

An illusion of prosperity

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AN illusion of prosperity prevails in the major cities of Pakistan led by Karachi despite the fact of low economic growth in a high population growth country and negligible improvement in per capita income.

The fleets of gleaming Toyota Corolla and Honda cars, the increasing snazzy restaurants, the large number of wedding dinners with their bevy of bejewelled begums and other symbols of affluence create this illusion. Adding to that is the fleet of new cars driven around by the police officers and other officials with their gun-toting guards, creating the impression we have a very rich government, too.

This visible public affluence is the handiwork of the thriving leasing finance industry which funds this illusion. While the lenders are able to make a good deal of money through this process, the buyers are able to afford them goods by paying in easy instalments as long as they can afford them. The credit card companies too, are in the same game, and the system works smoothly as long as the customers pay five per cent of the total dues unfailingly every month.

Leasing has become popular and the number of companies in this business has increased greatly, and within a short time. Now not only the three leasing companies listed with the Karachi Stock Exchange are in this business but also most other financial institutions, including banks. Interest rates for leasing have also come down following the fall in interest rates generally which has made getting things through leasing more popular. A few years ago the

par with the interest rates of the Pakistan Investment Bonds which is around 5 per cent instead of a 10.5 per cent promised for a new savings scheme. In addition the IMF has been insisting the tax exemption on interest earnings on National Savings Schemes should be withdrawn so as to bring it in line with other debt instruments.

In the confusing pre-budget scenario, another report says the US government is coming up with another budget support package for Pakistan which would include substantial write-off of loans as well as additional budget support funds. Finance Minister Shaukat Aziz is reported to have sought US ambassador Nancy Powell's assistance in the total write-off of the US loans following the billion dollars loan write-off and she had agreed to that in principle. Surely the government deserves far more assistance in return for the scores of

tem is so complex that after four years of army management the theft and loss rate of KESC is still 50 per cent and tends to rise above that at times. And yet the power rates have been raised in a manner that does not satisfy the WAPDA or KESC which has a higher rise in its rates, while the domestic consumers feel unhappy.

Meanwhile the three day meeting of the Pakistan Development Forum in Islamabad has been a useful session where the donors and their experts could express their opinions on the factors holding up the progress of the economy and the possible remedies. Even Shaukat Aziz had a sad story to tell his audience there. He listed the five obstacles to private sector investment and most of them were of the government-making. They include the high cost of inputs, 20 agencies conducting inspection, legal impediments, image problem

and tax system. Even during his three years in office he had tried to remove or reduce the obstacles but has not been successful. And so he unburdened his sorrow before the Pakistan Forum.

Now Liaquat Jatoi, minister for industries, is talking of one desk operation for setting up of industries, particularly for foreign investors. And that is to be set up at the PIDC Office. But that is good only so far as setting up a new company is concerned. What happens thereafter in respect of taxes, the legal systems and the 20 inspections which are vehicles for corruption as well?

And the image problem of the country is a real once. It is folly to argue, as some do assertively, that the image is all right but only the projection is wrong and good advertising should take care of that.

It is indeed welcome that to make up for the shortfall

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things through leasing more popular. A few years ago the rate of interest was as high as 25 to 30 per cent but now it has come down to 8 to 12 per cent as advertisements for leasing of cars show.

There is heavy competition in leasing and agents have been hired to solicit business by the companies. All that is making the leaders of leasing companies protest against the jumping in of other financial institutions into the leasing industry, which now needs a capital of Rs 200 million to be registered as a company. As a result many leasing companies merged last year.

The head of a major leasing company says: "While the banks have other sources of funds what are we to do?" He says the banks have given up lending for industrial investment. Development finance institutions, too, have virtually stopped lending money for development. In such a negative environment for investment, how can the economy recover fast or grow rapidly, which is the urgent need of the times?

In the US a spokesman for the President's office says the top priority for George Bush is "jobs, jobs, jobs." Another spokesman says the priority is "jobs with growth — economic growth." That kind of sense of urgency is visibly absent here despite the increasing number of unemployment-related suicides and violence against housewives by desperate unemployed men.

The US House of Representatives is also moving towards a 550 billion dollar tax cut to make the people spend more money and quicken the pace of economic revival. We, on our part, are thinking of more taxes or spreading the sales tax net of 15 per cent far wider as the IMF would like us to do. Meanwhile the electricity rates have been raised by 7.37 per cent per unit for WAPDA and 13 paisa per unit for KESC despite the

Al Qaeda men handed over to the US including some top figures.

The government comes up with a long list of achievements in the macro economic sector beginning with the 4.5 per cent economic growth this year, the 4.3 billion rupees balance of payments surplus built up in the first nine months of this year, 10.5 billion dollars foreign exchange reserve, and the 21 per cent rise in the exports in the first nine months of this financial year. How will the masses benefit directly by that?

When Dr Ishrat Husain appeared at a recent TV programme the telephone callers asked the same question again and again and they were not convinced that it will benefit them. Previous top officials had made the same kind of promises or projections over the years but nothing much came out in reality. The credibility gap is wide and real in a country where there can be many a slip between the cup and the lip. Dr Husain speaks of the need for having to meet the demands of a very large population of which about 40 per cent of the people are living below the poverty line. This aspect of our problem has not been brought to the notice of the general public sufficiently, and not has bold and positive measures taken to check the population explosion. We are far behind India, Iran and Bangladesh in this regard. In Iran, there has been far more success than our combination of the military men, mullah and timid or indifferent bureaucrats, who do not have an audacious family planning programme.

Meanwhile, Karachi continues to be in the grip of a lasting power crisis, in addition to its eternal water crisis. And yet finance minister Shaukat Aziz says the government has to provide Rs 51 billion this year to

in private sector investment the government is raising the public sector development outlay to Rs 160 billion from the Rs 134 billion targeted for this year. This is a substantial rise, though far from adequate. It is necessary that all the money should be spent in 2003-04 and not far less, as usually happens and the money should be well spent.

The poverty reduction allocation in the next budget has been raised to Rs 185 billion next year from Rs 161 billion. There is plenty of scope for waste and misuse in this area and that should be avoided so that the poor could benefit from that.

The ministers for commerce, industry and investment have been talking of creating adequate infrastructure, special economic zones and road network to promote investment, particularly foreign investment. In addition, housing which needs five million new units, is to be given a big boost. All that should help create a large number of jobs, particularly when housing supports about 40 industries.

Delegates to the PDF time and again urged the need for good governance. And that begins with rule of law, and law and order promised to the investors means nothing as that relates to the ability of a victim to get an FIR filed immediately after a crime is committed and quick justice instead of cases dragging for long.

Evidently action is needed on too many fronts simultaneously. But the system, as the finance minister's speech shows, is impervious to change. There is too much sloth or the vested interests are too strong. That will not do in the age of globalization and of swift changes. We have to be ready for quick changes they are demanded or if they prove fruitful.

Good governance is a comprehensive term and takes a