INTERNATIONAL THE NEWS

21th October, 2019

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The south-south option

Ever increasing social unrest in the country is due to income inequality and perception of injustice, higher food inflation and to some extent heavy-handedness of some state institutions. Employment, rather than growth, is a key determinant of social unrest.

In the past 20 years we have witnessed a decline in the share of income accruing to labour as real incomes of wage earners and self-employed workers have, on average, grown less than it would have been justified by productivity gains as well as the increase in cost of living.

Corporate profits in Pakistan have shown robust growth but were used increasingly to pay dividends rather than invest. They should have been translated into higher real investment. It must be noted that much of the increase in profits in recent years was accumulated by few major players in the financial sector. The banks did invest but mostly in treasury bonds earning high risk-free profits. These profits were disbursed to shareholders and no employments were created in this sector.

In fact the smaller banks that have been marginalised are shedding jobs. As most of the credit is taken by the state itself, whatever is left is consumed to serve the big corporate sector. The risks in corporate sector are also lower. No funds are left for the small and medium enterprises that are the real engines of employment creation.

The unemployment has reached a record level of 6.2 percent that IMF projects to ease nominally to 6.1 percent in two years. High unemployment should be a matter of grave concern as most of the jobs lost are in manufacturing and services sector where wage level is comparatively higher than most informal jobs. The increasing joblessness has depressed demand of goods and services that is further taxing existing jobs. The chances of job creation would remain dim until credit to viable small firms is restored. Small and medium enterprises are the major providers of jobs.

The state should ensure closer connection between wages and productivity. A pro-employment approach that centers on cost-effective measures will be instrumental in avoiding a further deterioration in employment. The solution lies in carefully designed pro-employment programmes that support demand while promoting a faster return to pre-crisis labour market conditions. The government simply has to ensure conditions conducive to labour intensive sectors like construction and apparel.

Pro-employment programmes are not expensive to the public purse and the economic activities they trigger add revenue in government kitty. The much touted housing scheme of the government has not really taken off as yet. Pakistani apparel makers are still producing low value-added goods, while the most expensive fabric produced by many Pakistani weavers is being exported to Bangladesh, Vietnam, and Cambodia. Why that fabric cannot be stitched in Pakistan?

The government would also have to shun the policy of neglecting infrastructure. The previous government has been unjustly criticised for taking up infrastructure projects. We are deficient in basic infrastructure needed to support the manufacturing and services sectors. When the government lacks resources to invest in infrastructure projects it should invite the private sector by making commercially viable offers.

This government should also exploit avenues to generate resources instead of increasing the taxes of the compliant sectors. There is scope for broadening tax base, notably on property and certain financial transactions. Such measures would enhance economic efficiency and help share the burden of adjustment more equitably, thereby also contributing to lower social tensions.

The real challenge for both planners and entrepreneurs is to rely less on exports to advanced economies and more on domestic and South-South sources of growth. This transition would require new investments but put the exports on a more sustainable path. Every exporting country eyes developed economies to enhance their foreign trade. The competition in these economies has gone very stiff. The exporters are losing margins, which is the reason for ever-declining unit values.

The market in emerging economies is comparatively small but still substantial to take countries like Pakistan out of trouble. The main problem in these markets is that the products they like are different than the products we sell to developed economies. In textile clothing for instance cotton clothing are comparatively expensive and their maintenance cost (washing/ironing) is high and consumers in affluent economies can afford it. In emerging economies the clothing produced from blended yarn (nominal cotton 80 percent manmade fibre) are preferred. That clothing are cheaper, can be easily washed and need no or nominal ironing. We unfortunately are not producing these products, although we have the capability and capacity. This is the reason we failed to exploit emerging markets.

The writer is a staff member