

## **Improving Pakistan's Competitiveness through the dynamism of the Private Sector A More Fundamental Out of the Box Approach**

Tariq M. Rangoonwala, Chair ICC Pakistan

May 10, 2006 (for PDF 2006)

Excellencies; Ladies and Gentlemen;

I would like to thank the Economic Affairs Division, Government of Pakistan for having invited me in my capacity as the Chair of the Pakistan National Committee of the International Chamber of Commerce to this august forum to comment on the dynamism of the private sector in the context of improving Pakistan's competitiveness.

At the outset I would like to mention that as a representative of an organization interacting with international and local business communities it becomes incumbent at first to mention some specific initiatives for which we have sought and obtained the cooperation of the Government of Pakistan in order to be able to facilitate a more enabling business environment. These are:

- International Arbitration and Arbitral Award Enforcement: This has been recently promulgated as an Ordinance by the Government of Pakistan and provides for the recognition and enforcement of Arbitral Agreements and Foreign Arbitral Awards. Already cases in various High Courts have enforced International Arbitration Agreements. This development has been viewed most favorably by the international investor community and their legal advisors.
- In the area of Trade and Transport Facilitation the Government of Pakistan has acceded to the Istanbul Convention on ATA Carnet and preparations for accession to the TIR Convention for transit trucking are under process. The Istanbul Convention on ATA Carnet is expected to be implemented in Pakistan this year. Subsequently with the accession and implementation of the TIR Convention we hope to bring to realization Pakistan's advantageous geographic location for which accession to these multilateral conventions is an essential pre-requisite.
- The Government of Pakistan has adopted modern terminologies for trade and transport facilitation vide the adoption of ICC's Incoterms by amending its Foreign Exchange Manual under the Foreign Exchange Act.
- We expect legal and legislative amendments to laws governing Air, Sea and Land transport to be promulgated to bring them at par with international requirements.
- Interaction with the Telecommunication regulatory authority in terms of licensing and deregulation have been productive and yielded tangible results.
- The issue of IPR is receiving priority and the Pakistan Intellectual Property Rights Organization has been formed. Appropriate amendments to various laws are under consideration especially with regard to enforcement. Concurrent to this are laws governing data privacy, e-commerce legislation, e-payment systems among other laws to facilitate the IT sector.

- It is a well known fact that privatization and deregulation of industry and banking have yielded results and the process is expected to continue.

Having mentioned a few recent specific and broader milestones it is important to mention that the Government of Pakistan recognizes there is as yet a very long way to go. It is clear that it can take a very long time to improve and fine tune regulations and legislate laws to facilitate improved competitiveness in Pakistan.

To describe what is required in more fundamental and metaphorical terms it would be similar to the way the Indus river system needs to be continuously harnessed more efficiently to improve water management in order to improve agricultural production, produce hydro-electric power to ultimately afford for gainful employment, alleviation of poverty and the eradication of illiteracy. The same applies to judiciously harnessing civilization and its natural attributes inhabiting the Indus river system and its vicinity. The private sector in essence is a human societal phenomena and the harnessing of its natural attributes yield results which can hold their own competitively and conductively in an increasingly global environment. Policy dislocations or barriers that cut against the grain are like a dam positioned to receive water up from downstream and can make the whole exercise redundant.

It is well known that one of the most debilitating costs affecting competitiveness is energy and the lack of its availability. We understand that Pakistan's immense capital intensive requirements for improving and enhancing its energy infrastructure cannot be met just by local and foreign private direct investment. It is obvious that multilateral financial institutions will play a far more prominent role and will require that the private sector in Pakistan develop liberally and be competitive in order for these institutions to be compensated and their investments repatriated as a consequence of the availability of cost efficient energy and related infrastructure.

Private sector competitiveness is not simply a matter of dollars and cents, it requires the examination of certain social impediments, which are based on factional non-secular ideology. There is no question about the fact that one cannot ignore the accommodation of international culture and yet be able to enhance international competitiveness to seek enhanced trade and investment.

The private sector in Pakistan has always played a leading role in providing for social services, health and education through its philanthropic characteristics despite comparatively meager resources. Health, social welfare and education are in dire need of funding. Private sector efforts are impeded in terms of enhanced resource generation by the continued and exponential growth of the non-documented sector owing to redundant regulations banning certain commercial financing activities, which would be considered legitimate and legal internationally.

To explain this phenomenon by way of example and what is known as "out of the box" approach it is important to note that no matter what ideological restrictions one may place on certain common attributes of societies' legitimate demands, it will not abate and will continue to be catered to. Let's take the example of national, regional, provincial and municipal lottery systems for financing social welfare, health and education as is done today in many countries of the world. Not only does this support the social welfare and education sectors but also youth development and sports. In Pakistan we have had on three occasions the introduction of this system but in each case it was ultimately banned. Only the refundable prize bond system

continues. It is interesting to note that based on this official draw a whole derivative of non-documented parallel lottery systems in the country has not only developed but proliferated outside of the documented sector.

I would not say that this alone will help the matter but as we speak of enlightened moderation and the promotion of secular education I can only venture to guess where the money from just this one example of non-documented activity goes to not only absolve their promoters' sins but also to protect their continued non-documented practice. Legitimate private sector funded initiatives in health, education, youth development are not sufficiently endowed. Meritorious non-profit institutions are in dire need of financial endowments to improve Pakistan's health, social and educational requirements.

The sports events gaming industry is yet another example. It is a well known and very competitive industry internationally. A Pakistan-India cricket match has an estimated gross audience of 1.3 billion people and there is no official sports events gaming industry or regulated bookmaker. Yet bookmaking proliferates and the figures are mind boggling. This is not to debate the merits of this activity but where after all is this money going? I will not even venture to touch the other less visible examples of non-documented sectors but suffice to know that no share of this comes to the Government of Pakistan. Therefore how can the private sector get the tax relief it needs. A country like Pakistan requires ideally a corporate income tax level of 16% considering not only the unofficial sector within Pakistan but our neighborhood across the Gulf where a virtual tax holiday exists. It is impossible for Pakistan to continue to retain its skilled human resources when more attractive pastures are calling. It is incredible to imagine that a country with one of the highest population growth rates is complaining for the lack of appropriate human resources. There simply has to be another way and the entire approach needs to be fundamentally re-examined.

There are countless other examples such as the SECP capacity to regulate a physical commodity exchange and futures market for agricultural produce, metals and financial derivatives or whether it be the Civil Aviation Authority and its ability to allow the development of private sector owned and operated airports for air cargo or for the State Bank to allow free and open capital account convertibility, which already exists in the non-documented sector or Port authorities that need to be corporatized or gold for which there is no national sovereign unit.

These are only a few of the dimensions of the type of measures and approach that need to be considered to unleash the dynamism of the Pakistani private sector and enhance its natural competitiveness by virtue of being able to provide a vast vista of new opportunities. By liberalizing and legalizing activities which are legitimate practices internationally it would help to also unleash the multiplier effect and create yet further vistas in tourism to art and entertainment. The deregulated electronic media sector needs to thrive by way of creative productions financed by increased revenues by way of appropriate copyright protection. This then leads to the opening up of other sectors for gainful employment and impetus for innovative competitiveness in a country where 65% of the youth are under 25 years of age. It is the need of the hour for fundamentally liberalizing certain social norms and regulations in order to improve Pakistan's competitiveness.

Thank you