

The Business

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Shehbaz pledges

Prime Minister-elect Shehbaz Sharif has pledged to rebuild Pakistan in his maiden speech, identifying the economic malaise that besets the country today. With a historically high budget deficit projected for this year, heavier than ever reliance on borrowing to fund a runaway current expenditure. Inflation (food inflation consistently in double digits for the past three years), with six million becoming unemployed and 20 million pushed below the poverty line; and foreign exchange reserves have plummeted to cover only two months of imports. Shehbaz's stated objective: to make Pakistan a paradise for investments, to forge good relations with not only friendly countries (Saudi Arabia, the UAE, Turkey and China) but also to focus on major trading partners, including the European Union and the US and "opt for dialogue over deadlock, and rapprochement over disagreement" — clearly a dig at the former Prime Minister who made matters public that in the past were more appropriately dealt with through diplomatic channels. The first order of business that the new government has to deal with on an emergent basis is to revitalize the talks with the International Monetary Fund (IMF) on the seventh review that were stalled on policy matters specifically relating to the 28th February and 1st March packages that were violative of the sixth review agreement.

It is highly unlikely that the Fund would re-engage in a policy dialogue before these two packages are withdrawn. And politically challenging as their withdrawal would be thereby providing ammunition to the ongoing Pakistan Tehreek-e-Insaf's (PTI's) countrywide protests yet there is no other way around it. Perhaps in acknowledgement of this basic fact, Shehbaz thought it appropriate to raise pensions by 10 percent, a raise that would add 48 billion rupees to the 480 billion rupees budgeted for the current year, and announced the raising of the minimum wage to 25,000 rupees, relevant largely for the private sector, which at this point in time would be applicable to the federal capital only unless endorsed by the provinces.

Shehbaz also rightly pointed out that there is a need for unity and hard work "if we have to save the sinking boat. Shehbaz did not dwell on and which he needs to focus on is that of accountability — the legacy of the PTI administration's three and a half years on which it failed to deliver. Furthermore, former Prime Minister Imran Khan must surely understand that he lost the vote of no-confidence at a politically propitious time as the economy had reached an impasse with the Fund referring to the need for policies to achieve economic stabilisation, the mantra in 2019 at the start of the

The economy needs rapid improvement

HUMAYUN AKHTAR KHAN

It won't be easy to manage the massive economic mess that the country faces. The problems have built up over many governments and can be addressed only with sustained effort. To ward off the economy's present free fall, I suggest a few areas of focus. First, revive the current IMF programme. There are many pros and cons to seeking IMF help. But that discussion is for another time. When an economy is in a precarious stage, it is no time to pick quarrels and stop foreign inflows. We badly need foreign exchange to meet urgent debt servicing commitments.

This might leave the government in an awkward position to reverse a few of the concessions announced since passing the 'mini budget' in January 2022. But it is a small price to pay for regaining stability. Once the economy is back on track, the government should ease the lives of those most affected by high prices of essential goods. At the same time, even now the Ehsaas/BISP programmes should be used to help those most in need.

Second, rescheduling of external debt. All our external debt indicators show high risk. Total external debt is 35 percent of GDP, revised and rebased; \$13.4 billion paid in FY21 as debt servicing, principal and interest, was about four percent of GDP, or more than half of our goods export. It was 22 percent of foreign exchange earned from exports and remittances. Today, we are at a point where it seems that the main business of the government is to borrow from wherever possible to manage the current account and the fiscal deficit. All other responsibilities have become subsidiary. It won't be easy. Pakistan has sought rescheduling before, only to find that the economy is back to

where it was. Also, our request would be soon after the G20's voluntary postponement of dues during the Covid-19 emergency. Yet there is no option. The country must use all its political and strategic levers to persuade lenders to do so.

This time our approach must be different. First, we must ask for rescheduling from all lenders, not just the Paris Club and China. About 28 percent of our total foreign debt is from IFIs. Though their debt is low-cost, the tenure of debt and new borrowing to service past loans builds up the cost of their debt. The government would have to persuade them by contacting major world capitals that have influence over IFIs. Of course, Pakistan has been less than judicious in its use of foreign loans. Lenders too though have funded low-impact projects and programmes, whose ideas often originated with the IFIs. This is clear from their own evaluation reports. While the projects didn't work, our taxpayers were left holding the bill. The other, more important, change in approach is that the request for restructuring must have an accompanying economic growth plan. Creditors must know that Pakistan has a plan to pay back. The economic growth plan must have a component to build private productivity and exports. CPEC is a useful vehicle for Pakistan to attract labour-intensive and export-oriented FDI from China. Also, it is time to make SEZs operational. They have been talked about extensively, but with no result on the ground. Exports are the only way to pay back foreign loans. In case rescheduling happens, the government must use part of the savings to return high-cost loans. Partly, the savings must go for importing key equipment for industry.

Another proposed change from the past is to request that lenders must not

charge interest during the rescheduling period. As I said, it won't be easy, but we must try to gain lenders' confidence to make the exercise meaningful for us. Third, re-negotiate IPP agreements. Power-sector reforms of the 1990s, done on the advice of IFIs, have led to a collapse of power supply. Our economy could not support the cost of the 'reforms' that were put in place. Also, the sector is too complex to be solved by the simple idea of market economics and private participation. Having earned massive profits, the original investors have mostly left. It is now clear that the consumer or the government cannot meet the cost of power along with the generous concessions that IPPs avail. In any case, with the build-up of debt caused by non-payment of tariff differential subsidy, IPP profits are more often on books rather than immediately realized. There is no option but to review these agreements. This will be a test for the government. Decades of preferring favoured sectors over others has brought the economy to this perilous stage. It is time to break the nexus between decision-makers and special interests. We can begin with IPPs and move to other such areas. Done successfully, this would build business confidence by sending a message of the government's resolve to deal with special interests.

Fourth, restructure the PSDP. Immediately, we do not need fancy studies such as a 25-year vision. What we need is a robust plan to grow exports. The decline in exports from 19 percent of GDP in 1990 to less than 8 percent in 2021 is a sad travesty and a major cause of present problems.

All public investment must serve the goal of increasing exports. From now on, one of the government's main focuses must be to make available public goods that help selected export industries or key import substitution industries. So, the PSDP must make targeted physical and

human investments that serve a short list of such industries. Under top-level supervision, all relevant parts of the federal and provincial governments must come together. In addition to the main players, they include the HEC, science and technology and its affiliates such as PCSIR, the IT ministry, NAVTEC, FBR, and provincial departments. We must make special efforts to strengthen the micro and SME sector. It is time to forego the calumny of considering SMEs as tax evaders. SMEs mostly do not receive government services. They are left to access them with their own methods. SMEs have the potential to support LSMs, create jobs and create entrepreneurship.

The State Bank of Pakistan's recent effort for digitization of the economy will help productivity. This must continue and other key areas must complement, especially the FBR, where delays often increase cost for business.

Also, to strengthen industrial growth, the government must revive DFIs. Fixed cost long-term project financing was key to the industrial growth of the 1960s. DFIs have been done away with on IFI advice. That has not served us well. The private sector needs predictable and fixed cost project finance. Growth in exports is the outcome of an economy's total strength. Its decline is therefore a reminder of falling standards and abandoned responsibility.

Lastly, improve governance to support private enterprise. In some areas, the government is no longer a service provider, but an obstacle. If allowed to decline, the country would fall into a morass from which it is hard to recover. The private sector needs timely and low-cost services. The government must make them available. It must improve delivery through supervision, enforcement, and training. We cannot allow the civil services to decline anymore.

Politics of cults

KAMILA HYAT

The era of Imran Khan is over — at least for the time being. He will now be spending his time as an opposition leader and devising a plan to regain the power he lost in that historic vote of non-confidence late Sunday night.

There are many who have rejoiced over the exit of Imran and the manner in which all institutions finally came together to uphold the constitution of Pakistan. But there are also many others who are deeply disappointed; these are people, many of them young or comparatively young, who say they wanted Imran Khan to stay in power rather than see a return to corrupt leaders.

Of course, they have a point. Our political leadership in the past has been so poor that people saw in Imran a ray of hope, a possibility of a better future. We all wish he had been able to deliver on it rather than become completely entwined in the politics of vendetta, revenge, and accusations against anyone who did not take his side in matters of the state or indeed other events.

Imran in many ways has become a cult figure. He is not a politician in the ordinary sense and the same holds true for Donald Trump, a man Imran says he admires and respects. Whereas at one point politics was a much simpler affair based on ideology and belief, it has become far more complicated. In past years, both in Pakistan and elsewhere around the world, in an age of globalization votes were cast based on what kind of ideology people wished to follow. The right wing voted for parties which leaned in that direction. Socialists voted for socialist parties or those that lean that way and in Europe, for example, those who saw the environment as a serious issue to be defended in the future, voted Green. Of course, there were many nuances and many dips and falls in between. After all, when a classical political spectrum is put before us, there are always some issues in which we tend to go the opposite way to where our ideological leanings take us. This can be

witnessed in classrooms and in think tanks around the world. Imran Khan's ideology, if it can be called that, was as he put it: to create a better, stronger, less corrupt Pakistan. This would have been wonderful. But the manner in which he went about the task was so inept and so ridden with both mistakes, incompetence, and, yes, corruption, that in the end he was bound to fail. Instead, he has turned into a cult figure, hero-worshipped, notably by the youth who still believe he can bring them something and is different to other politicians who have in the past led the country. We can only wish this was true. Beyond his cult status, Imran appears to have little in the way of ideology, with the statements about a new Pakistan leaving one hoping only that the older Pakistan could come back. At any rate, creating a new Pakistan is not really a policy pledge but more a wide declaration of what is intended. Certainly, what Imran intended was probably good. But he simply lacked the capacity and lacked that important ability to listen to good advisers and to find them which may have helped him achieve his goals.

As a cult leader, Imran also inspired violence amidst many and hatred amongst almost all who followed him closely. His ministers have tweeted out extremely obnoxious comments on many issues in all languages and over all matters. Other politicians have been targeted, as have journalists, and social media users. This is a dangerous trend and the fascist in Imran, which some of his cricketer colleagues saw occasionally on the field, rose fully to the surface once he had taken the seat of prime minister and moved into the Prime Minister's House.

We need to see now if in the future Imran Khan and whatever team he selects has the capacity to change and to grow. Will they learn from mistakes, or will they simply bury their heads in the sand? The answers will come in time, but it certainly seems the party lacked any respect for the law and any respect for the constitution.

The same is true for the followers of Imran, who simply do not understand constitutionalism or how crucial it is to running and holding together a country. Without a constitution and without a readiness to follow what it lays down, there can be no state and no stable governance. The PTI failed to see this. It lambasted all other institutions again and again after initially clinging on to the most powerful institution to seek guidance and help in all matters. Once the crutches were removed, the collapse came quickly.

There are no doubt a limited number of choices before people. In Punjab, many will be relieved to see Shahbaz Sharif back in power in the centre and with some control over the province, possibly through his son Hamza. Like Imran and his men, Hamza too will need major lessons in politics and how political enterprise must be separated from violence, tensions and other evils. We will have to see how far the new leadership succeeds in this and how it goes towards the next elections which the ECP has now said it will try and conduct within a matter of months if called upon to do so. The cult factor in the Imran Khan story is very real and somewhat alarming. Because of his charisma and his standing as a hero, Imran was able to attack many. But perhaps he did not think about what he would do once these people have been brought on board and how he could offer them what they had been promised. While the schemes the PTI had promised were well intended, there is no sign that all of them worked per plan. The Ehsaas programme too has had limited success and development is nowhere on the same scale as it was under the Sharifs. Without these factors in place, governments are doomed to fail. Had Imran concentrated on uplifting the lives of the people rather than insisting that there was no real inflation and that it was far lower than in the rest of the world, perhaps he could have managed to put in place programmes and carry out charitable work as he has done before. He chose a different path and this in the end was his undoing.

War fever

RICHARD RUBENSTEIN

Students of war psychology are familiar with a process in which public opinion moves by stages from a position of indifference or opposition to a war to one of passionate partisanship and active involvement in the military struggle. A key element in this movement is the accusation that a hostile power is committing war crimes and atrocities against civilians — particularly women and children.

The accusations often contain a dose of truth, since most wars are far more indiscriminate than 'surgical' in their effects. There is no doubt that Russian activities in Ukraine have taken too many civilian lives. But war crimes charges tend also to be exaggerated. The United States entered World War I in 1917 on the heels of reports that the German invaders of Belgium were butchering babies while German U-boats sank ships filled with innocent passengers. (In fact, the Allies were attempting to starve Germany into submission by blockading European ports, and the doomed liner Luisitania was carrying a large cargo of weapons bound for Britain.)

This dynamic can now be witnessed in the West, where observers at first surprised and nonplussed by Russia's invasion of Ukraine, and then hoping for a peaceful settlement of the war, are now advocating escalation of the violence and rooting openly for a Ukrainian victory. British Prime Minister Boris Johnson declares that "Ukraine must win", a sentiment not echoed openly by the Biden administration, but perhaps motivating a huge increase in US arms deliveries to the Zelensky regime. Calls for a truce in Ukraine and immediate peace negotiations between the parties (most recently joined in by Pope Francis) now seem increasingly forlorn.

Three factors make it difficult for peace-loving people to keep their balance in a situation like this. The first is that the invading force — in this case, the Russians

— bears a very heavy responsibility for subsequent violence. This is no doubt true. But the other parties, the US and members of Nato, also bear significant responsibility for creating the situation that led to the invasion. The responsibility for violence is actually shared. But the tendency, as war fever grows, is to deny this and to try to throw all the 'war guilt' on the invader.

That is why we see figures like Bill Clinton arguing over the past few days that Nato was right after the Cold War ended to expand to the Russian border and to militarize Eastern Europe. The Russian invasion, says Clinton, proves that this expansion was justified. Only a few critics have pointed out the absurdity of this reasoning, which implies that the Russians are aggressive by nature rather than provoked to aggress by a sense of insecurity fostered by Western actions. The enemy is purely malicious, while we are purely benevolent: this is the classical 'evil enemy' stereotype that develops as a regime moves more openly towards active participation in a war. The more 'we' besmirch 'them', the purer we become to ourselves.

A second factor also has to do with how one characterizes the adverse party. To begin with, one defines the opponent as a regime or even as one person: in this case, the Russian man-in-charge, Vladimir Putin. By implication, the masses who have been misled by bad leadership are exonerated or at least considered not deserving of extreme punishment. But as war fever grows, the responsibility for the regime's sins is extended downward. Ordinary Russians are thought of as complicit robots or fanatics blindly following the dictator's lead. Sanctions that punish them as well as the elite are now said to be justified. Soon, killing them will also be justified as an appropriate punishment for members of an 'enemy nation'.

Excerpted: 'Russia vs. Ukraine: No Vaccine For War Fever'.
Courtesy: Counterpunch.org