**MANAGING GOVERNMENT BUSINESS-RELATIONS IN PAKISTAN[[1]](#footnote-1)**

**ISHRAT HUSAIN**

I wish to thank the Management Association of Pakistan for inviting me this afternoon to attend this ceremony. As I am privileged to address a highly distinguished audience I would like to share my thoughts on a subject about which there is very little open debate and discourse. The topic I have chosen this afternoon “Managing Government Business – Relations in Pakistan” is quite critical to all the stakeholders in the economy of Pakistan.

In almost all nation-states of the world, private businesses have to co-exist with governments. The balance between the two in economic space varies a lot. On one extreme is a state where either direct ownership of most productive resources lies with the government and only small businesses operate in the private sector. At the other polar extreme is an economy driven by laissez faire with the government playing a minimal role while private businesses dominate the show. In real world, these two extremes do not exist any more. With the collapse of the Soviet model the all powerful role played by the state has disappeared into thin air. The U.S. – the citadel of private market economy – was hurt severely by the most recent financial crisis as the regulatory and oversight role played by the government was minimal. In between these two extremes there is a whole mix of models that range from the Nordic, European Social Market, Chinese State Capitalism, East Asian, Indian mixed economy to Chavez Socialism that divide the economic space in a wide variety of ways between the private sector and the government.

Ideally, the division between these two players ought to be based on their respective comparative advantages. Market, if it operates competitively is good at allocating resources and producing efficient outcomes. But it also creates inequalities among households, individuals, regions, gender, urban-rural divide. Government, if it is benign and uncorrupt, can minimize these inequalities through Tax, Transfer, Subsidy schemes, and other policies, investment and regulations. Again it is difficult to find a country which has been able to arrive at this optimal mix of efficiency and equity. The U.S. has 12 percent people living below the poverty line and 9.6 percent unemployment rate. In China, the incidence of poverty has declined considerably and only an estimated 120-150 million people fall below the poverty line. However, the inequality coefficient has become worse.

You may all be anticipating as to when I come to our own situation what do I have to say about it. Those of you who have read my book ‘Pakistan: The Economy of an Elitist State’ published by the Oxford University Press in 1999 already know my thesis which has withstood the test of time. In Pakistan, the markets have been rigged by the elites (I count about 1 to 2 percent of the entire population included in this category) and therefore produce inefficient outcomes while the state has been captured by the same elite for their benefits resulting in accentuated inequalities. We have therefore got worse of both the worlds – inefficiency and inequity. During 2000-2007 period I had estimated that the middle class had, in fact, expanded to about 30 million and therefore there was a broader participation and sharing of economic benefits. Unemployment had declined, poverty had fallen but I think inequality had worsened. Since 2007, the middle class in Pakistan is hurting under the burden of high inflation, low purchasing power and diminished employment opportunities.

What should therefore be the appropriate relationship between Government and Private businesses in Pakistan? In my view, the Government has at least five functions to perform – an Enabler and Regulator, Protector of Life and Property, Enforcer of Rule and Law and Contracts, Provider of Infrastructure and Investor in Human Capital. I would take up each of these roles and dwell on them briefly.

**Government as an Enabler and Regulator**

Those of you who have been following my public statements, speeches, TV interviews and writings would bear me out that I have been consistent in arguing that the Government has no business in doing business. The politicians and bureaucrats in Pakistan are neither equipped nor have the appetite for risk taking in running businesses. The poor record of nationalized companies since 1973 corroborates this assertion. Although it has become fashionable since the Supreme Court’s decision on the Steel Mill to pooh-paah the privatization and oppose it I still firmly believe that this country would have been much better off had we sold the Steel Mill to private owners and operators three years ago. Not a single transaction of any consequence has taken place since March 2008 and the strain on our public finances is a matter of common knowledge. Suffice to say that the production, distribution, marketing, trading of goals and services should be carried out by the private sector. What the Government can do is to ensure a level playing field for all market participants. If the market structure is monopoly, oligopoly , Cartel or in other way imperfect the welfare of the public who buy these goods and services will be hurt. The Government through Competition Commission, regulation, legislation and oversight has to protect the consumers from the abuse of market power. A private monopoly, in my view, is worse than a public monopoly and should be shunned.

**Protector of Life and Property**

The second important function of the government is well known – national defense, internal security and protection of life and property of citizens. This is an area where there has been a gradual deterioration over time and we, the residents of Karachi for example, live in a perpetual state of fear for our physical safety and protection of property. More than 5,360 civilians have lost their lives in terrorist attacks in the first eight months of 2010. This is a frightening trend. As a consequence the risk premium has risen for domestic and foreign investors and the movement of key and essential personnel has been drastically curtailed since 2007. The threat to security had accentuated after September 2001 but an expanding market and a higher growth provided handsome returns in pre 2008 period thus offsetting some of the security concerns. The worsening economic conditions since 2008 and increased threat perceptions about security have unnerved the investors.

**Enforcer of Rule of Law and Contracts**

The third function of the government is to have an impartial system of adjudication of disputes and enforcement of contracts. Private markets cannot function if property rights are not protected, contracts are not honored and disputes are not settled through an open system of the courts of law. If land disputes linger on for over decades in the courts, how can you expect businesses to enter into long term investments. If bank loans worth billions of rupees are stuck because of the protracted litigation how can you expect banks to make loans liberally. PEW Global Attitudes Survey of 2010 reported that the court system in Pakistan had approval rating of only 55 percent – the fourth after the Military (84 percent), the Media (76 percent) and religious leaders (62 percent). This does not show an elevated sense of confidence in our lower judiciary. The related issue of competence is equally serious. Legal practitioners and judicial officers who are well versed in Commercial Law, Corporate Law, etc. are few and far between leading to unnecessary adjournments, protracted proceedings, postponed decisions and piling up of cases in the courts. Pakistan’s percentile rank in the World Bank’s rule of Law Indicator has deteriorated from 65 to 81 and among the 20 most populous countries Pakistan ranks 19th followed by Nigeria.

**Provider of Infrastructure**

The fourth area of government responsibility is the provision of physical infrastructure – roads, bridges, highways, ports, terminals, pipelines, railways, power, gas, dams, irrigation water, etc. These are basically public goods whose benefits cannot be appropriated exclusively by any one group of citizens. They are lumpy investments which involve issues of Right of Way, land acquisition, resettlement, compensation that are beyond the reach of the private investors. Therefore, provision of these public goods reduce the unit costs of production and distribution for the private sector and enhance the competitiveness of a country’s tradable goods. In Pakistan, the opposite has taken place. A shortfall of 6000 MW power has made Pakistani exporters lose their orders as they could not produce the goods according to the agreed delivery dates. Other countries have successfully experimented with Public-Private Partnership to meet infrastructure deficiencies and although every government in Pakistan has paid lip service to it nothing of significance has been achieved so far. Even the utilization of the existing capacity in the private sector is sub-optimal because of the circular debt problem. The Iran Gas Pipeline and LNG Terminal which should have been given urgent attention are proceeding at snail’s pace putting the future gas availability at serious risk.

**Investing in Human Capital**

The fifth area of responsibility for the Government is to invest in human development – schools, colleges, universities, technical and vocational institutions. Pakistan ranks 101st among 135 countries according to the Human Development Index 2009. Adult literacy is dismally low – 56 percent of the population is illiterate. Infant mortality, maternal mortality and child malnutrition indicators are the worst in South Asia. Considering the fact that there is a close connection between human development and overall rate of growth the social returns on these activities are quite high. The private benefits from investment in human development leak out because of what the economists called ‘externalities’. If a private Company X invests in the training of an employee there is no guarantee that this individual after getting trained will not move to work for its competitor. The costs were incurred by Company X while the benefits were captured by Company Y. For this reason, public sector finances education and health. Regrettably Government’s allocation in Pakistan for Education and Health is only 2 percent of GDP while the task of educating 50 percent of the population below the age of 19 is enormous.

To perform the above mentioned multiple roles there are two essential prerequisites that the Government should possess. The bureaucracy administering laws, rules and regulations, protecting life and property or building infrastructure or running schools and health centers should be efficient, and free from large scale corruption. Inefficiency and corruption cause heavy damage to the economy and stifle growth of businesses. Pakistan’s rank in Transparency International Perception Survey now falls below Bangladesh – once perceived as the most corrupt country in the world. Second, there should be continuity and consistency in public policies. Sharp twists and turns with each change in the government erode the credibility of the country. With every incoming government reversing the policies, projects and programs of its predecessor, uncertainty about the country’s long term commitment has enhanced.

You may ask me if this is the catalogue of government’s responsibilities what should the private businesses do in return. I would argue that private sector should act as a good corporate citizen, promote good corporate governance, invest in your own future, be prepared to face competition and pursue social mission.

**Good Corporate Citizen**

First, the private businesses have to diligently and honestly apportion a part of their profits to the Government in form of direct taxes, pay all indirect taxes and duties without concealing misrepresenting, understating, misclassifying under-or over-invoicing. No government, however capable it may be, can ever carry out all the responsibilities that we expect from it in absence of adequate revenue base. Lower Tax-GDP ratio is a manifestation of the tendency on the part of our businesses to make huge windfall profits at the expense of the government. Underlying this behavior lies our desire to become rich overnight and amass fortunes by hook and crook. We all condemn corruption but we conveniently forget that it takes two to tango – the bribe giver and the bribe taker. Why should I offer bribe to any one if I am carrying out all my transactions legitimately and fulfilling all my legal and contractual obligations to all parties including the government faithfully. Pious pontifications on TV shows against corruption are no substitute for the crooked behavior on the part of some of our private businesses. It is not only the size of the financial bottom line that counts but how the bottom line was achieved. Was it achieved through exercise of sound corporate values and observing ethical standards or through devious means I have described above. The financial bottom line is not good enough. Did it involve degradation of environment and destruction of natural resources or did it promote tenets of sustainable development? Both financial and environmental bottom lines are desirable. But were they accompanied by social dislocation, violation of property of the weak and the vulnerable, gender discrimination or child labor. These are the questions each of the firm has to answer if it wishes to demonstrate that it is a good corporate citizen. To be a good corporate citizen you have to be answerable to multiple stakeholders in the society rather than to your shareholders only.

**Corporate Governance**

Second, the private businesses do not realize the great opportunity for attracting other people’s money into their businesses. Open, transparent public disclosure of their performance and finances would help bring in other people’s money into their businesses while the ongoing sponsors continue to exercise control over the operations of the businesses. The myopic tendency to keep two or three sets of books, doctor the accounts, understate the balance sheets, siphon company’s earnings off through criss cross of related transactions may bring some short term gains. But in the long run such companies are unlikely to survive. Good corporate governance that ensures disclosure, transparency and accountability of the management, independence of Directors, and the Board keeping a watchful eye on Managers would not only result in enhanced credibility of the companies but also in better performance. This enhanced credibility and better performance, in turn, will attract financing from wide variety of sources for the firm with a record of good corporate governance. The sooner the Pakistani firms set the right direction the better off this country would be. I can assure you that not only your personal fortunes would expand manifold but the country will be able to establish footprints in many parts of the world.

**Competition**

Third, Pakistan’s manufacturing industries have yet to realize that they are still operating behind tariff and non-tariff barriers. Trade barriers raise domestic prices by depriving consumers of the benefits of competition, while also artificially limiting their consumption options. These barriers also stifle productivity boosting measures. India lowered its outrageously high tariffs to a level of about 10 percent. East Asian countries and China have average tariff rates of around 5 percent. The results of this liberalization are simply astounding. Cross-country studies suggest that openness of the economy is important for raising growth and attracting technological innovations and spillovers.

Lower trade barriers unleash the competition that forces domestic industries to become more efficient or they would not survive. Anti-export bias of Pakistani industries is quite high and that’s why export is limited to only a few items. Selling in domestic market under protectionist barriers is easy and lucrative. Why should the businessmen spend time and energy in finding new markets for their products, reduce the level of high profits they are used to and abide to the rigor and discipline of international trade. Pakistan’s maximum tariff rates have to be brought down further and manufacturing industries have to prepare themselves to become competitive or move on to some other line of business in which they can excel. Perpetuating the present set of inefficient industries artificially does not augur well for the future of Pakistani economy situated in a fiercely competitive world market.

**Research and Development**

Fourth, like government the private sector has been equally amiss in promoting Research and Development and investing in high quality manpower. Short term profit considerations have blinded them to the virtue of investment in their long term survival. The future of the companies and Pakistan’s place in the global market is highly dependent upon the quality of human resources, leadership of its Corporates and adapting to the changing dynamics of the global market. Our government has not paid much attention to Human Development but for the private sector filling in the gap is essential for talent management. After all, Korea today is coming from behind and taking an edge over other advanced countries as its private sector has learnt the art of constantly renewing and revitalizing itself. With 3.5 percent of GDP spent on R&D and 60-70 percent tertiary education enrolment rate Korea is the fastest growing source of Intellectual Property Rights. And as you know most of this is coming out of largely a result of the efforts of private sector. It is never too late although we have a lot of catching up to do. Private sector firms in Pharmaceuticals, Chemicals, Agro-Food, Electronics, IT ought to step up their R&D activities and all firms should support and set up higher educational institutions in Science Technology and Engineering.

**Social Mission**

Finally, let me make a distinction between Social Mission of the Corporate and the Corporate Social Responsibility (CSR). It is gratifying that the notion of Corporate Social Responsibility (CSR) has gained a lot of currency in the recent years and that indeed is the right move. But CSR should not be construed in a narrow sense but must be part of a broader social mission. In a country that so proudly professes to be an Islamic State there should not be stark inequalities among different segments of the population. But we know there is plenty of inequality in this country – we have backward districts, rural poor, vulnerable groups, ethnic minorities and geographically disadvantaged areas. Our sensitivity to human misery should not be awakened only at the times of floods or earthquakes. We should serve and help these groups in many different ways. Companies, for example drilling or producing oil or gas in the backward areas of Balochistan or exploring and exploiting minerals should help those communities by providing education, health, drinking water, housing, employment opportunities, service contracts, etc. Similarly other companies should help in adopting a few rural areas and implementing integrated area development programs and paying special attention to education. It also makes business sense that latent purchasing power of 60 percent of underserved population at the bottom of the pyramid is offered innovative, low cost products and unconventional, inexpensive marketing channels such as use of the mobile phone. Those who are already embarked upon such a path will enjoy the First Mover advantage and gain a significant presence in this market. Bottom-of-the pyramid marketing is taking a life of its own in many parts of the world. There is no reason as to why Pakistani companies cannot reach out to this large but unexplored market of 100 million people.

All the above changes will neither happen automatically nor overnight. They would require a visionary leadership, a coherent strategy, a credible execution plan, a competent team which buys into these changes, a motivated work force and something else that is beyond the control of any business leader. This is a benign external environment and a set of sensible and predictable government policies. The challenge for you as corporate leaders become even more formidable if the external environment is hazardous and the government policies and practices are unreliable and erratic.

Can you do it? Let me share with you the evidence as to what kind of leadership will have fairly good prospects of success. A cross national study of some 16,000 middle managers of 825 companies in 64 countries, ranging from Albania to Zimbabwe, found for instance, that the most valued attributes of company leadership, regardless of country, are dynamism, decisiveness and honestly; a capacity to motivate and negotiate with others; and a focus on performance. The company managers also universally agreed on several unfavorable traits; autocratic, egocentric and irritable. The same study also found that the successful leaders were also humane, compassionate and generous.

So if in a group of 100 leaders present today in this audience we can find about 10 percent only who possess these attributes I can confidently say that those firms will have higher probability of a successful turn around. These attributes are not immutable and can be acquired if there is a will to do so and a mindset that is imbued with ‘can do’ attitude.

To sum up, the appropriate model of Government – Business Relations in any country has to emerge from the country’s own historical, cultural, social and economic milieu. Transplanting other models without testing their suitability and acceptability is not going to work. Nor the outright rejection of everything foreign is something we should take pride in. There is much better understanding today as to what Government can and ought to do and in return how the private sector should behave and operate. If the Government sticks to things which nobody else but the Government itself can only do and the private sector focuses on activities for which only it is equipped and capable then a lot of air can clear up and the country can march forward. The interface between the two is not always so clear cut as I have sketched out. In India, in pre 1991 period the Government was the dominant player. Since 1991 the business has overwhelmed the Government. Business leaders in India are leading India on the path of prosperity despite the presence of a bureaucracy that clings to its legacy. There is no reason in my mind that you as Business Leaders of Pakistan should not be able to turn the corner for this country in spite of much more difficult challenges you face today. I am sanguine that you will make it happen. Thank you.

1. Chief Guest address at the Management Association of Pakistan Corporate Excellence Awards Presentation ceremony at Karachi on November 23, 2010. [↑](#footnote-ref-1)