

Manufacturing growth

That Pakistan has disincentivised manufacturing sector over the last few decades is not breaking news. But that the gross fixed capital formation in large scale manufacturing sector has had a negative 3.3 percent growth (net of outliers) during 1990-2015 deserves attention. This is the one of the many important findings brought to light by Dr Kaiser Bengali, former economic advisor to Sindh and Balochistan governments and currently the Dean of Management Sciences at Szabist.

In his recently launched report titled aptly ‘Economy on a roller coaster – and stuck in the mud!’ Dr Bengali rightly points out that negative growth of capital formation indicates depletion of economic infrastructure “and the possibility that the current and medium-term productive capacity of the economy has been compromised.” Examples of infrastructure weakness abound: from electricity transmission to railway tracks; such weaknesses cannot be fixed overnight, nor can the economic mess of the last 15-10 odd years.

He also cautions that income and employment multiplier impact of domestic manufacturing activity in Pakistan has become weak as a result of high dependence on imports. This in turn is heavily influenced by non-productive growth that stems from four areas according to his analysis.

First, the government economy distributing patronage among its constituencies of bureaucrats, landlords, traders and industrialist. Second, the military economy distributing patronage through lands among its members; the third is the donor economy with donor funding breeding a class of development consultants and so forth; and fourth is what he calls “casino economy” that generates windfall profits through speculation in capital, land and commodity markets.

To fix these and a lot many issues that aren’t discusses here, Dr Bengali proposes a host of measures. These include, reducing GST on goods to 7 percent collected on single stage basis without any need for adjustments and refunds. This theme will echo in some quarters and perhaps in some policy circles too.

However, it will need a very brave government to take such a step because to compensate for the loss of revenue, the FBR will have to ensure that casts its GST net far and wide to rope in a much greater number of sales tax evaders in the net. He has also proposed that wealth tax is to be reintroduced and land and motor vehicle ownership record are added to existing basis. In addition, he has also proposed giving Islamabad the right to tax to agriculture income through constitutional amendment, so FBR can use its analytics to do away with the shadows that farming income currently provides to hide non-farming income.

Perhaps recognising the administratively difficult nature of these tax reforms, Dr. Bengali has proposed raising petroleum prices equivalent to \$150/barrel to keep POL import in check and to raise revenues.

He has also proposed raising natural gas price three-folds across the board charged uniformly across all consumers.

These measures, however, could significantly the cost of living both of individuals and businesses, especially the manufacturing sector, which could further reduce capital formation and arrest the growth in manufacturing jobs.