

***PAKISTAN:***  
***An Entrepreneurial Vacuum***

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Muhammad Iqbal Malik

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**PART I -**

**INTRODUCTION:**  
**ENTREPRENEURSHIP AND ECONOMIC**  
**DEVELOPMENT**

# 1 Overview

*"Economics is the study of mankind in the ordinary business of life"*

Alfred Marshall, Principles of Economics, 1890

*"Economics is the science which studies human behaviour as a relationship between (given) ends and scarce means which have alternative uses."*

Lionel Robbins

As defined above, Economics is a behavioural science, that studies human behaviour with respect to economic activities. Economists for decades have focused on the consumption (and production) aspects of the economy, thereby putting enormous effort describing human behaviour around these two economic activities.

In addition to the above however, there is another very important human element that plays a crucial part in economics i.e. Entrepreneur<sup>1</sup>.

This paper highlights the significance of the role of entrepreneurs in an economy. The paper is divided into two parts. The first part comprises introduction to entrepreneurship, and its role in economic development, and also includes a brief introduction to aspects of Pakistani economy.

The final part addresses the entrepreneurial problems in the Pakistani economy, thereby highlighting the weaknesses and inadequacies of the entrepreneurial function in Pakistan.

Detailed discussion is included on this role dysfunction and its overall impact on the economy and business.

Finally a section is included on Social Investment, which relates societal needs and issues to entrepreneurial (business) needs and opportunities.

## 2 Pakistan: A Socioeconomic Overview

Pakistan is gifted by nature with great natural and human resources. Unfortunately however, despite fifty years of independence, Pakistan stands today as one of the poorest nations in the world, and also ranks very low in the socioeconomic terms. The following section briefly summarizes Pakistan in terms of its national resources and socioeconomic standing.

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<sup>1</sup> I make a distinction here, between entrepreneurial and production oriented behaviour. Although, both can be termed as entrepreneurial from a specific viewpoint, however the kind of decisions and actions performed around production, do not exhaustively satisfy the entrepreneurial functions.

## **2.1 Natural Resources**

Pakistan is rich in natural resources. However, much of the resources are untapped due to lack of resources or planning. More than 20 different types of minerals have been located. Coal mining is one of the country's oldest industries. Small reserves of high-grade iron ore have been identified.

There are enormous reserves of limestone that form the basis of a growing cement industry, the largest component of the manufacturing sector. Other minerals include chromite, barite, celestite, antimony, aragonite, gypsum, rock salt, and marble. Radioactive minerals have been found in southwestern Punjab.

Pakistan also has small quantities of oil and some very large natural gas fields. The oil fields near Badin, are particularly promising. Oil fulfills a substantial portion of Pakistan's energy requirements.

The variety of climates and soils has given rise to a wide diversity in biological resources. Regular rain and snow in the Himalayan foothills of the north have given them a variety of vegetation and animal life ranging from the Mediterranean to the Alpine types. There is a fishing industry centred in Karachi, and part of the lobster and other shellfish catch is exported.

Agriculture, forestry, and fishing provide employment for at least one-half of the official labour force and a livelihood for an even larger proportion of the population.

## **2.2 Human Resources**

Pakistan is "gifted", with great human potential. Pakistani scientists, physicists, chemists, physicians etc. are performing at the highest levels, in great numbers, in the most advanced nations of the world.

Pakistani bankers hold a very high reputation in the world's most prestigious institutions, including the World Bank and the Asian Development Bank.

Pakistani professionals, workers and craftsmen, have over the years have also earned a very good reputation in Information Technology, sports goods, handicrafts etc.

Unfortunately, however, due to extremely low literacy, poor quality of education, and lack of training facilities, the human resource in Pakistan is largely underdeveloped.

## **2.3 Socioeconomic Indicators**

Pakistan has a population exceeding 145 million people, with an annual growth rate of 2.16. Of the total population, 51.9% are males and 48.1 females. Pakistan remains, mainly an agricultural country, with 66.5% rural population.

Due to poor health conditions, our infant mortality<sup>2</sup> rate ranks very high in the world (Pakistan: 78.52; Bangladesh: 68.05; India: 61.47; Iran: 28.07; Malaysia: 19.66).

More than half of the population is illiterate. The rate of literacy stands as low as 43.92, with only 32.02 females literate.

The total labour force participation is rated at 29% (crude rate), which includes only 9.3% females, and total rate of unemployment approximates 7.8% (1999-2000).

Pakistan is a mixed economy in which the state-owned enterprises (including industrial corporations, trading houses, banks, insurance companies, hospitals, etc.) account for nearly half of the gross national product (GNP).

Agriculture although still the largest sector, now contributes less than one-fourth of the GNP, while manufacturing provides almost one-fifth.

## **2.4 Pakistan vs. the Third World**

Pakistan resembles the middle-income countries of East and Southeast Asia more than the poor nations of the Indian subcontinent. Economic performance compares favourably with that of many other developing countries; the GNP has increased at an average rate of more than 5 percent a year since independence. At the same time, there has been a great increase in population, so that, despite a real growth in the economy, per capita output has risen slowly.

Pakistan does not have a high incidence of absolute poverty. The proportion of the population living in absolute poverty is considerably smaller than in other South Asian countries.

In spite of a healthy increase in GNP however, it has continued to experience a very low level of social development. The country has a high rate of infant mortality and its maternal mortality rate, at 6 per 1,000 live births, is among the highest in the world. The rate of literacy is very low compared to that of other developing countries.

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<sup>2</sup> Deaths/1,000 live births (2002 est.)

## **2.5 Economic Resources (Factors of Production)**

This section outlines the basic economic resources in an economy that are used to generate output – production of goods and services. These resources are also collectively referred to, as the factors of production.

### **2.5.1 Land**

Land is an important factor of production, which includes all the natural resources such as ores and minerals, oil and gas reserves, water, land etc. etc. It is obvious, that the production of any goods or services requires the acquisition and availability of at least some aspect of this factor.

### **2.5.2 Capital**

The literal meaning of capital implies “material wealth owned by an individual or a business enterprise”. However, in economic terms, the term capital means “man made” resources, used to produce goods and services, and includes building, machinery, equipment etc.

### **2.5.3 Labour**

Labour is defined in economic terms as the physical and mental talents of individuals available and usable in producing good and services. Simply put, it’s the human resource available for productive use.

### **2.5.4 Entrepreneurship**

Entrepreneurship or the entrepreneurial ability is generally referred to as the human resource that combines other factors of production to produce goods or services, makes non-routine decisions, innovates and bears risks.

It must be noted, that entrepreneurship, though a human trait or ability, is distinguished from labour. I shall elaborate on the concept of entrepreneurship throughout this text, however for now suffice it to say, that entrepreneurship is the driving force of a business enterprise or at a macro level, of the whole economy. The health of a business (or an economy), largely depends on the quality of the decisions made by entrepreneurs.

## **3 Third World Scenario: A Case for Entrepreneurship**

The Third World or the developing countries, are often cited for lack of resources, which is often portrayed as one of the fundamental causes of their economic and social underdevelopment. Thus economic deprivation, poverty and underdevelopment are viewed as an unending vicious circle.

However, taking a look at the factors of production, are underdeveloped societies really short of economic resources? It has already been illustrated above, that even developing countries like Pakistan, have abundant human and natural resources (land, labour).

Two of the resources however require some consideration – capital and entrepreneurial ability. It is true that capital is “short” (in relative terms) in the developing societies, however it can be “developed” over a period of time through “economic” utilization of the remaining factors of production. No society in the world had been “naturally” gifted with capital. Capital was acquired as societies developed and grew. Thus Capital enrichment is a function of continuous human development and efforts, and lack of it cannot be termed as the primary cause of human (or economic) underdevelopment.

It is obvious from the above discussion, that economic use of “available” resources is the most crucial aspect of an economy. It is not how much you own, but how you utilize your existing economic resources, that ultimately determines the growth potential of an economic system (individual, business or an economy).

Economic use of resources becomes even more crucial in the developing economies due to scarcer resources (not much margin to lose out of inefficiencies). And the entity responsible for economic use of resources, mobilization of factors of production, and making critical economic decisions, is called an entrepreneur.

## **4 Essentials of Entrepreneurship**

I have briefly described the meanings and significance of entrepreneurship, in the above sections. The following section builds on the earlier discussion, providing a brief history of the term, and outlines some of the key constituents (or characteristics) of entrepreneurship.

### **4.1 Historic View**

The term entrepreneur was first introduced by the early 18th century French economist, Richard Cantillon. Later on, Adam Smith, David Ricardo, and John Stuart Mill briefly touched on the concept, under the term of “business management”.

Mill highlighted the significance of entrepreneurship in economic growth, and believed it to be “no ordinary skill”.

Alfred Marshall however, was the first to recognize the necessity of entrepreneurship for production in 1890, in his famous treatise Principles of Economics, recognizing entrepreneurship as one of the key factors of

production. Like Mill, Marshall believed that the skills associated with entrepreneurship are rare and limited in supply and are "so great and so numerous that very few people can exhibit them all in a very high degree".

## **4.2 Entrepreneurship and Economic Growth**

The allocation of resources in an economy, are made under the leadership of an entrepreneurial class. Many economists view the quality of entrepreneurship as an explanation of differences in the rate of technical progress between nations.

Entrepreneurial decisions affect economic growth. Two economies with equal investment (in value), may witness different levels of growth and progress.

In one economy, investment decisions may focus on the advancement and improvement of process efficiency, enhancing productivity. In the other economy however, out of hesitation, investment may lead only to marginal changes in productive processes – thus the resulting growth, productivity and GNP will be small.

According to Joseph A. Schumpeter the quality of entrepreneurial performance determined whether capital would grow rapidly or slowly and whether this growth would involve innovation and change—i.e., the development of new products and new productive techniques.

## **4.3 Characteristics**

### **4.3.1 Initiative**

Initiative is the most fundamental aspect of entrepreneurship. It can be defined as:

"The power or opportunity to act or take charge before other people do"

"The capacity and imagination to realize what needs to be done, together with the courage and willingness to do it"

The first definition especially makes sense, when viewed from the perspective of market competition. It can thus be viewed as an economic "instinct" of an enterprise, essential for survival in a competitive market.

The second definition however highlights initiative as an individual capacity or ability. This is a critical point of understanding. Being a human ability, it may or may not be present (at least in relative terms) in an entrepreneur. However, from the significance of initiative, which is obvious from the above discussion, we can say that the absence or

presence of this trait, can significantly affect the economic performance of an enterprise.

#### **4.3.2 Planning and Organizing**

Planning involves defining economic goals, strategizing, making policies and developing plans for the achievement of these goals.

Organizing is the coordinating factor, which brings the other factors together. By creatively organizing, entrepreneurs create new commodities or improve the plan of producing an old commodity.

Both planning and organizing are the higher-level functions, that require analytical abilities and an in-depth understanding of economic principles, market dynamics and the ever-changing business environment.

#### **4.3.3 Risk**

One of the roles of the entrepreneur is that of a risk-bearer in the face of uncertainty and imperfect information. In today's global economy, with a very high rate of change in the economic environment, risk has become a part and parcel of a business enterprise. Risk taking however is not a common trait, and greatly depends on individual attitudes, personality, and even the culture. Some societies are (relatively) high risk-takers while others are high risk-avoiders.

The risk taking ability is also closely linked to the traits of initiative and innovation.

#### **4.3.4 Innovation**

Innovation involves creating new ideas, methods, techniques, products and services. The innovative ability requires vision, creative thinking, initiative and an element of risk. This entrepreneurial ability when transformed into the organizational culture, is reflected in highly differentiated (as against standardized) products and services, resulting in capturing greater market share (and at times creating new markets), and higher profitability (than standardized output). When applied to methods and techniques of production, innovation can lead to enhanced efficiency of the production process.

**PART II -**  
**ENTREPRENEURIAL DYSFUNCTION AND**  
**ECONOMIC CONSEQUENCES**

## 5 Symptoms of Entrepreneurial Vacuum

In this part of the paper, we would look into the entrepreneurial gaps that exist in our economy. This deficiency, has huge socioeconomic consequences. Let's now examine the symptoms, that reflect entrepreneurial dysfunction<sup>3</sup> in our economy.

### 5.1 Waste of National Resources

Pakistan though a poor country, has more natural resources than most nations – land, population, minerals, ocean etc. These resources, however, are either untapped, or are subject to uneconomical use. For example, Pakistan does not have a very high yield/hectare of the cultivated land, as compared to many other nations, like India, Australia etc.

Despite being gifted with one of the worlds greatest mountain ranges, rivers, and irrigation system Pakistan has a water crisis (especially for agricultural use). The situation is reported to get worse with time. Ironically, despite this shortage, water from our rivers flows wastefully into the ocean, because of insufficient or ineffective storage facilities.

The human resource, in Pakistan is the best example of waste. Due to largely underdeveloped population, a "potentially" skillful, hardworking and intelligent workforce is grossly wasted and unemployed.

### 5.2 Persistence of Social (Market) Problems

Businesses produce goods and services that fulfill the wants of a society (market). These wants generate, what is referred to as demand in economics. Thus needs and wants of a people, when viewed from an economic perspective are business opportunities. The greater the needs, the greater the demand and the greater are the entrepreneurial opportunities. And the greater the gap between the demand and the supply, the greater is the profitability of a future supply.

Education, health and transportation, are all good examples of the above situation. All these sectors have very high societal stakes. There is great demand, both in numbers (quantity) and qualitative terms, for education and health facilities, due to largely poor quality services in both areas. The public sector has brutally failed to fulfill, the societal (market) needs in this regard. The private sector in Pakistan could have played a positive role in these sectors (like in many other societies), and in return could have earned a lot of profit. Unfortunately, like the public sector, the

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<sup>3</sup> A dysfunction in simple terms, is a malfunction in system function (or role). While "normal" functioning of system (or its parts) help attain the "goals", a dysfunction, distances it from its destiny

private enterprise in Pakistan also lags behind in entrepreneurial abilities, and thus has failed to capitalize the opportunity.

### **5.3 Waste of Opportunities**

I have already cited a few cases of lost opportunities. Let's examine a few more.

While the Americans (from North America) and the Europeans dig oil in the Middle East and establish their offshoots in Central Asia, one may ask, how many Pakistani businesses were able to expand their market to Central Asia, on the fall of the Soviet Union?

The political turmoil in the region, that started from September 11 and has lasted through to the invasion in Iraq, has also left an impact on the economy of the region. There is a wave of "anti-multinational" feeling - not just in Pakistan, but throughout the Middle East and the Muslim world, (in fact, even in many parts of Europe).

This wave was a "business" opportunity for the local entrepreneurs, that was capitalized by some, in other regions. An example being an Iranian soft drink called "Zamzam Cola" marketed throughout the Middle East.

According to BBC News:

Zamzam Cola, an alternative to US brands Coca Cola and Pepsi, has gone on sale at the same time as a campaign to boycott American goods gathers momentum.

"The campaign of boycotting American products and the good quality of Zamzam Cola have given us excellent sales," general manager Firas Khawaja told Reuters news agency.

"Demand in the eastern province alone has put a lot of pressure on the Iranian supplier."

Preparations are under way to establish a bottling factory for Zamzam Cola in neighbouring Bahrain, where the drink has also proved very popular.

Zamzam says it is also planning to upgrade and expand production plants in Iran to meet the growing demand for its drinks.

Unfortunately, in Pakistan, such opportunities are mostly lost due to lack of vision, initiative, and responsiveness and also due to a risk avoiding factor that is generally much higher in the Pakistani society.

## **5.4 State of Business**

The state of business itself, is another reflection of the existing entrepreneurial weaknesses. Pakistani businesses (even old ones) operate at a much smaller scale than their Indian counterparts, and are far more vulnerable to economic and environmental fluctuations.

The Business and Industry mostly look up to government for “initiatives”, incentives, policy making and planning for their sectors, while they sit pretty on the sidelines, in the hope of favourable government policies, subsidies, incentives and tax relief.

## **6 Common Weaknesses**

The following section briefly describes some of the common and important entrepreneurial weaknesses in the Pakistani business community.

### **6.1 Lack of Vision**

One of the very common attributes of Pakistani business, is lack of vision. Vision has two aspects – “dream” (or ambition) and foresight. It is common, among the most successful enterprises around the world, to have business vision (dream) that serves as the nucleus of higher organizational goals. This vision (into the future) is the spirit that drives successful organizations of today.

The other aspect of vision is foresight – the ability to anticipate the future.

Both senses of vision, serve as the heart of organizational direction and planning, around which business operations are (or should be) regulated.

Unfortunately, this farsightedness is widely wanting in our economic institutions – both public and private. The natural outcome of this shortsightedness is that our economic activities are conducted in a “firefighting” (reactive) mode rather than proactively. This weakness is also an explanation of the volatility (and fluctuations) of our business institutions with respect to environmental changes. Another area that suffers as a consequence, is policy making, which requires a broad and long term view for decision making.

### **6.2 Short-term vs. Long-term goals**

The above-mentioned entrepreneurial deficiency, leads to setting of short term economic goals (both in private and public sectors), which at times create more problems than they solve.

### **6.3 Lack of Initiative**

The business in Pakistan is accustomed to “playing safe”. Our businesses generally follow the trend. Planning and initiative are integral ingredients of entrepreneurship. Lack of initiative as already discussed, largely contributes to underdevelopment, lost opportunities and diminished growth potential. Let’s consider some practical examples.

- How many multinationals has Pakistan been able to establish in half a century?
- Sialkot is the hub of sports (and surgical) goods. It produces the best quality products (football, bats, shoes, sportswear etc. etc.), and is known worldwide for its quality. But how many “brands” have Sialkot “introduced”? Interestingly, most of the quality products that we produce are FOREIGN BRANDS – Nike, Adidas, etc. etc. and are often stamped “Made in France” etc. once shipped.
- While Pakistan serves the whole of Europe and North America in Information Technology, to meet their national needs, how many Pakistani software “products” have we launched in the past two decades?
- While Pakistani physicians hold top positions in the world wide “chains” of hospitals, how many “chains” of hospitals have we established?

While Pakistani businesses may be making millions, they are unfortunately unable to realize their economic potential due to the above-mentioned entrepreneurial weaknesses. The result being, that we are deprived of huge “potential” growth and development, and have a much higher unemployment rate, than we should have, if we had capitalized on the opportunities around us.

### **6.4 Quality**

Quality costs. A Quality focus requires a complete paradigm shift in operations and even attitudes. Quality instills from the top, and at each level of the organization. Assuring high quality in goods and services is a very “costly” business, that almost never pays off in the short run. Quality requires a long-term vision and commitment at the entrepreneurial level, and pays off in the long term, in the form of product differentiation, consumer loyalty, and higher profitability.

A very high (unmatched) quality reduces price elasticity (by adding value that is not present in competing products) and thus justifies costs on quality processes, by offering higher profitability.

## **6.5 Reliability**

Reliability is yet another aspect that stems from business vision (or lack of it). Pakistani products (and services), as compared to competing foreign products, are inferior in both quality and reliability.

Similarly, Pakistani exporters do not enjoy a great reputation in the international community in this regard. The cases of marked difference in sample quality and the items shipped are not rare. It is for this reason, that some of the Pakistani brands (e.g. basmati rice) are often marketed by Indian businesses because of their superior reliability.

## **6.6 Scope of Business: Actual vs. Potential**

A brief look at the size of Pakistani businesses reveals a very interesting dimension. Pakistani businesses, old and new, are generally very small in size, as compared to their Indian counterparts. The scope of our businesses is limited in the following sense:

- ❑ Capital and sales
- ❑ No. of employees
- ❑ Diversification
- ❑ Geographic spread of operations

It seems, that Pakistani businessman is content with “actual” profits, while other businesses focus on “potential” profits. The gap in actual vs. potential is, what drives “real” entrepreneurs into higher ventures.

# **7 The Human Waste**

## **7.1 Population vs. Human Capital**

In a third world society, population is often cited as a “burden” on the economy. This economic burden however can be converted into an economic advantage, by transforming mass of people into human capital. Human capital may be defined as a class of educated, developed, and highly skilled workforce.

## **7.2 Economic Development and Human Capital**

A trained and highly skilled workforce, is a valuable economic resource for an economy. The benefits include:

- ❑ High productivity
- ❑ High quality output (goods and services)

- High levels of Efficiency

### **7.3 The Human Resource Markets**

Unemployment in Pakistan (even for skilled labour), is high, like many other underdeveloped societies. However in most developed nations, due to improved productivity through technological advancement and economic development, and due to the smaller populations, there are at times, acute shortage of highly skilled labour. A typical example is the demand for IT professionals in Europe and America.

Through careful planning, both public and private sector, can capitalize on these resource markets, to fill the human resource gaps in these societies, and gain economic advantage for Pakistan.

Pakistani business unfortunately, like many other situations, has failed to capture this huge potential opportunity. Such initiatives require vision and entrepreneurial spirit, that is not so common in our business community.

India on the other hand, has managed to capture the largest share in such offshore markets. To quote an example, for most foreign businesses in Europe and America, India has become the country of choice for both low and high tech IT services, ranging from software engineering services to setting up of customer support call centers.

## **8 Exports, Local Consumption and Economies of Scale**

This section illustrates some practical examples of entrepreneurial decisions that negatively affect the scope of business and consequently the whole economy. These issues specifically pertain to the "exports only" focus, a very common trend in Pakistan, having adverse economic consequences.

Exports play an important role in the economic growth of a country. They are one of the factors that drive production (both goods and services) and help "expand" an economy. Yet, an "overemphasis" and total dependence on exports by our businesses has some dark sides that I tend to explore in this section.

#### **PTV News Report**

*April 24, 2003*

The prices of beef and mutton rise up to 25% to 30%. Beef rises from Rs. 75/kg to Rs. 100/kg.

The effect is noted in major cities in Pakistan, including Rawalpindi, Islamabad, Karachi and Lahore. The prices rose in just 3 months.

The cause of the price hike is reported to be exports of beef and mutton to the foreign markets, especially the Middle East.

## **8.1 Foreign Markets and Uncertainty**

Foreign markets are more volatile than the local market. The reasons include:

- Cannot be controlled or regulated by the (local) government
- Foreign markets are interconnected, interdependent and thus much more complex systems (to control) than the local (national) economic system
- Influenced (and thus fluctuated) by International relations, politics and events

In ideal example being the events of September 11 and the invasion in Afghanistan and Iraq.

For above reasons, total dependence on exports, especially on limited markets, has great economic risk. A practical example is the IT policy of Pakistan. Before September 11, it was officially focused around meeting the demand in IT workforce, in the west in general and the US in particular. Large investment was made both by public and private sector, to serve the foreign IT needs. Institutes were funded and expanded and several initiatives launched to rapidly develop an IT workforce in Pakistan, that for "export" purposes.

The dot-comers burst and the events of September 11 however, quickly exposed the "wisdom" of the policy. Demand for IT dropped dramatically throughout Europe and especially the US. Many Pakistanis lost their jobs in the west (and came back). A large number of professionals, that were trained by the local institutions, in a very short period, became unemployed. In addition, The IT sector in Pakistan became highly saturated. As the supply of human resource dramatically rose (due to private and public sector policy), the money income of the existing workforce dropped considerably (salaries decreased considerably due to oversupply of resource).

Similar setbacks were witnessed in India, however, not of the same magnitude. Why?. India over the past decade(s) has been heavily investing in developing its own local IT industry. Indian IT sector has grown to one of the largest (and reputable) IT markets in the world.

The Indian IT sector instead of simply "feeding" the west, served its own industrial needs, facilitating the growth and productivity of other industrial sectors (making the right use of technology). Thus the local industry in India has great demand for IT workforce.

Pakistan's IT sector unfortunately, entirely focusing on the foreign market, could not develop the local sectors, and thus ultimately suffered at its own hands and through its own shortsightedness.

## **8.2 Export Focus and the Scale of Business**

Another consequence of export-centric policy is the scale of operations. Exports are marred with limited quotas (along with uncertainties). While the businesses get higher price for their goods, on exporting, than local consumption, the amounts of goods produced and sold are scaled down, due to limited demand. So while the profitability is raised, the total potential revenues shrink.

This is one of the main reasons why Pakistani enterprises never grow in size.

## **8.3 The Scope of Local Consumption**

Pakistan is a market of a 140 million people. Ignoring the "wants" of the local market, while serving a limited foreign market has therefore huge opportunity costs. We have already looked into the economic cost paid by the IT sector, now let's consider a few more examples.

A very large number of textile companies in Pakistan, are "total export" ventures. Similar trends can be found in leather and many other industries.

Exporting top quality material exclusively to the foreign markets leaves a gap in the local market, which is then filled by imported material (smuggled or otherwise). Examples include clothing and garments (especially kids), shoes, jackets, and sports goods etc. etc.

## **8.4 Costs of Production**

Another aspect of this issue is cost of production. I have already highlighted the fact, that foreign demand is generally limited in scope. Even if there is potentially high demand for a product abroad, foreign demand may not prove to be sustainable over a longer period of time for reasons that have been cited above.

Catering for local market needs (along with foreign), would require more production. To fulfill the needs of much higher demand, the enterprise would acquire higher levels of raw material (or inputs) from the wholesale market (at a cheaper rate). Producing more goods would also reduce the unit or average costs (as fixed costs are spread over larger output), thereby improving the profitability of the business.

Another advantage of reduced costs is, that businesses are better enabled to reinvest in quality and process improvements of the production processes, thereby further enhancing the efficiency of operations.

### **8.5 Regional Markets**

Pakistan is surrounded by markets that somewhat have similar tastes and socioeconomic conditions. By developing and expanding the local market, businesses in Pakistan would have a better opportunity of expanding their scope (of market or operations or both) to other neighbouring countries, such as Central Asian republics and the Middle East.

### **8.6 Foreign Investment and Ventures**

Pakistan like any other state, wants to attract foreign investment. However, the first thing that the foreign investors seek to know, is the share and scope of local investment. The volume of local business investment and interest, reflects the level of confidence in that economy. An economy unable to attract investment from within, fails to attract adequate foreign interest, for obvious reasons.

Thus shifting focus to the development and growth of our own market, would indirectly attract more foreign investment into our economy, and would help enhance our image in the international community.

### **8.7 Unemployment**

Similarly, scaling up the business operations, through serving and meeting local demands, would generate more employment in the country.

There are many other benefits that may be reaped indirectly, by the above-mentioned shift in approach. Developing and expanding the local market would lead to a ripple effect, generating greater expenditure and income, having a positive impact on our GDP and may also help improving the living standards of the people.

## **9 A "Creative" Crisis**

Creativity involves "skillful and imaginative use of something to produce ...". Creativity is also referred to as a problem solving behaviour. Creativity and innovation go hand in hand. From a functional perspective, creativity and innovation are significant elements of a modern enterprise. Why? Because modern organizations, face new challenges in the ever-changing global environment, which often pose unforeseen scenarios, having no precedent. Similarly, the markets continuously present "new" opportunities, that have never been capitalized, and which require a fresh approach and solution. Examples include dramatic changes in technology and global business environment.

Creativity and innovation, is another area where Pakistan lags behind. The following section elaborates the economic aspects of creativity, and unveils some of the economic consequences of creativity and innovation (or lack of it).

### **9.1 Creativity and Risk**

Leading, setting new precedents, creating new products and trying out new ways and methods all involve risk. Both risk taking and creativity are fundamental characteristics of a successful entrepreneur. A creative entrepreneur, seeks new ways of solving economic problems and tends to meet (and at times create) market demands, in unique ways. Examples include innovative use of technology, developing new and more efficient processes, "creating" new demands and markets, by introducing products and services that are "new" to the market.

Pakistani entrepreneurs are generally known for following "formula" solutions that are "tried and tested". One of the reasons for this attitude is high risk avoidance that is prevalent in our culture. Another reason is the lack of support and encouragement of the system to creative activities, an example of which is the state copyrights patents and royalty in Pakistan. While developed societies protect the rights of the "creative", through strict laws and regulations, in our society however, abusing these laws (and rights) is a very usual scenario.

In the IT sector, the mass violation of copyrights in Pakistan, is one of the main hurdles in the development of this sector. Both foreign and local investors are hesitant to invest in the market due to software copyright violations. For local businesses, introducing new software products in the market is not a viable prospect, because of widespread software piracy issues.

### **9.2 Standardized vs. Specialized Products**

Through creativity (and innovation), entrepreneurs are able to introduce new goods and services into the market. These goods and services, being "new", are not standard products, rather are termed as differentiated products. The economic advantage of introducing differentiated products, is the lack (or absence) of competition. This provides a competitive edge to the entrepreneurs, and makes the products relatively "hard" to switch or substitute. This competitive advantage enables businesses to set a higher price for their goods and services as compared to standardize (noncreative) products.

### **9.3 Saturation (Market)**

I have been suggesting the lack of creativity as a common trait of the Pakistani enterprise. We will now examine a practical manifestation of this problem.

Market saturation is an extremely common phenomenon in Pakistan. A couple of decades ago, increasing number of students enrolled in medical and engineering disciplines, as demand for medical and engineering services soared up. One of the causes for this surge was, the foreign demand of these services (Middle East and the and some western countries).

Soon however the market was flooded with qualified, yet jobless doctors and engineers.

The phenomenon was repeated in the 1980s for an MBA degree. To fulfill the demand for MBA, scores of new institutes were established, in the private sector, with similar results.

And once again, the 1990s saw the same surge, for IT.

Like trends in education (and the general populace), our businesses show similar decision patterns. A "success story", leading a "mass" of people flocking around the same venture, in the hope of similar results (profits).

The fundamental attributes of this behavioural pattern are:

- No "proof" for viability required (as it's already proved by others)
- Involves minimal planning (as the plan already exists)
- No creativity or innovation involved
- Minimal risks
- Short span required to "deliver"
- Lower profits (because of saturated and standardizes services, in the long run)
- Long run saturation (many ventures go out of business in the long run)
- Poor quality (since many businesses join the "stream", out of shortsightedness, and without much thinking, the services and products offered by these is often of poor quality), and fail to fulfill the wants of the market

## **9.4 Value Adding**

Numerous examples and issues cited above are linked to another weakness of our local enterprise, and that is, marketing of value-added goods and services.

As goods (and services) are produced, they pass through a series of processes that transform the goods into more valuable products. The value of these goods is actually directly related to the potential utility of the product. So each instance of added value, adds to the total potential utility that may be experienced by the potential buyers.

Though adding value to goods and services involves costs, the resulting value (and revenue) more than adequately justify the costs.

Failing to capitalize on this simple economic concept, businesses lose enormous potential revenues and economic benefits. This failure can be witnessed in both private and public policies and practices.

Pakistan's raw exports of rice, wheat, cotton, fish, sugar is a reflection of this trend. Benefiting from our agricultural strengths, Pakistan can greatly enhance the value of its exports, by investing in processed goods manufacturing.

Pakistan's supermarkets are flooded with imported (and multinational) products such as cereals, canned fruits, fish, dairy products (cheese, condensed mil), etc. etc. These finished products have far more value for the producers than raw agricultural produce.

Another indirect consequence of moving away from value added approach is the scope and growth of business and the economy. Following a value added policy, involves investment, raw materials and inputs, labour, construction etc. etc. Thus a move from the current approach to a value added policy, can have enormous impact on the economy in general, also generating employment opportunities in the country.

## **9.5 Bata: An Example of a Lost Opportunity**

Bata (along with Servis) had almost enjoyed a monopoly in footwear industry in Pakistan. The tables started to turn however, in the early eighties, when the market started to flood with foreign (imported and smuggled) shoes. Soon the competition was fierce, and started to change the "tastes" of the consumer market, in favour of the foreign products. As the market diversified (with more products and competitors), the local monopoly was broken, and Bata began to lose its market share. The impact of this competition can be realized from the fact, that today, Bata is "forced" to market imported footwear (and design) on its display centers to stay competitive in the market.

What led to this change. There are several factors that determined the fate of the local footwear industry, which include:

- Persistent “indifference” and complacency for the tastes and wants of the local market, due to the monopoly, that naturally did not last for the same reason
- Lack of innovation (in design, color, variety)
- Dramatic changes in trends, tastes and fashion, as a result of advancement in communication and commutation, and even media
- Failure to keep pace with the above changes, and to maintain “touch” with the consumer tastes and wants
- Fierce competition with foreign products that ultimately “shaped” the tastes of the local market
- Quality, variety and competitiveness of the foreign products

The local industry could have managed to perform much better in the above competition, because of “natural” advantages (lower costs, cheap labour and raw materials). However, due to its impaired entrepreneurial capabilities, the challenge proved too much for the industry.

## **10 Social Investment**

Economic institutions do not exist in a vacuum. They are part of a larger system called society. Thus social and economic development are not independent phenomena. In fact they positively correlated. Social factors such as education, poverty (or affluence), poor infrastructure, political uncertainty have a significant impact on economy.

### ***10.1 National Development and the Private Enterprise***

As highlighted above social or national development and economic growth are related. The emergence of the concept of public-private partnership in developed economies, is a manifestation of this socioeconomic reality. The efforts are directed towards social uplift, which is viewed as benefiting both the public and the private enterprise.

### ***10.2 Education***

Education is one area that has historically received maximum focus in the private circles of developed economies. Business and industry in the developed nations have been investing heavily in the sector over the past centuries. This investment has come in many forms: establishing quality

institutions, giving grants and scholarships and most importantly, facilitating research and development in the educational institutions.

The outcome of this social investment has played critical role in the socioeconomic advancement of these nations. Some of the fruits of this social partnership can be summarized as follows:

- Emergence of a scientific and rational mindset (out of middle or dark ages)
  - Intellectual advancement of the society, in general
  - High quality applied industrial research in the universities, that facilitates the industry, in the form of inventions, discoveries, and technological advancement and process improvement
  - Systematic and continuous development and emergence of a “class” of entrepreneurs in the society, through quality business schools established mainly by the private sector
- Research and Development

### **10.3 Institutions**

Institutions are the pillars of a socioeconomic system. Poor economies however have a frail institutional framework. No society (or economy) can make a sustainable advance without strengthening its social institutions. Private sector in this regard can therefore play a healthy role by realizing this social responsibility.

Institutional strengthening adds to the overall sustainability and stability of the sociopolitical and socioeconomic environment, which is indirectly translated to the strengthening of the economy itself.

### **10.4 Human Development**

South Asia accounts for nearly half of the total world population living in poverty. One in two South Asians is illiterate. The socioeconomic indicators of our region are alarming, making this region as one of the most underdeveloped regions from human perspective.

Keeping in view the significance of the human factor in the economy, it is clear, that Pakistan cannot make sustainable economic progress without seriously addressing its human issues.

Pakistan’s economy would continue to operate “under” its production possibility, without serious human development efforts. Raising the human level would positively enhance the socioeconomic growth potential of the Pakistani society.

Without a healthy, trained, skilled and fully developed workforce no economy in the world would be able to sustain and survive the global challenges that lie ahead in the 21<sup>st</sup> Century.

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