



SDPI
Sustainable Development Policy Institute



Building the Economy of Tomorrow A project synthesis report

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- The objective of this report is to package results and messages of several publications and dissemination events of our project on “Economy of Tomorrow”, organised during the last couple of years. The project initiated by the FES offices in Asia and Europe in the aftermath of global financial crisis that had compounded economic, ecological and social challenges in most of the societies – is aimed to develop alternatives to the prevalent economic models with such socially just, resilient and green dynamic growth policies that can move societies onto a path of inclusive and sustainable development.
- Pakistan has experienced mixed results in socio-economic upgrading with fewer instances of progress amidst generally under-par and inconsistent growth performance in maintaining internal and external balance. That has not served a rising young population and workforce well enough as evidenced by low-levels of human development, with sharp variances in availability and accessibility of opportunities and achievements. The deteriorating quality of institutional and governance performance is another important context for declining social and economic standards.
- This report attempts to summarise in a simple and easily comprehensible way that: socially just growth is driven by fair incomes and inclusion of all talents; resilient growth is driven by stability in the financial sector and natural environment, with balanced fiscal and trade policies; and green dynamic growth is driven by greening the economic processes and green innovations.

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1. BACKGROUND

As we write this report, the country has experienced an above 5 per cent economic growth rate for the last two fiscal years on the back of improved energy availability and infrastructure investments under China-Pakistan Economic Corridor (CPEC).¹ Some uptick in Pakistan's foreign direct investment (FDI) and exports has also been observed recently.

However, growth has also given rise to private and public consumption and imports, which in turn have increased both fiscal and current account deficits. The recent erosion in foreign exchange reserves also saw pressure on Pakistani rupee, which devalued against major global currencies. This, coupled with expectations of further increase in oil prices and supply side bottlenecks, has given rise to inflation in recent months.

Pakistan's upcoming debt repayments are also a source of concern. The recent decrease in the value of currency has added over PKR 1 trillion to the stock of public debt. The overall debt-to-GDP ratio at over 70 per cent is at a 15-year high level. The buoyant aggregate demand and growing appetite of imports has forced the country into short term borrowing from China as well as raising funds through Euro bonds and Sukuk. A credit facility for deferred payment for imported energy is also being negotiated with Saudi Arabia and Islamic Development Bank (IDB).

Given that the exports, remittances and FDI could not offset growth in imports, the previous and caretaker governments did try to apply brakes by using both fiscal and monetary policy measures to check the aggregate demand (and thereby imports). The full impact of such measures can only be seen after a certain period of time.

Of the few challenges for the new government, the foremost would be the management of various pressures on the economy. The key goal should be to keep the prices of goods (and factors of production) stable. Currently, there is a growing gap in the rupee-dollar parity, arranging a short-term breather to fulfil the upcoming debt repayment obligations by end-2018, reducing losses of key public sector enterprises including, the energy sector's growing circular debt, and help keep electricity and gas supply outlook for the industry as predictable as it can be.

To manage aggregate demand, some medium-level measures would also be required. On the fiscal side, the government has reconsidered reduction in tax rates and vast number of tax preferences and exemptions allowed in the outgoing government's budget. On the non-development expenditure side, there is a room for belt tightening, which will require a strong political will.



1. Most part of this paper is based on the inputs from stakeholders who participated in the 'Economy of Tomorrow' programme consultations held in Islamabad, Lahore, Peshawar and Karachi during February – June 2018. Sections and excerpts have been borrowed from FES papers by Hafiz A. Pasha, Vaqar Ahmed and Ali Khizar.

With the recent and the perpetual challenges to the economy, how to move towards stronger, just and sustainable economic fundamentals, is one of the major questions. By drawing conclusions from over a dozen consultations on the 'Economy of Tomorrow' (EoT), this report points towards certain responses to critical emerging questions. The EoT initiative acknowledges that in the wake of economic, ecological and social challenges across countries, a consensus is building for the need of new models to lead societies onto the path of sustainable economic growth. Reaching at a consensus on the new models requires deeper understanding of economic discourse and the political economy of reforms in countries, regions and at a global level.

It is in this context the Friedrich-Ebert-Stiftung (FES) and Sustainable Development Policy Institute (SDPI) initiated the Economy of Tomorrow (EOT) programme by bringing together economic thinkers from within and outside of Pakistan. The

aim was to exchange ideas for building up the schematics of an economic model for a socially inclusive, financially sustainable and ecologically dynamic growth to produce conditions for a good society with full capabilities for all. The crucial objective was suggesting ways and means to promote a public and policy agenda for the newly required development path, keeping in view the multi-dimensional challenges facing the economy.

The report is organized as follows: the next section provides key short-term measures required to maintain macroeconomic stability. The third section then persuades the readers to drift away from the traditional approach of economic policy management in the country and embrace a medium-to-longer term reforms agenda. We provide specific policy proposals to help expedite some of the pressing structural reforms facing economic growth, fiscal policy, energy sector, labour market and social sectors.



2. SHORT TERM: DEMAND MANAGEMENT

During the short-term, one needs to understand the specifics of the exact phase of business cycle Pakistan is currently passing through. Most analysts believe the country is somewhere between the recovery and expansion phase. Our goals should be to maintain stable prices of goods and factors of production, so that a solid ground can be created for sustainable growth in national incomes and a higher standard of living. Both the fiscal and monetary policies can help here. As regards the former, the economic management has to focus as to what kind of changes to the tax system are required? How can expenditures be saved, prioritized, and sequenced? The later one identifies measures that broadly support investment and address supply side imperfections.

2.1 FISCAL POLICY MEASURES

- Broadening of tax base and overall improvements in tax administration²
- Keeping the current expenditures of the federal government constant for two fiscal years
- Keeping the national Public Sector Development Programme (PSDP) constant for the next two fiscal years
- Stronger prioritization of federal PSDP with

an emphasis on completion of projects in CPEC, Water and Power sectors

- Ensuring prudential fiscal management by the provincial governments, and generation of a combined surplus of at least PKR 200 billion each year
- Targeting at least 80 per cent of the financing of the consolidated deficit through domestic sources
- Distribution of bank borrowing with two thirds from commercial banks and one third from the SBP
- Clear refunds to exporting entities, currently with Federal Board of Revenue (FBR)

Along with the above-mentioned policy measures, and to slow down the growth of the aggregate demand, the government will need to restrict non-essential imports through the least distortive ways possible. The instruments that may be used include an increase in customs and regulatory duties on non-essential items.

2.2 MONETARY POLICY MEASURES

- Ensuring that the policy rate of the SBP is at least three percentage points above the core rate of inflation



2. Specific measures are explained in detail in Pasha, H. A. (2018) Growth and Inequality in Pakistan (Volume-I). Friedrich Ebert Stiftung.

- Ceiling to borrowing, with federal government guarantee, by Public Sector Enterprises (PSEs)
- Tax incentives for diversion of the incremental credit of banks to the minimum extent of one third to exports, agriculture and small-&-medium-scales enterprises (SMEs)
- Enhancement in rates of return of national savings schemes to ensure a minimum return of 3 to 5 percentage points, depending upon the period of maturity
- Allow market-determined exchange rate with no State Bank of Pakistan (SBP) intervention

Civil service reforms are at the core to cut down administrative expenditures. After the 18th Constitutional Amendment, subjects devolved to the provinces are still operating in some capacity at the federal level to absorb all the existing civil servants and contractual employees. These duplicate functions should be abolished, and the resources thus released should be deployed in neglected areas.

2.3 A PLAN FOR AUSTERITY

Expenditure tightening would also be required. For example, the current expenditure of the federal government can be greatly reduced through a reduction in the number of ministries, addressing duplication of schemes in PSDP, curbing losses of public sector enterprises, and arresting the growth of circular debt in energy and other sectors.



3. LONG TERM: ENVISIONING AN INCLUSIVE, JUST AND SUSTAINABLE ECONOMY

Pakistan's economy in the longer run, unfortunately, finds itself in a low-growth equilibrium. Investment and savings rates remain in the vicinity of 15 per cent of GDP. For several years during the past two decades, Private Investment to GDP ratio has struggled to find itself in double digits. The gross fixed capital formation to GDP ratio in key sectors, such as large -scale manufacturing remained low. Likewise, the export to GDP ratio has also struggled to pick up with hardly any success.

Lack of growth was often accompanied by macroeconomic imbalances, including a low tax to GDP ratio, growing expenditure requirements, in turn, exacerbating fiscal deficit. This prompted a growing reliance over time on both domestic and foreign debt. Another key imbalance was in the shape of growing trade deficit overtime.

What kind of an economy do we want? The simplest answer is to pursue for an economy that helps Pakistan achieve its commitments under Sustainable Development Goals (SDGs). Our target should be looking for answers to queries such as the structure and pattern of consumption and investment. How to attract or divert local and foreign investment resources to help human resource development and competitiveness? The following are some specific proposals for the

promotion of inclusive growth, social justice and sustainability.

3.1 PROMOTING INCLUSIVE GROWTH

To maintain the momentum of newfound growth in the country and to make it more inclusive, we provide specific recommendations for agriculture and industrial sectors. In the case of the former, a plethora of incentives have been given in the past. Without going into the details of these incentives, it is important to understand that such short-term agricultural uplift packages cannot be an answer to structural problems faced by agriculture.³

3.1.1 PRODUCTIVITY IN AGRICULTURE

The problems for the agriculture sector include: a) rising input costs faced by the farmers; b) indirect taxes on inputs and farm operations; c) subsidies and support price benefits not reaching the poorest of the poor in the farming sector; d) lack of innovation in seed varieties; e) absence of technology to modernize crop harvesting, cultivation, storage and marketing; f) weak access to agriculture credit; and g) climate degradation and water shortages threatening the irrigated lands.



3. This section also draws from SDPI's public private dialogue series conducted during 2016 and 2017 to look at binding constraints to economic growth and issues faced by the private sector due to lack of tax harmonization across provinces. The dialogue series also received technical support from resource persons belonging to Centre for International Private Enterprise and World Bank Group.

In order to reverse this dismal situation, it is important to put in place a carefully formulated long-term plan for the revival of this sector. The Planning Commission, Ministry of National Food Security and Research (MNFSR), provincial agriculture and agriculture extension departments, and provincial planning and development departments are best placed to collaborate and put forward a comprehensive national plan for the approval by the Council of Common Interests and the Parliament.

The plan should then be backed by protected budgetary allocations at the federal and provincial levels. These departments should seek inputs from the academia and think tanks having latest research in various aspects of the agriculture sector.

Fragmented governance and weak monitoring mar the effectiveness of current subsidies in the agriculture sector. The recently announced budgetary measures (by federal and provincial governments) for farmers are overlapping, which clearly indicates that the budget formulation at the federal and provincial level is not congruent.

The MNFSR should compile an inventory of all production and export incentives allowed to the agriculture sector and carefully evaluate duplications. It should also update information on leakages due to which various subsidies (and even

support price facility) are not reaching the most deserving in this sector.

Not all subsidies are good for agriculture. The untargeted, hidden and cross subsidies in the agriculture sector only benefit the rich and should be gradually phased out as they are leading to undesirable cartels at several places in the supply chain.

The financing of agricultural subsidies through domestic borrowing from the banking and non-banking sectors leads to increase in domestic debt, which, in turn, increases fiscal deficit and brings about inflation. There should be a threshold for the allocation of subsidy subject to parliamentary approval.

All subsidies should be time-bound and strictly targeted towards the poorest of the poor farmers. How would this happen, as the poorest farmers work for subsistence. They do not produce marketable surplus whereas major subsidies like support price can only help bigger farmers. In any case, a mechanism should be worked out to enhance rural incomes through non-traditional productive activities. Where required, the deserving poorest farmers can be approached if District Coordination Officers (DCOs) start maintaining a computerised list of farmers and their production. A census of the poorest farming units is already available with Benazir Income Support Programme



(BISP) and can help in better targeting potential beneficiaries.

The government needs to reduce the burden of indirect taxes on farmers. A key example is how the benefit of lower international oil prices was not fully passed on to the agricultural community. The high effective general sales tax rate (GST) on diesel (also used for tube wells and tractors) and kerosene still remains on the higher side. This is preventing the costs to come down. Apart from GST, there is a high incidence of customs duty and regulatory duty in the agriculture sector.

The public sector, as a whole, also needs to review its interventionist role in agriculture markets. For example, the government continues to have a heavy footprint in the wheat market. Its involvement in price setting, procurement, import, support to inputs and inter-provincial transfers of wheat, is distorting the farmers' incentives and is a classic example of conflict of interest. The relevant standing committee in the parliament is best placed to look into such distortions.

Research efforts that can help reduce operational costs in the crop sector should be stepped up. Pakistan's low yield is attributed to traditional approach in harvesting and cultivation. Biotechnology can help ensure food security and revival of growth in cotton, wheat and rice.

Modern technology for commercial farming can

increase the economies of scale. However, decent research will not reach potential beneficiaries unless our agriculture universities, centres of excellence, and agriculture extension departments synchronise their efforts. A study by Sustainable Development Policy Institute (SDPI) reveals that these entities continue to remain in silos resulting in low socio-economic impact of their academic endeavour.

Research has to be translated into capacity-building initiatives and outreach programmes for farmers. This is where agriculture universities and research centres will need to work with relevant federal ministries and provincial departments, as well as associations representing the farming community.

Climate change is now threatening the efforts and incentives of our farmers. The effects of climate change can be seen in droughts, floods and changing temperatures. There is low allocation in the budget for sustainable water management. Climate change has also rendered the existing seed obsolete. Greater research and commercialisation efforts need to be focused on producing the heat and water stress -resistant seed. Private sector enterprises can be incentivised through timely implementation of Plants Breeders Rights Act.

Offering Timely and formal credit to farmers remains a challenge. The government will need to



review the mark-up rates offered to farmers on a regular basis. Private commercial banking sector also needs to be encouraged through interventions from the Ministry of Finance and State Bank of Pakistan to increase micro credit in the agriculture extension. Innovations in banking system are also required to attract farmers towards a formal credit regime and away from informal money lenders as well as to sell their product through grains futures market instead of middlemen.

There are weak incentives for small and medium farmers to increase yield. This is attributed to lack of storage and warehousing facilities. Even after a bumper output, it becomes difficult to safeguard against the harvested crops from moist. An enabling warehousing infrastructure at the local level should be facilitated by the public sector. However, infrastructure investments are not affordable at the level of most provincial governments. This, therefore, should be supported under the federal PSDP or more ideally through public private partnerships.

Finally, the rising population will continue to fuel the demand for food. In order to service this basic right of all citizens, the state will need to allocate appropriate and sufficient public expenditure. The budgetary allocation for food security, particularly in the poorest districts, should be enhanced. This will also give a boost to the smaller farming entities in these districts.

A revision of Fiscal Responsibility and Debt Limitation Act should protect food security allocation and direct these protected expenditures towards the poorest districts in the country. One additional criterion for selection of these districts should be malnutrition.

The government should also revisit the zero-hunger programme, which was halted due to budgetary constraints. Under this programme, the MNFSR had envisaged to reach a total of 61 million food-insecure people across the country. The plan included support to food-insecure households, food support in the disaster-hit areas, expansion of farm outputs and market access, improved nutrition, quality of food intake (fortified food), diversification of food, food processing industry at the community level, and food security surveillance.

3.1.2 COMPETITIVENESS FOR MANUFACTURING INDUSTRIES

In the case of Industry, the starting point should be to address factors that are preventing the ease of doing business in the country. 'Doing Business' Report by the World Bank covers 11 areas of business regulations across 190 economies. Ten of these areas — starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting minority investors, paying taxes, trading across borders,



enforcing contracts and resolving insolvency — are included in the distance to frontier score and ease of doing business ranking. Pakistan is ranked among the lowest at 147 out of 190 countries covered. Equally important is to address areas that have kept our global competitiveness at depressingly low levels. During the past five years, Pakistan's average score was 3.48/7 for the Global Competitiveness Index, which reflects inadequacies in the system that encourages competition. The businesses that are competitive nationally can compete better in the global markets. The anti-competitive conduct reduces productivity and the benefits to consumers that may arise of competition. Consequently, the actual worth of economic growth for the larger society becomes questionable in the presence of growing inequality that reduces the actual market size and aggregate demand.

Second, we need to refrain from distortive and regressive changes in the tax regime. Most tax payers today are not complaining about the actual financial burden of taxes, but the costs associated with the compliance with various taxes. In our bid to increase tax revenues, we ended up burdening the existing taxpayers, i.e. salaried-class and industry in the formal sector.

The arbitrary imposition of withholding taxes (on utilities, traded goods, information and communication technologies, banking

transactions, remittances, asset transfer, real estate transactions, etc.) have, according to some reports, increased the size of the informal sector of the economy, as a large number of small-scale manufacturing and services sector entities are reluctant to formalize their business. Pakistan ranked high globally in tax related difficulties faced by businesses.

Third, the regulatory burden on SMEs needs to be reduced. Past budgets have burdened the SMEs in the industrial sector, rather than recognizing the losses SMEs have incurred due to lack of energy, non-processing of tax refunds by the Federal Board of Revenue (FBR), reluctance of the banking sector to lend for working capital, etc.

Fourth, make 'one-window' operation 'functional'. Pakistan is ranked poorly in difficulties faced by businessmen in starting their business. This is linked to our fifth suggestion, i.e. crackdown on harassment faced by businesses at the hands of all offices responsible for taxation, permits and licenses.

Sixth, judicial reforms that facilitate businesses and dispute resolution are overdue. The delay in dispensation of justice in corporate and competition cases, along with a culture of stay-orders, and weak implementation of judiciary's orders, weakens the investor's confidence in the rule of law and property rights. Without judicial reforms, effectiveness and sustainability of various



schemes to promote businesses (particularly SMEs in the country) will remain doubtful.

Next, the Securities and Exchange Commission of Pakistan (SECP) should facilitate crowdfunding for start-ups through appropriate amendments to Section 27A of the Banking Companies Ordinance 1962. Several countries have followed the example of JOBS Act enacted by the US Congress, allowing SMEs to raise capital from the public, if the transaction is conducted through a registered broker.

Finally, our manufacturing should be well prepared to face the 'international level playing field' based on environment measures for sustainable industrial development. Industry creates the most of greenhouse gas emissions. The main challenge is to integrate the carbon and other pollution reduction schemes into the competition agenda, and to provide industries with a greener path to competition.

3.1.3 SUPPORTING MOMENTUM IN SERVICES SECTOR

The domestic services catering to upbeat consumer demand are likely to continue to grow at a decent speed. The wholesale and retail trade segment's contribution to GDP crossed the agriculture sector in 2017. In the last decade, the mushrooming growth in the retail economy has seen the

emergence of shopping malls and brands in textile and food.

The services sector can further grow in some of the most crucial public services, where the government fails due to inefficient administration amid lack of funds. For example, in providing low-cost housing, quality education, health and security services for all income levels. To an extent, this opportunity has been captured by the private sector but there is a need to have public-private partnership (PPP) models in these areas to enhance coverage and ensure certain standards.

Next, if the country has to integrate with Global Value Chains (GVCs), a lot of development would have to go into logistics, transport and other services to meet global standards. This point is also linked with tourism development. With improved security situation amid economic recovery, domestic tourism has increased in the past few years. The next step is to tap international tourism. But there is a shortage of hotels, tour operators, and other amenities to cater to international tourists.

The rise of online portals and e-commerce start-ups, where tour operators are featured and rated, are some positive developments in the tourism industry. Though, international tourists require additional safety and proper guides that are scarce. Western diplomats in Pakistan realise that there



is tourist attraction in the culture and heritage of Punjab, Sindh as well as in the beauty and adventure of hilly areas in the North and coastal areas of Balochistan. To capture these, the need is to invite international tour operators to Pakistan.

One also needs to pay attention to making services sector export its potential surplus. This can happen rather quickly in the case of information & communication technologies (ICT) services, health services and financial and insurance services exports from Pakistan, particularly to Afghanistan and Central Asia.

A key problem is in scaling up software houses that are sporadically operating across the country. None of the leading software houses have revenues exceeding \$50 million per annum. Most of the companies collapse or move out of the country as they try to scale up. Cash flows are erratic, and infringement of rights are common. The government needs to set up strong intellectual property rights and facilitate the sector to grow.

Creation of software technology parks (STPs) is a winning formula. Around a dozen STPs are established in Lahore and Islamabad but their utilization is sub-optimal. Until big software houses, including prominent IT multinationals, come in, it will be difficult to build the scale that is required to service IT needs of clients from the overseas. Besides that, the government also

needs to accede to the World Trade Organization (WTO)'s Informational Technology Agreement to bring down the cost of imported ICT hardware.

There are a number of other services -- from running call-centres to doing medical transcription and providing other business outsourcing opportunities. The China Pakistan Economic Corridor (CPEC) provides an opportunity to run English-speaking call centres for Chinese companies operating around the world. There are services similar to e-bay services, where goods can be imported in Pakistan, and with little value addition re-exported to other destinations, or trading of goods between two different countries facilitated through a platform in Pakistan. These services exist informally in Pakistan but are mostly registered in a third country. All they need is the facilitation to route the exports proceeds in Pakistan legally.

Before we conclude this section, we may list down the top five growth levers identified during our consultations. They seem to provide the best potential for short to medium term economic growth in the country, and include: a) enabling services sectors to export; b) tapping undocumented economy; c) scaling up investment in critical infrastructure; d) promoting agriculture value addition and agro-processing industry; and e) construction and low-cost housing.



3.2 PROGRESSIVE FISCAL POLICY

A key objective of fiscal policy is to redistribute income and wealth. This policy can also be a powerful tool to bring about inclusive growth and pro-poor job creation.⁴ It is most appropriate to consider how Pakistan can move towards a fairer and just tax regime. Like in most efficient tax systems, the fiscal regime should make transition towards: a) broadening of direct tax base with lesser reliance on regressive withholding taxes, b) reforming indirect tax rates through simplification and reduction in GST rates, removal of federal-provincial multiple indirect taxation, phasing out of federal excise duty, and putting in place a more transparent customs duty structure, c) ensuring a more balanced tax contribution by all sectors of the economy, i.e., agriculture, industry and services, and removal of tax exemptions that cannot be justified on scientific or welfare grounds, and d) expediting tax administration reforms at both the federal and provincial levels.

At the federal level, reforming income tax regime is of utmost importance. This should include elimination of unnecessary tax expenditures, move from scheduler to comprehensive income taxation, development of capital gains tax, rationalization of tax rates (where possible) and schedules, reduction in regressive withholding taxes, and strict measures to reduce tax evasion. As regards the federal level indirect taxes, a more simplified

structure of customs duties and general sales tax can bring in more revenue along with a reduction in tax evasion.

The provincial governments have now been empowered to collect taxes and augment their revenue generation through appropriate tax policy and administrative reforms. In this regard, there is a need for census-based baseline of provincial tax bases, improving coordination between federal and provincial tax authorities, IT-based tax compliance for reducing human interface, integrated database of income and wealth sources at the provincial level, Geographic Information System (GIS)-based validation of land holdings, commercial, wholesale and retail activity, and internal capacities for audit, monitoring and evaluation. Most of these measures fall under the purview of the provincial governments, however, support from federal and development partners will be required.

In the case of sales tax on services, the current system needs harmonization across provinces as different rates of sales tax are being charged from the same type of businesses. The issue of double taxation between FBR and provincial revenue authorities also needs to be addressed. This matter was also highlighted in the report of the National Tax Commission.



4. See also, Ahmed, V. et al. (2015) Towards a Fair and Just Fiscal Policy in Pakistan. Issue Briefing, June 2015. Also see Pasha, H. A. (2014) Progressive Fiscal Policy for Inclusive Growth. Friedrich Ebert Stiftung, Islamabad.

To strengthen their audit functions, provincial revenue authorities will require access to databases maintained by Pakistan Revenue Automation Pvt. Ltd., National Database & Registration Authority (NADRA) and lending/borrowing information at the State Bank of Pakistan. This will allow digital integration of all revenue authorities across Pakistan and reduce cases of misreporting.

Varying rates of several progressive provincial taxes (e.g. urban immovable property tax, agricultural tax, and wealth-related taxes) are being charged across provinces. This allows misuse of lower rates and shows unfair market competition. It is, therefore, proposed that all provincial revenue authorities should agree on a uniform standard rate for all taxes, including GST on services. Other rates may be allowed only under certain eligibility conditions. During September 2016, the provincial revenue authorities of Punjab, Sindh and Khyber Pakhtunkhwa decided to apply uniform rate of tax on inter-city movement of goods through oil tankers across provinces. Similar treatment may be considered for all services.

The tax registration and monthly filing of returns with multiple revenue authorities has also increased the cost of doing business. This has discouraged registration of micro businesses, and they continue operations in the informal sector. To encourage formalization and reduce compliance costs of existing businesses, it is recommended that: a)

tax rates and bases on which rates are applicable may be decided by the provinces themselves, b) single tax return should be filed once all revenue authorities are virtually integrated, and c) collection of tax should be the sole task of a single collection company or delegated institution.

While a resource mobilization effort is most important at this stage, equally important is to address the structural weaknesses in current expenditure management, PSDP, and provincial annual development plans (ADP). These include: weak capacity of civil service to spend in regions with most needs; inability to prevent cost and time overruns; multiplicity of similar projects in PSDP and ADP, improving feasibility, appraisal and approval process (and avoid politically motivated projects); reduce throw forward (i.e. approved projects awaiting financing) through funding modes, e.g., public private partnerships, build–operate–transfer or build–own–operate models.

Any restructuring of PSEs has to start first with improvements to human resource management in these entities. Changes are required to the recruitment, training, induction, evaluation, appraisal, compensation and promotion structure of human resources. Several of these organisations are carrying non-essential staff, which needs to be relieved as per laws of the state. In the energy sector, the generation and distribution companies will benefit through some model that allows a role



for the private sector even if outright privatization may not be an option.

The efficiency in expenditure management can be further enhanced through continued reforms in the structure of National Finance Commission (NFC) award. A comprehensive national-level debate on this subject is essential at this point. As per the Constitution Article 160(3A), the share of the provinces in each award shall not be less than the share given to the provinces in the previous award. Given the weak state of fiscal affairs, an increase in the share of provinces may not be possible at this stage. There are, however, other options to help provinces and their social sector priorities, which could be discussed.

For example, there is a suggestion to create a contingency fund to be financed jointly by the centre and the provinces to absorb large and unexpected shocks to expenditure of national importance. Similarly, the government of PML-N had suggested that the divisible pool should be calculated after deducting 3- 4 per cent for national security and 3 per cent for FATA areas. Provinces at that point in time did not accept this decision. Another question is regarding the impact of FATA's merger with KP on fiscal transfer formula, which needs to be discussed in NFC award meeting.

Future amendments to Fiscal Responsibility and Debt Limitation law may also be required in view of the rising debt. Future amendments should

also protect allocations for meeting Pakistan's commitments towards key SDGs, including climate change and food security. In this regard, the provincial government can also think of similar province level laws to protect allocations for prioritized social sector SDGs.

3.3 A MORE CERTAIN TRADE REGIME

The unpredictable fiscal policy regime and unanticipated use of customs and regulatory duties has increased the uncertainty for manufacturing sector exporters. The State Bank of Pakistan's own research indicates a significant amount of imported content required to manufacture Pakistan's exports. It is good that Pakistani businesses are allowed to source the most economical raw materials from anywhere in the world to process exports. However, even this source of competitiveness has also been compromised due to the complex structure of taxation on imported goods.

Pakistan's industrial imports are subject to a three-tier customs duty structure; general sales tax (GST) with the standard rate of 17 per cent and another slab of 5 per cent, import regulatory duty, and excise duties. There is usually no minimum threshold for imports often seen in other countries and justified on grounds of food security, education, or even to help new start-ups.

Interestingly, the introduction of regulatory duties during 2016-18 was not part of the annually



announced budget and rather slapped in the middle of the fiscal year without a mandatory debate in the parliament or being a formal part of the Finance Act. Such instances of 'mini' budgets add to the uncertainty around Pakistan's tax policy and prevents businesses from scaling up.

Due to the complexity of input invoicing under the current GST regime in Pakistan, a 'cascading' of the indirect tax is observed — again leading to a rise in the cost of compliance for both businesses and individuals. This implies that even a small change in the rate of GST can lead to an inter-sectoral tax expenses (tax on tax), which is higher than the actual GST rate. This 'tax on tax' in the case of raw materials, intermediate goods and other inputs leads to production contraction through decreased availability of working capital and consumer spending. During the medium-term, marketing and distribution margins of the private enterprises are negatively affected.

Thus, in overall terms, tax authorities also end up with lower revenue collection as incentives for production are hurt. Moving towards a more comprehensive value added tax can provide a second-best solution of dealing with cascading, besides also providing improved documentation of the overall economy.

Finally, now that the provinces have their own tax revenue authorities, which are ambitious to raise own revenues, exporters face the burden of filing

tax returns, making payments and facing audits of multiple provincial sales tax authorities, boards of revenue and provincial excise departments apart from the FBR. These costs can only be reduced if tax rates and income sources on which rates are applicable may be decided by the provinces themselves. However, only a single tax return should be filed once all revenue authorities are integrated, and collection of tax should be the sole task of a single collection entity.

We now have an example from India which is trying to introduce a single tax return form at both Central and State levels. Only a more coordinated structure of federal-provincial taxation in Pakistan can bring down the compliance costs and for this it is important to constitute an inter-governmental tax working group, which should meet on a monthly basis to implement the above-mentioned measures and also remove any instances of double or multiple taxation on same income source of businesses. The development of coordination mechanism with source countries would reduce instances of under-invoicing for imports. Hence, would generate additional revenues.

We need implementation of a stronger trade policy to promote exports, and manage non-essential imports, with wider coverage of incentives to exports and cash margins on non-essential imports.



Pakistan has still not missed the train to GVCs, even if it is a little late on arrival and may struggle more. On the other hand, it can learn from others' failures. The country can start by targeting some of the low-hanging fruits in GVCs — for example, while the more sophisticated designing and technological planning part can be left to developed economies, Pakistan can target the lower end of the value chain by making intermediate or semi-finished goods or adding value to imported inputs, and exporting and then moving up the chain. Needless to say, it should first deepen regional linkages and then move towards global goals once the requisite infrastructure is in place.

For all this, tariffs will have to be rationalized for import, ease of doing business measures will have to be substantially improved and a focus on global competitiveness issues like governance, rule of law, tax regimes and access to finance among others must be adequately addressed. These are critical for domestic and international investors that the country direly needs, which all depend on how well the country can participate in any potential value chain.

3.4 REFORMING THE LABOUR MARKET

In order to be compliant with the standards of global trading, our labour market needs to address issues related to bonded labour, child labour, high incidence of unpaid workers, of women in marginal occupations, high number of

workers with wages below the minimum wage, wage differential by sex, high share of overworked workers under adverse working conditions, and high share of workers in the informal sector without social protection.

We recommend redesigning the active and passive labour market policies, social safety nets, social protection programmes and youth development programmes to help labour market become more inclusive. Pakistan also needs to ensure effective compliance with 27 conventions ratified as stipulated in granting the GSP+ status from the European Union.⁵

The fiscal policy measures for improving labour market outcomes may not deliver unless accompanied by efforts of all provincial governments to strengthen labour market institutions. This could start with improvements in the Labour Market Information Systems (LMIS), revival and enhanced coverage of employment exchanges, deeper apprenticeship programmes and encouraging the private sector to develop its own training facilities. In the wake of production relocations due to Special Economic Zones, accreditation of such training would facilitate labour mobility.

A national standard in technical and vocational education and training is required. This can effectively come about through regularly updating LMIS, which can track clusters of labour demand



5. See detailed analysis in Pasha, H. A. (2018) Growth and Inequality in Pakistan, Volume-I. Friedrich Ebert Stiftung. Islamabad.

and supply; strengthening linkages between public sector Technical and Vocational Education and Training (TVET) initiatives and employers; regularly revisiting quality of TVET curricula and teaching methods; having market rules that encourage TVET provision in the private sector; and also targeting the poorest of the poor, perhaps through a combination of capacity-building programmes and public works programmes, which provide jobs.

3.5 WOMEN'S ECONOMIC EMPOWERMENT

A key demand of today's women entrepreneurs is greater access to information and networking. The availability of smart phones has, indeed, reduced the cost of accessing information. However, finding the relevant and timely information online remains a challenge under a milieu where state regulations and policies towards businesses are fast changing. The women chambers of commerce can be provided support to organize a central processing unit, from where information could be transmitted through all available mediums.

Second, women's voice in the mainstream chambers of commerce and industry (CCI) and federation of CCIs is still weak. Their representation at senior levels of key CCIs in Pakistan is still missing. This can be resolved through appropriate advice by the Ministry of Commerce to all CCIs across Pakistan.

Third, women's participation in exhibitions organized under the auspices of Trade Development Authority of Pakistan and other relevant bodies needs to be subsidized through appropriate policy measures.

Fourth, women are faced with gender-specific non-tariff barriers. For example, there is a need to offer safe amenities in border areas, where trade via land routes is taking place. Similarly, instead of women having to visit one-window trade or tax facilitation centers, it is advised to make all regulatory compliance processes online.

Fifth, the testing and certification offices will need to be more sensitive to the needs of women. It is recommended that such offices may be provided with necessary capacity or training to improve their procedures, skills and attitudes so that they can better respond to women-led businesses.

Sixth, it is recommended that for micro, small and medium enterprises (MSMEs), provisions related to tax-free raw material imports and tax holiday to start-up and expand enterprises may be allowed. The policy community can also promote the output of MSMEs through preferred purchase and this may require some changes in the rules being currently followed by Public Procurement Regulatory Authority (PPRA).

Seventh, to help improve access to finance, it is important that banks customize their credit



products, simplify the process of application and offer flexible payback options. Such customization should also include guarantees by the government, which can save MSMEs from collateral requirements. Similarly, the central bank will need to consult the women-led MSMEs before introducing any new financial services in order to ensure appropriate uptake. Mandatory training of bank staff on gender-sensitive banking operations is also desired.

Finally, for capacity building of women entrepreneurs, it is important to create training hubs at the offices of women CCIs which should have their own quarterly training cycles. Similarly, it is important that for women staying at-home, online and app-based training modules should be designed.

3.6 SOCIAL ENTERPRISE DEVELOPMENT

There is a need to provide a legal identity to social enterprises (SEs) in Pakistan. This sector can particularly help growth in creative and indigenous crafts and industries of Pakistan. A near term plan could be started by invigorating Centre for Social Entrepreneurship (CSE) at the Planning Commission, which in turn can devise a working definition of SEs in liaison with Securities and Exchange Commission of Pakistan (SECP).

Second, the CSE can initiate work with the provincial Planning and Development Departments

and promise support to SEs through provincial growth and development strategies that are already under implementation in most provinces. Third, start-ups will need capacity building in business planning, organizational development, and strengthening compliance with legal, financial and product requirements. Such capacity building can be supported and facilitated through the offices of regional Chambers of Commerce and Industries.

Third, related organizations, such as Benazir Income Support Programme (BISP), Pakistan Poverty Alleviation Fund (PPF), and Small and Medium Enterprise Development Authority (SMEDA) should join hands to devise innovative outreach methods for scaling up and ensuring uptake of capacity building efforts across SEs. The Trade Development Authority of Pakistan (TDAP) in collaboration with provincial industries departments may help in regional and global integration through support in marketing and visibility at foreign exhibitions.

For integration in agriculture supply and value chains, ministry of Food Security and Research in collaboration with TDAP and provincial government's agriculture departments can raise new support services for SEs.

Fourth, the Federal Board of Revenue will have to devise a tax system for SEs that values social impact. There are models from several developing



economies, which have incentivized the growth of SEs through appropriate changes in national and sub-national tax policy. Currently, all provinces offer a different tax regime. The overlaps in tax policy and administration across federal and provincial revenue authorities is also resulting in double taxation.

Fifth, SBP will need to assess why formal finance is not reaching the SEs. Existing financial framework and prudential regulations may be appropriately modified for meeting needs of social impact investments and incentivizing lending institutions.

Finally, federal and provincial governments can encourage SEs through preferred treatment under public procurement of goods and services. For this, CSE may approach Public Procurement Regulatory Authorities (PPRA) to amend rules, and ensure minimum quota for SEs, at least for projects with social impact at the local level. A community-benefit clause under official (procurement) rules will ensure inclusion of social outcomes in procurement objectives.

3.7 A VISION FOR YOUTH DEVELOPMENT

Our discourse also finds gaps in the existing evaluations of youth-related interventions. These include: a) youth employment being seen in isolation from youth engagement, b) outdated data and research on supply-side versus demand-

side factors hindering youth employment, c) weak needs-assessment of unemployed youth, d) policies for youth not backed by primary evidence, and e) missing regular review of ongoing policies and programmes for youth.

Going forward, a good evaluation agenda at the national and sub-national level should be two-pronged dealing with both the supply and demand. A set of supply-side evaluations aimed to: map youth unemployment by region and community; explain how can federal government discharges the role of planning, coordination and monitoring of youth related interventions; assess how public-sector secondary schools, colleges and universities should be encouraged to open their technical and vocational education training facility for youth; and how to develop a strong monitoring and accountability framework across public sector programmes for youth engagement and employment?

A set of demand-side evaluation should aim to: assess how education and skills development may be encouraged through non-profit, civil society organisations and social enterprises; and identify domestic regulations, taxes and subsidies that may be reformed to incentivise skill development.

Finally, as is well known that public sector's capacity to absorb unemployed youth has greatly declined. It is only the growth of private sector, which can help provide more jobs. Therefore,



equally important are reforms to rationalise the regulatory burden on Pakistan’s small and medium enterprises, in turn enabling them to become instrumental for economic growth and job creation.

3.8 URBAN DEVELOPMENT FOR DECENT LIVING

The rise of urban migration, middle class expansion and increased youth population means that the existing cities will no longer be equipped to cater to this sheer increase in volume. The first-tier cities of Pakistan, including Karachi and Lahore are already clogged. New urban centres will have to be encouraged with necessary infrastructure including schools, colleges and hospitals are established, and jobs are available.

The current trajectory of population growth and migration has already led to an acute shortage in the housing stock, where a huge portion of city dwellers are living in *kacchi abaadis* (slum), having moved from rural areas in search for jobs. The housing shortage will have to be met. Government’s support and incentives are important but even more important is a tight and efficient regulatory environment allowing for the mortgage market to flourish, affordable financing to come easy, and which encourages the private sector to introduce housing schemes that are low-cost, which is where 60 per cent of the housing demand is.

The next phase of CPEC can improve connectivity between cities and greatly assist in building new cities. The mid to long-term aim should be to utilize the infrastructure development to build economic corridors. Economic clusters between districts and regions can be created connected by road and railways networks. This would require detailed mapping of the economic potential of districts across the country and that is where the initial work must start. This work will have to be spearheaded by provinces.

Mortgage financing has not fully picked up in the country. A major reason for low mortgage supply is the inflated real estate prices and the informality within the sector. Land is auctioned out and sold and resold many times over in secondary markets. This leads to speculative increase in land prices, making the resultant cost of house unaffordable even for the middle-class.

Inefficient regulations make housing an unattractive market. It is well-documented that the real-estate sector has provided a safe haven to a lot of black money. In fact, a lot of investment that comes into the sector is illegal. This makes the sector an unattractive credit market for commercial banks and genuine investors with legal money.

It doesn’t help that the regulatory environment is also critically weak. Poor, largely paper-based land registration and disputed titles lead to unclear land records. Lack of clean titles means the property



cannot be used as collateral by banks. Meanwhile, land administration is also weak marred by old and inefficient master planning of cities, restrictive building codes and zoning, governance issues at the national and local government levels, unreliable public utility connections, which together add to the cost and time of project. The lack of foreclosure laws also makes banks wary of this market. Modernizing of technology in Punjab and Sindh may help in clearing the title issues but digitizing of land records is needed across the country. Improved foreclosure laws will also help.

Providing affordable housing should be a top agenda for the government with the current and growing shortage of 12 million units of which nearly 5 million is for low-cost housing. This segment requires unique solutions; potentially public-private partnerships that have worked in the past can be introduced with added transparency. There will have to be government intervention in the form of land subsidy and commercial banks or microfinance institutions will have to come into mortgage. In this regard, Pakistan can draw lessons from India's "Housing for All" programme - a Credit Linked Subsidy Scheme for the middle-income and under privileged groups. Similarly, the experience of Turkey in establishing a government-backed housing agency called TOKI can provide lessons.

The Pakistan Mortgage Re-finance Company

(PMRC) has been established to bridge the gap in housing finance. It will create a secondary mortgage market by buying home loans from commercial banks and selling to long-term investors by issuing long-term bonds. The appetite for commercial banks in mortgage financing can be explored by introducing projects that are reliable with clean titles and collateral. Credit registries that may help banks in evaluating the borrowers' credit-worthiness need to be encouraged. The good news for the mortgage market comes from Islamic banks that are eyeing the housing sector for long-term asset development.

3.9 PROMOTING ENERGY EFFICIENCY

Energy inefficiency is the prime reason for lack of industrial competitiveness and the recurrent balance of payments crises. On average, energy imports remain around one third of the total import bill over the past ten years. A majority of power plants in the country are thermal, running on very low efficiency level. Natural gas is being wasted in running inefficient stoves and geysers at home, and transportation is solely relying on hydrocarbons, with no less coverage of decent public transport. Pakistan has remained laggard in clean energy race. In power generation, the country concentrated on furnace oil (during the 90s and 2000s) while the rest of the world was phasing it out. And now imported gas and coal are the new trend in the country as the rest of the



world races toward becoming green and reduce the carbon footprint.

The oil and gas sector used to attract decent investment in the early 2000s. Since then, owing to bad security situation and unattractive exploration and production policies, investment dried out. The Sui gas reserves are fast depleting and no substitute has yet been discovered. With improved security conditions, the immediate need is to refresh the exploration and production (E&P) policy to attract foreign investment in the sector. The idea is to reduce the reliance on imported thermal fuel for power generation and transportation by enhancing domestic production.

The right mix of resources is the key to reliable and affordable power. Current and future global policies are now being aimed at shifting the fuel mix towards cleaner, low-carbon fuels, like natural gas and renewable power. In Pakistan, the focus has moved to less carbon-emitting natural gas lately. But after three plants commissioned on imported RLNG, the imported gas projects should be capped. Pakistan should start taking baby steps to harness renewable energy to meet the demand shortfall and strike a balance between affordability, availability, sustainability and viability.

The new power sector strategy is to focus on indigenous energy sources while having imported fuel-based projects as a stop-gap solution in the

interim period. It is a good strategy; and it should be followed. Concurrently, moving away from thermal resources to reduce the carbon footprint is also critical. Thar coal project could be an exception because it uses indigenous resources; but the cost to environment should be kept in consideration.

Pakistan has an enormous amount of renewable energy resources, including solar insolation, wind corridor, 1054 KM long coastal line with a resource of tidal energy, large livestock population and agricultural waste to generate bio-energy.

But there is a cap on renewable power production, which needs to be reversed to fully maximize renewable potential. Globally, wind prices are around 2.5 cents per KW, which is one-third of oil and gas prices in Pakistan. A long-term policy and legislation are required to tap the renewable potential. The wind corridors are in remote areas and adequate transmission infrastructure is required before investment can happen. Similar is the case of solar power whose potential is in the deserts.

The National Transmission Dispatch Company (NTDC) should play a more proactive role in speeding up the grid connections. A development platform is needed first whereby capacity addition takes place in big numbers. The Aggregate Transmission and Commercial (AT&C) losses are



around one-fourth of the energy cost. That is increasing the energy prices. Future governments will have to upgrade transmission network to fully absorb the power generation capacity. The difficult part is to lower the theft and enhance bill recovery, which are the major causes of the built up in circular debt.

The DISCOs should be restructured and remodelled. Their role can be reduced to wholesale bulk energy sellers while the retailers can sell the energy in local areas. The margins of the retailing companies should be regularized as is the case of motor fuel retailers. These policies can pave the way to devolving the energy distribution and selling system. This is a market-based system of reducing leakages and lowering the electricity prices in areas where theft is low.

There is no better way to energy efficiency than to conserve energy. Since the price of the energy is too high, marketable solutions are required. For example, LED lights and inverter air conditioners should be encouraged. Similarly, policy incentives should be taken to convert inefficient gas geysers to solar and electric sources, and insulation of homes from outside temperature. The new homes can be mandated to using solar panels on rooftops, and all the net metering technology can be deployed for selling excess energy to the grid. Banks can be directed to provide solar energy financing solutions, and club in case of mortgage loans.

Meanwhile, efficient public transport systems need to be extended to all cities. The road toll tax should be designed according to congestion on the road. These will encourage commuters to use public transport system to lower the carbon footprint. Lastly, transportation should be made fuel-efficient. Automobile assemblers can be incentivized to bring energy efficient cars, including hybrid and electric cars.

3.10 WATER SECTOR DEVELOPMENT

The national water policy has been formulated, which is a good first step. However, there should be a consensus amongst all political parties on the implementation of the water policy. The construction of Diamer Basha dam should be expedited. Other dams and reservoirs should also be pursued. Water projects should have priority in development budgets. The experience of run-of-the-river small dams in Khyber Pakhtunkhwa may provide lessons for future water security.

A major concern is that groundwater and surface water (river flow) is mixing with chemicals, fertilizers and pesticides from the agriculture sector and the discharge of waste from unregulated industries and households into nearby rivers, drains, streams and ponds. The physical, microbial and toxic heavy metals waste in water does not only contaminate the surface water but also seeps through fresh water bodies into the groundwater aquifers, making it unfit for drinking and agriculture use.



The under-ground water samples in some areas have arsenic levels of 200 micrograms per liter against World Health Organization (WHO) requirement of 10 micrograms and government's limit of 50 micrograms. The presence of heavy metal cannot be treated simply by boiling or by using simple filters. According to a study, one-fourth of Pakistan's population (50 million people) is at risk of arsenic poisoning from contaminated groundwater. It is a silent killer and it may disproportionately increase the health bills of households, if they have access to medical facilities.

Once the low-cost housing problem is resolved with adequate separate sewage and water supply infrastructure, the physical and microbial water issues would be resolved. The sporadic industries in the residential areas or in their close vicinity should be moved to designated industrial areas with proper waste-water treatment. Large corporate entities should be mandated to have their own waste treatment systems. No new industries should be allowed outside the designated industrial zones.

While groundwater is depleting that will not only affect the populations but the agricultural and industrial sectors, this scarce resource is not priced. Water productivity of cereal crops in Pakistan is less than one third of India and less than one sixth of China. Had the water been properly priced, productivity could have been much higher. There

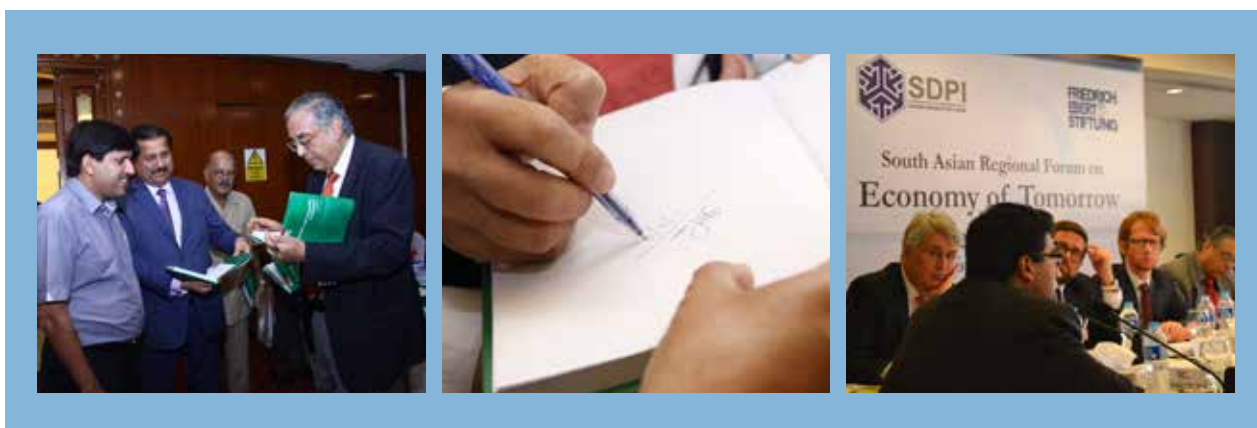
should be a policy reform in managing water.

Fiscal incentives should be given for making and importing water sprinklers and drip irrigation solutions as well as other tools. The importance of water, its impending shortage and the problem of water waste are key messages that need to be delivered to the masses. These messages should be spread across the country by using different communication mediums.

3.11 TOURISM INDUSTRY AND EMPLOYMENT

The tourism industry in Pakistan presents immense potential given the country's diverse culture, heritage and natural endowment. However, as also noted in Pakistan Tehreek-e-Insaf's election manifesto, till now it has largely been a missed opportunity owing to multiple reasons, including the 'war on terror', minimal marketing, and poor public and private sector investment, particularly in infrastructure and services.

The development of tourism as a sector can generate employment for all segments of society. All provincial governments will have to revisit their de-facto tourism policies, identify and address gaps, put in place security and safety measures for tourists, implement institutional and regulatory reforms, which could provide a framework to all the stakeholders including tour operators,



development of human resource capacities for hospitality industry, and marketing of Pakistan as a tourist destination. The marketing and image-building aspect will also require a concerted effort by Pakistan's embassies and consulates abroad. The relevant attaches in Pakistani missions may be entrusted with specific targets to generate tourist traffic towards Pakistan.

A significant level of compliance will have to be ensured at the municipal administration level for waste disposal, disaster management (in the event of fire or earthquake, for example), clean drinking water, tourist-friendly police and tourist facilitation centres, tourist help-lines, quality standards for hotels, guest houses and rehabilitation of resorts.



4. CONCLUSION

As we conclude this report, Pakistan has yet again requested the IMF for a bail-out package. However, most economic analysts believe that any IMF's bailout package will not automatically rid the country of its difficulties, which are a result of consistent lack of structural reforms. The predicaments were well-documented in 'Pakistan's Agenda for Economic Reforms', a book recently published by the Oxford University Press.

On the fiscal side, successive governments have avoided reforms, which could improve tax policy and administration. Recent changes to the tax code have, in fact, resulted in distortions in turn leading to an increase in the cost of doing business. The expenditures of the governments at national and sub-national levels remain beyond means, while the look-good public sector development projects resulted in limited funds available for human resource development – a key determinant of future economic growth. The losses of public sector enterprises and the energy sector continue to burden the government's scarce resources.

If IMF agrees to bail out Pakistan, this will be the country's second IMF programme in five years. There is little appreciation at the political level as to why Pakistan continues to remain dependent on short to medium-term debt-based injections. The IMF programme will entail a painful

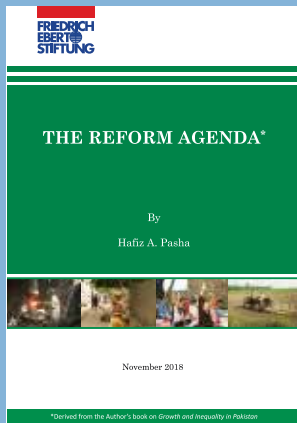
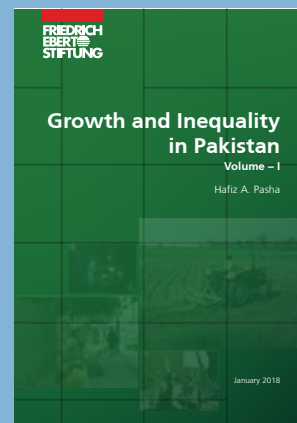
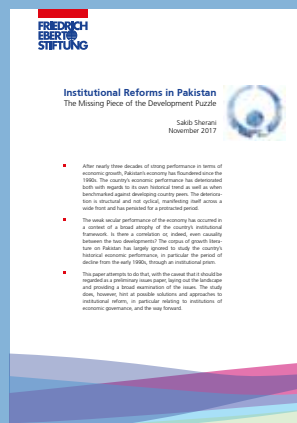
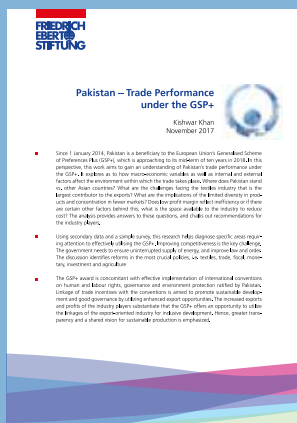
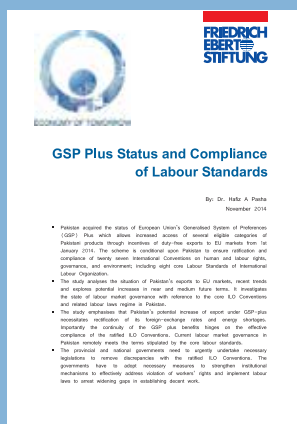
adjustment for businesses, middle-income groups and the poorest segments in the society due to an inflationary impact.

But this also presents an opportunity for the government to use the IMF programme facility for economic stabilization, which can: a) plug losses of public sector enterprises, b) bring down the circular debt in the energy sector, c) implementing a strong tax administration reform, d) slashing the politically motivated public sector development schemes, e) and reducing the overall size of the government so that current expenditures are curtailed. All of the above also require coordination with provincial governments.

In the case of trade deficit, one needs to observe as to how the new set of customs and regulatory duties can apply brakes to the non-essential imports. The past experience with regulatory duties is mixed. Instead for regulatory duties, IMF and other development partners will perhaps favour large devaluation (in line with what market forces suggest) and high interest rates to control current account deficit but of course this will have inflationary impacts. To protect the poorest segment of the population from inflation, the government may like to strengthen social safety nets and the mechanism of targeted and time bound subsidies.



FES Pakistan publications on Economy of Tomorrow



The Economy of Tomorrow
How to produce socially just, sustainable and green dynamic growth for a Good Society

Marc Sezer
May 2013

- In the face of economic, ecological and social challenges, thinkers in Asia and Europe have opted to re-examine the role of the state in order to meet the needs of the future.
- The Economy of Tomorrow Project (EOT) brings together Asian economic thinkers with their counterparts from Europe.
- 1. What would an economic development model need to look like to serve as a template for the emerging economic, ecological and social world?
- 2. Which economic model best fits the political playing field for progressive change?
- 3. On which platform could reformed economic action plan be based to ensure the transition to a good society will be successful for all?
- 4. Socially just, sustainable and green economic growth is necessary to produce the conditions for a good society will be successful for all.
- 5. Sustainable growth is driven by stability in the financial sector and sound environment as well as balanced trade and budgets.
- 6. Green dynamic growth is driven by the progress of the old economy and green economy.

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

ECONOMY OF TOMORROW:
Case Study of Pakistan

By Dr. Hafiz A. Pasha, April 2014

- During a decade of high economic growth rates in Asia, Pakistan has not been able to profit from its changing political environment since the restoration of democracy in 2013. In several and several political systems in combination with the weak institutional framework have resulted in setting new political goals focusing on economic policy reform. Consequently, the rates of savings and investments, both from private and public sector, in infrastructure, industry, agriculture and human development have not created sufficient economic growth.
- In absence of a comprehensive industrial policy, the export-oriented sectors have not been able to provide the needed quantity and quality of employment opportunities for the young generations. Due to trade policies that failed to promote diversification, primary sector-oriented industries have been created. For the first time in its history, Pakistan has experienced a period of stagnation - the growth rate continued with high inflation.
- The country needs to embrace the social, financial and environmental challenges for economic policy making on the way to the "Economy of Tomorrow". It argues that Pakistan is currently standing on the "Tale's edge" which could go either way. It also identifies the most important factors for change, with the objective to promote a debate about more inclusive and sustainable economic policies.

GSP Plus Status and Compliance of Labour Standards

By: Dr. Hafiz A. Pasha
November 2014

- Pakistan signed the terms of European Union's Generalized System of Preferences (GSP+) that would allow increased access of several export categories. Pakistan provides through members of the free trade to EU member from the January 2015. The agreement is a milestone for Pakistan in terms of trade and compliance of social and labour standards. Compliance is based on labour rights, governance, and environment, including eight core labour standards of International Labour Organization.
- The study analyzes the situation of Pakistan's exports to EU markets, trade trends and various internal factors in the trade and labour market. It investigates the state of labour market governance with reference to the core ILO Conventions and related labour laws and regulations in Pakistan.
- The study emphasizes that Pakistan's general increase of export under GSP+ necessitates re-evaluation of its labour-market laws and energy strategies, especially the continuity of the GSP plus benefits along with the effective compliance of the related ILO Conventions. General labor market governance in Pakistan needs to be re-examined to meet the requirements of the GSP+.
- The research and related governance need to identify necessary regulatory requirements to review discrepancies with the related ILO Conventions. The governments have to adopt necessary measures to strengthen institutional mechanisms to effectively address violation of workers' rights and improve labour laws to ensure adequate growth in sustaining export sector.

Progressive Fiscal Policy for Inclusive Growth

By: Dr. Hafiz A. Pasha
November 2014

- FISCAL POLICY IS ONE OF THE KEY ELEMENTS ON THE WAY TO ACHIEVE A SOCIALLY JUST, SUSTAINABLE AND GREEN ECONOMIC MODEL. IT RELATES TO FUNDAMENTALS OUTLINES THE ROLE OF THE STATE IN PROMOTING ECONOMIC DEVELOPMENT AND PROVIDING SOCIAL SERVICES TO ITS CITIZENS.
- IN ORDER TO ADDRESS THE EXISTING SOCIAL AND ECONOMIC INEQUALITIES IN PAKISTAN, PROGRESSIVE FISCAL POLICY STRATEGY MUST FOCUS ON BROAD BASED TAXATION, PROGRESSIVE TAXATION AND SOCIAL POLICY. THE ADOPTION OF PROGRESSIVE TAXATION TO PROMOTE SOCIAL JUSTICE AND INCLUSIVE GROWTH IS THE MOST EFFECTIVE MEANS TO REDUCE INEQUALITY AND REALIZE THE GOALS OF ECONOMIC DEVELOPMENT WITH HIGH EMPLOYMENT POTENTIAL ON THE GROWTH.
- BEYOND THE FISCAL CHALLENGES, THIS STUDY ANALYZES THE POLITICAL ECONOMY OF FISCAL POLICY IN THE CURRENT CONTEXT OF PAKISTAN. UNDER THE PROGRESSIVE FISCAL POLICY STRATEGY, A NUMBER OF RECOMMENDATIONS ARE TO REDUCE A RANGE OF PROGRESSIVE TAXATION POLICY ON EXISTING INCOME AND CONSUMPTION. THE AUTHOR ALSO PROPOSES AN ALTERNATIVE MODEL OF TAXATION STRATEGY, BASED ON THE INCLUSIVE AND ECONOMIC GROWTH.

Economic and Social Consequences of Privatisation in Pakistan

By Dr. Pervaiz Tahir
December 2014

- The Government of Pakistan has embarked on a fresh programme of privatisation of state owned enterprises and projects for reducing public sector deficit and fiscal deficits. The government expects that the privatisation process will increase the efficiency of all economic sectors by providing private sector's technical competence.
- The decision has raised questions on privatisation as an over-reliance option to overcome structural challenges in economic and governance. Drawing on trade liberalization, privatization, corporatization and privatisation, the author examines the economic consequences of privatisation in a comparative perspective of international best practices. The concern has also been pointed on the quality of public and social services in privatisation due to involvement of corrupt officials and ownership with the federal structures as well as industry and labour relations partners.
- The paper depicts the merits of the privatisation policy by reviewing its performance in the past and explains that comprehensive reform is needed to provide social justice to achieve the desired objectives of reducing fiscal deficits and debt, enhancing efficiency of the privatised firms, improving regulatory mechanisms, increase in investment, employment, social equities and reduction of poverty to ensure the welfare of the population in the long run and future opportunities for decent jobs, labour market governance including workers' rights and working conditions and an inclusive operational sector for consumer and economy.
- Regarding privatisation of public assets to reduce public sector deficit, the paper stresses the need for the government to availability of enhancing revenues through broadening equitable tax base, increasing transparency and accountability in public sector enterprises and improving the social regulatory bodies. The paper advocates rigorous use of strict representation to ensure the needs of privatisation while upholding the economic and social wellbeing of the people, workers, workers and consumers.

Pakistan - Trade Performance under the GSP+

Khairun Khan
November 2017

- Since 1 January 2018, Pakistan is a beneficiary to the European Union's Generalized System of Preferences (GSP+), which is equivalent to the reduction of import duties to 0% on the products that are eligible for the preferential treatment. This report analyzes the trade performance under the GSP+ and provides a comprehensive overview of the trade performance under the GSP+ and provides a comprehensive overview of the trade performance under the GSP+.
- The report analyzes the trade performance under the GSP+ and provides a comprehensive overview of the trade performance under the GSP+ and provides a comprehensive overview of the trade performance under the GSP+.
- The GSP+ award is consistent with effective implementation of international conventions on human and labour rights, environmental and governance provisions under the GSP+. Usage of trade incentives with the conditions is aimed to promote sustainable development and good governance by the beneficiary countries. The report examines the impact of the GSP+ on the trade performance and provides an opportunity to utilize the benefits of the preferential treatment for the beneficiary countries, which is a necessary step towards a shared vision for sustainable production and employment.

Institutional Reforms in Pakistan: The Missing Piece of the Development Puzzle

Sakib Shariq
November 2017

- After nearly three decades of strong performance in terms of economic growth, Pakistan's performance has deteriorated significantly with regard to its social indicators and a wide array of structural and institutional challenges. The development is structural and not capital, making itself a wide front and has persisted for a prolonged period.
- The weak under performance of the economy has resulted in a crisis of a broad majority of the country's institutional framework. It is time to consider if there is any possibility between the two developments? The crisis of growth, law and order has largely ignored to study the country's historical economic performance, in particular the period of decline from the early 1990s, through to institutional crisis.
- The paper attempts to do this, with the view that it is possible to identify a preliminary road map for the institution and providing a broad overview of the issue. The study also, however, looks at possible institutional and governance reforms to address the institutional crisis, in particular, the role of economic governance, and the way forward.

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Pakistan & Economy of Tomorrow
An analytical perspective

Ali Khair Aslam
November 2018

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