Pakistan scores poorly in think tank survey

By Khalid Hasan

WASHINGTON: Pakistan has come out poorly in an annual "index of economic freedom" exercise conducted by the conservative think tank Heritage Foundation, and the Wall Street Journal.

Pakistan is included among 10 of the 155 countries surveyed whose performance "worsened" during 2004. It is now bracketed with Ethiopia, Uganda, Haiti, Bangladesh, Morocco, Qatar, Cuba and Tunisia.

In terms of economic freedom scores, of the 30 countries studied Pakistan is pretty low down the ladder and three places below India. Pakistan's overall listing is No 133, while India stands at No 118. On a scale of one to five, Pakistan's overall economic rating is 3.73. The number one indicates economically free countries and the number five their economically "repressed" counterparts. Pakistan rating was thus 0.33 worse than last year. Its economy was described by the survey as "mostly unfree".

The survey, while making note of steps taken by the government to improve the economy, found that the country's "fiscal burden of government score is 0.3 points worse this year, and its monetary policy, capital flows and foreign investment, and wages and prices scores are one point worse."

Pakistan's trade policy was scored at five showing stability but a "very high level of protectionism." Pakistan's weighted average tariff rate in 2002 – the most recent year for which World Bank data is available – was 15.2 percent. The US Trade Representative was reported as saying that the government bans the import of certain products on religious, environmental, security and health grounds. Local content requirements also acted as a non-tariff barrier.

Pakistan's income taxation at 3.5 was stable but showing "high tax rates", with the top tax rate at 35 percent. Government expenditure as a share of GDP increased one percentage point to 22.4 percent, compared with 1.4 percentage point decrease in 2001. On net, Pakistan's fiscal burden of government score was 0.3 point worse this year.

Government intervention in economy was scored at three and described as stable and of a moderate level.. The government consumed 11.3 percent of its GDP in 2002. Pakistan's monetary policy was scored as two showing a low level of inflation. From 1994 to 2003, the yearly inflation rate was 3.12 percent, up from 2.37 percent from 1993 to 2002. Consequently, Pakistan's monetary policy score is one point worse this year.

The report quoted the US Department of Commerce, while looking at capital flows and foreign investment, as saying that "reasons for low foreign direct investment flows include significant security threats to foreign interests, concerns about political instability, inadequate infrastructure, privatisation delays, past protracted disputes with foreign investors and an arbitrary and non-transparent application of government regulations. Foreign investors have complained of a "confusing array of federal and provincial controls" and administrative discretion had been a source of inefficiency and corruption. The IMF reported that many capital transactions either are not permitted or require approval. As a result of these factors, Pakistan's capital flows and foreign investment score was found to be one point worse this year.

As for banking and finance, the survey said that the government plays a large role in the sector and owns 11 financial institutions. Banks are taxed at a rate of 47 percent but by 2007, the rate would be brought down to 35 percent. The credit policies of the government found approval from the US Department of Commerce but credit targets were seen to be applied to state-owned banks only. The Department noted, however, that a programme of concessionary credit to private sector through state-owned commercial banks had been approved.

As for wages and prices, Pakistan was scored at four which earned the appellation "worse" and showing "high level of intervention." The survey noted that the government directly controls or subsidises prices on a wide range of goods and services. The government was also seen to be fixing prices on locally manufactured goods that had been grated tariff protection. Looking at property rights, the survey quoted the Economist Intelligence Unit as reporting that the legal system functions poorly, "hampered by ineffective implementation of laws, poor security for judges and witnesses, delays in sentencing and a huge backlog of cases. Investors often cite the laws relating to water and power, labour, food, agriculture and social security as particularly obstructive to private and foreign investment." It also quoted the State Department as saying that the judiciary suffered from corruption.

The survey found that the government had made some effort to improve its business environment in recent years. Labour laws are going to be reformed, but to quote the US Department of Commerce, "policy inconsistency, weak implementation and corruption have dampened investor interest and economic growth in Pakistan." As for the informal market, the survey quoted Transparency International that scored Pakistan in 2003 at 2.5, which made Pakistan's informal market score for this year four.

The survey, listing overall statistics, placed Pakistan's population at 144.9 million, its GDP at $75.1 billion, its GDP growth rate at 2.8 percent, its per capital GDP at $518 and export of goods and services at $12.6 billion. Pakistan's major export trading partners are the US (24.5 percent), UAE (8.5 percent), UK (7.2 percent) Germany (4.9 percent) and Hong Kong (4.8 percent). Pakistan's imports were estimated at $11.9 billion, consisting in the main of machinery, chemicals, minerals and fuels. Pakistan's major trading partners are Saudi Arabia (11.7 percent), UAE (11.7 percent) and Kuwait (6.7 percent). The figure for net direct foreign investment was estimated by the survey at $704.4 million.

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