

The Business

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Talks with

The Shehbaz Sharif-led coalition government has started talks with the International Monetary Fund (IMF) precisely seven days after Shehbaz Sharif was elected prime minister to shore up the depleting foreign exchange reserves which have dwindled to less than two months of imports. Cost of fuel in the international market has been rising since the Russia-Ukraine war and it is relevant to note that the new government has already opened tenders for purchase of LNG to ensure adequate fuel supply to meet its shortfall in the domestic energy and transportation sector; and to ensure inflow of other pledged multilateral and bilateral assistance to forestall the possibility of cessation of all ongoing mega projects as well as the possibility of default. Talks with the IMF on the seventh review were stalled due to the outgoing Prime Minister's February 28 relief package envisaging massive subsidies for petroleum and products and electricity tariffs till fiscal year end on June 30, and March 1 industrial package that reintroduced exemptions including an amnesty scheme that was to be applicable on all investments barring a couple of sub-sectors. The explanation of the source of the funds required to fund these two packages given by the then Finance Minister, Shaukat Tarin, which he contended would lead to the success of the seventh review, raised more queries from the Fund which would have to be answered by the new dispensation.

The question is: what is the likelihood, if any, of the Fund backing out or softening of its earlier stance? It is extremely doubtful if the Fund would budge from its conditions mainly because as was pointed out in the sixth review documents uploaded on its website in the first week of February 2022: "Pakistan has a long history of stop-and-go economic policies and weak implementation of structural reforms" with Fund advice "aimed at reducing fiscal deficits and restoring public sustainability, reforming the energy sector, allowing more exchange rate flexibility, enhancing State-Owned Entity governance, and generating higher sustainable growth" — objectives that are likely to resonate with local and international economists.

Thus it stands to reason that the Fund may have to be assured of a proposed election schedule, preferably next year, to make appropriate adjustments in rescheduling the programme end and therefore phasing out the harsh conditions. Pakistan's negotiating team would, therefore, be well advised to abandon the previous government's unsustainable relief and industrial packages, massively curtail not just the development expenditure but also the current expenditure allowed to rise from 4.3 trillion rupees in 2017-18 to the budgeted 7.5 trillion rupees for the current year and renegotiate with friendly Arab countries on the terms of the amount parked with the SBP (State Bank of Pakistan) for one year so as to increase leverage with the Fund as well as seek support from major

Threading the needle

IQBAL HUSSAIN

In accordance with expectations but contrary to economic prudence, the incoming Prime Minister Shehbaz Sharif announced a raft of relief measures including a 10 percent increase in civil and military pensions and a Rs10,000 hike for those government employees earning less than Rs100,000 monthly. Minimum wages for workers have been increased to Rs25,000 per month. The relief measures thus announced beg the obvious question: if the economy was in such dire shape only the previous week what could have changed so rapidly that allowed for such fiscal generosity? These measures will further fuel the already high inflation rate of 13 percent and hasten the decline of the external value of the currency. Fortunately Mr Sharif has backtracked to some extent; consequently the decision about the 10 percent salary increment has been reversed.

The elephant in the room for the new government is their management of the economy. The combined opposition parties now in government need to show that they can do a better job than the PTI government which they charged with gross economic mismanagement. With the economy slowing (the World Bank has slashed the growth forecast for Pakistan), tax receipts will also decline taking the fiscal deficit beyond the relatively safe limit of 4-5 percent of GDP. Mr Sharif will find that the free hand he enjoyed as chief minister of Punjab that enabled him to project an image of a dynamic action-oriented leader no longer holds. Instead he'll have to manage a motley crew of frenemies who only banded together because they wanted to oust Imran Khan from the prime minister's job. Decision-making will therefore be hamstrung because the prime minister will be spending time struggling to hold the coalition together that will divert his attention and pull him in different directions.

One of the first tests of the cohesiveness of the coalition will be the reaction to transfers and postings of civil servants by the new government. Each of the parties will want to have a say in the matter because of the upcoming nationwide elections (due no later than August 2023). Having an official considered sympathetic to your party in a key post is a vital factor in determining the outcome of elections in nascent democracies like Pakistan (To paraphrase Joseph Stalin 'it's not the voters that count, it's the counters that count'.) Why the

economy cannot be fixed easily is primarily due to the fact that inflation is now a universal phenomenon and even developed economies such as the US and UK are wrestling with levels of inflation they have not experienced for decades. Moreover, it's for the main part a supply side inflation with shortages of parts and components causing supply chain disruptions and global microchip shortages forcing stoppages/slowdowns of production of many products from cars to smart phones to washing machines. China's Covid-related lockdowns have only added to the problem.

Thus hiking interest rates as the State Bank of Pakistan has recently done will not make any difference to the prices of food items or to the retail price of cars. Indeed the State Bank is likely to raise interest rates further as the US Federal Reserve (the US central bank) has already announced a staged increase in interest rates and is also engaged in quantitative tightening (QT) which is aimed at raising longer-term interest rates in the US. This will only add to Pakistan's debt burden and to the cost of doing business. What is really going to hurt many developing countries including Pakistan is the rampant escalation of prices of commodities such as oil and food crops such as wheat, maize, and soybean, and fertilizer price hikes subsequent to sanctions on Russia's potash, urea, and ammonia exports.

Pakistan's trade deficit will be stretched to the limit with higher oil and food prices since we'll be importing at least three million tons of wheat this year, apart from higher cost vegetable oil, to meet both local requirements and the smuggling of wheat flour into Afghanistan. The kind of measures that are required to turn the economy around, such as the resolution of the problem of circular debt and the privatization of state-owned enterprises and widening and deepening of the tax net, cannot be completed within the time period the current government has at its disposal. Moreover, fiscal, monetary, and supply side measures take time to have an impact (economists call these time dependent adjustments by businesses and consumers 'lags'). The most effective method to curb the trade deficit and moderate the depreciation of the rupee is the enactment of regulations. These can have an impact almost immediately but require political boldness.

One step that the government should undertake is the rationing of petrol and diesel. Fuel cards can be issued to all registered vehicle owners, enabling them to purchase a modest amount of fuel monthly at a controlled

price with exceptions made for buses and vans used for public transport which would get permits to buy fuel at the administered price based on their previous usage records. Any amount needed beyond the stipulated maximum would have to be bought from those not fully utilising their petrol/diesel quotas at a rate to be fixed each week by the Oil and Gas Regulatory Authority (Ogra). (Petrol pumps would be positioned as a platform for contact between buyers and sellers).

In effect we would be encouraging the development of a retail trading market for fuels which would also be desirable for equity reasons since those who pollute the most would be charged the most. Other measures that are needed include a ban on import of luxury cars, on high-end smartphones, and on the import of non-essentials like cosmetics and packaged food such as breakfast cereals, confectionery items etc. The government should also impose higher taxes on foreign travel and ask the banks to stop consumer financing of automobiles. An excess profits tax needs to be imposed on large corporate entities that enjoy virtually untrammelled pricing power and earn supersized profits including car makers, cement manufacturers, and commercial banks.

Much higher real estate and land taxation is now an inescapable need and this is an issue that has to be addressed urgently if we're to get a handle on the fiscal deficit. The dilemma for the Sharif government is that the usual method of tinkering at the margins means that the economy would limp along till we reach the dreaded precipice beyond which lies the uncharted terrain of debt default; on the other hand, continuing with the IMF programme may will cause further pain for the public. Further, there is no guarantee that resumption of the IMF programme will work as intended. This is because the world economy could experience a significant recession later this year which may blow Pakistan's economy off course. Remittances and export earnings would be at risk. In the political arena what Imran Khan has done successfully after his ouster is to change the frame of reference around political discussions because of which many voters are now looking past his government's performance or lack thereof. By successfully transforming the political narrative, the PTI government may well have dodged a bullet. The onus is now on the current government to prove that it can do better than its predecessor in its stewardship of the economy. But the longer it delays general elections, the greater the odds

Solve Balochistan's problems

RAFIULLAH KAKAR

Following his election as prime minister, Shehbaz Sharif announced several policy measures, including a commitment to focus on the development of all provinces of Pakistan, and not simply Punjab. While this remark is welcome, overturning the image of PML-N as a Punjab-centric party will require much more than verbal commitments.

Although the PML-N has demonstrated some willingness to shed its Punjab-centric image in favour of a more inclusive federal outlook post-2008, the party also appears to have embraced the regionalisation of politics and given up on peripheral Pakistan in favour of consolidating its power base in Punjab. The PML-N's strategy for smaller provinces has relied almost solely on appeasing tiny regional elites and cultivating alliances with representatives of smaller ethno-regional parties. While successful in resisting the hegemony of the establishment, the elite-centric appeasement strategy hasn't necessarily translated into improved standards of living for the people. The result is that the perception of the PML-N as a Punjab-centric party remains strong in the peripheries.

To cultivate popular support outside Punjab, the PML-N-led government will have to prioritise the socioeconomic development of the smaller provinces, especially areas like ex-Fata and Balochistan. With regard to Balochistan, here is a plan of action:

Firstly, political reconciliation and peace-building must be the foremost priority. No major economic development initiative in the province can succeed without first devising a strategy for peaceful management of the ongoing ethnic conflict. In this regard, the government needs to appreciate the complex landscape of the violent conflict in Balochistan: there is a low-scale but ongoing ethnic insurgency mainly in southern Balochistan, as well as sectarian and religiously motivated militancy concentrated mainly in northern and central Balochistan. This conflict landscape implies that restoration of peace requires a holistic but differentiated strategy. To begin with, tackling religiously inspired and sectarian militancy requires a fundamental shift in our national security policy and foreign policy. Our security thinkers need to appreciate that durable peace in Balochistan and KP cannot be

established without peace in Afghanistan. Our current Afghan policy is more likely to turn Afghanistan into a battleground for yet another regional proxy war.

Further, we need to play a balancing act in our ties with Iran and Saudi Arabia, rather than tilting in favour of the latter. Lastly, no tolerance should be shown towards sectarian and religiously motivated militant outfits. The Baloch ethnic conflict merits a different strategy. The key takeaway from the nearly 17-year-long insurgency is that repressive measures and cosmetic development packages have both failed to bring the disaffected Baloch into the political mainstream. Also, the resurgence of violent conflict proves that a security-centric approach alone cannot deliver peace. Here is what needs to be done:

a) The government should prepare a comprehensive strategy for reaching out to Baloch insurgents. This strategy should entail the engagement of credible political voices to lead negotiations and implement CBMs such as stopping military operations, withdrawing the FC from certain areas, releasing all Baloch missing persons and compensating the families of those killed extrajudicially. Mere offers of amnesty or exhortations to abandon violence won't work.

b) The military establishment's support is a must for the proposed reconciliation efforts to make headway. The military needs to appreciate that a hard approach alone will ensure only temporary peace at best and that a low-level insurgency can continue almost indefinitely no matter what security measures are taken. The low-level violence is enough to put the state on the defensive, draw international attention and unsettle foreign investors. Moreover, the state should also be willing to abandon patronage of the cadre of artificial leaders it has propped up. These people are the main beneficiaries of the conflict and, therefore, have an interest in its continuation.

c) Previous efforts to reconcile Baloch insurgents failed because a) repression went hand in hand with reconciliation efforts, and b) those leading the process had little credibility or freedom to make meaningful offers.

Secondly, Baloch concerns regarding control over their natural and coastal resources must be addressed. In this respect:

a) A powerful parliamentary committee led

by a credible Baloch parliamentarian should be constituted to ensure the effective implementation of Articles 172(3) and 158 of the Constitution. Balochistan must be given its due share in the ownership, management, and revenues of federally owned oil and gas companies. The province's concerns with regard to pricing, taxation and distribution of its natural gas must be addressed.

b) Ownership of the Saindak copper-gold project may be transferred to the Balochistan government as committed under the Aghaz-i-Haqooq-i-Balochistan package.

c) The Reko Diq agreement should be made public. The establishment of a refinery in the province should be ensured. A Chagai foundation with a corporate management and board must be established. At its disposal must be CSR funds, two per cent of the company's profits, 2pc of federal profits and half of the royalty payments to ensure the socioeconomic uplift of the local community.

d) As far as CPEC is concerned, Islamabad must shift to a more inclusive development approach prioritising the basic rights, dignity and development needs of the local people, respecting the marine ecosystem and promoting local livelihoods. Unnecessary check posts must be abolished and drinking water projects expedited. A public sector company should be created to harness the potential of desalination and reverse osmosis technology along the coastal belt. Balochistan should be given a share in revenues from the Gwadar port. Thirdly, measures are needed to alleviate poverty and mitigate the adverse impact of fencing the border on livelihoods.

a) A formal border trade gateway with all allied facilities and necessary trade logistics is necessary in each district along Balochistan's borders with Iran and Afghanistan.

b) Balochistan's share of the Benazir Income Support Programme may be increased to 10pc at least. Its current share is around 4pc, which is even less than Balochistan's share in the total population. This is inequitable. Enhancing the share would not only reduce poverty but also lessen conflict. Furthermore, the capacity and resources of BISP's administrative set-up in Balochistan should be upgraded, while representatives of the province should be made members of the governing body as well as the

Ecological realities

WES JACKSON

In a 1970 poster for the first Earth Day and a cartoon the following year, Walt Kelly's Pogo offered a hard truth about ecological crises: "We have met the enemy and he is us."

That doesn't mean there are no differences in individuals' contribution to those crises. Landowners, not agricultural workers who harvest crops, bear responsibility for chemical contamination of the soil. A fast-food restaurant cashier who has to drive to work and the CEO of an oil company cashing in on hydrocarbons are not equally culpable.

But how much are landowners' choices constrained by economic realities outside their control? If all the energy companies stopped producing fossil fuels in the coming decades, would consumers happily embrace a major down-powering and the accompanying lifestyle changes? Kelly's statement may have lacked nuance, but so do many of the environmentalists' platitudes that ignore the depth of change necessary in both economic institutions and people's expectations.

We assess people's choices and understand that those with a disproportionate share of the world's wealth and power are more of an enemy than the 'us' who lack such status. Those judgments are necessary, but not sufficient to deal with the multiple cascading ecological crises we face. Whatever our individual contributions to an unsustainable society, collectively we have to embrace down-powering in a dramatically different world, like it or not.

We use 'crises' deliberately, to focus not just on rapid climate disruption but soil erosion and degradation, chemical contamination, and a dramatic reduction in biodiversity.

Climate change be the most compelling crisis, but all of these threats are a derivative of overshoot, of too many people consuming too much overall. We know that consumption is wildly skewed. We can focus on the worst offenders in the top 1 percent or top 10 percent, and at times that can be an effective strategy for incremental change. We shouldn't hesitate to go after people who own yachts.

But the larger problem is the routine expectations of people in the developed world more generally. Even if resources were equitably distributed, the ecosphere cannot sustain 8 billion people indefinitely at anything like the current level of aggregate consumption. Politicians of all stripes love to champion the middle class, but middle-class living is unsustainable. Eliminating disparities is the first step. What comes next?

It's time to talk honestly about "fewer and less": fewer people consuming less energy and materials. No current political formation — right, center, or left — embraces that goal. The right generally ignores ecological realities; the center argues for minor tweaks to the current system; and the left imagines that deeper democracy and some version of socialism will lead us to the promised land. All of those folks are betting on technological miracles to maintain, or even expand, an affluent society. This technological fundamentalism may well be the most dangerous fundamentalism. We are on the left side of the political fence, blunt in our criticism of capitalism, economic growth, and global disparities. But we recognize the danger of embracing the illusion that such things as renewable energy and electric vehicles will allow business as usual.

Excerpted: 'Earth Day: Enemies and Opportunities'.