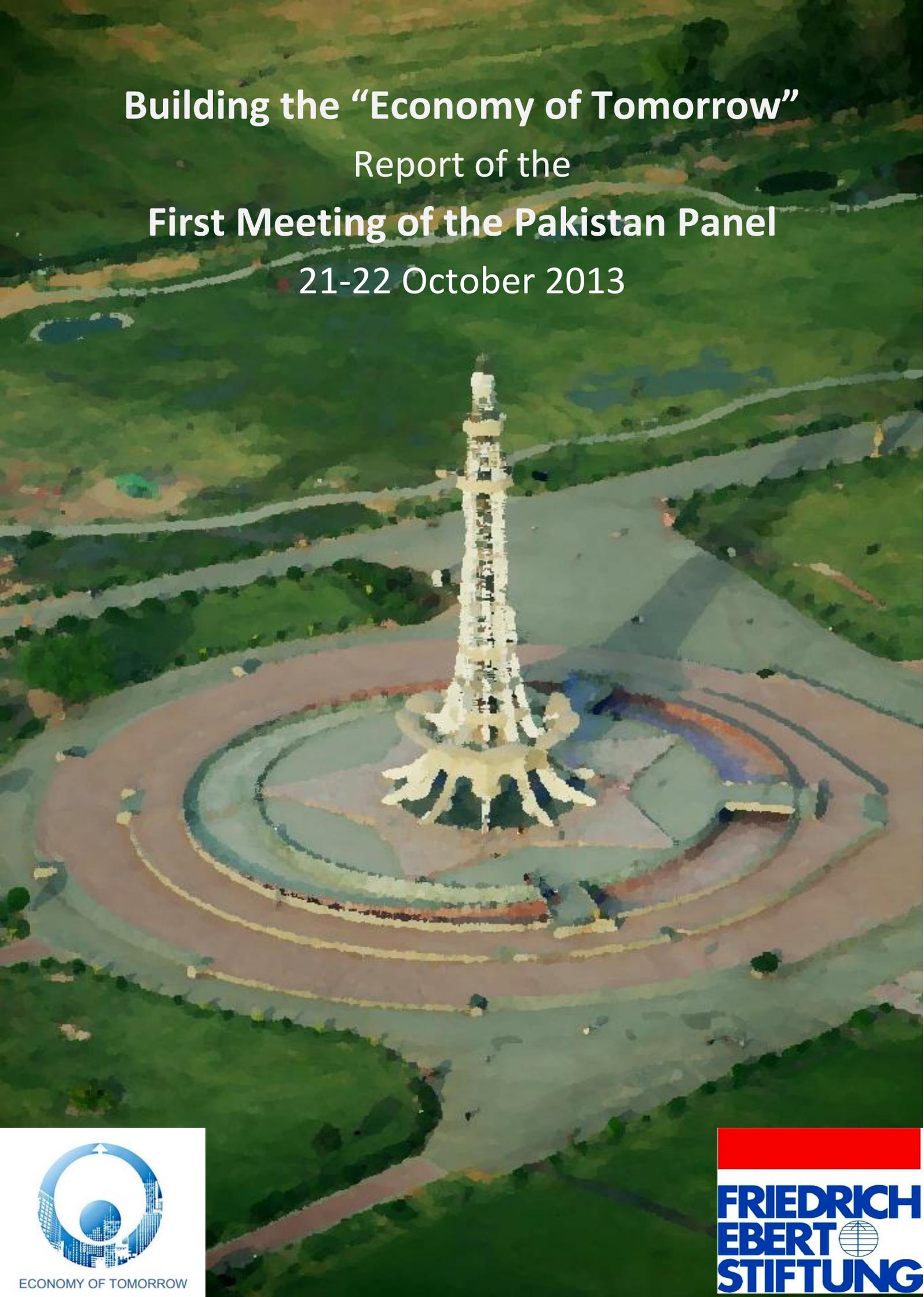


Building the “Economy of Tomorrow”
Report of the
First Meeting of the Pakistan Panel
21-22 October 2013



ECONOMY OF TOMORROW

**FRIEDRICH
EBERT** 
STIFTUNG

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Table of Contents

Title	Page
Background	04
Economy of Tomorrow (EoT) Project in Pakistan.....	04
Proceedings of Day 1:	05
Session-1: Opening	05
Proceeding of Day 2:	07
Session-2: General Macroeconomic Overview.....	07
Session-3: Income Distribution and Inclusive Development.....	09
Session-4: Green New Deal and Ecological Problems.....	11
Session-5: Future Engagement of the Panel.....	12
Programme of EoT Panel Meeting	14
List of EoT Panel	15
FES Pakistan Team	15

FIRST MEETING OF THE PAKISTAN PANEL ON ECONOMY OF TOMORROW

21-22 October 2013,
Islamabad

Background:

As countries globally try to address their fast-evolving political, economic, social and environmental challenges, there is a need to obtain consensus on new models at the country, regional and global scales, which can lead societies towards sustainable development.

To facilitate this process through dialogue and outreach to the national stakeholders, the Friedrich-Ebert-Stiftung through its offices in Asia and Europe initiated the Economy of Tomorrow (EoT) project and commissioned studies in several countries. Country reports of key Asian and European economies have appeared.

In Pakistan a panel of 10 experts with a convener was formed. This is the report of the first meeting in which the study authored by the convener was discussed by the panel in five sessions of which three were technical. It records the comments of the participants in each session, and how this process is to be taken forward.

A second meeting is planned in early 2014 when a consensus document will be taken forward for outreach to the stakeholders, starting with parliamentarians, top government official and workshops and conferences.

Economy of Tomorrow (EoT) Project in Pakistan

The Friedrich-Ebert-Stiftung (FES) has initiated the **Economy of Tomorrow** (EoT) project¹ for establishing a new development paradigm through a dialogue between Asian and European experts. These experts from various fields explore alternative models of development that can move societies on the path of socially just and sustainable economic growth.²

The project after identifying an alternative development path will establish coalitions with stake-holders for the struggle towards its successful implementation. The key questions discussed are:

1. What would be the main elements of the economic development model that can help overcome the economic, ecological and social crises?

¹ For more information on the regional project on the „Economy of Tomorrow“, please visit its website: <http://www.fes-asia.org/pages/shaping-the-economy-of-tomorrow-in-a-sustainable-way.php> .

² The Manifesto for this project is available at: <http://library.fes.de/pdf-files/bueros/thailand/10000.pdf>

2. Which discourse could help to level the political playing field for progressive policies?
3. On which platform could reform-oriented actors from diverse background join forces for the political struggles to achieve the new development path?

The FES-Pakistan has recently initiated the project with the formation of a panel of national experts representing academia, development sector, media, politicians and the government.

The first meeting of this EoT panel was held in Islamabad on October 21-22, 2013. The starting point of the discussion was a country study on Pakistan prepared by Dr. Hafiz A. Pasha, the panel's Convener.

This report provides a summary of discussions held during the five sessions, of which the middle three were technical.

Proceedings of Day 1:

SESSION 1: OPENING

The objective of the session was to formally introduce the initiative to key stakeholders such as government and the media. The session was chaired by Mr. Ahsan Iqbal, Federal Minister of Planning and Development, Government of Pakistan.

Elaborating on the background and objectives of the project, Mr. Philipp Kauppert, Resident Director, FES – Pakistan, said that the global financial and economic crises of recent years are of a political nature. They are product of financial deregulation, accumulation of public and private debts and subordination of democratic principles to the logic of capitalism. In order to overcome the economic crises and their social consequences, more coordinated and consolidated financial, economic and fiscal policies are needed. But this is hindered by the lack of capability and will in the political sphere within nation states, to deal with deregulated capitalism.

Beyond the economic crises lies a crisis of economic thinking and understanding. Neoclassical paradigm is coming to an end, but is still deeply embedded in the minds of thinkers and policy-makers. In order to develop forward-looking economic models, one has to understand the political economy of reforms in every specific context. For the purpose of change, platforms for the discussion of reform agendas have to be established; new alliances, including diverse stakeholders, have to be created. Alternative narratives and long-term visions with the ability to convince different groups of society are needed for

winning public debates and generating political pressure on decision-makers. We need to adopt an authoritative vision of development, i.e. a normative vision. In this context, the EoT model would serve the purpose of producing the conditions for a 'Good Society with full capabilities for all'. In order to achieve these conditions, the EoT development model is designed to promote equilibrium between steady demand and dynamic supply. Its core normative objectives - inclusiveness and sustainability - are at the same time the engines which drive qualitative growth. (See Manifesto: web-address given above)

Dr. Cyril Nunn, German Ambassador in Pakistan, thanked members of the panel for joining the efforts of FES to explore alternative models of development. He said that in order to achieve objectives of economic growth and development in the era of globalization, countries need to adopt strategies that are innovative as well as competitive. He also stressed the need to pursue the policies for absorption of skilled labour force in the markets.

Mr. Ahsan Iqbal, Federal Minister for Planning and Development, appreciated FES for initiating the EoT project in Pakistan. In his remarks, he said that institutions and systems of industrial age are breaking down. We are witnessing paradigm shift where new forces are making inroads and are changing conventional relationship between citizens and states, between work and organizations, etc. Normative vision of development is being talked about where local cultures and values come into the picture. Therefore, we need to revisit the old models and think about new models of development, which are socially just and sustainable. He termed the dialogue initiated by FES very relevant and timely as the government has just started a process of formulating a long-term development plan. He mentioned that major thematic areas of the plan include an integrated energy plan, modernization of infrastructure, mobilisation of indigenous resources, self-reliance, institutional reforms and governance, value addition in production sectors, export, and private sector-led growth while leveraging social capital.

Dr. Hafiz A. Pasha, Convener, EoT Pakistan Panel said that there is a need to focus on the futuristic thinking because in the backdrop of multiple crises in the country, Pakistan's youth seem to be losing faith in the future. It is therefore important to bring forward alternative development plans which are based on clear, realistic agenda and envisaging coalitions with a stronger civil society. He mentioned that the government is planning to hold an All Parties Conference on the economic reform agenda, which would be a good opportunity to present the civil society's perspective.

Remarks by the participants:

- Most important challenges to be faced include weak formal economy and a relative strong informal economy. There is also the incapacity of local and provincial

governments to take up the task of social development, particularly after the 18th amendment.

- Current development models have not worked for the people. We need to focus on alternatives that reduce disparities.
- Do we need a newly designed long-term plan or should efforts be made to fix basic problems in the short run?
- Another challenge is that the constituency for reforms is almost non-existent, both at government and societal level.
- Public discourse in the country is predominantly political. We have very little debate on economic issues. Therefore, this exercise would be a good opportunity to promote discourse on core economic issues at the societal level.

Proceedings of Day 2

SESSION-2: GENERAL MACROECONOMIC OVERVIEW

Dr. Hafiz A. Pasha provided a detailed overview of Pakistan's economy, mainly focusing on the implications of current IMF programme. Over the past six years, the economy of Pakistan has been characterized by low GDP growth, low investment and savings rates, high inflation, and high fiscal deficit. In the current scenario, the most dominant issues include the fragile external account situation, the burgeoning fiscal deficit and the severe energy shortage. For the current IMF programme, the government has implemented a number of major 'prior actions' including raising tax rates, escalating power tariffs substantially and allowing the rupee to depreciate by almost 6 percent. Given the steep targets of macroeconomic stabilization and the performance of government during first quarter of fiscal year, July-Sept 2013, Pakistan is unlikely to achieve the targets. In pursuance of stabilization, there is a real danger that the programme will intensify the process of stagflation – combination of stagnant economy and severe inflation. Moreover, the fiscal adjustment will impose a disproportionate burden on the lower income groups and exacerbate poverty.

Dr. Pasha also presented an outline of alternate reforms and contingency planning, which included implementing a policy of import compression, seeking more frontloading of releases from IMF, cuts in development expenditure excluding power and water sectors, further cuts in non-salary expenditures and posing a tight limit on overdraft to provincial governments. The proposed actions for import compression include withdrawal of statutory

regulatory orders (SROs) that create loopholes in the tax system, regulatory duty on non-essential imports, and raising import margin requirements.

Summary of the discussion and remarks arranged under themes:

Reform Process

- Pakistan's track record and credibility in initiating and implementing reforms has not been impressive. In the past, some technocrat governments wanted presence of IMF to keep check and balance on political economy. That is why the IMF has come up with strict conditions for the current program. However, it appears to be an ill-designed reform program, which is likely to impact more the lower income groups.
- The reform program merely gives some breathing space for improving balance of payments but does not address the root cause of the problems, correcting which would alleviate macroeconomic imbalances.
- The program would result in lowering growth rate of GDP. Few episodes of higher growth in the past have not sustained. This is due to the absence of effective structural and institutional reforms. The growth in the country has not been equitable. The bulk of the benefits of higher growth have gone to the rich, creating more tension in the society.
- There was no effort made for coalition building and political ownership of reform by the political parties. It did not go through the parliament and there was no political consensus on the contours of the program. Moreover, the program has used political capital of the government in the first few months (such as raising electricity tariff and petroleum prices), which was a wrong move.

Jobs and Lower-Income Group Protection

- The program needs to be designed in a way that the burden of the adjustment falls on the rich segments of society rather than hurting the lower income groups.
- Any contingency plan needs to be modelled carefully so as not to have negative impact on creation of jobs.

Expenditures

- As for the cuts in development expenditures, they would certainly have negative impact on jobs. There is already enough space of realignment in federal Public Sector Development Programmes (PSDP) and provincial Annual Development Programmes (ADP) in terms of multiplicity of projects that can be rationalized.

- While there is no disagreement on the issues that limit of overdraft to the provinces should be tightened up, it is also important to impose a tight limit on overdraft to public sector enterprises such as Pakistan International Airlines, Pakistan Steel Mills, Pakistan Railways, etc.

SESSION–3: INCOME DISTRIBUTION AND INCLUSIVE DEVELOPMENT

In his presentation, Dr. Pasha provided a detailed analysis of trends in income inequality, regional inequality, unemployment and poverty. Commenting on the redistributive aspects of fiscal policy, he said that over time the share of direct taxes has fallen while the share of regressive indirect taxes has increased. On the other hand, there has been some success on the expenditure side such as increased outlays for social protection programmes and enhanced transfers to provincial governments under the National Finance Commission (NFC) award that led to increased provincial budgets for the social sectors.

He stressed the need for reform focusing on taxing the rich. Some of the proposed measures include development of agricultural income tax as significant source of revenue, higher taxation on capital gains, broadening the base of withholding taxes, broadening the base of provincial sales tax on services and withdrawal of tax expenditures.

Inclusive growth will hinge upon effective delivery of social protection programmes and increase in agricultural production. Supply constraints in agricultural such as irrigation water, substantially higher prices of fertilizer and shortage of electricity for operating tube-wells will have to be addressed to tackle the crisis of food security.

Summary of the discussion and remarks arranged under themes:

Overarching Issues

- The big challenge is about how to address the issue of power structures and political interests, which actually determine policies. It is very important to address all these issues at a structural level.
- When we talk about reform process, the much larger, important issue is of the rule of law. If the state is unable to implement its decisions and policies and is unable to establish its writ then no reform can be effective.
- Economic growth rate alone cannot explain development, which is multidimensional in nature. We therefore need to have a broad-based criterion for evaluating performance of government and programmes. For example, issues such as malnutrition, child mortality, enrolment rates, etc. need to be highlighted and discussed in the public

domain. Moreover, the role of communities in governance and development needs to enter public discourse.

Labour and Social Protection

- From a bottom-up approach of inclusive growth, labour issues are not a priority of any government. Home-based workers are not protected.
- With poverty increasing at the current high rate, then social protection programmes will not be able to cover even the yearly increase in the number of poor people. Moreover, there are issues of effective targeting in the Benazir Income Support Programme (BISP) where the manner in which poverty score cards were developed was problematic. There is no rational debate taking place on these sensitive issues because the social protection programmes are politically driven.
- Over the last few years, there has been a trend of spending more on social protection but at the same time the net development expenditure on social sector has been slashed.
- The social dimensions of inequality are very important. It is not merely an economic problem but is connected to the way people are positioned in a society. We need to make connections between economic and social analyses and put these issues in a broader political and social context.

Provincial Issues

- The whole discourse is usually on the performance of federal government. After the 18th amendment provinces have gained greater autonomy. Therefore, we need to address the issues of accountability of provincial governments as well.
- Many youth programmes were announced at a time when the capacity to implement them was absent. These seem to be politically motivated. These programmes were announced at the federal level when youth affairs are now a provincial subject. As no ministry caters to the youth affairs at the federal level, these programmes should have been initiated in the provinces.

Gender

- Gender issues in income inequality and employment need to be highlighted. Earlier research shows that structural adjustment programmes have had a direct impact on women entering into labour market. More recently, the trend has amplified.

- We have to look into the positioning of women in labour market. When women enter into the labour market, there are gendered relations that determine their positioning. We have to find out ways to address issues of the sexual division of labour. In our society, women are not prepared to be workers. Domestic labour is not accounted for as productive labour despite the fact that it has economic value.

Project

- As far as the long term solutions of energy crisis are concerned, we cannot afford to avoid debate on hydropower projects such as Kalabagh Dam and others.

SESSION-4: GREEN NEW DEAL AND ECOLOGICAL PROBLEMS

Dr. Pasha highlighted a number of environmental and ecological problems facing Pakistan. These include an emerging water scarcity, rapid deforestation, rising air pollution and increasing vulnerability to natural disasters. He also deliberated on the governance issues of environmental protection and policies related to industrial growth and the power sector. He emphasized the need for greater and effective role of provincial governments in environmental protection, effective measures for energy conservation, diversion of gas to the power sector, and to more efficient plants and investment in coal and renewable energy. Waste-to-energy, bio fuels, geothermal, wind, bagasse and solar were mentioned as important alternate sources of energy.

Summary of the discussion and remarks arranged under themes:

Government

- We need to highlight the need for ecological budgeting. One of the symbolic gestures from the government could be to present the ecological budget before the financial budget is presented. However, the limited capacity of government officials' understanding of and ability for dealing with green economy issues should be kept in mind. There is a need to make efforts for making government officials more sensitive to environmental problems.
- Environment is now a provincial subject and Environmental Protection Agencies are under provincial control. There have to be some accountability mechanisms. If there are funds transferred from the federal government for environment related projects, it should hold the provinces accountable.

- For controlling deforestation, we should learn from the international experience of strict accounting of natural capital. For example, countries like Malaysia, South Korea, Vietnam and Cambodia have started registering every tree at birth. Theft of trees is traced and is punishable.
- The connection between poverty, population growth and ecology needs to be incorporated in the plans and implementation of the programmes. The role of the state is of course crucial in mainstreaming environmental issues.

Global and Regional

- Environmental and climate change issues extend beyond political borders. These problems are directly connected to the problems and challenges of social justice for people most affected by the climate change who live in poor countries. This global challenge requires active global networks for exchange of ideas.
- The most important issue is to reconceptualise the discourse on green economy. The conventional way has been to talk about the issues within the perspective of environmental economics, which is based on neo-classical cost-benefit approach. On the other hand, the ecological economics approach sees the human ecology as a sub-system within a global ecosystem. It is vital for us to see the economy not as the predominant factor of growth but to see it as part of a much larger reality and then to be appropriately humble and respectful of natural resources.

Miscellaneous

- There is a need to highlight pro-growth elements of green economy.
- There was talk about financial capital, social capital and human capital but the term natural capital was completely missing from the discourse.
- Alternative nomenclature may be used for the title of this session by avoiding coupling of growth with the term green, by titling it Green Polity and Good Economy.

SESSION-5: FUTURE ENGAGEMENT OF THE PANEL

The discussion in this session focused on the composition of the panel, national and international events and interaction with key stakeholders including policy makers, civil society and media.

The summary of remarks and decisions made is as follows:

- There will be an expansion in the size of panel. Three more members will be inducted to represent rural Sindh, the agriculture sector and the industrial/corporate sector.
- Consideration will also be given to achieving more gender equality in the composition of the panel.
- It was felt that a substantial amount of additional work has emerged from the discussion. The draft report on the Economy of Tomorrow presented in the meeting will be revised in the light of comments and suggestions made during the meeting. Terms of reference will be developed for upgrading the current draft report. The revised draft will be prepared in next 6-8 weeks.
- The next meeting of the panel will be held in mid-January 2014 after preparation of the revised draft. A consensus document will be developed during this second meeting. To avoid distraction, the meeting's venue will be a remote place.
- Once the consensus document on key issues is agreed upon, the process of interaction and engagement with relevant stakeholders will be initiated. The process of policy engagement may start with interactions with concerned government officials at national and provincial level followed by a series of meetings with ministers and relevant parliamentary committees and finally aiming at holding meetings with Chief Ministers and the Prime Minister. The whole process may take about a year but it needs to be initiated immediately after the next meeting.
- The annual conference of Pakistan Institute of Development Economics (PIDE) is being held in December 2013. Discussions have been held with PIDE to devote a session for the panel on the Economy of Tomorrow in the conference. The members of the EoT Pakistan Panel may represent each of the four subject areas, preferably those who have chaired the sessions in this meeting. (Two of the four subject areas were combined into one technical session in this meeting.) Similar arrangement can be made for Sustainable Development Conference being organised by the Sustainable Development Policy Institute (SDPI) in December 2013.
- FES plans to hold a regional conference in February/March 2013. Authors of case studies from India and Bangladesh along with other experts from Asia and Germany will be invited.

Programme of EoT Panel Meeting:

Monday, 21st October 2013, Marriott Hotel, Islamabad

6:30 – 8 pm

Welcome note, background and objectives of the EoT Project:

Mr. Philipp Kauppert, Resident Director, Friedrich-Ebert-Stiftung, Pakistan

Remarks by the German Ambassador:

H.E. Dr. Cyril Nunn, German Ambassador

Address by the Chief Guest:

Mr. Ahsan Iqbal, Federal Minister for Planning, Development and Reforms

Government of Pakistan

Challenges of Inclusive growth in Pakistan's Economy

Dr. Hafiz A. Pasha, Convenor, EoT Pakistan Panel

Perspectives of the panel members and concluding remarks

Tuesday, 22nd October 2013, Marriott Hotel, Islamabad

9.30 am – 4 pm

Chair: *Dr. Muslehuddin*

Session-I: General Macroeconomic Overview

Presentation: *Dr. Hafiz A. Pasha*

Discussants: *Mr. Sakib Sherani*

Prof. Asad Zaman

Other Panel members

Session-II: Income Distribution and Inclusive Development

Presentation: *Dr. Hafiz A. Pasha*

Discussants: *Dr. Saba Gul Khattak*

Dr. Farzana Bari

Other Panel members

Chair: *Mr. Javed Jabbar*

Session-III: Green New Deal and Ecological Problems

Presentation: *Dr. Hafiz A. Pasha*

Discussants: *Dr. Vaqar Ahmed*

Other Panel members

Session-IV: World Market Strategy and Protection from External Shocks

(postponed to next EoT panel meeting in 2014)

Chair: *Mr. Philipp Kauppert*

Session V: General evaluation, outlook and future engagements

Presentation: *Dr. Hafiz A. Pasha* (10 min.)

Discussants: *Mr. Ahmed Bilal Mahboob* (5 min.)

Mr. M. Ziauddin (5 min.)

Other Panel members (20 min.)

Concluding remarks and words of thanks

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