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Corruption, unclear laws scare capital away

LAHORE: Pakistan's economy is stagnant because of our failure to establish the rule of law, despite the fact that our laws may be more open and vibrant when compared to other countries in the region.

Right and consistent policies coupled with economic jurisprudence evolve over a period of time, which creates the right environment for markets to work through trade and commerce.

Absence of rule and writ of the government are among many barriers to trade and evolving a competitive market.

The absence of effective Dispute Settlement Mechanism within our country is one of the main reasons for thousands of cases pending in the courts, as well. It is indeed very sad that DSM has not developed in the entire region.

This may be due to minimal volume of intra trade within the regional states or it could also be the absence of such mechanism in place that did not facilitate trade.

The delay in disposal of commercial cases has impacted our economy. Resolution of cases must be prioritised. Only the Federal Board of Revenue (FBR) and the Competition Commission of Pakistan (CCP) together have to recover revenues/penalties worth over Rs500 billion because of cases pending in courts for years.

There are barriers to entry in our tariff structure where we find instances of higher duties on imports of raw materials. There is price fixing by the government in consultation with trade associations.

In the past, planners failed to realise that the protection to the local industries should only be on finished products and not on raw materials.

It is strange that if any industry producing raw material is established in the country, it is entitled to protection from imports; without realising the fact that that industry might not have the capacity to cater to even 50 percent requirement of local industries using that raw material.

The protection on raw material makes it costlier than global rates. This protection increases production cost and hampers the ability of the manufacturer to compete in global markets.

Protection granted to manufacturers of manmade fibres (MMF) disabled the textile sector from competing in blended (cotton blended with MMF) textiles in the world. Globally 80 percent of textile trade is in products produced with blended yarn.

Pakistan is uncompetitive in blended products, while it competes with others in the 20 percent cotton products market. Raw material import should be zero-rated to lower production cost of the industries.

Pakistani planners should devise policies to increase the efficiency of the economy. Enhancing economic efficiency means 'larger welfare and output with lowest cost' - bringing out higher value.

The four fundamental pillars in this regards are institutions, infrastructure, macroeconomic environment, health and education. Markets do not foster growth on their own. Market is only an instrument, just the way currency is.

The more robust economic jurisprudence and policies are, the better, the results of enforcement that we undertake, thus increasing the chances of enhancing economic efficiency and consumer welfare.

These are instances illustrating elements that can hamper effective enforcement of competition law and in translating the benefits of enforcement for the economy as well as the consumers. Pakistani planners wonder as to why the investors stay away from the country despite numerous incentives.

They do not realise that capital is a coward. It is only drawn to places where there is clarity of law, where the society and the government rest on a body of law, where there is accountability on behalf of the government.

Capital in this globalised world…will go where it is going to be safe, it will flee from corruption, bad policies, societies and nations that remain rooted in a past system of corruption and bad policies.

There is a dire need to concentrate on the rule of law, on the elimination of corruption, on human rights, on democratic systems and processes which allow governments to reflect the will of their people.