

Shabir Ahmed

Desperately seeking good news

The Nation needs to get perked up. That is the ‘advice’ the government seems to have received. So into the mouth of despair rode the government horsemen with spears of optimism: economy is turning around, India got trounced in The Hague as well as New York, and Kashmir is our renaissance moment.

On the Economic front, Governor State Bank led the charge by declaring ‘the direction is right’; the policies that have now been put into place are well on their way to yield handsome dividends.

A jubilant Advisor Commerce read into the July export figures a definitive turn-around. He was quite ecstatic with the remarkable compression of the current account deficit, hoping it to be more than halved in fiscal 20 and less than a quarter of last year of that reckless previous government.

Advisor Finance emerged from his self-imposed retreat to find satisfaction in a resurgent stock market, relative stability of the exchange rate, and ‘inflation expectations’ being worse than the actual movement of consumer price index (case for rebasing?). While respecting the ‘independence’ of the Monetary Policy Committee a broad hint was dropped about the possibility of a policy rate adjustment.

The twitter-happy Chairman FBR chipped in with the remarkable increase in the number of tax-filers. With a 90% collection rate for the first two months he also felt FBR’s out-of-grasp target was within reach. Some may quibble with his numbers but he is an accountant and surely deserves some ‘licence’.

Not so much behind the scenes, the hugely qualified but disqualified Jahangir Tareen dutifully reminds us of the great things planned for the Agricultural sector, for which he has declared an emergency.

So who is afraid of optimism? We hope the gods have their earphones on and turn our wishes into horses.

It would have done government’s credibility some good if all these technocrats (and we count JT as one, now that he can’t dabble in politics) had identified for us the specific actions taken by the government, IMF apart, that led to the reported turn-around.

Let’s take exports. Can the Advisor Commerce put his finger on the causes of the July spurt? Devaluation, albeit with a time-lag? Favourable global trade environment? A sudden jump in our productivity levels?

It is good to celebrate success; but it’s a folly not to identify the reasons of success. If we can’t do this we will never know if it was a function of specific policy measures or just luck. If July exports were not a consequence of producing more of what the world markets want, and not founded on productivity-driven competitiveness, we are afraid it could become a repeat of Advisor Commerce predicting an export level of \$ 27 billion for fiscal 2019, only for the year to end even lower than the year before.

Likewise, the trade balance. Yes, it has narrowed sharply, thanks to the precipitous fall in imports. Here government policies can certainly claim credit: import contraction has been the expected outcome of devaluation and higher tariffs – and the economy slowing down. The question is if it is sustainable- and does it bode well for the economy?

With respect, Advisor, we do not think it is either sustainable or desirable. We can slow down imports but only up to a point, beyond which import stagnation will start hurting revenues as well as growth. Surely, the government is not aspiring to a smaller economy?

The stock market gains warrant a similar ‘why and how’ examination. What has changed and how long will it last? Did it soar on the wings of liquidity and new instructions about short-selling, or the prayers of a jittery government trying to talk the market up? They say market sentiment can fool the fundamentals but not all the time – and certainly not for long.

The good news is the government is listening. Whether of its own volition or ‘under advisement’ it seems to be in a responsive mode. The Prime Minister has come into the front office. Restraining NAB is an auspicious beginning. PM’s huddle with the leading businessmen the day before augurs well.

The bad news is government’s failure to communicate. Tweeting good news is not the same as taking people into confidence. Press conferences, at the drop of a hat, are not the answer. Neither can substitute for a well-designed communication policy that clearly identifies the issues and presents a ‘dated action plan’ for which the respective Ministries are held to account.

Nothing hurts business sentiment like uncertainty. Everyone understands the government’s compulsions and limitations, but a government that does not share its plans either insults the intelligence of its people or creates an impression of incompetence.

Run of the mill jargon-ridden plans, tall on promise founded on pious hope, will not provide the predictability that investment decisions require. Businesses must know in advance the specific measures government proposes to take, giving the costs and benefits of each, along with risk analysis and mitigation strategies.

Let’s take export policy for illustrative purposes. The essential ingredients are adequate production of what the markets want and producing them competitively. The sub-sets will be incentivizing investments in the chosen export products, ease of doing business, trade facilitation, cost-reduction, tariff rationalization, competitive export finance, productivity enhancement, technological diffusion, and genuine zero-rating.

Ministry of Commerce is familiar with all this but the exporters are not familiar with the specific interventions it has in mind. The strategic trade policy framework has become the routine that even the Ministry officials don’t believe in. The general perception is that the Ministry is running on empty – its toolbox has been hijacked by others.

It can’t even have Finance give it the full amount collected as export development surcharge that exporters pay. It is with this background, and past experience, that trade has been suggesting creation of an escrow account for export refunds, hoping for some support from Commerce but getting none. FBR intransigence strengthens the fear that when the time comes government may not have sufficient funds to pay refunds.

The Prime Minister has to make his team accountable – but he can’t even begin to do this if the (SMART) goals are neither well defined nor backed with agreed action plans. Absent that, the tendency to search for good news shall persist – and mirage taken for real.

shabirahmed@yahoo.com