Redefining Pakistan's economy - II

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Members of Pakistan's national privatisation commission, expected to meet with the three prospective buyers of Pakistan State Oil, the largest oil marketing company, end of this month, must be keen to break new ground where others have failed. Years after Pakistan launched its privatisation plan with much fanfare, there are few glowing success stories.

Indeed, this month's formal end to the monopoly of the Pakistan Telecommunications Corporation was a powerful reminder of the long delay in privatising the telecom utility — once described by analysts as the crown jewel among of state owned companies. Welcome to another aspect of Pakistan's so-called economic reform plans where the search for major success stories continues without much success.

While theoretically there can be no disagreement with the government's intentions to privatise otherwise modestly profitable if not deep-in-the-red companies, there are a number of questions over the long term future of the privatisation plan. On the one hand there are companies whose centrality to Pakistan's economic interests can be left in no doubt, but on the other hand, many are afflicted with widespread malaise which has only contributed to the fast accumulation of losses.

For Pakistan, revisiting its privatisation plan, in a way that has never been done before, has become a major challenge for its reform effort. At a time when long term investments beyond the entries to the stock market are all too modest to be described as central to Pakistan's economic outlook, there are indeed even more compelling questions over the quality of the new buyers, if any, who step forward to offer their bids.

While finding investors may well be the key to solving an important economic riddle, the question of exactly which companies should be privatised and on what terms, also stares Pakistan right in its face. The country's strategic challenges are such that unconventional wisdom, perhaps even considered laughable by some, has to be seriously and strenuously addressed. Issues such as the strategic challenges which dominate Pakistan must now be viewed in the context of exactly which sectors of the economy should be under government control.

For instance, what would be the fate of the government's control over oil storage facilities in times of conflicts and crises, is an obvious matter which may well sway the privatisation plan of a company such as the PSO. Similarly, the fate of electricity providers in politically sensitive but economically unfeasible areas such as the tribal belt, is another example of what is obviously a matter of great national interest. Consequently, it is possible that new buyers of strategically vital companies may even be willing to give credible assurances of the extent of their willingness to extent services to the government in a time of crisis. However, those assurances would have to be extracted and not readily on offer, where savvy businessmen may have to incur a financial cut.

However, one complicating factor in deciding Pakistan's privatisation choices may be the commitments already made to international financial institutions, seeking to offer cut-off dates for completion of processes, tied to key state owned companies. In the overall scheme of Pakistan's most vital national interests, the privatisation programme can best be promoted in the background of considering four vital areas without necessarily compromising the already much delayed reform programme.

First, in defining companies which are of significant strategic value, Pakistan has to be cognizant of its immediate security environment where the possibility of a flare up with India must always remain paramount to future planning. The past year has adequately demonstrated that the danger of a range of adverse developments from an all-out across the border military mobilisation to at least an almost localised encounter in Kashmir are all within the realm of possibilities. Within this prospectively hostile environment, Pakistan's best interests are hardly served if its success in undertaking new privatisations, surrounded by questions over the quality of buyers, are also accompanied by questions over the future role of such privatised companies in national life. Ultimately reversing a privatisation deal may be far more harmful to Pakistan's interests than closely reviewing it ahead of a transaction.

Second, a realistic re-examination of the worldwide track record of privatisations must only help to bring home the lesson that the international pace of such transactions has been reasonably modest. Can Pakistan step up its pace of privatisation where many others have been disappointed, is a compelling question which is still waiting to be addressed. Ultimately, the yardstick used by many other countries with budding privatisation plans may carry few precedents that should force Pakistan to step up the pace of its own plans. But faced with the continued losses surrounding state owned companies — almost a nasty bleeding wound — leaving this sector of the economy largely unattended, may not be in the country's best national interest. Alternative strategies such as offering state owned companies on fixed term management contracts to private entrepreneurs with watertight provisions securing vital national interests, may well serve the dual purpose of pressing ahead with long overdue reforms without necessarily loosing out on some of the country's most vital assets.

Third, Pakistan's state owned companies include those which are neither of primary strategic value nor profitable. Only a new and bold approach such as the one propagating the privatisation of such companies at throw away prices, driven by objectives like cutting down on the need to continuously finance losses, may well begin to serve Pakistan's best interests. Ultimately, the concept of accepting a token price is one which could hardly apply across the board, and certainly not to either the already profitable companies or the ones of strategic value. But even a selected few companies privatised in this way must only help to assert the point that the Pakistani authorities are demonstrating unprecedented interest in clamping down hard upon the continuous bleeding of its public sector. Conceptually, if privatisation of Pakistan's public sector is about turning around the quality in managing government owned companies while also ending further build-up of losses, there can be no turning around from unpalatable choice. Finally, at a time when the quality of life of most Pakistanis may have remained the same if not further deteriorated in these past few years, the country's societal outlook may well suffer if economic consequences are unleashed with the privatisation plan. In recent weeks, the controversy surrounding Pakistan's poverty trends, has offered an eye opening account of the extent to which the country's mainstream population may have suffered from a worsening quality of life in the decade of the 90s. The disagreement between the Pakistani finance ministry authorities and foreign agencies over the scale of poverty may in fact be secondary to the most relevant central issue facing the country today. Irrespective of how poverty may have grown or not by two or four per cent in the year 2000 from the preceding years, though important, is nevertheless subservient to the already high rates of poverty across the country. At the end of the day, the discussion is hardly about poverty afflicting more or less than one-third of Pakistan's population. The discussion is in fact about sharply reversing one of the South Asian region's higher poverty ratios. If indeed a quick paced privatisation leads to higher costs for key basic needs such as utilities and services, not all of the success stories on this front may serve Pakistan's best interests.

Redefining Pak economy-III

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This week's news of the federal cabinet approving a whopping 5 billion Rupee package to support poor families, and General Pervez Musharraf, Pakistan's military ruler, predicting an exit for the country from its so-called 'debt trap', could not have been better timed together.

They are a sharp reminder of the widening gap between Islamabad's appreciation of where the country stands today and the troublesome realities which could well lie ahead. Once again, a newly elected political government is keen to help Pakistan's impoverished population. But once again, the recipe appears to be naively built around the view that an average monthly support of 200 Rupees for each poor family — a trickle higher than a single day's wage for an unskilled labourer — could bring about adequate relief.

Involving the likes of so-called influentials ranging from elected politicians to the post-master to decide on who would be the most deserving poor in our land of 140 million, is perhaps meant to kick in quality control so that funds are channelled to the neediest. For Pakistan, the government stepping in with a helping hand in this way is not new.

But its not surprising that the return to the remnants of a tainted political system where many with dubious records of the past have once again risen to call the shots in parliament following the October elections, is now followed by the country returning to previously tried medicine.

Similarly, General Musharraf's words in predicting Pakistan's emergence from its debt trap as a consequence of continuing along its present course, is equally removed from the realities facing the country, if not an outright flawed assessment.

What Pakistan faces today is nothing short of a *crisis of historical proportions*. The so-called economic success of the past three years is debatable, at best more an outcome of the fallout following the New York terrorist attacks than a measure of successful policy.

Though Pakistan's key macro indicators have shown signs of clear improvement, its micro realities continue to tilt southwards. Once again, the close alliance with the United States may well be more central to the so-called success story than the fruits of successful reforms beginning to set pace for a more prosperous future.

Pakistani leaders may be well served in revisiting the bitter lessons of the past, when Washington backed the country as a frontline state in the beginning of the 80s but chose to slap it with harsh, punitive sanctions towards the end of the 80s, showing complete disregard even for business commitments such as the F-16 agreement.

Emergence from such a bitter historical lesson, Pakistan's future must lie not only in redefining the conduct of its politics and important elements of its economic order at home, but also appreciating the large extent to which the country's faltering outlook would only give ammunition to its enemies outside to repeatedly condemn it.

Tragically though, Pakistan's image even as a frontline state in the fight against terror, continues to suffer adversely from occasional reports describing it either as a newly emerging haven for militants, or a dysfunctional and non-democratic state, or indeed a country whose long term future appears suspect.

These and other distasteful descriptions should best serve to trigger loud alarm bells across Pakistan's complacency charged establishment quarters, where the obsession with relatively less significant events such as getting Pakistan off the list of countries whose citizens need special registration in the US, runs far ahead of the need to conceptualise a new reform plan.

Pakistan's future, as it searches for a place in a new world order, must be as much driven by important undertakings such as the continuing alliance with the United States, as much as the country's success in reforming itself in at least three fundamental ways.

First, an attack on poverty — the subject of this week's decision by the Jamali government — must be driven acutely by reforming an entire spectrum of issues with an impact on the social sector than inconsequential handouts. While the average support of 200 Rupees a month to poor families would be important for some, this payout runs the danger of largely going unnoticed. There's also the chance that allegations of using the poverty funds for winning political support across constituencies, could well become a sore point for the opposition at some point in future. Ultimately, what is being hailed now as a possible success story may eventually become a controversial matter, with the government caught in the midst of a harsh political crossfire.

On the other hand, building a success story around the pumping up of a significant recovery in presently modest investment levels to create fresh employment opportunities, or indeed substantially increasing the national tax revenues and channelling some of those collections to higher development spending, are examples of measures which could carry the development agenda much further. Such undertakings are bound to require a comprehensive restructuring of the government and policies. Eventually, the most significant aspect of a country's reforms has to be the ability of a government in striking at the heart of troublesome situations which support the status quo. By contrast, economic management built upon financial restructurings without the backing of tough political, institutional and economic reforms, is bound to fail in forcing some of the benefits to trickle down and disperse widely.

Second, in laying the foundations for a new future, Pakistan would have to carefully review the large variety of global concerns related to its societal outlook. For years, the fast emergence of a network of *'madrassah'* institutions has been as much a consequence of the fast spread of militant ideology, as much as a consequence of lost opportunities for the poor. For the country's community of poor who are forced to go deeper along the spiral of abject poverty, any amount of salvation, even at the cost of linking up to militant groups, is bound to be tempting.

The flak received by Pakistan from the outside world on the issue of *'madrassah'* schools, comes repeatedly not only because of the obvious failure in tackling an issue of concern to security matters, but also leaving such issues unresolved in an obvious indication of continuing complacency within policy making structures. For countries which choose to press Pakistan to undertake such reforms, an underlying sense of frustration with Islamabad is bound to intensify despite momentary relief over support for the so called war on terror. Ultimately, Pakistan's
failure in leading itself towards success stories whic
help to help to lay the basis for a new future,
bound to generate fresh criticism from within ar
abroad. Needless to say, some of the consequen
must then come in the form of a further erosior
economic confidence.

Finally, finding a place for itself in a new w
order with the United States as the exclusive su
power, perhaps backed by a middling middle p
such as Britain, is hardly an easy challenge
country like Pakistan. Pakistan not only run
danger of becoming too complacent with w
recognises as the security of the relationship
the US. In policy terms, Pakistan would only de
its own predicament if it were to place all of its
in the Washington basket alone, with few other
friends to turn to in the event of a falling out
the US. In the past year, the US may have ser
useful role in ways such as supporting Pakis
case at the International Monetary Fund.

But in the medium to long term, Pakistan's
cess in pursuing fresh business ties and new
nomic opportunities may become an importan
nerstone of its success in reaching out to a
world audience, beginning with neighbours su
Iran and proceeding onwards to other parts c
world.

Eventually, neither one-time payouts, such a
government's new poverty package
promise of getting out of the debt trap as, e
by General Musharraf, are the keys to unlock
istan's challenge of extricating itself from a
moribund economy.

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