

The Business

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Wheat crisis

Charges of mismanagement have dogged the present government soon after Imran Khan took oath as the country's 22nd prime minister on August 18, 2018 and thenceforth the country has been rocketed by a series of crises, sourced to: Previous government's flawed policies that accounted for a historically high current account deficit of \$18.2 billion; massive rise in utility rates as an outcome of negotiations with the International Monetary Fund (IMF) which raised input costs to a prohibitively high level thereby constraining productivity, and employment opportunities as well as accounting for an ever increasing erosion of each rupee earned by an average householder; and last but not least failure to project demand and take appropriate mitigating measures to forestall shortages that may lead to massive escalation in prices of our major food items, including the staple wheat. Today, there is an ongoing strong wheat crisis and a moderate sugar crisis whereby the prices of these two locally produced commodities have escalated to beyond what is affordable by the common man. In August 2019, Ministry of National Food Security and Research briefed the Economic Coordination Committee of the Cabinet (ECC) that there were adequate stocks of wheat in the country with 28 million tonnes in stock against the demand of 25.84 million tonnes; and recommended that the government ban wheat/wheat flour exports but to allow exports of other wheat products like fine wheat, suji and maida after prolonged negotiations with exporters.

With a complete ban on exports of wheat and products to Afghanistan, smuggling picked up significantly on un-frequented routes across the porous border. Khushro Bakhtiar, Minister for National Food Security and Research, has claimed that the government has not only reduced cross-border smuggling but that the existing shortage was due to failure of Sindh to meet its procurement target. Sindh has procured only 70 percent of the targeted amount, by insisting that it does not have the funds because the federal government has withheld disbursement of funds to other provinces too suffered similar delays due to fiscal difficulties of the federal government.

What must be a source of concern is the routine dismissal by the government of crises by sourcing them to artificial shortages created by mafia/political influentials with the objective of securing runaway profits; however, a government cannot disclaim its own responsibility in taking decisions that allow for runaway profits to be made thereby raising prices and creating the prospect of socio-economic unrest. The 300 billion rupee emergency agricultural policy whose architect was Jehangir Tareen does not deal with long-standing issues prevailing in the farm sector including taking steps to ensure that a few influential people, unfortunately found in all major parties, do not dominate policy.

CPEC: The bigger picture

HUSSAIN H ZAIDI

Why is Washington making a song and dance about the China-Pakistan Economic Corridor (CPEC)? Are their reservations with regard to the multi-billion programme rooted in deep concerns for Pakistan's long-term wellbeing?

Do - like caring parents who believe their naive child should give a wide berth to bad company - they want Islamabad to keep the Chinese at an arm's length? Or do the Americans look upon the corridor as a strategic ploy by Beijing to put its stamp on the region at their expense?

From the American perspective, as outlined by a senior State Department official, Alice Wells, twice during the past three months, the substantial capital inflows under CPEC are a Greek gift for Pakistan, which is already heavily indebted to foreigners - governments as well as multilateral institutions. The more the programme grows in size; the more funds will Islamabad have to borrow from the government and banks in China. As a result, the debt repayment obligations of the country will continue to inflate, forcing it to shore up its borrowing to work off the credit. That will be a classic case of debt trap from which, as a rule, the borrower finds difficult to get out. The argument seems valid. But, like any other valid argument, it may comprise questionable premises. In order to appreciate CPEC and its implications for Pakistan, we need to look at the bigger picture from both China's and Pakistan's standpoints - not to speak of the US perspective.

CPEC is part of China's flagship Belt and Road Initiative (BRI). As China sets its sights on becoming an economic superpower, it's putting high premium on four things in the main: seamless and efficient trade flows, food and energy security, moving up the value chain in manufacturing, and development of its relatively backward regions. China's impressive economic growth over the past four decades has been export driven. The share of foreign trade in the country's total economic output is 40 percent, which is exceedingly high considering that as a rule large economies tend to depend less on foreign sales and purchases. The Asian giant has been among the biggest beneficiaries of trade liberalization and opening up of markets worldwide and is keen that the phenomenon should continue.

The trade competitiveness of a country in significant measures hinges on curtailing the cost of both domestic and overseas transactions by putting in place an efficient infrastructure. According to a 2017 Asian Development Bank study, the current infrastructure deficit is a serious obstacle to trade expansion and economic openness and that the Asian continent alone needs \$26 trillion infrastructure related investment till 2030. That is why bridging the infrastructure gap forms the key component of the BRI.

Putting in place the right infrastructure and building trade corridors also played a capital role in China's development saga. Since China is a gigantic country, both raw materials and final goods have to be shifted from one part of the country to another over an enormous distance. That necessitated huge investments in overcoming transportation bottlenecks. China wants to replicate a similar model in the BRI, which would cut back significantly on the time and cost of the country's foreign trade. On account of the size and growth of its economy as well as the 1.4 billion population, China's energy needs are ever growing. Already, it's the globe's largest energy consumer and importer of petroleum products. Ensuring timely and uninterrupted energy supplies is thus a priority for Beijing. Another priority is food security. Due to rapid industrialization, the share of agriculture in China's GDP has been shrinking - at present, it accounts for less than eight percent of the overall economic product - making it increasingly dependent on food import.

Compared with Europe and North America, China is known as a manufacturer and seller of low-technology, low-quality products. The country is keen to erase this impression by graduating to a manufacturer and exporter of high technology, smart goods and services. This entails, on the one hand, import of technology related intermediate goods, such as semi-conductors, from developed countries, and, on the other, relocation of the heavy and labour intensive industries to less developed economies. China's development has been heavily biased towards coastal regions or the eastern part of the country. The western part, including the Xinxiang administrative region bordering Pakistan and Tibet, was largely neglected, which stoked social and political discontent. As per the development philosophy of the current leadership encapsulated in 'Socialism with Chinese Characteristics for the New Era,' Beijing is according high importance to the development of the hitherto neglected regions through industrial relocation and trade. The BRI is a seen as a significant contributor to this end.

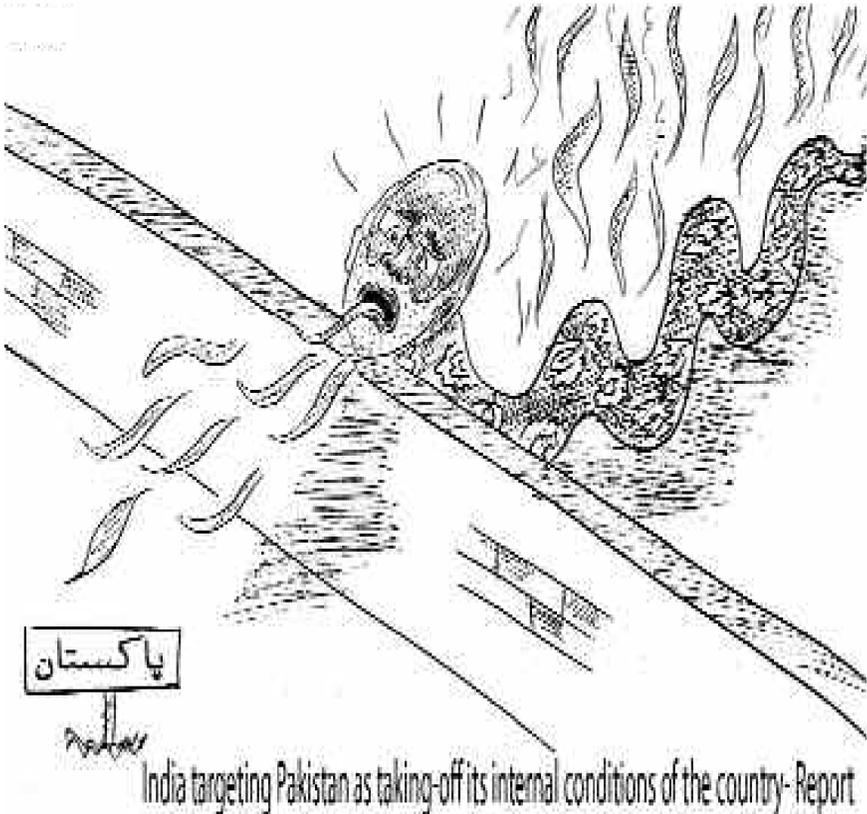
The BRI, which seeks to revive the ancient Silk Road through which Asian nations traded with Europe, involves 60-plus countries, with China as their pivot. A network of roads, bridges and ports running through the participating countries would ensure that China's international trade, which includes secure energy and food supplies, is conducted at low real cost. The immediate benefit for these by and large capital-deficient countries is infrastructure development. The initiative is remarkably ambitious and China is supposed to inject close to one trillion dollars by 2030 into the various projects in both investment and credit modes. The BRI includes six corridors through which China will be connected to Europe and Africa through South Asia, the Middle East and Eurasia. One of these corridors is CPEC. CPEC links China's restive south-west to energy-rich West

Asia and further to Europe through the Gwadar Port. As in the case of other BRI corridors, communication and energy related infrastructure development to the tune of \$49 billion - the figure is subject to cost escalation - lies at the heart of CPEC. Of this, the \$34 billion energy projects are in the IPP mode. These projects have contributed significantly to easing power outages in Pakistan. However, the mode of financing for the \$15 billion transport projects is almost entirely Chinese credit.

So far, Pakistan has borrowed close to \$5 billion for these projects, which the government claims to be on concessionary terms. Pakistan is seeking another \$9 billion Chinese loan for the mega ML-1 project, which will upgrade the main Karachi-Peshawar railway track. All over the world, trains are the preferred means of cargo transport. In Pakistan, however, the share of the railways in merchandise transport is only two percent. CPEC will, no doubt, add to the public external debt. But an economy faced with low level of domestic savings has to rely on foreign capital to shore up the level of investment. Besides, if used to raise the productive capacity of the economy, debt is not something to be frowned upon. As the economy grows, its capacity to service the debt also racks up.

In addition, China will help Pakistan overcome its supply-side constraints through development of special economic zones (SEZs) and modernization of agriculture. Despite being an agro-based economy, Pakistan is a net food importer to the tune of \$1.5 billion a year mainly because of productivity glitches. Pakistan is also eyeing relocation of some of China's heavy or labour intensive industry to the SEZs to give a significant boost to its exports. Due to CPEC, China has become the largest source of FDI into Pakistan. During last five years, the cumulative FDI from China crossed \$5 billion, which accounts for 46 percent of the total investment into Pakistan. In contrast, only \$530 million worth of FDI was received from the US during this period. China is also Pakistan's largest trading partner. It goes without saying that increased commercial engagement between the two countries consolidates their overall bilateral relations. For China, the benefits of the BRI go beyond mere connectivity and trade to ratcheting up its regional and global clout. Capital, whether it takes the form of equity or credit, is a principal source of extending leverage over other nations. No other country knows this better than the US, which since the close of the Second World War has been the capital user of military and economic assistance as a tool of advancing foreign policy objectives.

Not only that, as Washington is presently in a protectionist-cum-austere mode, Beijing sees it as a good opportunity to draw upon its massive foreign exchange reserves for building alliances centred on it. That's the reason the BRI provides a springboard for the Sino-US face-off.



Polarisation in America

S QAISAR SHAREEF

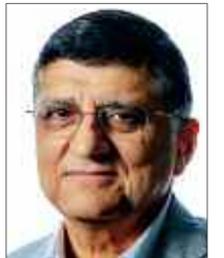
Extreme polarization in American society is a rapidly emerging phenomenon, both in how people assess the performance of their elected leaders as well as in how much they trust or distrust various media sources.

A recent survey shows that 89 percent of all Republicans say President Trump is doing a good job, while only seven percent of Democrats approve of his performance. This is the largest gap in a president's approval rating between supporters of the two parties in the last 50 years or so since such data has been reported.

It is a wonder that a president who openly disparages fundamental institutions of democracy such as a free press and a free judiciary, attacks opponents with racist and threatening language, and has been proven to have said thousands of lies would have such widespread support from such a large majority in his party.

In addition, none of his major electoral promises has been delivered. He promised to provide better health care coverage at a fraction of current cost. Not even a single proposal has been presented by him. He promised to invest heavily in improving US infrastructure; nothing has been done on this front either. His supposed middle-class tax cut has turned out to be a giveaway to the super rich, like himself. The list of broken promises goes on and on. Yet he continues to enjoy rock solid support among Republicans. How can this be?

Trump has thrived on exploiting fear and hatred among his followers. He was elected because his divisive message resonated with a certain segment of the society - mostly white, older, rural voters. He is the only US president in recent memory who has not only continued to cater to the most extreme views in his so-called base of supporters, but also has made no effort to reach out to those who did not vote for him - which is the vast majority of non white voters, as well as a third of whites, who are mostly urban and educated. So, what accounts for his continued



support among Republicans? The altered media landscape in America has played a big role in this. Donald Trump's Republican supporters almost exclusively get their news and views from the Fox network. Not only that, they do not trust almost any other source of news.

Democrats, on the other hand, get their news from at least a dozen media outlets, including major TV networks and print publications. A recent Pew Research study shows a dozen media sources are trusted by 35-67 percent of Democrats. While Republicans trust Fox News (65 percent) and ABC network (33 percent) and not much else.

If we step back in time, we see that over the past two decades or so conservatives in the Republican Party have spent much energy undermining trust in what they call mainstream media, preparing the ground for emergence of a single trusted source like Fox News. Close collaboration between Donald Trump and those who call the shots at Fox has turned this network into the official mouthpiece of this administration, quite unique in American history. Finally, Republicans have in effect achieved their desired control of media.

This is not too different from how official media was used in the former Soviet Union. The government decided the messages to be delivered to its citizens and, having no other source of information, people's views were moulded by a single government-controlled media source. The difference in the US is that with widespread demonization of mainstream media outlets, the Republican base has voluntarily chosen to tune out all media sources except one. The damage to society and the country from this polarization will be long lasting.

Headwinds increasing

KHURRAM HUSAIN

Imran Khan and his government may just have dodged a bullet. The mini political crisis that surfaced in the shape of a revolt in Punjab and a smaller one in KP may have been averted for the time being, but the deeper causes behind them remain in place and they could yet reappear, with greater force.

Most seasoned observers of politics are arguing that the setup as it stands today has muddled its way through the year 2019, and can potentially spend 2020 muddling through in the same way. I'm sceptical of this line, for the simple reason that power cannot forever muddle its way through its headwinds. There is a reason for this, and it has to do with what we understand by the nature of power in the first place. Contrary to some opinions, power does not flow from the barrel of a gun, nor is power attained once the right man is seated in the right chair. Once in the seat, a ruler can sustain his or her position for a while simply by procuring the support of the right quarters, but cannot rule indefinitely through the gun or the pen. Ultimately power is the ability to produce outcomes on the ground, desired outcomes, not random or fortuitous ones. This is why it is not enough that the present setup enjoys the backing of the establishment, or that dissenting narratives and inconvenient facts have been silenced. This gives them support for a brief while only. It is what they do with the opportunity given to them through this backing and through this silencing that will ultimately decide whether power remains in their hands. If they are unable to produce outcomes that positively impact the lives and interests of those who have brought them to power, those who have backed them and upon whose shoulders they stand today, and most importantly the common citizenry, then whatever power they hold today by virtue of occupying government offices will slip through their fingers like sand.

That is the central flaw in this arrangement, its Achilles heel. Since coming to power, Imran Khan has lost the street, lost the business community, deliberately alienated the opposition whom recent events have demonstrated have an integral role to play in democratic politics. He is now losing his allies and his own party representatives. This

great unravelling cannot go on forever. Left to its own devices this setup will drift towards some sort of a meltdown that will most likely be triggered from within. What it needs is leadership, somebody at the top with an idea of what to do, how to play the complex give and take of politics, how to manage scarcities. The most recent episode in Punjab shows what happens when this is lacking. What we are seeing happen, between the allies or the small-scale revolts in the provinces, is the politics of economic adjustment. The severe budgetary constraints that have been imposed on the federal and provincial governments since the IMF programme began means that money is no longer available as a tool with which to procure loyalties. In the



last budget, for example, Rs350 billion were allocated for development spending, which used to be Rs635bn only two years earlier, before the adjustment began.

So instead of money, they bargained with the powers of the state. For a provincial assembly representative, power is the ability to get jobs for your constituents, to get gas connections and roads built in their localities and run other schemes that put money into their pockets. This is why

there is an uproar against how the Ehsaas programme is being run, because Sania Nishtar has (rightly) excluded politics from the process through which beneficiaries of the programme are selected.

Since funds were not available given the severe budgetary constraints, they bargained instead with the powers of the state. Initially, they parcelled out the power to make transfers and postings to a few powerful members of the party such as Tareen, Aleem Khan, Chaudhry Sarwar and allies like the Chaudhries of Gujrat. But that gave rise to fiefdoms, aggravating the crisis of governance, and further alienating the party from the street as well as its own supporters. So they made an about-turn, strengthened the office of the chief minister and vested the powers in him, where they belong.

But because Chief Minister Buzdar has little to no capacity to organise his thoughts, structure his time, engage with vested interests or in any way demonstrate the mettle of a ruler, power centralised in his hands gave rise to a free-for-all, consequently entrenching corruption, increasing turnover and paralysing the bureaucracy. So finally in November 2019 we saw a massive reshuffle in the top bureaucracy when 31 secretaries, eight out of nine commissioners and 31 deputy commissioners were changed. The new setup had Azam Suleman as the chief secretary and Shoaib Dastagir as the IG Police, the fifth man to occupy the IG's post since June 2018. 'This was a stupendous rate of turnover at the top, such was the level of political interference unleashed in the time when Buzdar had a free rein. The new arrangement to emerge from the November reshuffle plugged the key deficit the PTI faced in Punjab - the institutional deficit of a lack of machinery through which to operate the complex politics of the country's largest province, whose electorate can make or break the destiny of central governments. But at the same time it shut the door to politics altogether, which seems to vibrate well with Imran Khan's more autocratic reflexes and instincts, but makes for a bad political machine through which to consolidate and exercise power, leading to the challenges mounted by the MPA last week. It is this, the PTI's endless search for its own feet that cannot last forever, regardless of whose backing the ruling party enjoys.