Exclusive

Interview

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Ehsan Malik

CEO, Pakistan Business Council

ICMA Pakistan: At the outset, please apprise us about the objective, role and functions of Pakistan Business Council?

Ehsan Malik: The Pakistan Business Council is a research-based business advocacy body composed of over 70 of the largest private sector businesses in Pakistan, both local as well as multi-national. Its objectives are to advocate policies for the sustainable growth of Pakistan. With a broad-based membership from 14 important sectors of the economy, the PBC, is not a chamber of commerce or a trade body and it does not lobby for the interest of a particular sector or member. Turnover of PBC members together represent every ninth Rupee of Pakistan's GDP and in aggregate they contribute 25% of the tax revenues and export earnings.

As part of its outreach and to lift the capacity and capability of businesses that do not necessarily belong to it, the PBC has established a Centre of Excellence in Responsible Business which focuses on promoting gender balance, generating livelihoods in the extended value-chains and encouraging greater responsibility towards the environment.

PBC interacts with various ministries of the federal and provincial governments, multilaterals like the World Bank, and Asian Development Bank and key members of the diplomatic community. It has supported the SECP and the FBR in the development of laws and rules to promote business. Its primary research focus is on trade and fiscal policies and it has published many reports on trade agreements and trade potential in non-traditional export markets. PBC's now annual event called the Pakistan Economic Forum brings together leading thought leaders on the economy. It also engages with the main political parties to develop a national consensus. Ahead of the elections, it issued a 100-Day Economic Agenda for the Incoming Government. The main thrust currently of the PBC is to promote manufacturing in Pakistan under the "Make-in-Pakistan" theme.

ICMA Pakistan: Could you please pinpoint the most critical economic challenges being faced by our country at present?

Ehsan Malik: The country's economic challenges are also PBC's advocacy priorities: jobs, value-added exports, import substitution and an equitable fiscal policy which, off a broad tax base generates higher revenue to invest in more inclusive development. This is essence of PBC's Make-in-Pakistan theme.

Mr. Ehsan A. Malik is currently serving as the Chief Executive Officer of Pakistan Business Council. He is also Director in National Foods Limited, Pakistan. From 1st September 2006 to 31st October 2014, Mr. Malik was the Chief Executive Officer of Unilever Pakistan Limited and a director of Unilever Pakistan Foods Limited. Prior to this he was Chairman and CEO, Unilever Sri Lanka Limited. His earlier international appointments covered Unilever's regional business in Egypt, Lebanon, Jordan, Syria and Sudan as well as Unilever's Head Office in UK. These preceded senior commercial and financial roles at Unilever Pakistan. He is also a Member of the Board of Directors of Abbott Laboratories Pakistan Limited and IGI Life Insurance Limited.

Successive governments have failed to address the fundamental flaws affecting Pakistan's economy. As a result, the country has had to knock on IMF's doors on twelve times in the last 28 years. Pakistan has prematurely deindustrialized. Role of manufacturing in GDP has declined as has Pakistan's share in world exports. We have become a nation of traders. The fiscal policy relies on imports for almost half the revenue. Manufacturing, which represents 13.5% of GDP, is burdened with 58% of the taxes. Energy and labour costs are twice those of Bangladesh. Consumption represents 80% of Pakistan's GDP. A large part of this is reliant on imports. Investment at 15% of GDP is half that of India and its rate of growth at 4.8% is less than half that of Bangladesh and Vietnam. Last, but not the least, Pakistan has poorly negotiated trade agreements, in particular with China, which has seen Pakistan exit manufacturing even daily use items like shoes.

ICMA Pakistan: What is PBC's stand on the mini-budget presented by the new Government?

Ehsan Malik: PBC appreciated that the mini budget presented was motivated primarily by a desire to reduce the fiscal deficit. Whilst supporting the partial reversal of deep tax cuts granted by the previous government, PBC was disappointed at the proposal of blanket withdrawal of restriction on non-filers from buying new cars and real estate above a value of Rs. 4 million.

PBC has consistently advocated the broadening of the tax base and the documentation of the economy, as has the PTI. Therefore, it was surprised at this retrogressive step. It would have been understandable if exceptions were made for non-resident non-filers or their dependents. To promote local industry, it may also have made some sense to remove the restriction on locally assembled cars up to a certain value. But to allow non-filers to buy cars of any value, including imported luxury vehicles, goes totally against documentation of the economy. The argument that the record of non-filers involved in these transactions will be used to broaden the tax base is also not credible as such records have failed to do so in the past. The only rationale appears to be tax revenue. It is a pity that revenue expediency prevailed over principle, something that we hoped would not happen in Naya Pakistan. PBC was delighted that the government accepted its recommendation to maintain the restriction, with a few sensible exceptions.

PBC supported the government's thrust to curb imports so long as it did not impact local production. To support domestic industry, PBC had been recommending cascading duties and tighter controls to quell under-invoicing and misdeclaration of imports.

The PBC has been advocating the need to revive industry, create employment, promote exports and encourage import substitution. Whilst it welcomed the relief given to five export industries in the revised gas prices, higher input cost for the rest of industry runs counter purpose to encouraging import substitution. PBC reiterated its recommendation to separate tax policy from tax administration, substantial infusion of technology and fresh talent into the FBR, fiscal policy that encourages capital formation and the restoration of group taxation as enacted in the Finance Act 2007. PBC hopes that the government will address these recommendations soon.

The PBC is composed of the leading private sector companies from fourteen important sectors of Pakistan's economy, which include automakers. This was an excellent example of PBC advocating polices that are good for the country instead of one of the sectors that its members belong to.

ICMA Pakistan: Do you expect the new Government can bring radical changes in government, especially in FBR and SECP?

Ehsan Malik: I believe the government has the resolve to address the fundamental flaws in the FBR. FBR needs to be infused with both technology and fresh talent. Technology will assist it to harvest information on non-filers provided by those deducting withholding taxes and what is available from many other sources to broaden the tax base. It needs to change the main KPIs for FBR. The primary KPI should be tax collected from new tax payers. In the absence of this, the tax man chases current tax payers. Threat of harassment is as much a put-off for non-filers as is paying taxes.

I believe SECP has done a good job in strengthening corporate governance but has suffered from political meddling in its leadership. An example of that was the insertion of Section 452 into the Companies Act 2017 which discriminates against the corporate sector. Nowhere in the world is company law used to gather information on shares held in foreign companies. Besides, now the Foreign Assets Declaration and Reporting Act 2018 has superseded the Companies Act 2017.

ICMA Pakistan: What hindrance our export industry is mainly facing and what measures you suggest to boost our exports?

Ehsan Malik: Uncompetitive exchange rates, high input costs, energy shortfall, plant closures, reliance on commodities and basic goods in which we are unable to compete with a low-labour cost country like Bangladesh, concentration on the EU and the USA, shortage of cotton, low productivity of agricultural sector and Pakistan's hitherto poor security conditions have all hampered our exports. In the last decade and a half, whilst our share of world exports has declined, Bangladesh's more than doubled and Vietnam's grew seven-fold.

We have started adjusting our exchange rate to a more realistic level and the government is trying to protect the export industry from higher energy costs. With a five-year export policy, business will gain the confidence to invest in additional capacity and improve its capability to produce more value-added items. Delayed release of tax refunds and rebates mars cash flow. The government needs to address this.

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ICMA Pakistan: Do you think the presence of professionals and experts on the Boards of Private and Public Sector companies can improve their efficiency and productivity?

Ehsan Malik: The likelihood of professionals reviving public sector units is low so long as the public sector units remain under the line control of ministries. Secondly, many of these units need capital investment to regain scale and improve productivity. PIA is a case in point its fleet is inadequate and ageing. So professionals are a necessity but capital and political commitment are as important. Last but not the least, specialist restructuring experience is required. There are 190 public sector units. The government should start with restructuring a few at a time instead of taking on all. The Kazakhstan and Malaysia models of sovereign funds worked under more autocratic regimes. In Pakistan we have a democracy, strong labour laws, a vibrant media and activist judiciary to contend with. However, a determined approach with the full backing of the parliament can succeed in stemming the billions of Rupees of losses.

ICMA Pakistan: Do you think going to IMF for bailout package is the most preferred option for new Government? What new avenues for revenue generation would you suggest to government for reducing dependence on IMF?

Ehsan Malik: In its 100-Day Economic Agenda for the Incoming Government, the PBC had advised that instead of managing the short term crises, the government should go for a well-structured reform programme such as IMF's. We still hold this view. Reliance on the lender of the last resort under a structured programme, as opposed to banking on however well-intentioned help from friendly countries is preferable. The latter does is ad-hoc and without technical support. Besides, there is no such thing as a free-lunch!

ICMA Pakistan: What are your views on the CPEC projects? Do you think the interests of local manufacturing sector are being adequately safeguarded in the CPEC contracts or you have some reservation on them?

Ehsan Malik: Job creation is the No. 1 priority for the country, yet jobs are seldom explicitly mentioned in the context of CPEC. Leaving aside the low level of Pakistani labour involvement in the CPEC projects, Pakistan can be more proactive in securing a high percentage of the reported 20 million jobs that will be displaced in China due to the rising cost of labour. There is opportunity to partner the Chinese in textiles and other labor-intensive industries. This would also be a way to reduce the trade deficit, as would China allowing our exports parity on tariffs with ASEAN, Australia and New Zealand. It should act as the "big brother" in renegotiating the Free Trade Agreement.

Neither the State Bank nor the Ministry of Planning have a long term forecast of foreign exchange inflows and outflows associated with CPEC. Estimates of outflow range from $3 bn to $ 5 bn per annum. Will our incremental export earnings cover this?

Like financial flows, we have yet to see an aggregate environmental impact of CPEC power and infrastructure projects. What is known is that our reliance on coal for power generation will increase from nil to 18% of the fuel mix by 2024. Whilst significantly below India and can be justified as a cost reduction measure, the environmental impact when added to 7,000 truck movements up and down daily along the CPEC highways will be considerable and needs to be shared.

The Chinese will be granted long term leases at concessional rates to set up in Special Economic Zones where they will also enjoy 20-year tax holidays, water, power and effluent treatment facilities and where trade union activities will be suspended. Will this undermine existing businesses in the rest of the country? Will it incrementally add to jobs and exports?

CPEC is the single largest investment since the British built the irrigation system over a hundred years ago which still irrigates much of the country. If we get infrastructure that is equally enduring, CPEC will definitely be a game changer. However there is a tendency in Pakistan to treat CPEC like the proverbial gift horse which you don't look into the mouth of. CPEC is not a gift and will need to be paid for. The Chinese need CPEC as much as we do. Securing Pakistan's economy i.e. jobs, exports and tax revenue should be as much a priority for the Chinese as it is for us. If we don't act now, our economy will suffer. The gift horse may prove to be a Trojan horse! There is a dire need for transparency.

ICMA Pakistan: Do you think there is need for a comprehensive 'Industrial Policy' to boost our industrial sector and how PBC and ICMA Pakistan can join hands to propose a blueprint for industry policy?

Ehsan Malik: A comprehensive industrial policy should start by resolving the many conflicts between various government ministries which operate in silos. Especially, trade, fiscal and power polices need to be reconciled. Agriculture, which is a provincial domain needs to be revived to allow industry to add value. Sixty percent of Pakistanis reside in rural areas and forty percent of labor is engaged in agriculture, so a well-coordinated set of polices leveraging on Pakistan's agricultural potential will touch many more people in a deep manner. The PBC looks forward to working with like-minded institutions, including ICMA Pakistan to achieve this.

ICMA Pakistan: What areas you suggest where PBC and ICMA Pakistan can hold joint seminars and undertake joint research?

Ehsan Malik: I think we could work together to identify factors that impact competitiveness of Pakistan's main industrial sectors. ICMA Pakistan members have deep insight that could help Pakistan broad-base its exports, encourage import substitution and create employment. We can also collaborate on promoting corporatization and on broadening the tax base.

ICMA Pakistan: How do you see Pakistani economy after two years from now?

Ehsan Malik: In two to three years, I see a more economically stable economy. The pain that is inevitable between now and then will result in stronger governance and accountability. Our exports will benefit from realistic exchange rates, more competitive energy tariffs and long term policies. Our tariffs will be cascading, allowing industry to integrate better into global value chains by maximizing value-addition, even on imported inputs. Smuggling and under-invoicing would have receded as the government comes down hard on restoring discipline. Housing and manufacturing will have created thousands of jobs. Pakistan's external and fiscal account would be more balanced.

The Editorial Board thanks Mr. Ehsan Malik, CEO, Pakistan Business Council for giving his exclusive interview for Management Accountant Journal.