

Exclusive Interview



Mr. Nasim Beg

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ICMA: How can Pakistani manufacturers and exporters navigate current economic challenges to ensure sustained growth?

Nasim Beg: The challenges are both internal economic conditions, as well as the situation in countries we export to.

On the domestic front, the assured availability of energy at a price competitive to that of other countries selling in the target markets is critical. This will require manufacturers to attempt conversion to renewable energy to the extent possible. Some soft-term loans are also available from international lenders for such projects. In any event, many buyers now insist that manufacturers reduce their carbon footprint.

Another internal challenge is the increasing difficulty in finding skilled workers, as the number seeking jobs abroad has risen. To address this, providing a better work environment and competitive remuneration, along with training programs on the job, can compensate for the increased costs through a resultant boost in productivity.

The third challenge involves ensuring a reliable and timely supply of input materials. Some inputs are imported, and due to the extreme shortage of foreign exchange, imports are sometimes delayed. As a result, businesses may need to carry higher stocks of such inputs than normally required. However, this challenge is likely to be resolved with the increasing stability of the economy.

There is an additional challenge that has arisen recently transportation costs. Due to the enforcement of the axle load regime, the per-truck transportation capacity has been reduced. While the policy is based on proper rationale, it

has an immediate impact on transportation costs that are difficult to pass on, thereby reducing already low margins.

On the external front, most markets that we export to are experiencing high inflation and high-interest rates, initially due to the military action in Ukraine and followed by disturbances in transit through the Red Sea. Consequently, exports shall remain challenging, and only a reduction over time in these negative factors will provide relief. In the meanwhile, buyers are likely to be better served through stocking in locations near them.

ICMA: What specific strategies are needed to strengthen the resilience of manufacturing and exporting industries in Pakistan?

Nasim Beg: While the private sector has a crucial role to play in addressing the challenges, it is equally important for the government, which is grappling with a shortage of foreign exchange, to reconsider its taxation policy. Making it more attractive for manufacturing compared to nonproductive investments, such as holding real estate in anticipation of benefiting from price increases without engaging in any active economic activity, is imperative.

Manufacturing currently bears a significant burden of aggregate taxes, unlike holding real estate for a specified number of years, which incurs no tax on the gains. The industry also faces higher energy costs than domestic users due to cross subsidies. This burden is two-fold: first, through direct cross subsidies, and second, through capacity charges, as excess capacity is maintained primarily to meet higher domestic demand during the summer. It is unfair to impose the capacity charge on the industry.

Additionally, the government needs to reduce its expenditure to curb the deficit, which results in borrowing and has inflationary consequences, subsequently driving up inflation and interest rates. This situation renders us highly uncompetitive with other countries targeting our export markets.

ICMA: How can the manufacturing sector handle and overcome the supply chain disruptions?

Nasim Beg: Supply chains, especially for export items, cannot be created overnight. Most foreign buyers place orders after ensuring the supply chain meets certain standards. Nevertheless, the manufacturers have been working on alternate sources, including increasing of sourcing from domestic sources, as that protects them by reducing dependence on imports.

ICMA: How has AH Group maintained resilience in its diverse manufacturing sectors, especially during challenging times?

Nasim Beg: The Group has two industries in the manufacturing sector and one associate. These are cement, cold rolled steel and chemical fertilizers respectively. Our cement plant has to import coal as its heating fuel. We have taken several actions, firstly installed heat recovery equipment and convert the heat that was lost to the surrounding air, into electricity; next is solar energy of 7-megawatt electricity; we are also using several sources of agricultural and other waste for heating in lieu of coal. In addition, we are also utilizing locally mined coal. We have also stepped up our exports and our current exports exceed our import bill.

As regards, cold rolled steel, it is more challenging. One of the major buyers is the automobile industry which continues to suffer a slow down. In addition, a proliferation of new makes and models in Pakistan, has eaten into volumes enjoyed by the established assemblers, while new entrants are allowed to initially sell vehicles without and significant of local content. The cold roll steel products have been supplemented with galvanized steel, which also has a better export market. The company stepping up its efforts the export markets.

The fertilizer business is a major foreign exchange saver, as it is able to sell products at prices significantly below the prices of imported fertilizer. Had the government not formulated the Fertilizer Policies, under which the plants were set up, we would have had little use for the low BTU gas of certain gas-fields, which the fertilizer industry uses for raw material, the government would have been spending billions of dollars annually for importing fertilizers. In addition, the government would have had to subsidize the farmers billions of Rupees, in order to make their utilization feasible.

ICMA: How does the AH Group balance profitability and social responsibility within its manufacturing operations?

Nasim Beg: The Group sees overall sustainability and social responsibility as an investment and not a cost. We do not see it as a conflict in terms of profitability.

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ICMA: What regulatory or policy changes do you believe are necessary to encourage investment and growth in Pakistan's manufacturing sector amidst changing economic landscapes?

Nasim Beg: The key areas that we would like to see in terms of government policies:

- A complete overhaul of the taxation system is needed because the formal manufacturing sector is currently overburdened with taxes, while trade, agriculture, and the undocumented real estate sectors do not contribute taxes, or if they do, the contributions are not commensurate with their income.
- Ease of doing business. There is a fair amount of research produced by the Pakistan Business Council and the Pakistan Institute of Development Economics. The Government sets up task forces from time to time, but progress needs to be speedier.
- Consistency of government policies is critical for providing a stable business environment.
- And finally, disciplined economic policies are absolutely essential, to provide economic stability.

ICMA: Looking ahead, what do you foresee as the main challenges and opportunities for Pakistan's manufacturing sector, and how is Arif Habib Group preparing for these?

Nasim Beg: Looking ahead, we see greater emphasis on running efficient organizations and at the same time explore the possibility of increasing our export earnings, as well as import substitution, through domestic sourcing, as well as further development of renewable energy sources.

ICMA: What key steps should Pakistani manufacturers and exporters take to diversify and strengthen their position in global markets during economic volatility?

Nasim Beg: The key towards diversifying and strengthening exports, in volatile markets, is the higher efficiencies and excellent customer service.

The Editorial Board thanks Mr. Nasim Beg, Chief Executive Officer, Arif Habib Consultancy (Pvt.) Ltd. & Director, Arif Habib Group for sparing from his precious time to give exclusive interview for Chartered Management Accountant Journal.