


# Business: ease, cost and competitiveness

---

 [epaper.brecorder.com/2019/10/02/16-page/803772-news.html](http://epaper.brecorder.com/2019/10/02/16-page/803772-news.html)

October 2, 2019

M Ziauddin

Considering the current state of the national economy and the highly pessimistic economic prospects projected for the current and subsequent years in the short run by various national and multilateral organisations it is indeed a matter of immense satisfaction that the World Bank has listed Pakistan among the top 20 countries that introduced reforms in ease of doing business after the Bank finally acknowledged some of the initiatives that were undertaken early last year but were not fully appreciated in the previous report.

The WB said the actual ranking, based on these reforms, will be announced on October 24 when the Bank would release its latest edition of Ease of Doing Business Index report.

The acknowledgement of reforms by the World Bank has rekindled hopes for major improvement in Pakistan's ranking that currently stands at 136th among the club of 190 nations.

The credit for this marked improvement in WB's ranking of Pakistan for 'Ease of doing business' goes to Haroon Sharif, the former Chairman of the Board of Investment who was seen all through the months that he spent at the Board making diligent efforts to achieve the targets that he had set for himself and the Board.

The World Bank said Pakistan has made starting a business easier by expanding procedures available through the online one-stop shop. In addition to improvements in property registration, obtaining a construction permit became easier after the Sindh Building Control Authority and the Lahore Development Authority streamlined approval workflows and improved the operational efficiency of their one-stop shops.

The launching of online portals for new commercial connections has made getting electricity easier, and tariff changes are announced in advance. Moreover, tax compliance has become easier through online payment modules for value added tax and corporate income tax, and a lower corporate income tax rate.

Pakistan has also made trading across borders easier by enhancing the integration of various agencies into an electronic system and by improving coordination of joint physical inspections at the port.

The Ease of Doing Business Index is mostly used as a guide by foreign investors to learn more about a country, aiding decisions on investing money into the domestic economy.

The index ranks countries against each other based on how the regulatory environment is conducive to business operation, stronger protections of property rights. Economies with a high rank (1 to 20) have simpler and more friendly regulations for businesses.

The bottom line, however, is profitability and if an investor can't make money it's a 'No Go'. Today, an exporter or an investor finds it difficult to make money in Pakistan. The exports have only inched up in spite of many rounds of depreciation of PKR whereas the foreign direct investment has touched its rock bottom. The future also looks bleak if the business as usual continues. The one major reason for this stagnant state of affairs in investment flows is said to be the sudden steep jump in the cost of doing business as the rates of all inputs including capital (because of high interest rates), imported raw materials and utilities like electricity, gas and water, etc.

Another reason is said to be the rise of rentier capitalism. "Rent" in this case is said to mean rewards over and above those required to induce the desired supply of goods, services, land or labour.

The newly-coined term, "Rentier capitalism" being used currently to describe the callous but the real attributes of capitalism means an economy in which market and political power allow privileged individuals and businesses to extract a great deal of such rent from everybody else.

Meanwhile, the changing nature of economic competitiveness in a world that is becoming increasingly transformed by new, digital technologies is creating a new set of challenges for governments and businesses, which collectively run the risk of having a negative impact on future growth and productivity.

This is the key finding of the recently released World Economic Forum's Global Competitiveness Report.

Pakistani policy planners need to look into this aspect rather urgently and try to frame such policies as would not only help innovate at least low- and medium- tech products in demand in world markets but also try to enhance their competitiveness.

According to the report, which in 2018 used a brand new methodology to fully capture the dynamics of the global economy in the Fourth Industrial Revolution, many of the factors that will have the greatest impact in driving competitiveness in the future have never been the focus of major policy decisions in the past. These include idea generation, entrepreneurial culture, openness, and agility.

The new tool maps the competitiveness landscape of 140 economies through 98 indicators organised into 12 pillars. For each indicator, using a scale from 0 to 100, it indicates how close an economy is to the ideal state or "frontier" of competitiveness. Combining these factors, the United States achieves the best overall performance with a score of 85.6, ahead of Singapore and Germany. The average score for the world is 60, 40 points away from the frontier.

One unifying theme among the world's most competitive economies is that they all possess considerable room for improvement.

For example, while the report's Global Competitiveness Index finds that Singapore is the most 'future-ready' economy, it trails Sweden when it comes to having a digitally skilled workforce. Switzerland, meanwhile, has the most effective labour for re-skilling and retraining policies and US companies are the fastest when it comes to embracing change.

One of the report's most concerning findings is the relative weakness across the board when it

comes to mastering the innovation process, from idea generation to product commercialization.

Here, 103 countries score lower than 50 in this area of the index which is topped by Germany, followed by the United States and Switzerland.

The report notably finds that attitude towards entrepreneurial risk is the most positive in Israel and tends to be negative in several East Asian economies.

Canada has the most diverse workforce and Denmark's corporate culture is the least hierarchical, both critical factors for driving innovation.

"Only those economies that recognize the importance of the Fourth Industrial Revolution will be able to expand opportunities for their people," said Klaus Schwab, Founder and Executive Chairman, World Economic Forum.

At a time of escalating trade tensions and a backlash against globalization, the report also reveals the importance of openness for competitiveness. For example, those economies performing in indicators that denote openness such as low tariff and non-tariff barriers, ease of hiring foreign labour and collaboration in patent application among others also tend to perform well in terms of innovation and market efficiency. This data suggests that global economic health would be positively impacted by a return to greater openness and integration. However, it is critical that policies be put in place to improve conditions of those adversely affected by globalization within countries.

The report also presents a strong argument that redistributive policies, safety nets, investments in human capital, as well as more progressive taxation aimed at addressing inequality do not need to compromise an economy's levels of competitiveness.

With no inherent trade-off between competitiveness and inclusion, it is possible to be pro-growth and inclusive at the same time. For example, workers in the Index's ten most competitive economies work on average five hours less per week than workers in the three BRICS economies – Brazil, India and Russia – for which working time data is available.

A key message from the report is the need for a broad-based approach to raising competitiveness – a strong performance in one area cannot make up for a weak performance in another. This is especially true when it comes to innovation: while it is true that a strong focus on technology can provide leapfrogging opportunities for low and middle income countries like Pakistan, governments must not lose sight of 'old' developmental issues, such as governance, infrastructure and skills. In this light one worrying factor thrown up by this year's Index is the fact that, for 117 of the 140 economies surveyed, quality of institutions remains a drag on overall competitiveness.

"Competitiveness is neither a competition nor a zero-sum game—all countries can become more prosperous. With opportunities for economic leapfrogging, diffusion of innovative ideas across borders and new forms of value creation, the Fourth Industrial Revolution can level the playing field for all economies. But technology is not a silver bullet on its own. Countries must invest in people and institutions to deliver on the promise of technology," said Saadia Zahidi, Member of the Managing Board and Head of the Centre for the New Economy and Society.

