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Nuclear Deterrence, CTBT and Pakistan

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Past few years have been outstanding in many ways for the emerging Pakistan's stock markets. Karachi Stock Exchange (KSE) index witnessed the all- time high by crossing the 2661 mark, yet deeply plunging back recently, representing erosion of some 40 percent capital worth of the market. There were major inflows of foreign institutional capital. Public listing of a score of new brokerage houses with foreign link-ups, the privatization of the Telecom, laying the foundation for a corporate bond-market and huge investment pledges in the private power sector, is some important features in the list.

The shift from straight debt securities to equities, mostly because of the widening gap between deposit rates and prevailing inflation rates, is a welcome move in our money market, as equity investment appears closer to Islamic norms among the available instruments. This positive response to equity market is not confined to Pakistan; other economies have also witnessed an unprecedented growth in this sector.

One can observe that the traditional role of banks as provider of funds is also undergoing a healthy change, as the banks are switching from simple debt business to portfolio management services. More and more corporations are examining the possibility of bond issues being a cheaper alternative to commercial borrowing. Most of these convertible debt instruments have features of equity by way-of convertibility option, that will eventually broaden the stock market base.

In the context of Pakistan's economy and its growth potential, all this represents an historic development and healthy change in the forms of business organization and management. More importantly it appears that the financial sector has found a way to overcome the inordinately high costs of an inefficient nationalized banking system which could not supply required capital to the growing and expanding areas of economy. The basic foundations required are now there: sponsors with legitimate funding demands have the option of share floatation; analytical and research capability for investors has been developed; global distribution capacity of share placement and liquid secondary market are all in place.

Inspite of these accomplishments there is much to be desired. The growth of capital market in Pakistan has been rather very slow and at times uncertain even erratic, which can be attributed to absence of a sound corporate culture in the country. In the contemporary phase, there is rediscovery of the role of stock exchange in the capital markets, yet for Pakistan as an emerging Muslim economy, the option has both positive and negative aspects. Various concerns related to the institution need be resolved. Above all the stock market has yet to establish its due role in resource mobilization and rational allocation of funds among different sectors of economy. On the one hand there is demand for necessary flexibility to attract internal and external resources, yet it has to be for development and not to act as a means of destabilization in the economy.

International linkages are being considered as positive development as they help fertilize the economy whose base is still very weak, yet too much reliance on foreign sources can pose serious dangers.

Stock exchange not only helps in resource mobilization but it has the dimension of transfer of ownership within the economy; this kind of trading however, mostly takes place without making real contribution and physical expansion of the economy. The explosive introduction of various derivatives and their excessive use with major speculative input has given rise to many apprehensions, as they have confronted the world with a situation where the balloon is expanding with little safety mechanism provided. That is why we see collapses like the one currently witnessed in Mexico, mainly because of the unscrupulous and speculation trend in derivatives. Both from the theoretical as well as practical viewpoints, such aspects cannot be ignored and warrant serious examination.

In the Pakistan caser there are other problems too. Ours is still a very small stock exchange with limited base and almost two third of the companies whose shares are traded, are not active, although they are property listed. The most recent downfall in the KSE index particularly over the past 4-5 months which has deprived the market of a sizeable capital, gives an indication of the potential instability which can pose serious problems.

With respect to foreign capital interest in the Pakistan market, we need also to be aware of the fact that the developed western countries wish to move the capital out to areas of cheap labour and raw material, because of their own socio-economic limitations particularly the fear of labour immigration from the third world -countries. Seen in the context of the New World Order, this new move is not a simple economic step, but is laden with far-reaching political and neo-colonial consequences.

Of foremost concern to us is the facts that as a country committed to an ideology, we must carefully see that the institutions developed, the policies pursued and the decisions taken, all fully conform to the tenets of Islam in letter and spirit. The religious, moral and ethical dimensions cannot simply be ignored. In this regard, the capital market as a whole, the stock exchange as an important capital instrument and its operation, derivatives, options, foreign capital and its terms, the question of 'Riba' and speculation and all such other pertinent issues are of prime relevance to us.

The seminar on the Emerging Role of Stock Market in Pakistan Economy, organized by the Institute of Policy Studies in collaboration with Network Securities and Services Limited, attempted to address most of these major theoretical and practical issues. The articles that follow in this issue which were presented by prominent subject specialists, attempt to examine the area both on the basis of economic performance as well as keeping in view the criteria of moral obligation, equity and justice.