

PIDE Policy Viewpoint

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Promoting Domestic Commerce for Sustainable Pro-poor Growth

To frame the issue, two characteristics of Pakistan should be noted. First, Pakistan has a very large market of 160 million people. For decades, this fact has been ignored in policy because of the focus on production and exports.¹ Second, a large and growing population has now produced a huge youth bulge in the population which will work itself out for much of this century: 50 percent of the population is “under 20”.² Progress of the spread of education has been slow, leaving this bulge largely unskilled, and hence with limited employment possibilities.

Domestic commerce is the most pro-poor growth possibility in the country. Currently, it employs about 40 percent of the labour force and contributes about 52 percent to GDP. If it can be provided with an enabling environment, our estimates suggest that it could help increase the growth rate by at least 2 percentage points. In addition, a pick up of activity in this area would increase employment substantially. Following this agenda would need a huge increase in construction activity, strong development in hotelling, retail shop, transport, warehousing, storage, and other service industries. The employment impact of this would be far larger than through investment in any other sector.

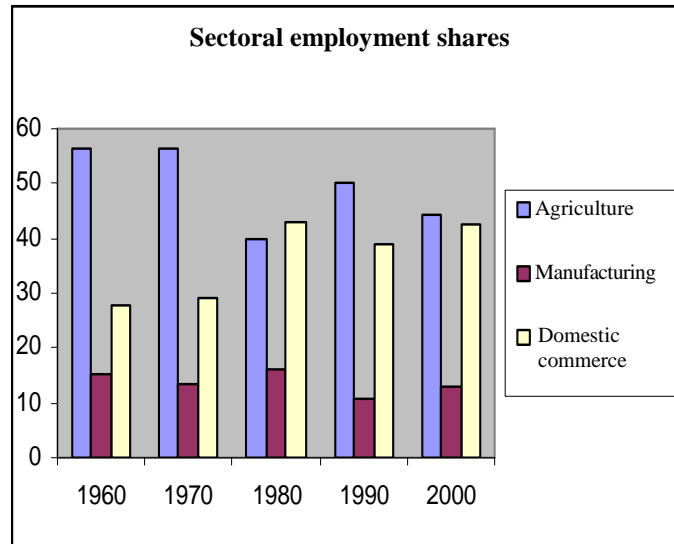
To fix ideas, recall that evidence from history testifies to the following five propositions:

Proposition 1. Trade is the original human activity that underpins all production and innovation. People have been trading through history, before industry and long before even settled agriculture and domestic commerce. Indeed, it is trade that facilitated all innovations including the industrial revolution. It may be

¹Nadeem Ul Haque *Beyond Mercantilism and Planning: An Evaluation of Pakistan's Growth Strategy*. Inaugural Lecture. PIDE.

²See Durr-e-Nayab “Demographic Dividend or Threat in Pakistan?” (Forthcoming) PIDE Working Papers 2006.

recalled that England was known as a “nation of shopkeepers” before the industrial revolution. Moreover, it was shop keeping and trade that propelled England towards empire.



Proposition 2. Open markets organise economic activity. Consumer demand is revealed in markets that are open and competitive. From that demand, producers learn of what needs to be produced. Industry and production that is not founded in such markets may not survive the test of time and competition.

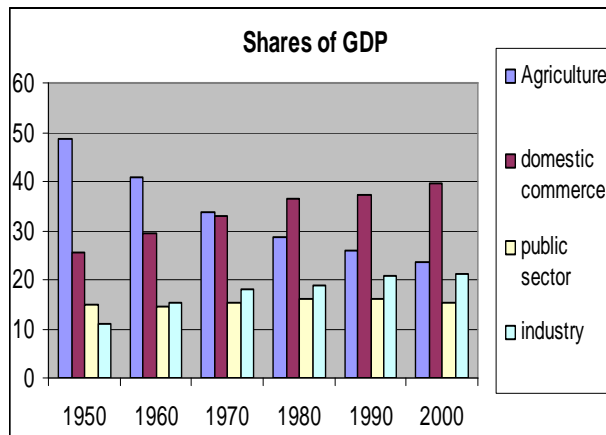
Proposition 3. Markets where consumer preference rules establish brand names. Local competition in open economies develops innovative business processes, branch networks, and growth of businesses. Brand names and innovative business processes are then exported overseas once they have stood the test of local markets. The idea becomes immediately obvious when one thinks of the following example: McDonald’s first established itself in Chicago. It was then exported beyond Chicago through Illinois and the U.S. Once established there, it went overseas.

Proposition 4. Industries organic to local trade and marketplaces are “survivors”. Put differently, industries that are satisfying local demand and are being continuously tested by local consumers will grow beyond local markets to become export entities. Industries that are only transplanted to a region and remain inorganic to the local market often die out when the subsidy or incentive that attracted them peter out. Production that is totally alien to local market does not take root. Numerous examples of this principle are available. Several efforts to transplant

industry to many African countries have failed. In our own backyard, the example of Kala Shah Kaku looms large on the GT Road.

Proposition 5. Trade has historically developed in cities and market towns which have been friendly to commerce. It is those towns and cities that have been friendly to commerce where innovation has taken place and where history has been made.

Pakistan has for too long had an unbalanced policy. We have sought to promote industry and export while neglecting domestic commerce. We need to end this anti-commerce bias.



Domestic commerce is severely constrained.³ Indicators of this repression are visible everywhere:

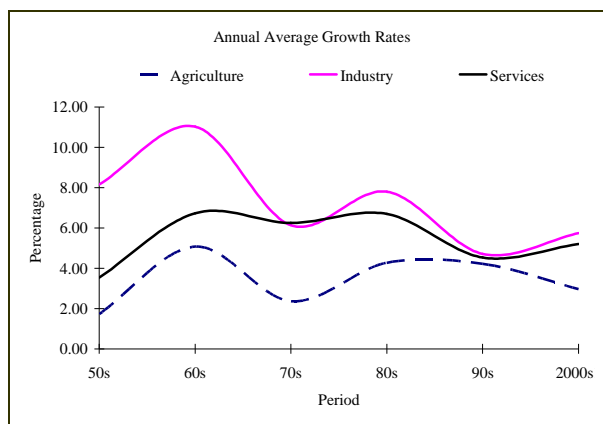
1. There is a huge excess demand of office space in every city in Pakistan. Evidence of this can be seen in every other neighbourhood, where bedrooms and verandahs of houses are being converted to offices.
2. Excess demand for retail space is visible in all marketplaces where even corridors and verandahs are being converted into cramped vending spaces. There is no room for large showrooms or well-stocked department stores. Warehouse space is lacking. In our cities, even space to this activity is not allocated. Vintage town houses of Shah Alam Market of Lahore, instead of being preserved as heritage, are devoted to warehousing. Storage remains a domain of the government. Indeed, an agricultural country like Pakistan should have a vibrant private storage activity, which in turn will help develop a forward and futures market, a development offering the farmer the much-needed hedging opportunities.

³Several consultations on 'domestic commerce' were held earlier this year by Nadeem Ul Haque. See Nadeem Ul Haque and Izzah Waqar *Domestic Commerce—the Missing Link*.

3. All our markets are in a very poor and dilapidated condition, making shopping a very uncomfortable and unpleasant experience.

What are the key constraints for domestic policy development?

1. As is well-known, property rights are weakly defined and enforced in Pakistan. Land titling is not secure. This makes it extremely difficult for any type of activity, including domestic commerce, to find space for development.
2. City zoning remains extremely unfriendly to domestic commerce. Not enough space is allocated to commercial activity. Even when it is done, the process of commercialisation is extremely cumbersome and expensive. Height restriction and density restrictions are also imposed. In short, commercial construction has been made prohibitively expensive.
3. Primitive tenancy laws that excessively protect the incumbent discourage commercial ownership and development.



4. In light of points 1-3 above, banks are extremely shy of financing commercial construction.
5. Agricultural markets remain highly regulated, with the government controlling prices, market space, storage, etc. Unless the government withdraws from this role, private agricultural marketing and storage will not develop. History shows that many of the towns in the Punjab began as small market and storage centres. We have to revive market and storage as an important activity in our small towns.
6. The Government has made a large number of industrial parks in the country. There has never been any effort at making retail offices and warehouses. Perhaps we should begin to think about this.

7. The law and order problem and contracting difficulties impact on activities like retail and warehousing far more than industry. We need a favourable environment for domestic commerce.
8. Many old markets are in a dilapidated state. Renovation of these could facilitate large employment as well as big pick up in activity.

What needs to be done?

Development is a city phenomenon and strongly founded on domestic trade. Of course, openness has to be maintained to allow cities to find their own depth and get the right signals from the international market. Such open cities and markets develop rapidly, learn from the global knowledge pool, and find business processes and brand names that can compete in the global market.

1. There is an urgent need to sensitise all cities and small town administrations about the importance of domestic commerce.
2. These administrations should review their zoning and commercialisation rules and regulations to facilitate and promote commercial development.
3. Every main town in every district should think about establishing the following:
 - (i) A market or a *mandi* for agricultural produce;
 - (ii) storage;
 - (iii) warehouses, modern shopping malls, and retail places;
 - (iv) upgrading outdated and old commercial activities;
 - (v) hotel and leisure spaces (theatres, cinemas, etc.);
 - (vi) sporting and culture;
 - (vii) small stalls, *khokhas* (kiosks), and *rehris* (barrows) in every area of the city;
 - (viii) offices and apartment blocks in close proximity of the shopping and business districts.
4. Commercial activities may be treated at par with industry in terms of taxation and other government policies.

Domestic commerce can also be made pro-poor by allowing the poor some space for entrepreneurship in all Pakistani cities as well as in all the best areas in Pakistani cities. Currently, none of the fancy markets, like Liberty in Lahore, or the Super Market in Islamabad, or the Defence Market in Karachi, has any space for

poor entrepreneurs. The question that needs to be asked is: How and why have Bangkok and Singapore found space for *khokhas* and small stalls (while we in Pakistan officially prohibit it)?

Domestic trade promotion will allow Pakistan to exploit its large market, as well as offer employment opportunities to a large and growing youth population in the country. For this reason, it is urgently required that a policy framework for the promotion of domestic commerce be adopted. It is also a matter of priority that all levels of government collaborate to promote domestic commerce.

*This Policy Viewpoint was prepared by
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References and other material are available on PIDE website: www.pide.org.pk