

Pakistan Ranking in Global Competitiveness Index further goes down

World Economic Forum (WEF) has been releasing Global ranking of individual countries annually under the Global Competitiveness Index (GCI). This year Pakistan ranked at 101 position out of 134 countries surveyed by WEF. Pakistan ranking of GCI during the last two years was 97 and 83 respectively. Competitiveness is generally defined as set of institutions, policies and factors that determine the level of productivity of a country. GCI is considered as a tool to benchmark a country's strengths and weaknesses.

Various factors can be attributed to a lower ranking of Pakistan in the GCI. While looking at the productivity pointers in various sectors of economy, this is apparent that majority of them fall directly under the domain of Government. While the sectors having the responsibility of private sector and businesses have also not performed well. Indeed both are interlinked and are based on country's socio-economic policies.

One striking factor amongst all remains the half hearted reform process undertaken by the Governments during the initial years of this decade and during the 1990's. These reforms, referred as "Whole Sale Reforms" were mainly in the areas of fiscal and financial infrastructure. The Government however, could not take the reforms forward whole heartedly. Except some progress in few sub-sectors, no significant reforms were undertaken either by the Central or Provincial Governments on Primary, Secondary and Tertiary Education, training and skills development, financial markets sophistication, science and technology promotion, improvement of legal system and institutional strengthening etc.

We embraced globalization as we had no choice, but without much readiness to face its challenges or to reap its benefits. Global opportunities, largely remained un-exploited due to lack of sophistication of knowledge and skills and an enabling infrastructure.

Despite a large market size, abundant human and natural resources, geostrategic location and market size, our downfall in GCI rankings is disturbing and alarming. The countries below us in ranking are only those, which got independence after us, were having civil strife, low endowment to human and natural resources and virtually no established institutions at the time of their independence.

Low level of competitiveness poses a major challenge for Pakistan to weather the storm of recent global economic and financial crises. The daunting challenges of balance of payments, dwindling exports, insufficiency of infrastructure, low level of domestic investment and eroding personal incomes speaks of unsustainability of socio-economic system which was based on uncompetitiveness of Public and Private institutions.

Comparison with India

This is always important to compare with India, be it the economic development, Human and social Index, science and technology and political or social domains. Located in the same region, equidistant to world markets, similarity of culture and language, human and natural resources and similar historical background, India is nearly a perfect country to compare with. Yet India ranked on GCI at 50, this year. Its ranking also slipped but slightly i.e. from 48 and 42 of the years 2008-07 and 2006-07 respectively.

A comparison of Pakistan with India reveals two striking differences. One that most of the sectoral competitiveness was mainly due to Government's reforms, support and continuous attention on education, institutional development and science and technology. Here we scored much lower than India. While in those areas which are generally in the domain of private sector, we are even far behind.

I. Institutions

As said above, this is purely in the Government domain and we performed poorly in the development of institutions. Established institutions have direct bearings on transparency, accountability and fair play. While the private sector performed even worse when it comes to transparency, efficient management and accountability of the corporates through their boards. Winning the trust of consumers, suppliers and investors will remain a challenge for Pakistani businesses.

| | Domain | Pakistan | India |
|---|---|-----------------|--------------|
| 1 | Judicial Independence | 93 | 43 |
| 2 | Efficiency of Legal Framework | 94 | 42 |
| 3 | Diversion of public funds | 78 | 55 |
| 4 | Business Cost terrorism | 131 | 106 |
| 5 | Strength of Auditing and reporting standards | 67 | 30 |
| 6 | Efficiency of Corporate Boards | 126 | 45 |
| 7 | Protection of Minority Shareholders Interests | 58 | 33 |
| | Overall | 95 | 53 |

II. Infrastructure

This sector purely lies with the Government and for any country to score better on Competitiveness Index, quality, efficiency and extent of infrastructure matter high. We performed slightly better than India in the port and air transport infrastructure.

| | Domain | Pakistan | India |
|---|-------------------------------------|-----------------|--------------|
| 1 | Quality of Rail Road Infrastructure | 53 | 21 |
| 2 | Available Seat Kilometers | 47 | 10 |
| 3 | Quality of Port Infrastructure | 78 | 93 |

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|---|-------------------------------|-----------|------------|
| 4 | Quality of Air Transport | 53 | 66 |
| 5 | Quality of Electricity Supply | 120 | 108 |
| 6 | Telephone Lines | 108 | 107 |
| | Overall | 85 | 72 |

III. Macro Economic Stability

On national savings as percentage of GDP, India performed better than us, which remains their competitive advantage in this domain. While in the Government debt and surplus/deficit, we performed little bit better than India. Inflation remains one of the major factors of instability for the system.

| | Domain | Pakistan | India |
|---|----------------------------|-----------------|--------------|
| 1 | National Saving Rate | 91 | 19 |
| 2 | Government Surplus/Deficit | 118 | 127 |
| 3 | Inflation | 95 | 77 |
| 4 | Interest Rate Spread | 87 | 69 |
| 5 | Government Debt | 93 | 113 |
| | Overall | 116 | 109 |

IV. Health, Primary & Higher Education

Both these areas are critical and a base for any economy to compete and integrate with the world efficiently, provide educated workforce, build institutions and collaborate with each other. Without an educated and skilled human capital, development of value chain will remain illusive. We ranked poorly in both the areas and scored quite adversely comparing to India. The primary and higher education not only provide context and imagination but determine the path of nation in a globally competitive world. Strong base for education leads to path dependency.

This is the most important area where Government reforms play a critical role for the next generation to compete and become productive on sustainable basis.

| | Domain | Pakistan | India |
|----|--|-----------------|--------------|
| 1 | Business Impact of Malaria | 108 | 43 |
| 2 | Business Impact of tuberculosis | 108 | 92 |
| 3 | Infant mortality | 119 | 105 |
| 4 | Life Expectancy | 105 | 105 |
| 5 | Quality of Primary Education | 117 | 80 |
| 6 | Primary Enrollment | 122 | 94 |
| 7 | Education Expenditure | 119 | 77 |
| | Overall: Health and Primary Education | 116 | 100 |
| 8 | Quality of Math's and Science education | 109 | 17 |
| 9 | Quality of Management Schools | 94 | 12 |
| 10 | Local Availability of Research and training services | 103 | 32 |

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|----|----------------------------------|-----|------------|
| 11 | Extent of Staff training | 119 | 34 |
| 12 | Secondary Enrollment | 121 | 104 |
| 13 | Tertiary Enrollment | 118 | 98 |
| 14 | Quality of Education System | 104 | 37 |
| 15 | Internet Access in Schools | 81 | 60 |
| | Overall: Higher Education | 123 | 63 |

V. Goods Market Efficiency

This is encouraging to note that in this domain we did not perform poorly particularly when it comes to incidence of total tax rate (tax on income). Likewise, our performance was much better in the areas of easy processes to start a business, weighted tariff rates, rules on FDI and the extent and effectiveness of taxation. While we have to go a long way in market dominance, monopoly control and to improve on the customs procedures.

| | Domain | Pakistan | India |
|----|--|-----------------|--------------|
| 1 | Intensity of Local Competition | 112 | 11 |
| 2 | Extent of Market Dominance | 91 | 19 |
| 3 | Effectiveness of Anti Monopoly Policy | 67 | 28 |
| 4 | Extent and effectiveness of taxation | 42 | 28 |
| 5 | Degree of Customer Orientation | 109 | 45 |
| 6 | Total Tax Rate | 58 | 117 |
| 7 | No. of Procedures Required to Start a Business | 91 | 108 |
| 8 | Time Required to Start a Business | 51 | 77 |
| 9 | Trade Weighted Tariff Rates | 120 | 131 |
| 10 | Business Impact of Rules on FDI | 29 | 61 |
| 11 | Burdon of Customs procedures | 84 | 72 |
| 12 | Prevalence of trade barriers | 115 | 69 |
| 13 | Degree of customer orientation | 109 | 45 |
| | Overall | 100 | 47 |

VI. Labour Market Efficiency

We need massive improvement in this domain through appropriate regulations and more so in the area of women participation in labour force, where we are nearly at the bottom of the world ranking.

| | Domain | Pakistan | India |
|---|---|-----------------|--------------|
| 1 | Buyer Sophistication | 94 | 38 |
| 2 | Cooperation in Labour-Employer Relation | 88 | 44 |
| 3 | Flexibility of wage determination | 95 | 54 |
| 4 | Rigidity of employment | 84 | 48 |

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|---|--------------------------------------|-----|------------|
| 5 | Pay and Productivity | 69 | 45 |
| 6 | Reliance on Professional Management | 104 | 24 |
| 7 | Brain Drain | 92 | 49 |
| 8 | Female Participation in Labour Force | 127 | 122 |
| | Overall | 121 | 89 |

VII. Financial Market Sophistication

In this area Pakistan has generally performed well and more so on account of equity markets, access to loans and investor protection. Our score was however, less satisfactory on account of institutional strength of securities exchange and availability of venture capital. In these areas India rather scored better except its restrictions on capital flows. Nevertheless, a relatively better score in this area owes to GOP's reforms.

| | Domain | Pakistan | India |
|---|---------------------------------------|-----------------|--------------|
| 1 | Financial Market Sophistication | 79 | 33 |
| 2 | Financing through local equity market | 48 | 8 |
| 3 | Ease of access to loan | 52 | 42 |
| 4 | Venture capital availability | 86 | 27 |
| 5 | Strength of investor protection | 19 | 26 |
| 6 | Regulation of Securities exchange | 89 | 25 |
| 7 | Legal Rights index | 72 | 29 |
| 8 | Restrictions on capital flow | 70 | 83 |
| 9 | Soundness of Banks | 71 | 51 |
| | Overall | 71 | 34 |

VIII. Technological Readiness

Low level of technology absorption and proliferation at Government, business and individual level remains a point of high concern. This is further compounded by a low number of personal computers and broad band subscribers. India performed well in these areas and was much ahead of us in both Government and private sector performance.

| | Domain | Pakistan | India |
|---|-------------------------------------|-----------------|--------------|
| 1 | Availability of latest Technologies | 88 | 43 |
| 2 | Firm Level Technology Absorption | 84 | 26 |
| 3 | Laws relating to ICT | 86 | 38 |
| 4 | FDI and Technology transfer | 81 | 20 |
| 5 | Internet Users | 96 | 84 |
| 6 | Personal Computers | 125 | 96 |
| 7 | Broad band Internet Subscribers | 114 | 92 |
| | Overall | 100 | 69 |

IX. Market Size

Domestic market size is determined by the output of GDP and the value of imports minus the value of exports in the reference period. While the foreign market size is based on total export value. Our performance in both the areas was rather well but much lower than India. This also represents country's integration with the global market.

| | Domain | Pakistan | India |
|---|----------------------|-----------------|--------------|
| 1 | Domestic Market size | 24 | 4 |
| 2 | Foreign Market size | 57 | 5 |
| | Overall | 29 | 5 |

X. Business Sophistication

Our businesses expressed mixed performance in this area. Major worry remains about supplier quality, lack of brands, production process sophistication, poor marketing and a general unwillingness to delegate authority. India, on the other hand performed exceptionally well in all these areas. Business competitiveness, investment and export performance on sustainable basis rest on these pillars, besides the areas indicated in the previous sections.

| | Domain | Pakistan | India |
|---|---------------------------------------|-----------------|--------------|
| 1 | Local supplier quantity | 66 | 4 |
| 2 | Local supplier quality | 93 | 37 |
| 3 | Nature of competitive advantage | 106 | 83 |
| 4 | State of Cluster development | 66 | 24 |
| 5 | Value Chain Breadth | 78 | 28 |
| 6 | Control of International distribution | 97 | 29 |
| 7 | Production Process Sophistication | 110 | 41 |
| 8 | Extent of Marketing | 102 | 28 |
| 9 | Willingness to delegate authority | 74 | 25 |
| | Overall | 87 | 27 |

XI. Innovations

We expressed poor performance in this area which actually relies on educational base, level of science and technology, Government reforms in these areas, entrepreneurship and culture, pluralism of society, collaborative approach and a strong urge to integrate globally. India scores very high in this area mainly due to a strong culture of R&D, strong university - business collaboration and presence of a large number of Scientists and Engineers in the country. In all those countries where entrepreneurship is rewarded, innovations automatically take strong roots in thoughts and ideas, processes and products and services. Unfortunately this is not the case here.

| | Domain | Pakistan | India |
|---|---|-----------------|--------------|
| 1 | Capacity for innovation | 73 | 35 |
| 2 | Quality of scientific research institutions | 80 | 27 |
| 3 | Company spending on R&D | 86 | 29 |
| 4 | Governments procurement of advanced tech products | 91 | 88 |
| 5 | University industry research Collaboration | 82 | 45 |
| 6 | Availability of Scientists & Engineers | 89 | 3 |
| 7 | Utility Patents | 87 | 57 |
| | Overall | 82 | 32 |

This is always good to look back, undertake a comparison with competing countries to learn and to proceed in to future faster, smarter and to dig deeper in the competitive world. This is urgent for the Government to undertake reforms in every sector. Following pointers largely fall in the domain of Government which needs due attention. There are many strengths in the country i.e. in both Public and Private sectors, which however, will remain un-exploited unless these are properly identified, corrected and improved. This is possible during our own lives;

Pointers

1. Need of a deeper re-look and paradigm shift in the industrial policy making processes and reforms by adopting tools which otherwise are tested and proven right in many competing economies.
2. Identifying strategic areas of development and embarking on more value added and high tech industries alongside the competitive development of existing industry.
3. High priority for technology enhancement through technology acquisition, local development, penetration and proliferation through state's proactive role such as offering Grants and Funds etc. Need of strong institutions-business linkages.
4. Adopting compulsory standards for quality, safety and environment through institutional capacity building and international collaboration for consumer satisfaction and global acceptance.
5. Policies to support consolidations, mergers and acquisitions through financial and fiscal incentives rather than merely doling out money to sick units.
6. Rewarding entrepreneurship, innovations, risk taking, R&D, best ideas and best practices by undertaking review of bankruptcy laws, investment policy, regulatory and procedural requirements.
7. Undertaking Reforms to improve quality and base of education, infrastructure, legal framework and level of skills.

8. Strengthening the private public partnership to have all inclusive approach in policy making. Policies to have consistent and even implementation.
9. Strategic thinking to reduce cost of doing business including the cost of finances, utilities and inputs and consistent supply of energy to make the manufacturing sector globally competitive.
10. Reforms in the enterprise taxation system to remove anti manufacturing, anti corporatization and anti expansion biases. Taxing the untaxed but otherwise lucrative sectors of economy.
11. Creating an environment to enable the industry to exploit the global opportunities of outsourcing, off shoring and supply chaining through connectivity, awareness and exposure and appropriate allocation of resources.
12. And last but not the least, policies to provide access to competitive capital and to channelize it towards manufacturing and encouraging the “easy to adjust businesses”.