

The Business

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No need of concern

While speaking to media on the sidelines of a ceremony at the Institute of Business Administration in Karachi baldly, Governor State Bank of Pakistan Jameel Ahmed stated that Pakistan's "reserves are over \$7.9 billion. They are more than sufficient to meet any obligations" – a statement that is simply unfathomable from an economic perspective as the reserves currently held by the SBP are sufficient to only meet 1.14 months of imports instead of the three months considered appropriate globally (backed by an empirical analysis undertaken by the International Monetary Fund). In addition, the coverage of 1.14 months of imports is in spite of restrictions on imports that include limitation on advance payments for imports against letters of credit and advance payments up to the certain amount per invoice (without LCs) for the import of eligible items. In his defence the Governor may aver that his statement took account of only the country's debt obligations and not imports – an argument that would, without doubt, baffle economists. It is relevant to note that Pakistan's risk of default, measured through the five-year currency default swap index, rose 4.2 percentage points on Monday to a high of 64.2 percent which indicates that the country's reserves are simply not sufficient to meet imports and foreign debt repayments on time.

The foreign exchange reserves held by any apex bank of any country act as a shock absorber against factors that weaken the local currency. In Pakistan's case it is relevant to note that the rupee-dollar parity rose to a high of 240 in the third week of September, prompting the Cabinet to direct that an inquiry be held on the matter. It was widely reported that eight banks were found responsible for speculating on the dollar to generate windfall profits, which subsequently led to unilaterally corrective action by these banks and the rupee strengthened. However, since then the rupee has hovered between 220 and 221.70 to the dollar – a far cry from finance minister Dar's claim soon after he took oath on September 28 that as per his calculations the parity should be around Rs 200 to the dollar.

What is a source of serious concern to local economists is that during his previous tenure as the country's Finance Minister Ishaq Dar was held responsible for an unsustainable real effective exchange rate of 121 or gross overvaluation that crippled the country's export sector, and while borrowing from abroad was cheaper yet once the rupee was allowed to reach its equilibrium in December 2017 it made repayment prohibitively high – a factor that continues to plague the economy to this day.

Reducing climate costs

ALI TAUQEER SHEIKH

Pakistan's is among the countries most vulnerable to climate disaster but least prepared to cope with it. Other factors aside, the economic cost of climatic changes have begun to destabilise and shrink the economy, adversely affecting all major growth indicators — GDP, per capita income, rate of savings, tax and revenue collection, and sovereign credit ratings. It has added to our debt burden and to the urgency for additional borrowing. The trade-offs are horribly painful: 'repurposing' painstakingly negotiated development projects with lenders to extend emergency cash support to the victims of floods. Business as usual is no longer an option. How can policymakers rethink adaptation strategies and reflect on new avenues for financing climate resilience? What lessons can be drawn from the recent floods in order to reduce the cost of similar disasters in the future?

According to Pakistan Floods 2022: Post-Disaster Needs Assessment (PDNA), just released by the Planning Commission, Pakistan has incurred losses and damages of \$30.2 billion, or 4.8 per cent of this fiscal year's GDP. The scale and severity of the flooding was unprecedented: a once-in-a-thousand-years heatwave, in some areas, made way for intense rains in many places that were 400pc to 800pc higher than previous averages. This calamity hit 94 districts, including 19 of the 25 poorest ones, pushing them further behind on SDG targets. It is estimated that these floods have increased the incidence of poverty by more than 3.7pc and pushed another 8.4 million people below the poverty line.

This was not a one-off incident — only bigger and more destructive. In fact, the recently released Country Climate and Development Report by the World Bank has projected that climate disasters, environmental degradation and air pollution will result in a 7pc to 9pc fall in Pakistan's GDP, and lead to the latter shrinking by 20pc by 2050. The CDDR has estimated that Pakistan will need \$348bn — 800pc more than the current annual budget — to stop climate-induced disasters. Merely \$48bn will be available through public and

private financing; there will be a projected gap of \$300bn. On the ground, the PDNA urgently seeks \$16.2bn for immediate recovery and reconstruction. The CDDR has put these needs in a longer-term perspective. It has projected that between 2023 and 2030, Pakistan will need \$152bn for adaptation and \$196bn for decarbonisation, as committed. These are very large sums by all standards. Imagine \$86bn for disaster preparedness and response, \$55bn for water and sanitation, \$85bn for clean energy supply, and so on. Where would this money come from?

The ground realities are dismal, as the gap between possibly available finances and needs on the ground is widening. International financial mechanisms have no provision for this scale of financing. We have seen that there is no agreement on setting up a financial facility for loss & damage, otherwise happily added to the COP27 agenda. Likewise, the G20 discussions in Indonesia on a framework for debt rescheduling for low-middle-income developing countries like Pakistan have remained inconclusive. In the absence of any international pipeline, are there any efforts that Pakistan can make to reduce the direct costs of climate disasters?

A closer look at the PDNA reveals that the total losses incurred by individuals were several times higher than losses to public sector infrastructure: i) individuals incurred losses of \$19,191m, which included \$6,222m in housing and \$12,969m in agricultural crops and livestock; and ii) losses to public-sector infrastructure were to the tune of \$9,599m. This includes \$779m in education, \$143m in health, \$669m in community infrastructure, \$711m in flood-protection infrastructure, \$3,545m in transportation and communication such as roads and railways, and \$113m in energy transmission and distribution lines — reflecting poor construction codes, standards, specifications, materials and site selections of public sector infrastructure, and often contributing to maladaptation.

These assets were not insured, and that has depleted the residual resilience of the state and its over 30m directly affected citizens. The efforts to create catastrophe funds and risk-transfer mecha-

nisms have failed in Pakistan but technical knowledge and global experience over the past decade have accumulated sufficiently for them to work successfully now. They have become critical for Pakistan to reduce its recurrent costs and damages. Investments in more contemporary approaches can play a pivotal role in strengthening adaptive capacity.

State-owned insurance companies have enjoyed near monopoly and need to gear-up for action in partnership with the State Bank and the Securities Exchange Commission. They need to devise insurance mechanisms to protect the state infrastructure and such community assets as crops and livestock, as well as individual home-owners, including nominal owners in informal settlements in the katcha areas or katchi abadis where they do not always have land titles. This year, the federal government disbursed Rs37.2bn to 1.5m affected families. A similar amount through a trigger-based risk-transfer mechanism would have possibly covered the reconstruction costs too. A percentage of \$10bn annually spent, mostly on untargeted subsidies, can be 'repurposed' for risk-transfer purposes. Likewise, the budgets in PC-1s can have a provision for insuring public sector infrastructure. One dollar spent on insurance can save 50 in the coming monsoon seasons. More importantly, the PDNA has revealed that poor construction standards have led to disproportionately higher economic losses compared to the direct impact of the 1.1 degrees Celsius change. Climate-resilient standards would have saved Pakistan's public sector assets only if we had upgraded our construction codes to international standards and benchmarks. The Pakistan Engineering Council, together with major public sector contractors who have dominated infrastructural development — FWO, Nespak, NHA, NLC and Naya Pakistan — and their sub-contractors need to spearhead the revision of archaic construction specifications and by-laws by municipalities. The private sector has a role to play in building national resilience. Such enterprises need to make way for private sector innovation, competitiveness and finances. This can be Pakistan's key to attracting and effectively utilising international climate finance, while reducing the

bulwark against the Soviet Warm Water operation to reach the sea. The Taliban were supplied with stinger missiles, armament and the slogan of holy war was propagated by the Americans to gather Muslims all over the world to reach Afghanistan and fight against the Soviet invasion. Afterwards, in a matter of few years, the Americans, instead of engaging with the Taliban for improving their war-torn country, branded them as terrorists. The freedom fighters, allies and friends of yesterday became the terror of the new world. The 9/11 attacks sealed their fate and so began the onslaught of the American war machine on Muslim countries. The Americans invaded Afghanistan and installed their own Government which could not deliver and establish its rule and in 2020, on the eve of exit of American troops, the Taliban in a matter of months, took full control of Afghanistan. Instead of engaging with the reality of Taliban, the American decided to cut off Pakistan and apply sanctions on Afghanistan.

Currently, the present Government is in the process of instigating engagement with the new Taliban Government. Mr. Bilawal Bhutto Zardari has done a decent job at fighting the case of Afghanistan where a humanitarian crisis is unfolding. The International community has responded to the call and there are signs of improvement in multi-lateral diplomatic relations between Afghanistan and other nations of the West. Previously, the government of Imran Khan had openly criticized the Biden administration which ultimately leads to strained relations and negligible contact between the two countries.

As of 2022, there is an active debate in the American Congress that the US policy on Pakistan is at fault. Pakistan is a strategic country with massive capabilities. It has one of the youngest nations of the world and the youthful trend of the country will continue for many decades. And just like in the case of India and China, this youth of the country will lead to higher produc-

tivity. In the recent past, the US has backed out of its relations with Pakistan, and this has led to deteriorating of ties leading Pakistan to move closer towards China. Pakistan is a major nation in Asia and a key player in South East Asia. Combined strength of its population, its geo-strategic location, its economic potential and its military strength make it a nation that must be kept in close liaison.

Overall, the US is back in business towards Pakistan. Envoys are being dispatched and the Ambassador has opened multiple avenues to revive relations between Islamabad and Washington. One of the books that highlights that the US needs Pakistan in more than one area is titled, "No Exit from Pakistan" by Daniel Markey who has taken inspiration from the existentialist philosopher Jean Paul Sartre from his phrase "no exit from other people". Similarly, the US needs Pakistan to maintain its supremacy in the region. Daniel goes at length to explain that Pakistan has helped the US reach its strategic objectives for seven decades and giving up its ties with Pakistan that lead the US into multiple failures. This time, the US will have to "do more" to achieve a successful relationship with Pakistan as China is now a leading nation that is aiming to put US supremacy in the shadow and Pakistan is a key nation to the expansion of new super power nation of the world. As the US prepares India as a forward nation against China, China too will prepare Pakistan as a geo-strategic partner. This time Pakistan must make prudent decisions and formulate bilateral relations based on mutual gain, respect keeping in view the long-term vital interests of the nation. Pakistan and US relations possess immense potential and neither country can thrive without the other but there is a Golden Mean at both sides, one that must be found from both sides. Both parties should learn from their mistakes and carve out a path of mutual progress.

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IMTIAZ RAFI BUTT

There is a significant shift in the relations between Pakistan and the United States. The cogs of bilateral relations are turning. Once again, the objectives of Islamabad seem to be realigning. But the circumstances at hand are unlike any other before. Pakistan has learned from its mistakes. The question in international relations used to be whether Pakistan is a reliable ally? But now, the question is, is Washington a worthy ally or otherwise? These questions are changing the perspective of the world. In recent times, the Biden administration decided to part ways with Islamabad.

This was reinforced especially as an aftermath of the Afghanistan pull out disaster. Pakistan was slammed as an escape goat but the investigations that followed revealed that it was an American made disaster, not Pakistan made. And now, the US Government is in the process of deliberating the next phase of engagement with Pakistan. As many have commented on Pakistan say, "a nuclear armed country with a population of over 220 million just can't be ignored".

Pakistan has passed through many phases with the US. It has been a relationship of direct needs and transactional ties. In the 60s, Pakistan was a

forward state of the Cold War. Pakistan played its due part only to be ignored once the Cold War slowed down. Further, down, it was the Afghan invasion of the 70s that brought the country closer once again. Pakistan once again took active part in the objectives of the US and played its due role leading to the ouster of Soviet forces from Afghanistan and later on dissolution of the Soviet Union itself. The bilateral ties remained strained after the nuclear bomb tests and Pakistan was slammed with sanctions. But as fate would have it, the War on Terror brought US and Pakistan with aligned interests once again. Pakistan became a frontline nation in a war with the Taliban. In 20 years of war, there were mixed times. Islamabad was blamed for playing both sides and not doing enough against the Taliban even though Pakistan suffered over 50,000 casualties in the war on terror. Finally, the US was defeated and humiliating exit from Afghanistan lead the Taliban back in power. The United States saw this as betrayal and blamed Pakistan for assisting Taliban. After that, there was a long pause in relations. One that has been kindled again.

While the US has forsaken Pakistan and has continuously pushed it for doing more, it can be argued that it is the US which has always backed out of its commitments. After the dissolution of the Soviet Union, all assistance to Pakistan for economic development was seized. And after the fall of Kabul, the US exerted undue accusations and blame on Pakistan. The drone attacks caused damage and deaths in Pakistan that were never acknowledged nor compensated. On the other hand, the US continued to bolster ties with India. In 2005, the US declared India as a strategic partner and since then, the US has strengthened its economic and bilateral ties with Delhi preparing it as a forward state against China. The relations between the US and Pakistan has been hypocritical at best from the side of the Americans.

The Taliban were at a time, the greatest allies of the US. They were



Seeking climate justice?

FARHAN BOKHARI

The proponents of Pakistan's search for climate justice must visit an impressive case of the last century that prompted a global change of hearts and minds and led to the dismantling of apartheid — considered a remote possibility not too long before.

When the late Swedish prime minister Olof Palme shortly before his tragic assassination in 1986 famously pronounced apartheid as a "system that can not be reformed, it must be dismantled", the end to white minority rule in South Africa seemed a distant possibility.

By the time of Palme's landmark speech anti-apartheid activists around the world notably Europe had begun organizing regular anti apartheid protests. But Western governments, notably the UK and the US, firmly stood behind South Africa's white supremacist rulers, driven mainly by a combination international business interests along side the fear of leftist ideology taking grasp in that country if the black majority population received equal democratic rights. Yet, the unexpected release of the late icon Nelson Mandela just four years later and the subsequent peaceful transition to a fully democratic South Africa led to the most celebrated bloodless political change of the 20th century.

Today, as Pakistan grapples with the fallout from this years' climate disaster that led to Islamabad's plea for global financial support, there are lessons to be learnt from the South African case. While towering figures like Olof Palme joined by other Scandinavian governments deserve special praise for stepping up to serve a just cause, it was eventually the change within South Africa that caught global attention. Together, the personas of Palme and notable figures in South Africa led by the late Nelson Mandela led to a powerful change of minds across the world. As Pakistan grapples with the challenge of catching global imagination, its task ahead must be built upon building ties with global figures and institutions to plead its case alongside bold internal reforms to lead towards progressive change. It is clear that only a Pakistan which is capable of impressing the world with its ability to change rapidly for the better will lay the foundation for generous global support in dealing with the country's flood related catastrophe.

Pakistan's active engagement with world class players, ranging from the UN secretary-general to attendees at the high-profile COP27 environmental conference in Sharm el Sheikh, Egypt, have set the stage for a continued international democratic engagement.

But within Pakistan, the post-flood recovery, reconstruction and establishment of long-term safeguards are yet to be knitted together in a powerful strategy for the short, medium and long term. Together, the two ends — global interest in tandem with Pakistan's internal reforms — will lay the basis for Pakistan to reap the benefits in the shape of sustained international interest to lift Pakistan from its crisis. The reforms, if undertaken comprehensively, could well arrive in time to avert Pakistan's next balance of payments crisis, already predicted by some to take the country towards a mayhem laden default on debt repayments.

Two intertwined objectives must lead the way towards changing Pakistan permanently to not only impress the world but more vitally to change the country's outlook within. First, Pakistan's failure to reform over time has not only weakened its institutions at the centre of internal governance. The failure has also caused a collapse of the country's economy in fundamentally vital areas. At the tip of the iceberg lies the oft-repeated failure to reform the country's tax and revenue collection system that have turned Pakistan into an economic basket case. In sharp contrast to Pakistan's status as the Islamic world's only country impressively armed with nuclear weapons, its ability to force many more of its people to pay their tax dues has left behind a glaring mismatch. The choice for Pakistan is very clear. Either the country reforms its economy in tandem with its exclusive membership of the nuclear club or be prepared for relentless global pressure to abandon its strategic position. In brief, the two — membership of an exclusive strategic club alongside a repeatedly faltering economy can just not go hand in hand.

Second, beyond reforming the country's under performing tax collection system, Pakistan must radically address the many gaps surrounding the sliding living conditions of the poorest of the poor. This year's floods have badly exposed the deep vulnerabilities surrounding the lives of low income communities in many parts of Pakistan. For instance, a large network of local hospitals across rural Pakistan that were neglected over previous decades suddenly found themselves overwhelmed by a spike in demand for services from flood victims.

A similar case can be made for government provided school networks across Pakistan. And last but not the least, the multiple challenges surrounding the agriculture sector have contributed to worsening food security over time. Pakistan's case for climate justice will remain incomplete unless deprived communities across the country first receive long overdue justice.