce are demagogues who believe in preaching more than practicing good. The demagogues of faith and ideology are out there crying for justice of their own choosing at the cost of institutional sanctity. This mercurial state of mind is a reflection of the fact that we have only been the recipients rather than the architects of our destiny as a nation. The process of building a stable nation lies in the engagement and co-creation of a unified value system, principles of good governance and ideals of grass national happiness. It is not about some momentary celebration or mourning; it is about the constructive process to learn and improve – and ultimately it is about democracy and inclusivity. When democracy does not function and we allow dictators to decide about our political future, our happiness will be short-lived – like a charity granted to us for temporary relief from our suffering.

The scars of political wounds inflicted upon this polity will not be erased without allowing our collective political imagination to function as a force of constructing a prosperous society. The time is ripe for political commitment to rebuild this country from its own debris rather than from borrowed bricks; then, there is a promising future for all of us. Nationhood is all about the collective aspirations and common goals of citizens and it is certainly not about fear. It is about justice and democracy which go side by side, beyond the whims of power



Tipping point

ROBERT HUNZIKER

The Amazon rainforest is a crucial life-support ecosystem. Without its wondrous strength and power to generate hydrologic systems across the sky (as far north as Iowa), absorb and store carbon (CO<sub>2</sub>), and its miraculous life-giving endless supply of oxygen, civilization would cease to exist beyond scattered tribes, here and there.

Sad to say, a recent scientific analysis of the health of the Amazon rainforest is downright dismal. The world's two leading Amazon scientists, Thomas Lovejoy (George Mason University) and Carlos Nobre (University of Sao Paulo) recently reported: "Today, we stand exactly in a moment of destiny: The tipping point is here, it is now." (Source: Amazon Tipping Point: Last Chance for Action, Science Advances, Vol 5, no 12, December 20, 2019). That's one of the most devastating news stories in all of human history. Ergo, the persistent climate change headache morphs into a head-splitting pounding migraine of monstrous proportions.

It's lamentable that the world leadership does not take seriously the potential of major ecosystems dying in plain sight. This story should have world leaders shaking in their boots. But, by all appearances, no one is chagrined, other than the scientists who conducted the research.

Tipping points are final acts in nature, points of no return for ecosystems, as functionality turns sour. Regarding the vastness of the Amazonian rainforest, its functionality is so worldly powerful that loss is incomprehensible and likely a final act for civilized, as well as uncivilized, life on the planet. The mighty Amazon is a principal source of oxygen as well as the main driver of hemispheric hydrologic systems (rivers in the sky), impacting rainfall patterns as far away as the cornfields of Iowa.

The Amazon at a tipping point is equivalent to: nobody knows for sure because it's never happened before, but there are no positives. In fact, it's unimaginable, literally beyond comprehension. Yet, it's started right before an eyes wide shut world community. And, it's entirely the result of stupid humans



doing really stupid things, like stripping away "the majestic rainforests of all ages" in exchange for "fleeting human needs." Honestly, it's true!

According to the scientists, current trends threaten (1) to turn parts of the rainforest into savanna, (2) devastate wildlife, and (3) release billions of tons of carbon into the atmosphere. As it is starting to happen, the Amazon is becoming an "emitter of carbon"; same as coal power plants.

Lovejoy and Nobre decided to ring the trusty carillon on the public square: "Witnessing the acceleration of troubling trends. The combination of (1) warming temperatures, (2) crippling wildfires, and (3) ongoing land clearing for cattle ranching and crops has extended dry seasons, killed off water-sensitive vegetation and created conditions for more fire."

Not only that, global warming induces severe bouts of drought that repeatedly hit the Amazon hard, actually weakening its powerful core. Three 100-year droughts have hit in just 10 years! According to NASA, serious episodes of drought in 2005, 2010, and 2015 have literally "changed the Amazon," losing its special "carbon sink" status. That's global warming hard at work.

"The old paradigm was that whatever carbon dioxide we put up in (human-caused) emissions, the Amazon would help absorb a major part of it." (Source: Sassan Saatchi of NASA Jet Propulsion Lab, "NASA Finds Amazon Drought Leaves Long Legacy of Damage", NASA Earth Science News Team, August 9, 2018)

Nowadays, that old paradigm is giving way to: "The ecosystem has become so vulnerable to these warming and episodic drought events that it can switch from sink to source... This is our new paradigm." (NASA)

Excerpted from: "The Amazon at a Tipping Point". Courtesy: Counterpunch.org

Power sector sinking



KHURRAM HUSAIN

A very interesting chapter in the recently released first review of the IMF programme casts important light on the matter of the circular debt and its stubborn refusal to go away. The chapter merits close reading, because power sector tariff adjustment (if we include gas here for the moment) presents the most demanding risks to the inflation outlook, and thereby to the possibility of interest rate cuts. Those hoping for a rate cut in March should read this passage carefully, and note the commitment given by the State Bank to the IMF that interest rate easing is only possible once "disinflation is firmly entrenched".

For now, the inflation outlook, with all power and gas sector price adjustments, is maintained at 11.8 per cent, within the band announced by the State Bank in July (11-12pc), so further rate hikes no longer seem necessary. But average monthly in-

flation coming in at 11.8pc by the end of the fiscal year means rate cuts are also difficult to envisage. The Fund report notes that administrative and energy tariff adjustments will offset the effect of weakening domestic demand, and one of the key drivers of energy tariffs is what they call "full cost recovery", to ensure zero accumulation of circular debt.

Much hangs in the balance as the government is tasked by its creditors with eliminating the further accumulation of circular debt. This is of course a good objective, but how it is to be pursued will decide who bears the cost. And at the moment, the pressure is to simply make the consumers bear the cost.

The costs themselves are stupendous. In the last fiscal year alone, the stock of circular debt rose by Rs465 billion, making it equal almost to some of the largest expenditure heads in the federal budget. In 2013, the total stock of the circular debt was Rs450bn. Today, it has more than tripled to rise to Rs1.62 trillion or 4.2pc of the GDP.

Of the total circular debt, Rs812bn is payable directly by the government's own Central Power Purchasing Authority. The remaining amount is parked with a second company, also government owned, called Power Holding Pvt Ltd, whose only job is to borrow from the banks at Kibor plus 2pc and advance the money to the CPPA. The government pays around Rs80bn per year just in penalty interest charges on the outstanding stock that CPPA owes to producers. Another Rs40bn is paid by the PHPL as debt service costs which is raised through a special surcharge in power bills. That is Rs120bn already, just the cost of carrying the circular debt! By comparison,

consider that the total allocation for the Benazir Income Support Programme that aims to provide assistance to almost 5.5 million beneficiaries is Rs180bn. These figures are stupendous, no doubt. The "large stock of power sector arrears represents a significant quasi-fiscal risk, including combined annual debt servicing costs exceeding PRs 100 billion" the IMF report notes. The report provides four major reasons that contribute to the growth of the circular debt. These are: inefficiency of the power distribution companies, delays in adjusting tariffs, unbudgeted subsidies and financial costs of the sort just discussed here.

In the last fiscal year, for example, of the Rs465bn in fresh accumulation, Rs171bn was due to inefficiency, Rs119bn due to delayed tariff adjustments, Rs93bn due to financial costs and Rs82bn in unbudgeted subsidies. The plan the government has signed aims to bring the rate of fresh accumulation down from this level to Rs50bn to Rs75bn by 2023. There are multiple ways in which this will be done, but primarily it seems the plan aims to bring about greater flexibility, and more rapid tariff adjustments.

One of the key planks of the plan is to amend the legislation that created the power sector regulator – the National Electric Power Regulatory Authority – and give it the power to adjust tariffs every quarter, and even more importantly, the power to also notify these tariffs. Currently, the tariff is determined by Nepra but notified into force by the federal government, which is where tariff adjustment delays come in as the government is usually reluctant to follow Nepra's advice because of the adverse political fallout it

brings. But now, the government has agreed to surrender this power to notify tariffs, and is committed to introducing the legislative amendments in the National Assembly before the end of this month. The process can be delayed for a few more months, but sooner or later, it will have to happen and if successful, it will be a significant step in strengthening regulatory power. We shall see in due course how well the government can live with this decision.

The danger now is if the government fails to control power distribution company inefficiency, which is the leading driver of the circular debt, and succeeds in creating an empowered regulator with sweeping powers to determine and notify tariffs on a quarterly basis. This combination is dangerous because then we will have an endless upward spiral in power tariffs, as the staff of distribution companies also becomes complacent and comfortable in the knowledge that whatever recoveries they do not make will be paid for anyway by those who pay their bills.

There are 10 power distribution companies in Pakistan, and the top underperformers among them are the Peshawar, Hyderabad, Sukkur and Quetta electric supply companies, in that order. These four top the list in terms of high losses and low recoveries. No surprise that these are also the companies operating in places where the government's writ itself is weakly felt.

Between them, the power distribution companies lose between 20pc to 40pc of the energy they receive from the national grid. Improving the performance of the distribution companies is critical if the circular debt is to be addressed in a way that does not burden those who faithfully pay