

EXCLUSIVE INTERVIEW

“ The toughest roadblocks keeping our industries from becoming globally competitive are over-taxation of manufacturing, overregulation by the state, anti-export bias in tariff setting, and the excessive burden of an inefficient energy sector ”



Dr. Ishrat Husain

Former Advisor to the Prime Minister on
Institutional Reforms & Austerity and
Former Governor, State Bank of Pakistan (SBP)

ICMA: When you look at Pakistan's economy today, what do you see as the toughest roadblocks keeping our industries from moving forward?

Dr. Ishrat Husain: The toughest roadblocks keeping our industries from becoming globally competitive are over-taxation of manufacturing, overregulation by the state, anti-export bias in tariff setting, and the excessive burden of an inefficient energy sector. This set of constraints tilts the balance in favour of producing for the large domestic market rather than working strenuously to penetrate international markets. Cumulative inflation over the last three years has eroded the purchasing power of the middle class and has hence reduced demand for domestic manufactures.

ICMA: Do you think our current tariff and trade policies are helping or hurting industry, and how would you reshape them to make us more competitive?

Dr. Ishrat Husain: As I mentioned earlier, the current policies are hurting industry, particularly export industries. Tariffs act as a tax on exports, especially for those participating in global value chains. Had Pakistan maintained its share of exports to GDP of 16 percent attained in 1999, we would have export earnings of USD 56 billion by 2022, 75 percent higher than the USD 32 billion actually realized, with no need for external borrowing while allowing more imports.

Recapturing this lost market share and becoming more competitive is the challenge.

ICMA: You have worked closely on institutional reforms. In your view, how can our bureaucracy and public institutions cut through red tape and truly act as partners and facilitators?

Dr. Ishrat Husain: Our institutions of economic governance have become acculturated to upholding the status quo and operating in their comfort zone. Those who are leading these institutions do not want to take risks and introduce change, as these measures would hurt entrenched interests, who, in turn, would do their best to dislodge the leaders from their positions.

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Unless we drastically revise our rules of business and processes, revamp the whole value chain of human resource management, introduce e-Government, and bring in domain experts and specialists in the government, business as usual would prevail.

ICMA: From your years as Governor of the State Bank, what lessons on reform and policy still ring true for reviving industry today?

Dr. Ishrat Husain: SBP has built a solid reputation upon three pillars: (a) quality human resources recruited on pure merit through open competition, groomed and upskilled continuously, evaluated on the basis of performance, and paid market-based remuneration; (b) continuous technology upgradation and digitalization, eliminating redundant processes and simplifying procedures; and (c) strong and effective supervision of the banking sector driven by internationally recognized financial soundness criteria.

System-wide measures to strengthen the quality of human resources and the documentation of the economy and payment system through digitalization would have a beneficial effect.

ICMA: How damaging is policy inconsistency for businesses and investors, and what can be done to bring more continuity?

Dr. Ishrat Husain: Lack of sound policy continuity and predictability, combined with inconsistency and non-transparency, has acted as a disincentive for both domestic and foreign investors to expand their existing capacity or take up new ventures. This has resulted in a low investment rate and consequently a low growth rate. Our investment to GDP ratio has remained stagnant at around 15 percent for the last 25 years, while India and Bangladesh have increased theirs to 30 percent. You can see the difference in the respective growth rates, 3 percent for Pakistan and 6 to 7 percent for both India and Bangladesh. Security concerns have also kept foreigners away from Pakistan. Enlightened political leadership, rather than narrow self-interests, can bring about continuity, consistency, and predictability and put the country on the right track.

ICMA: If you look across Pakistan's industrial landscape, which sectors do you feel are just waiting for the right push to become real game-changers?

Dr. Ishrat Husain: I am of the firm view that no economist, planner, bureaucrat, or international agency can have the foresight and perfect knowledge as to which sectors would emerge as winners or game changers. We should provide a level playing field and let the businesses themselves choose the sectors or sub sectors in which they can earn decent returns. This would reveal the comparative advantage that Pakistan has vis-a-vis other competing countries.

Past policies have failed because rent seeking activities have flourished with the support of the government. The role of the government should be that of an enabler and facilitator, investing in human capital and skill formation, infrastructure, research and development, etc., rather than a protector of some industries or another.

ICMA: In your experience, what is the best way for government and business leaders to work together so reforms don't just stay on paper but actually get delivered?

Dr. Ishrat Husain: Successful developing countries have followed a model where the state, private sector, and civil society organizations work together in a collaborative and cooperative manner. On the contrary, we are constantly engaged in an adversarial blame game, the private sector blaming the government and vice versa, while civil society blames both. Unless we change this mindset, the possibility of sustained growth is likely to remain evasive. Competitive markets produce and allocate goods and services efficiently, while the state distributes the benefits of growth equitably. Civil society complements both.

ICMA: And finally, if you had to pick just one or two bold reforms to kick-start Pakistan's industry, which ones would top your list?

Dr. Ishrat Husain: Fiscal consolidation in the form of mobilizing resources from individuals, firms, and sub sectors which are not paying or are evading taxes, targeting subsidies on food, energy, agricultural inputs, health care, and girls' education for poor households, and curtailing the size and outreach of the federal and provincial governments while resourcing and devolving service delivery to elected local governments is at the top of my list. Fiscal and external account imbalances originate due to fiscal imprudence, and the private sector is crowded out of the bank credit market as the public sector dominates. The other reform I would pick is civil service reform and aligning it with modern structures, practices, and processes.

The Editorial Board thanks Dr. Ishrat Husain, Former Advisor to the Prime Minister on Institutional Reforms & Austerity and Former Governor, State Bank of Pakistan (SBP) for sparing his precious time to give an exclusive interview for Chartered Management Accountant Journal.