

The Business

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New IMF programme

The \$6 billion 39-month front-loaded International Monetary Fund (IMF) programme has achieved stabilisation defined narrowly as reducing the current account deficit and strengthening of foreign exchange reserves though it has failed to achieve other associated components of stabilisation notably a healthy growth rate and minimal price changes. There are some disturbing elements that have surfaced since May 12, 2019, when International Monetary Fund "prior" conditionalities to the loan approved in July 2019 came into effect. Firstly, market-based exchange rate was implemented with the State Bank of Pakistan's decision not to provide an indicative level to banks' treasuries within which the dollar-rupee parity would be free to fluctuate. The resulting depreciation accounts for a massive rise in debt servicing as each rupee loss in terms of the dollar adds Rs 100 billion to the government debt. Secondly, the 13.25 percent discount rate continues to stifle economic activity (since July 2019) though the Governor State Bank of Pakistan announced Rs 200 billion credit more injection into exporters at five to six percent as long-term finance facility and export refinance scheme. Additionally, the high discount rate has attracted foreign portfolio investment in government securities. Finally, the International Monetary Fund agreed to raising total budgeted current expenditure by 33 percent under current expenditure with Ehsaas programme parked under current expenditure envisaging a Rs 190 billion allocation.

The International Monetary Fund's insistence on upfront conditions was based on our history of not implementing structural reforms, including governance reforms particularly in the poorly performing power/gas and tax sectors, which are, without doubt, imperative. However, a look at the achievements of the incumbent government reveals that these reforms remain pending and that the poorly performing sectors are engaged in meeting International Monetary Fund conditionalities through following the examples set by their predecessors notably passing on the buck to hapless consumers – households seriously compromising their capacity to withstand the price hike as well as the industrial sector which accounts for contracting output with a consequent impact on unemployment levels.

The conclusion is something has to give or else the present government would either have to abandon the International Monetary Fund programme in the face of mounting public resistance/opposition or else fall as the carefully crafted majority in parliament may unravel due to this pressure. In other words, it is critical for the visiting International Monetary Fund staff and the Pakistani team leaders to revisit/tweak some of the policies currently in place or else the major objective of the International Monetary Fund programme would be lost yet again.

Politics without culture?



I.A. REHMAN

A series of unsavoury events over the past few weeks again drew attention to the urgent need for strengthening representative rule by developing a democratic culture.

Let us begin with the incident when a federal minister confronted opposition politicians in a TV talk show by putting a military boot on the desk. The incident was denounced as a vulgar demonstration and the minister was censured for his lack of manners. The crude gesture was obviously an extension of the official narrative that begins with demonising the entire opposition and ends with it. The choicest epithets are used for the 'other' in opposition. In the hands of immature cadres, the ceaseless denunciation of fellow politicians inevitably assumes coarser forms.

More importantly, the incident revealed a politically immature outlook, a complete ignorance of the worldwide movement to abandon the majoritarian state model, because of its unavoidable degeneration into a tyranny, in favour of participatory democracy. In this higher form of democracy the majority party in parliament accepts the right of smaller parties, even if they assume the role of an opposition, to contribute to the management of state affairs.

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The steps taken in this direction in Pakistan include giving the opposition a

share in standing committees and, especially, reserving the chairmanship of the Public Accounts Committee for the leader of the opposition, who must also be consulted while making some key constitutional appointments. Thus, despite being rivals in the contest for power, the ruling and opposition parties are partners in promoting the public good. Neither side can be allowed to spoil a debate by pouring scorn on the other.

The government learnt this lesson after dithering for quite a long time. It chose to rule through ordinances and ignored the opposition altogether. When the opposition came to its rescue for extending the army chief's tenure, the ruling coalition recognised the possibilities of bipartisan consensus and it became possible to solve several difficult problems. This could be described as a small step in favour of a democratic culture.

Then three members of the Khyber

the ministers met the party chief and the latter signalled their reinstatement.

The affair didn't add to the government's credit and the only explanation for inviting ridicule was preferring the ways of authoritarian rulers to democratic norms. (As for party discipline, a minister got the National Assembly to call for public hanging, a proposal three ministers could not support.)

Now government representatives are running helter-skelter after coalition partners and their declarations about fulfilling all pledges to their allies are having little effect. While the MQM has chosen to sulk over their undisclosed grievances, the leaders of PML-Q are quite aggressively accusing the PTI of breach of faith. The younger Chaudhry from Gujrat has rubbed salt into the PTI's wounds by praising the PPP as a model coalition partner. The latest news is that the government has accepted the Q-League's demands and there is peace be-

lic interest are irrelevant. Further, the PTI should not ignore the fact that sometimes in a coalition smaller parties have to be allowed a share in power disproportionate to their strength in parliament.

The government's problems with its allies are rooted in the nature of political formations. Quite a few authorities refuse to accept them as genuine political parties. Many, if not most, legislators belonging to these parties are migratory birds who have been jumping from one party to another in less time than they take to adjust their headgear. Those who travelled from other parties towards the PTI in 2018 might not have changed their party labels for the last time. The system of using development grants for retaining legislators' allegiance has taken such firm root that no serious advocates for the eradication of this blatant form of corruption are now visible.

That without a democratic culture Pakistan, or any other country for that matter, cannot establish a truly representative government should be clear to all political activists. The essential features of democratic culture we are talking about are: free and fair elections, without any interference by servants of the state, and offering equal opportunities to the poor as well as the rich to seek election to any legislative body; regulation of state affairs strictly under the legislatures' sanction; complete adherence to the principle of separation of powers; due respect for the rights of the federating units; rule of just laws adopted through a constitutionally valid process; and a relationship based on mutual respect amongst different parliamentary groups.

Democratic culture also demands that all people joining political parties do so due to their acceptance of the latter's programme for promoting public causes and those chosen to represent the people in legislatures or to join ministries consider their positions as their full and sole reward.

At the moment, statements about principled politics will sound far too idealistic to be realised in the foreseeable future. However, even small steps towards developing a culture of democratic behaviour should lead to practices and conventions that could restore to politics a sanctity without which it will remain a dirty game exclusively for self-serving groups and individuals.

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Pakhtunkhwa cabinet were sacked by the PTI chief. They were accused of violating party discipline. Later on, their fall was attributed to poor performance. What the people already knew was that one of these ministers had regretted on TV that the incumbent ministry was performing more poorly than its predecessor, also a PTI-led government. The matter was not referred to the party's disciplinary committee, nor were the ministers concerned given a chance to defend themselves. After some time, two of

tween the two parties till new demands are made by either side.

The leading coalition party does not seem to realise that its partners are wholly interested in sharing the plumes of power, with the exception perhaps of the BNP-M which wants resolution of a public issue (disappearances) as a condition for supporting the government. No ideological mumbo-jumbo can persuade the PTI's allies to sacrifice the perks of power in the interest of the coalition's survival, and any references to pub-



Rising crony capitalism

DR MANZOOR ALI ISRAN

Usually, entrepreneurs invest their energy, ideas and money to increase the quality of the products they produce, higher knowledge-worker and thereby improve manufacturing process and increase productivity.

But at some point, entrepreneurs think that it is not worth investing additional money to improve and innovate but to invest in buying politicians and get involved in rent-seeking to scuttle the regulatory mechanisms and grow. In return, entrepreneurs get tax breaks, subsidies, grants etc.

So, if the definition of crony capitalism is an economic system in which private businesses thrive not as a result of risk, competition and investment in manufacturing process but as a result of a nexus between the business class and the political class then the history of Pakistan is riddled with such nasty nexus. For the first time, this nexus came to light soon after the creation of the country. Pakistan was industrially barren and did not have enough industrial capital to propel the country towards development. What it had at that time was the merchant capital that migrated from India.

The political and bureaucratic class wanted to turn this merchant capital into industrial capital. Financial institutions such as PICIC and PIDC were established.

The state provided patronage to merchant capital in the form of cheap capital (loans with low interest), cheap labour, cheap raw material and cheap machinery (all the duties were waived on the import of machinery) to this merchant class.

As a result, 22 families emerged – monopolising the banking, insurance and industrial sector. No doubt industrialization and rural development took place during the Ayub era. Industrial and agricultural output increased phenomenally as a result of the 'Green Revolution' under which high-yielding varieties of rice, wheat, tractors, and tube wells were introduced. But at the same time, stories of corruption and nepotism emerged. There were stories of how the wealth of the rulers increased astonishingly.

The upshot of this nexus was that not only did income inequality soar, but more than five million people fell below the poverty line, worker's wages dropped by 60 percent and significant economic disparity raised its ugly head between East and West Pakistan, culminating into the dismemberment of Pakistan. Literature on the nexus between the in-

dustrial and political elite shows that this alliance got further clout during Zia's regime as he injected new life and brought the industrialist class directly into politics just to counter the increasing mass appeal of the PPP.

In the preceding year, crony capitalism has thrived as a result of unprecedented corruption and tax fraud under various regimes. On the one hand, crony capitalists were given huge tax breaks and on the other hand common people have been burdened with high taxes. Today, Pakistan has very dismal figures; out of 207 million people, only 2.6 million have a national tax number, out of which hardly 1.2 million people are tax filers, out of which 0.7 million pay taxes and 0.5 million file their returns but don't pay taxes. Very interestingly out of 0.7 million, 90 percent are from the salaried class whose income tax is deducted at source.

The reason for this may be lack of capacity on the part of the state to extract taxes due to ineffective and inefficient institutions. The FBR is said to be riddled with corruption and incompetence. Imran Khan appointed Shabbir Zaidi as head of the FBR but the latter too failed due to opposition to his policies by crony capitalists, and finally he has pretty much left too. The entire span of Imran Khan's political struggle was against corruption caused by the unholy alliance between money and politics, which, he thought was responsible for all the ills Pakistan was going through. He frequently accused the Sharifs and Asif Ali Zardari for corruption and stashing billions of looted money away in foreign banks.

In his pre-2018 election campaign speeches, Imran Khan's entire narrative was built on making Pakistan corruption and nepotism free through iron-clad accountability and building systems on the basis of equality and fair play. But today what we are witnessing is totally opposite of what he said earlier; corruption is as rampant as before; institutions are in total chaos and Imran Khan himself is surrounded by a charming circle of crony capitalists, who even funded his recent trip to Davos.

This charming circle has caused a severe blow to the economy that can best be illustrated by recent examples of hikes in the prices of flour, sugar, medicines under the PTI government. They have punctured the promise of the PTI that it would not only work for the welfare of the poor but provide justice to common people, work towards building an egalitarian society modelled on the pattern of the state of Medina, and eliminate cronyism and corruption.

The fallout of the alliance among the troika – crony capitalists, political elite and the state big-wigs – operating under the umbrellas of global capital (IMF) has created economic precarity for common people. Inflation has skyrocketed to a record level of 14.6, and the price of flour and sugar jumped from Rs53 to Rs80 and Rs70 to Rs80 per kg respectively during the current government. The prices of medicine have increased by 200 percent based on their cost of production and formula prices, which common people cannot afford to buy.

Reports suggest that there are mafias who manipulated the flour crisis. First, 500,000 tons of wheat were allowed to be exported out of the country during the year 2018-2019 and when the resulting scarcity hit the market, the same mafia advised the prime minister to import up to 0.4 million tons of duty-free wheat to avert the flour crisis in the country.

As for medicines, for the first time in the history of Pakistan, the current government allowed pharmaceutical companies to increase the prices of 45,000 medicines up to 15 percent, whereas the prices of 463 hardship medicines have been increased up to 200 percent – the highest increase in the last 40 years, according to press reports.

The impact of the nexus between the ruling elite and crony capitalists has echoes that go far beyond the sugar, flour and medicine. Big businesses hardly pay taxes, due to which the government has to get more loans. The PTI government has borrowed more than Rs11 trillion in addition to a \$106 billion foreign loan. Despite the increase in the tariffs of gas and electricity and the austerity measures the government has taken, Pakistan is facing a shortfall of Rs387 billion.

Amid this muddy economic situation, the IMF has estimated that Pakistan's economy will slow down to 2.4 percent growth in 2020. But according to Dr Hafeez Pasha, the growth rate of Pakistan is less than 2 percent. Excessive borrowing and a high interest rate of 13.25 percent, which is crowding out the local business, will also likely render 2.2 million people jobless in two years. If the goal of public policy is to optimize the role of government, promote competition and create jobs, cronyism must be curbed because it wastes the limited resources of governments. Therefore, it is high time the government ended the culture of crony capitalism and businesses showed their national responsibility to play a vital and responsible role in the process of overall development to pull the country out of its current economic quagmire.

The Arctic battlefield

MICHAEL T KLARE

During the cold war viewed the Arctic as a significant strategic arena and constructed a string of military bases across the region. Their main aim: to intercept Soviet bombers and missiles crossing the North Pole on their way to targets in North America.

After the Soviet Union imploded in 1991, Washington abandoned many of those bases. Now, however, with the Pentagon once again identifying "great power competition" with Russia and China as the defining characteristic of the present strategic environment, many of those bases are being reoccupied and new ones established. Once again, the Arctic is being viewed as a potential site of conflict with Russia and, as a result, U.S. forces are being readied for possible combat there.

Secretary of State Mike Pompeo was the first official to explain this new strategic outlook at the Arctic Forum in Finland last May. In his address, a kind of "Pompeo Doctrine," he indicated that the United States was shifting from benign neglect of the region to aggressive involvement and militarization. "We're entering a new age of strategic engagement in the Arctic," he insisted, "complete with new threats to the Arctic and its real estate, and to all of our interests in that region." To better protect those interests against Russia's military buildup there, "we are fortifying America's security and diplomatic presence in the area... hosting military exercises, strengthening our force presence, rebuilding our icebreaker fleet, expanding Coast Guard funding, and creating a new senior military post for Arctic Affairs inside of our own military."

The Pentagon has been unwilling to provide many details, but a close reading of the military press suggests that this activity has been particularly focused on northern Norway and adjacent waters. To begin with, the Marine Corps has established a permanent presence in that country, the first time foreign forces have been stationed there since German troops occupied it during World War II. A detachment of about 330 Marines were initially

deployed near the port of Trondheim in 2017, presumably to help guard nearby caves that contain hundreds of US tanks and combat vehicles. Two years later, a similarly sized group was then dispatched to the Troms region above the Arctic Circle and far closer to the Russian border.

From the Russian perspective, even more threatening is the construction of a US radar station on the Norwegian island of Vardø about 40 miles from the Kola Peninsula. To be operated in conjunction with the Norwegian intelligence service, the focus of the facility will evidently be to snoop on those Russian missile-carrying submarines, assumedly in order to target them and take them out in the earliest stages of any conflict. That Moscow fears just such an outcome is evident from the mock attack it staged on the Vardø facility in 2018, sending 11 Su-24 supersonic bombers on a direct path toward the island. (They turned aside at the last moment.) It has also moved a surface-to-surface missile battery to a spot just 40 miles from Vardø.

"A new Second Fleet increases our strategic flexibility to respond – from the Eastern Seaboard to the Barents Sea," said Chief of Naval Operations John Richardson at the time. This, in turn, would prompt comparable moves by the US and NATO, probably resulting in violent encounters and the loss of major assets on all sides. In the process, Russia's key nuclear retaliatory forces would be at risk and quickly placed on high alert with senior officers operating in hair-trigger mode. Any misstep might then lead to what humanity has feared since August 1945: a nuclear apocalypse on Planet Earth.

There is no way to know to what degree such considerations are incorporated into the classified versions of the Cold Response 2020 scenario, but it's unlikely that they're missing. Indeed, a 2016 version of the exercise involved the participation of three B-52 nuclear bombers from the US Strategic Air Command, indicating that the American military is keenly aware of the escalatory risks of any large-scale US-Russian encounter in the Arctic.