Pakistan & Economy of Tomorrow

An analytical perspective

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November 2018

FRIEDRICH
EBERT
STIFTUNG

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ACRONYMS

ADB	Asian Development Bank
ADP	Annual Development Programme
ASEAN	Association of Southeast Asian Nations
CAREC	Central Asia Regional Economic Cooperation Program
CASA	Current Account and Savings Account
CBN	Cost of Basic Needs
CDNS	Central Directorate of National Savings
CPEC	China Pakistan Economic Corridor
CPI	Consumer Price Index
CPR	Common Property Resources
DFI	Development Finance Institutions
DFID	Department for International Development
DISCOs	Distribution Companies
E&P	Exploration and Production
ECD	Economic Corridors
EOT	Economy of Tomorrow
EU	European Union
FBR	Federal Board of Revenue
FEI	Food Energy Intake
FES	Friedrich-Ebert-Stiftung
FIP	Financial Inclusion Program
FMD	Financial Market Development Project
GDP	Gross Domestic Product
GSP	Generalized Scheme of Preferences
GST	General Sales Tax
GVC	Global Value Chains
ICT	Information and Communications Technology
IFC	International Finance Corporation
IMF	International Monetary Fund
JV	Joint Ventures
LC	Letter of Credit

LED	Light Emitting Diode
LSM	Large Scale Manufacturing
MAF	Million Acre-Feet
MPI	Multidimensional Poverty Index
NADRA	National Database and Registration Authority
NEQ	National Environmental Quality Standards
NFC	National Finance Commission
NHA	National Highway Authority
NSS	National Savings Schemes
NTDC	National Transmission Dispatch Company
OECD	Economic Cooperation and Development
PEPA	Pakistan Environmental Protection Act
PFC	Provincial Finance Commission
PICIC	Pakistan Industrial Credit and Investment Corporation
PIDC	Industrial Development Corporation
PMRC	Pakistan Mortgage Refinance Company
PPP	Public-Private Partnership
PSDP	Public Sector Development Programme
R&D	Research and Development
SBP	State Bank of Pakistan
SDPI	Sustainable Development Policy Institute
SME	Small and medium-sized enterprise
SMEDA	Small and Medium Enterprises Development Authority
STP	Software Technology Parks
TIR	Transports Internationaux Routiers (International Road Transport)
TOKİ	Turkish: TopluKonutİdaresiBaşkanlığı
UNDP	United Nations Development Programme
USAID	United States Agency for International Development
WB	World Bank
WHO	World Health Organization
WTO	World Trade Organization

EXECUTIVE SUMMARY

History tells tale of a sombre past: Pakistan has lagged its regional peers and the rest of the world because of a wide range of internal imbalances. But security conditions bear only part of the responsibility as many of Pakistan's troubles are due to unjust and unsustainable elements in economic growth, fiscal framework, trade, and social services. During the time when the world was opening and economic agenda of developing economies were focused on industrial liberalization, Pakistan was mired in political instability, with weak institutions leading to weak macroeconomics. Meanwhile, developed economies were moving out of the industrialization era and shifting operations to China and East Asian economies that led to the rise of global value chains. Social, cultural and physical boundaries were crossed by global financial and industrial integration. Sadly, Pakistan did not rise to the occasion.

Due to a lack of competitiveness, high cost of business, weak fiscal space, crippling energy crisis and a myriad of other issues, Pakistan skipped that crucial step of industrialization and instead entered the services economy largely unprepared. Agriculture sector, despite being the biggest contributor to economic growth, remained devoid of progress, innovation and technological advancement. Traditional exporting sectors underperformed due to similar reasons. As economies grew their industries to scale, cost competitiveness in exporting markets grew which further weakened Pakistan's participation in global trade. On the flip side, a protectionist stance on imports due to non-competitiveness of domestic production inflated prices, created cartels, and dissuaded competition all at the expense of the consumer. Despite recent improvements in security and energy scenarios, this dismal state of affairs continues to date.

There is huge growth potential in agriculture and services sectors: Pakistan is primarily an agrarian economy with the agriculture sector contributing significantly to both output and employment. But the country has not been able to reap the benefits of this sector and has largely consumed what it produces. The agriculture sector needs a boost to not only ensure food security at home, but also potentially become a supplier of food to other countries. Pakistan can transition from a food importing to a food exporting country through technology transfer and R&D to improve and diversify yields and crop, and by negotiating better trade deals, harnessing the CPEC route and creating special economic zones while also giving fiscal incentives to this sector. Involving the private sector in creating food value chains will help enhance efficiency and bring costs down while giving a much-needed push to becoming globally competitive.

The other big potential lies in the services sector which caters to domestic and international markets. In case of public goods, for instance, the private sector can enter to provide quality education, health and security services. However, lack of any effective regulation in most of these sectors has only bred complacency in the private sector. Instead, public-private models in these areas could be more effective. Meanwhile, information technology remains a huge market that can be tapped especially in exports. Pakistan can focus on creating software technology parks (STPs) and scale up its IT services to become more sophisticated to compete in export markets. Government efforts are required to attract investment into the sector by multinational software houses. Other services areas such as tourism can also be developed.

Improving competitiveness and joining GVCs: Pakistan has still not missed the train to GVC town, even if it is a little late on arrival and may struggle going ahead. 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 by adding value to imported inputs for exports and then gradually moving up the value chain. Needless to say, Pakistan should first deepen regional linkages and move global only once the requisite infrastructure is in place.

For all this, tariffs will have to be rationalized for imports, 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 improved. These are critical measures for domestic and international investors that will also determine how well the country can participate in any potential value chains.

Tax administration and tax infrastructure needs a makeover: Persistent fiscal deficit over the years has been the root cause of economic turbulence in the country. Perhaps the most immediate concern for the country is to become fiscally strong which cannot come without a complete overhaul of the tax infrastructure. In fact, one cannot talk about improving competitiveness, building exports, and entering GVCs without first addressing the critical issue of taxation. The current tax base is narrow which puts an undue burden on the tax compliant, while indirect taxation is high and charges taxes indiscriminately across income groups. Meanwhile, policies to induce tax filing have only worked incrementally. To improve the system, the government must replace regressive taxation and combine different tax authorities to create a single tax body for each province. While bringing about these changes, it is important to set a tone from the top. Policymakers, lawmakers and government leaders must demonstrate tax compliance themselves and promote accountability in masses through marketing campaigns to instigate a culture of taxation.

The next leap should be to improve connectivity, build cities and economic corridors: Rural to urban migration, the expansion of middle class and the youth bulge across the country means that the existing cities will no longer be equipped to cater to this sheer increase in volume. Cities like Karachi and Lahore are already congested and gasping for breath. New urban centres will have to be built where requisite infrastructure is present; 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 proportion of city dwellers are living in kacchi abaadis. Many of these people moved from rural areas in search of jobs. Government support and incentives are important to fill this housing shortage, but even more important is a tight and efficient regulatory environment which will allow for the mortgage market to flourish and for financing to come easy and affordable. In turn this would encourage the private sector to introduce housing schemes that are low-cost which is where 60 percent of the housing demand is concentrated.

With CPEC already well into its first phase of development, some of the infrastructure will be developed that would improve connectivity between existing 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 through well-connected road and railway networks. This would require detailed mapping of the economic potential of districts across the country, an exercise which must be spearheaded by the provinces.

ECONOMY IN RETROSPECT

Over the past three decades, Pakistan has lagged its regional peers in economic and social development. The wide-ranging institutional derailment is considered a prime reason for deteriorating economic performance relative to the country's own historic trend[1] and benchmarks set by other developing economies.

Economic historians have divided the country into two phases. The high growth era prior to 1990s in which the country remained resilient to internal and external shocks because economic and governance institutions were paramount. During this period, the country developed an industrial base from scratch and became self-sufficient in agricultural produce. Structural changes started taking place in the 1970s when the autonomy and independence of civil and economic institutions were re-formed. The inertia of the good times dragged the momentum till the 1980s, but institutional demise started taking place in the 1990s.[2]

Since the 1990s till present day, the economy is on a rollercoaster journey. In 1990s, the world started opening and industrial liberalization was the economic agenda of developing economies; however, in Pakistan, political instability and patronage culture in key economic and public sector institutions put the country on a messy track. At the start of the millennium, spill over from global technological revolutions managed to push the economy forward. The financial and communication deregulation and liberalization helped the economy to get on a growth path for a few years. The technological revolution, alongside the flurry of foreign flows in the form of investment, remittances and aid, promoted the services sector as commodity production started to shrink. Other countries that were behind Pakistan prior to the 1990s moved up in industrialization when the developed economies decided to become service oriented and the industrial base shifted to low-cost East Asian economies.

As technology reduced physical barriers, big companies and industries started building global value chains. From designing and idea formulation to manufacturing and assembling, as well as, marketing and consumption of any product or industry moved to different sections of the globe. The social, cultural and physical boundaries were crossed by global financial and industrial integration.

Pakistan did not gear up for these changing global realities. While there was some spill over of global integration, not enough homework was done to position Pakistan properly in light of these developments. The boom of 2000s had moved Pakistan prematurely towards a services economy as the industries lost their competitiveness and the country's trade share in terms of GDP and global trade invariably shrunk. There was no focus on agriculture while the growth of traditional export sectors was not impressive either. Meanwhile no new exporting avenues were explored.

The businesses catering to domestic demand prodded ahead under subsequent protectionist regimes, which in turn created cartelization that ultimately inflated prices. These inefficiencies in production swayed the economy further away from efficient and competitive global value chains. The size of the economy kept on expanding and middle-class consumerism emerged in Pakistan. In fact, the misalignment of upbeat consumer driven demand to sluggish manufacturing and agriculture sector explains frequent boom and bust cycles in the past two decades.

1. Sherani, S. (2017). Institutional Reforms in Pakistan.
2. Hussain, I. (2018). Governing the Ungovernable: Institutional Reforms for Democratic Governance. Oxford University Press.

The economy started overheating in 2005 as demand became too much for economic supply to absorb and the 2008 oil prices shock[3] largely broke down the fragile growth. However, people continued to spend as demand patterns do not change abruptly. The income levels were not growing to match the demand and people started saving less to consume most of their disposable income. Investment could not grow in tandem due to inefficiencies in the manufacturing chain amid lack of policy incentive structure. The rising saving-investment gap resulted in higher fiscal and current account deficits. The twin deficit dilemma halted the growth in 2008 and the economy took the next 5 to 7 years to fully recover.

The last two governments inherited an economy in hot waters. The energy shortages and bleak security situation amid poor governance never let the economy recover during the 2008 regime as the entirety of the tenure was spent unsuccessfully tackling low growth and high inflation.

The previous government (2013-18 tenure) on the other hand, focused on energy supply and constructing road networks to build the hard infrastructure to expand consumer base. During this period, improvement in the security situation was commendable as it allowed the little development that could happen in the economy, which in turn led to an improvement in business and investor confidence. However, during its tenure, the outgoing government missed a great opportunity to introduce tough economic reforms during a time when global commodity prices were in favour of Pakistan. The signing of CPEC nevertheless may prove to be the right impetus to help Pakistan catch up to global emerging economies.

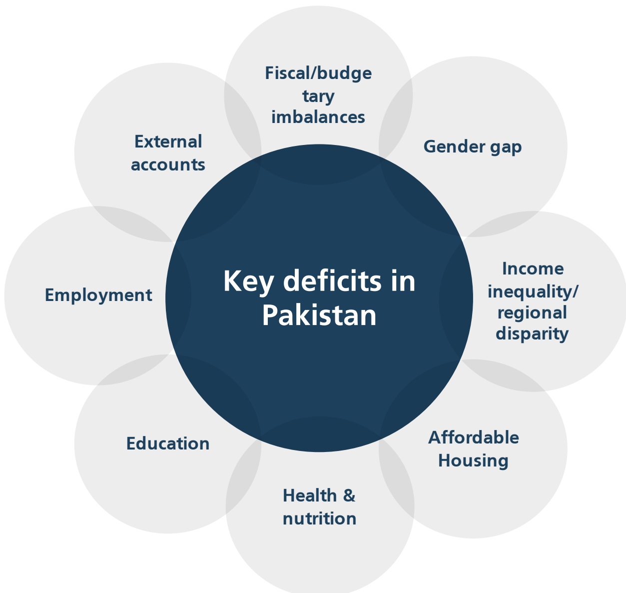


Figure 1: Key deficits

3. Crude oil prices rose dramatically between 2004-08 growing by 229 percent during the period, peaking in June-08 at $160.95 and dipping by 48 percent between Jan-08 and Jun-08. [online] Available at: http://www.macrotrends.net [Accessed 14 Jun. 2018].

CHAPTER 1: SAVE FOR TOMORROW AND INVEST FOR PROSPERITY

Savings in Pakistan are critically low while investments are not conducive either. This two-pronged problem results in higher consumption which is not sustainable. The investment to GDP ratio in Pakistan is around half of Bangladesh and the gap is even higher in comparison to India.[4] Low domestic savings, limited credit availability and poor scores on competitive indices are chief reasons for suboptimal investment.

Pakistan lags peers in key fundamentals

(%)	World	USA	Malaysia	India	Bangladesh	Pakistan
Deposits/GDP	50	81	124	65	48	30
Private credit/GDP	129	192	124	50	45	17
Savings/GDP	25	18	35	30	30	12
Investments/GDP	24	20	26	30	30	16

Source: World Bank

Figure 2: Country comparison of savings and investments (% of GDP)

It is critical to enhance private sector investment for resilient growth. The economy is consumption driven and any higher investment has to be plugged in by foreign savings. This boosts growth but results in external and fiscal imbalances. In simple words, growth relying on imports and government spending is not sustainable without enhancing domestic savings and fiscal revenues. Credit availability is limited and offered to a small share of borrowers while deposit base is low as only one fifth of bankable population has bank accounts.[5] This scenario is neither a resilient nor a just growth model.

1.1 Save to build Pakistan

The deposit to GDP ratio is within 30 percent in Pakistan versus over 50 percent in India and Bangladesh and over hundred percent in Malaysia and Thailand. This partially explains why domestic savings to GDP in Pakistan is hovering around 15 percent while it is over 30 percent in India and Bangladesh.[6] In Pakistan, formal saving avenues are mainly commercial banks' deposits and government national saving schemes. Over the last decade, banks have been focusing on lowering the deposits cost by enhancing current and savings accounts (CASA) to earn spread on investing these in low yielding government papers.

In the developed world, government treasury bills offer lower rates of return than bank deposits and they usually compete with each other to attract domestic and foreign savings. But the practice at home is to deploy low cost deposits in government securities. The low rate on deposits not only disincentivizes savings but also reduces the credit availability to private sector because of limited deposit base.

4. World Bank Open Data. [online] Available at: https://data.worldbank.org/ [Accessed 14 Jun. 2018].
5. "Adult account ownership in Pakistan is 21 percent in 2017; up from 10 percent in 2011". Global Findex. [online] Available at: https://globalfindex.worldbank.org/#data_sec_focus [Accessed 14 Jun. 2018].
6. World Bank Open Data. [online] Available at: https://data.worldbank.org/ [Accessed 14 Jun. 2018].

Credit to private sector

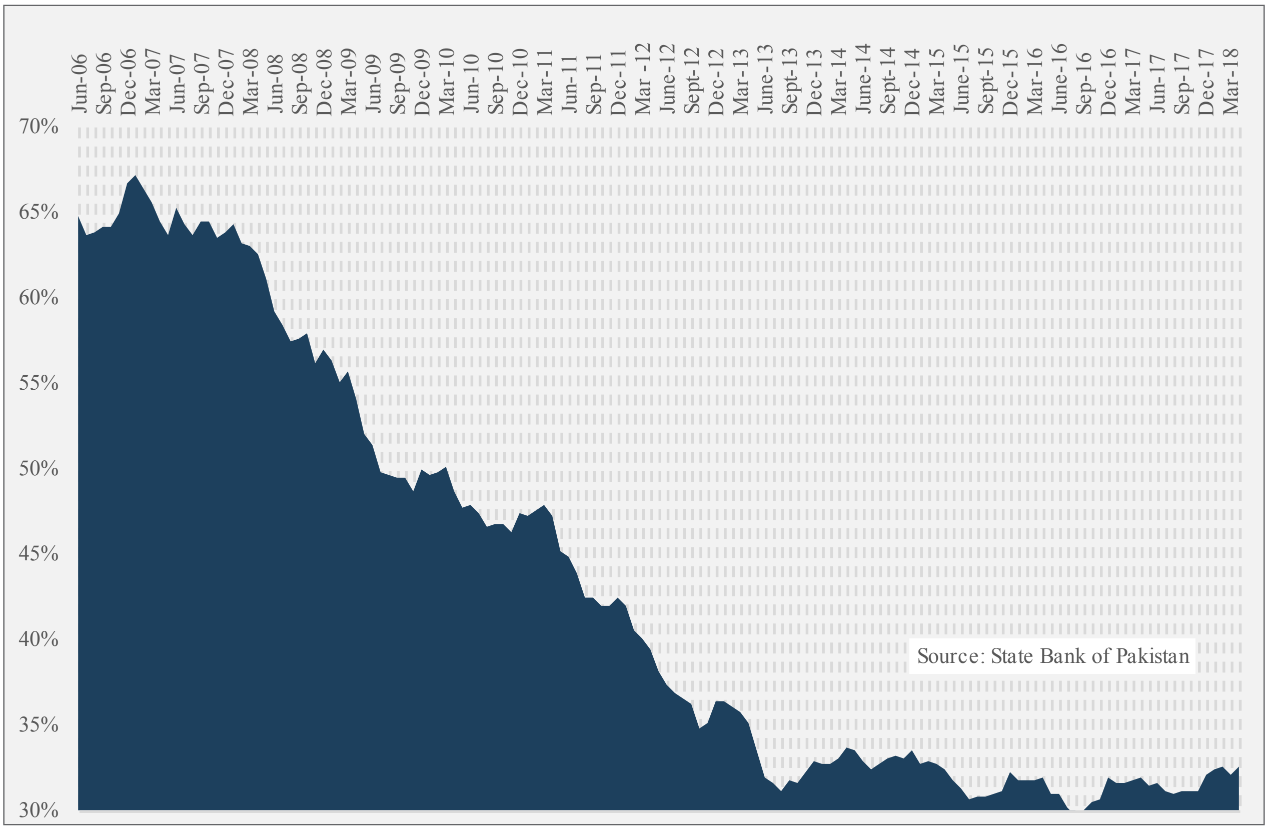


Figure 3: Private Credit in Pakistan (% of all credit)

The private sector credit to GDP in Pakistan at best was at 27 percent in 2007 which has been reduced to 15 percent in the past decade.[7] The ratio is around half of that in India and a mere fraction of what is in the developed world. The problem is two pronged—the bank deposits base is low whilst the major chunk of incremental deposits is routed to feed government fiscal deficit.

The problem with limited private credit is that over 90 percent of loans to private businesses are for commercial and corporate segments. SME lending, which is for enterprises with annual revenues below Rs.800 million and annual credit limit below Rs.200 million, is currently at 9 percent of private sector business loans.[8] Credit access to SMEs can bring talent across the board in generating economic activities which is imperative for just and resilient growth.

Saving now to spend in the future: To have inclusive growth, the unbanked population must save for retirement and this can boost investment. There is no formal pension and retirement fund for large pools of population. The growing pension requirements of even government and military are un-funded. The mutual funds industry needs to be incentivized for offering large scale pension funds. Apart from that, debt capital market should be developed for government to borrow directly from savers. The Central Directorate of National Savings (CDNS) should back its National Savings Schemes

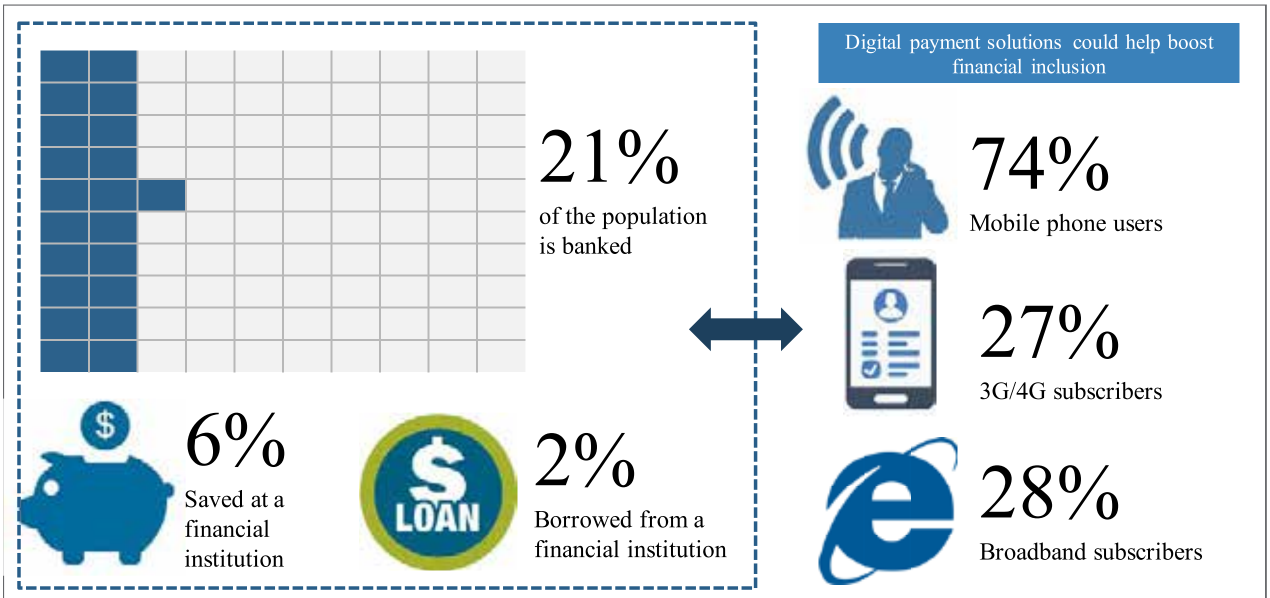
7. State Bank of Pakistan. [online] Available at: http://www.sbp.org.pk/ecodata/index2.asp [Accessed 14 Jun. 2018].

8. ibid

(NSS)[9] by government papers. The government should issue T-Bills and PIBs on existing stock of Rs.2.7 trillion NSS based on actuarial valuation and these can be traded in secondary market for price discovery in long term bonds. Thus, pension funds and NSS may together build long term yield curve which is imperative for banks' lending to long term infrastructure and much-needed housing mortgage market.

The global donor focus is on digital "payments" to get the un-banked population to become a part

Dismal financial inclusion , but there is potential



Source: World Bank Findex 2017; Pakistan Telecommunication Authority (PTA) 2018

Figure 4: State of Financial Inclusion in Pakistan

of the financial mainstream. In Pakistan, there are 100 million adults who are un-banked, as per the latest World Bank Findex Survey.[10] Out of these, 50 million people have mobile phones. There is an opportunity to bring more people into the formal financial network through the digital payment route.

However, digital payment solutions, on their own, do not solve the underlying problem that many low-income and poor people face. As per the same Findex survey, 44 percent of un-banked Pakistanis cite "insufficient funds" as the reason for not having bank accounts.[11] The micro-banking institutions are doing a better job in banking marginalized population by providing credit to micro businesses. Their returns are high, and they can offer better rates on deposits and other instruments for the poor to save for retirement.

Pakistani businesses culturally grow on equity while debt is not preferred to raise capital. The 'friends and family' informal equity financing is common in the community-based society. Listing at the stock exchange is highly underutilized as only 600 companies are listed and traded on the

9. ibid

10. Global Findex. [online] Available at: https://globalfindex.worldbank.org/#data_sec_focus [Accessed 14 Jun. 2018].

11. ibid

stock market—incremental listing in 2018 was two while seven new companies listed during 2017 (while four and eight companies listed in 2016 and 2015 respectively).[12] High cost of documentation, auditing and tax compliance proves a hindrance for businesses interested in listing on the stock exchange. The minimum initial public offering used to be Rs.250 million which took SMEs out of the equation, but this was later revised. Now SMEs can list provided the post issue paid up capital of the SME is not less than Rs.100 million and the offer size is not less than 2 million shares and 20 percent of the post issue paid up capital of SME.[13] Companies should be encouraged by easing these listing requirements and to make way for more SMEs to list in order to bring large pool of businesses into the ambit.

The informal foreign exchange market brings around $10-15 million dollars a day which adds to the informal economy.[14] There should be a mechanism to incentivize these sums to be routed through the formal channel. The Pakistan Remittance initiative started in 2009 which more than doubled home remittances in a very short time. According to the Central Bank, 40-50 percent of the money is coming through informal channels and that is the low hanging fruits which can be captured. The banking system has to compete with hundi and hawala[15] both on efficiency and cost to be able to divert a substantial part to the formal channel.

Side note: Knocking on IMF's doors?

The saving investment gap is too frequently creating external imbalances. The current account deficit is running too high and the rising external debt repayments are together ballooning the external funding gap. This gap will have to be plugged by the upcoming government.

One age-old solution is to revert to IMF financing which will come with stabilization policies that will hurt the growth momentum required for generating requisite employment for the youth. But it will be hard to fund the gap without IMF's help. Though, had China not lent $8-10 billion in the last two years,[16] we would already have knocked on the Fund's doors. Putting too many eggs in the Chinese basket is not good and the country is already a top bilateral lender to Government of Pakistan. One solution is to gain trust of the Pakistani Diaspora. Salaries and wages of Pakistanis working abroad were estimated to be $52 billion in 2015.[17] If $5 billion from these are raised by issuing Diaspora bonds, the immediate external financing needs can be addressed. This must be followed up by soft reforms in competitiveness for enhancing export surplus in the medium to long term.

12. PSX. [online] Available at: https://www.psx.com.pk [Accessed 14 Jun. 2018].

13. PSX Rule Book (June-2018). [online] Available at: https://www.psx.com.pk [Accessed 14 Jun. 2018].

14. Informal exchange company sources

15. Hawala is a popular, informal system of money transfer found in many economies in the Middle East and Africa, as well as, the subcontinent. It works around the concept of honour where a network of brokers or investors move money around without actually moving money.

16. BR Research (2018). The Chinese Debt. Business Recorder. [online] Available at: https://www.brecorder.com/2018/03/07/403396/the-chinese-debt/ [Accessed 14 Jun. 2018].

17. Sugiyarto, G. (2017). Supporting Economic Corridor Development in Pakistan: Building Up Strategic Framework. Asian Development Bank

1.2 Create conducive investment climate

Improved savings alone will not help anyone, if these are not properly invested. This requires addressing the investment climate of the country including contracts enforcement, IPs, and improvements in judicial system, competition regime, etc. According to the Asian Development Bank (ADB), the country needs to grow at 7 percent continuously to absorb the 3 million youth coming into employment age every year.

Ease of doing business and Global Competitiveness Index are indicators critically viewed by international investors in making investment decisions. The indices are usually formed based on parameters used by domestic SMEs and are followed by foreign investors religiously. Harnessing SME businesses will not only provide employment opportunities but also spur entrepreneurship. Speaking at a Friedrich-Ebert-Stiftung (FES) session, Sakib Sherani gave the example of Bangladesh that Pakistan could look toward. "Bangladesh has developed a consensus on national development paradigm, and no matter what the country's domestic political scenario was, exports and business activities were never halted".

Doing Business: Doing Business of the World Bank covers 11 areas of business regulation 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.[18] Pakistan is ranked at 147 out of 190 countries. It takes 19 days and four times the cost to register a firm in Pakistan than in New Zeeland which is the top ranked country (only half a day is needed in comparison).[19] Needless to say, there should be a one window solution for registration of firms as making it that easy ought to be the first step to attracting investment.

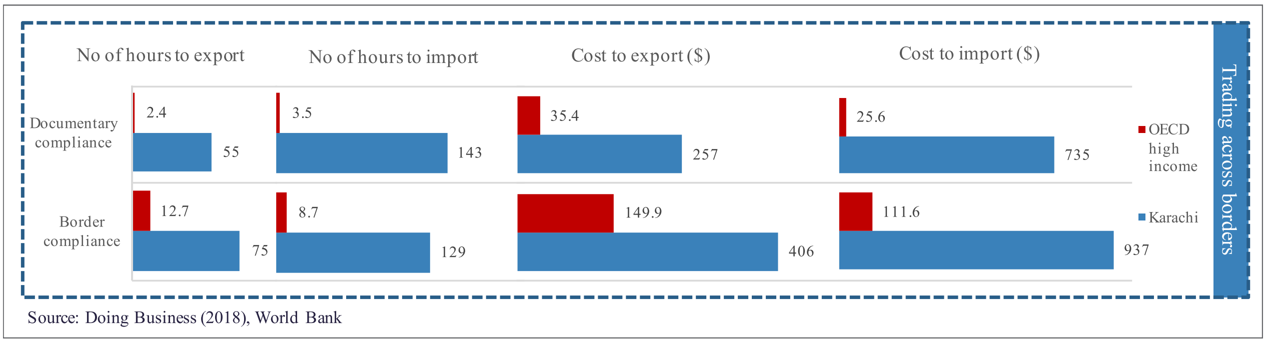


Figure 5: Cost and time spent trading across borders in Pakistan

Pakistan is ranked 141 in obtaining construction permits as there are 15 procedures which take 262 days to complete. This has impeded growth in the housing market—currently the gap in housing is estimated at 10-12 million houses.[20] After CPEC, warehousing is deemed to be the most lucrative business for SMEs. In order to capitalize on this opportunity, zoning laws and land administration

18. Doing Business- Measuring Business Regulations. (2018). [online] World Bank. Available at: http://www.doingbusiness.org/ [Accessed 14 Jun. 2018].

19. Doing Business in Pakistan- Measuring Business Regulations. (2018). [online] World Bank. Available at: http://www.doingbusiness.org/data/exploreeconomies/pakistan/ [Accessed 14 Jun. 2018].

20. Pakistan Housing Finance Project. (2017). World Bank.

ought to be simplified as currently 6 percent of project cost goes to taking permissions. The score is even worse in getting electricity (ranked 167), registering property (ranked 170), paying taxes (ranked 172), trading across borders (ranked 171), and enforcing contracts (ranked 156). Substantial improvement in all these indicators is imperative for enhancing businesses and business activity. In terms of paying taxes, Pakistan is the worst in South Asia. The problem is worse in manufacturing sector and least in services sector. This explains why SMEs are hesitant about going into manufacturing while services businesses are still growing. Competitive SME manufacturing is the key for quality employment generation and gaining export surplus.

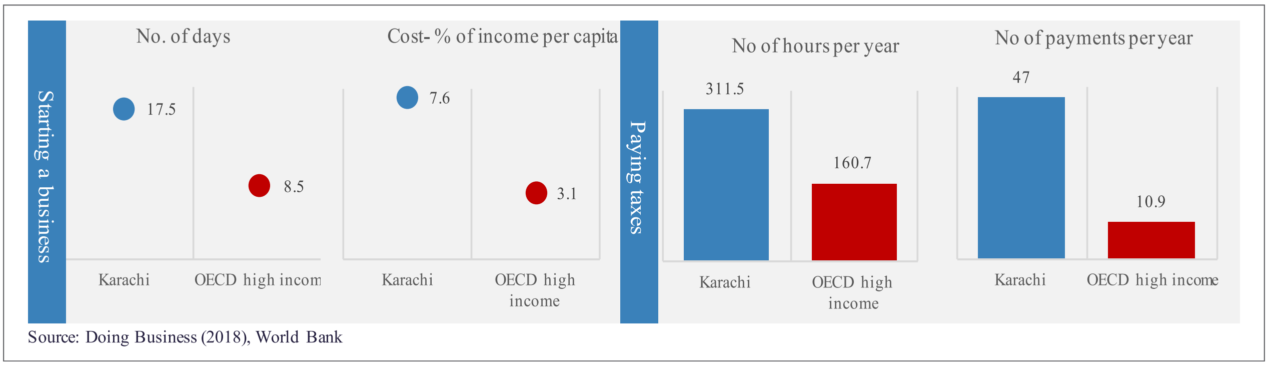


Figure 6: Starting a business and paying taxes in Pakistan

Global Competitiveness Index: In order to be a part of the global value chains and to help exports reach anywhere close to the Vision 2025 target of $150 billion, improvements in global competitiveness is of key importance. According to the ADB, a one-point gain in GCI indicates a raise in productivity by 1.4 percentage points.[21] GCI aims to serve as a neutral and objective tool for governments, the private sector, and civil society to work together on effective public-private collaboration to boost future prosperity. The gap in some of the drivers of competitiveness between the best and worst performing economies in South Asia has increased continuously since 2007.

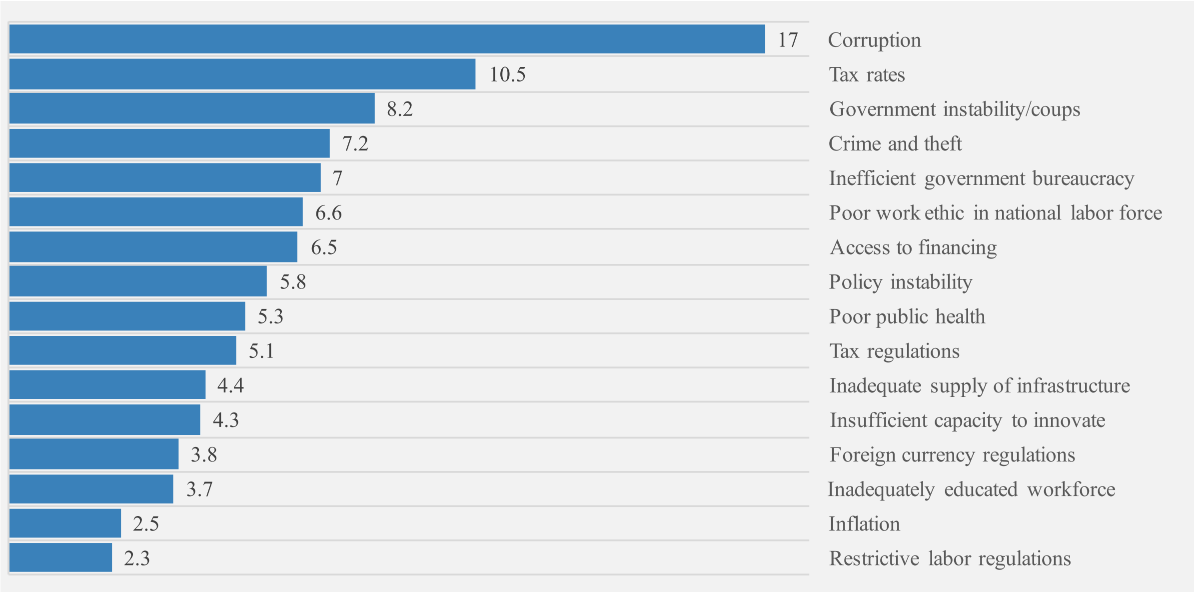
Pakistan ranked 115 on the Global Competitiveness Index (GCI) versus Bangladesh which stood at 99 and India at 40. Corruption and inefficient government bureaucracy remain key hurdles.[22] Upgrading ICT infrastructure and increasing ICT use remain among the biggest challenges for the region. Over the past decade, South Asia has been the region where technological readiness stagnated the most.

At a FES panel discussion, Dr. Vaqar Ahmed cited a survey conducted by him with 4000 enterprises in Pakistan which found that Pakistani enterprises were facing four major issues which hampered their competitiveness, i.e. weak rule of law, legal and judicial reforms, civil service reforms, and corruptions in institutions of economic governance. This is in line with the issues highlighted by the Global Competitiveness Index in Pakistan.

21. Sugiyarto, G. (2017). Supporting Economic Corridor Development in Pakistan: Building Up Strategic Framework. Asian Development Bank

22. Global Competitiveness Index. (2018). [online] World Economic Forum. Available at: https://www.weforum.org/reports/the-global-competitiveness-report-2017-2018/ [Accessed 14 Jun. 2018].

Most problematic factors for doing business



Source: Global Competitiveness Index 2018

Figure 7: Problem factors when doing business in Pakistan

1.3 Coordination among government bodies

A major missing factor in creating conducive investment climate is the coordination among federal, provincial, and local bodies and between departments within them. On the one end, there are federal ministries and departments including the Ministry of Planning, Development and Reforms; Ministry of Communications; Ministry of Railways; Ministry of Commerce, National Highway Authority (NHA); Federal Board of Revenue (FBR), and Small and Medium Enterprise Development Authority (SMEDA). On the other side, there are provincial planning and communications and works departments, urban planning units, and development authorities. Local bodies are operating in silos.

As discussed by Sakib Sherani in his book, policy coordination issues were amplified in the post 18th Amendment scenario. He writes: "while previously a major governance concern was resolving coordination failure among federal line ministries and agencies (i.e. horizontally), post-18th Amendment coordination has to occur between the Centre and the agencies and departments of four federating units plus Azad Jammu Kashmir and Gilgit Baltistan".[23]

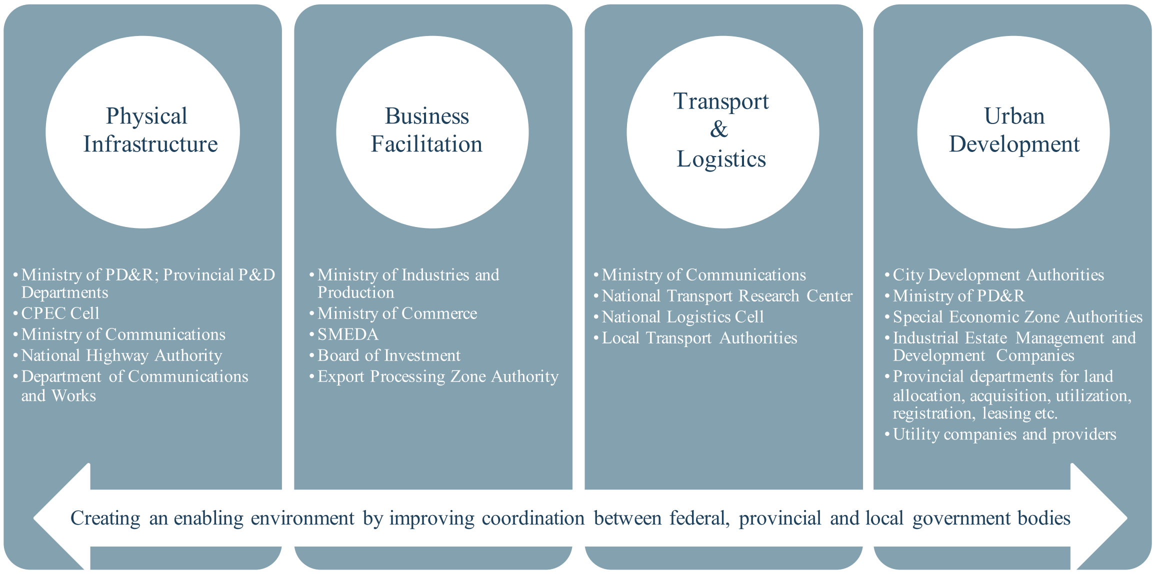
A holistic approach to create an enabling environment is needed. That would require swift coordination amongst all bodies which is not an easy task under existing political and economic realm of Pakistan. The regulatory side is marred by institutional weaknesses in project management, dysfunctional public sector bodies created for business facilitation, problems in inter-governmental coordination after devolution, complexity in tax administration and compliance

23. Sakib Sherani. Institutional Reforms in Pakistan- The missing piece of the development puzzle (2017).

that impedes private investment, misguided policies that distort economic incentives, lack of a coherent regulatory framework for land use and urban development, lack of a national transport and freight policy, and weaknesses in the planning and management of special economic zones.

Too many cooks spoil the broth. To avoid this situation, an independent and business oriented centralized agency can be established which will provide a one window operation. It should be the top priority to have a centralized body with strong political, institutional and business support. The government has already established such a setup for CPEC with the establishment of an exclusive CPEC centre in the federal Ministry of Planning, Development and Reforms.

Coordination among government bodies



Source: ECD in Pakistan, ADB presentation

Figure 8: Coordination among government bodies in Pakistan

CHAPTER 2: GROWTH POTENTIAL IN ECONOMIC SECTORS

2.1 Agriculture, the hidden Jewel

Agriculture used to be the backbone of the economy. Although its share has shrunk to one-fifth of GDP, it still provides employment to two-fifths of the labour force. The agriculture sector is the hidden jewel in Pakistan's economy; however, food security is an ever-present global issue. Countries with scarce land for agriculture are looking outwards for food imports. A boost in the agriculture sector would not only ensure food security at home but it would also allow Pakistan to position itself as a supplier of food to other countries.

Transition from food importing to food exporting country:

Pakistan has an abundance of land and livestock to not only provide food for its two hundred million inhabitants but to also export the surplus to other countries. Today, we are importing food one and a half times of what we export. The objective should be to reverse this trend in the next five years.

In the second phase of CPEC, technology transfer in agriculture sector is in the offing but there is a need to negotiate on food trade also. China imported nearly $20 billion worth[24] of food items during 2016, mainly from the US and the EU bloc, and some estimates suggest these imports will grow further by 50 percent in the coming decade or two. Right now, Pakistan does not get preferential treatment as compared to ASEAN for food exports to China. Pakistan could potentially peg the technological transfer with incremental food exports to China.

But to enter negotiations and in order to become a food exporting country, Pakistan should focus on improving yields on existing crops and introduce new crop varieties through research and development. The availability of better seeds at low prices can be ensured by provincial governments. Intellectual property rights laws need to be established and new varieties of seeds need to be recognized. Bull farming and semen trade rights should also be introduced.

Yield improvement is one way to lower the cost burden. Bringing efficiencies in inputs is imperative. Energy cost can be reduced by deploying self-reliant ecological friendly energy solutions, such as the use of biogas produced by animal waste to feed energy needs at dairy farms and solar energy for running tube wells.

The use of fertilizer and pesticides ought to be optimal but the higher price of these products is an issue. The federal government has slowly moved away from direct (on imports) and indirect (through lower feed gas prices to fertilizer manufacturer) subsidy mechanism. It gradually replaced the input subsidies though wheat support price mechanism introduced in 2008 which has eventually led to the hike in food prices across the value chain. The CPI food index increased by 126 percent during 2008-17 against overall CPI increase of 112 percent during the same period.[25]

24. World Integrated Trade Solutions. (2018). [online] World Bank. Available at: https://wits.worldbank.org/ [Accessed 14 Jun. 2018].
25. Consumer Price Indices. (2018). [online] Pakistan Bureau of Statistics (PBS). Available at: http://pbs.gov.pk/ [Accessed 14 Jun. 2018].

Roadmap to becoming food exporting country

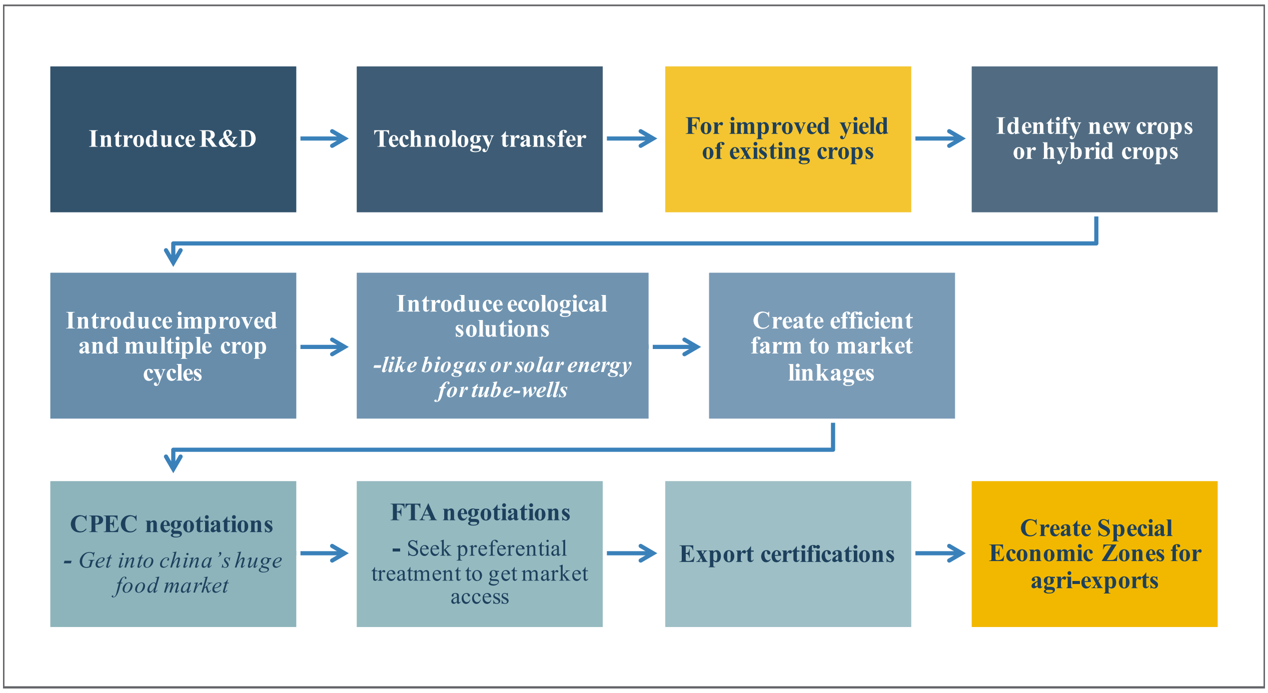


Figure 9: Path to food exports in Pakistan

The wheat support price is killing the small farmer and making food unaffordable for the marginalized population. It is important to move away from the support price mechanism. The Punjab government procures one-sixth of the province's wheat production and the rest is either consumed at farm or sold in the open market to flour mills and middle man at lower rates. The small farmer sells low produce at low rates and buys food products at higher prices. In the case of surplus wheat and sugar export, the foreign consumer is subsidized on Pakistani taxpayer's money as domestic prices are higher than international prices. The policy framework recommended is to do away with support price mechanism and instead, provinces who have the right to tax agriculture income should give subsidies on inputs themselves.

The farm to market linkage is important for domestic and foreign trade of food. The outgoing government has developed a better rural road network, especially in Punjab. The energy shortages are largely met and there are concrete plans of further boosting it in the near future. The enabling environment for market based cold chain solutions and building close to farm food processing units for perishable food items should be provinces' priority in the next term. This will help in reducing wastage and in building value addition in the food market.

Farm to market value chain

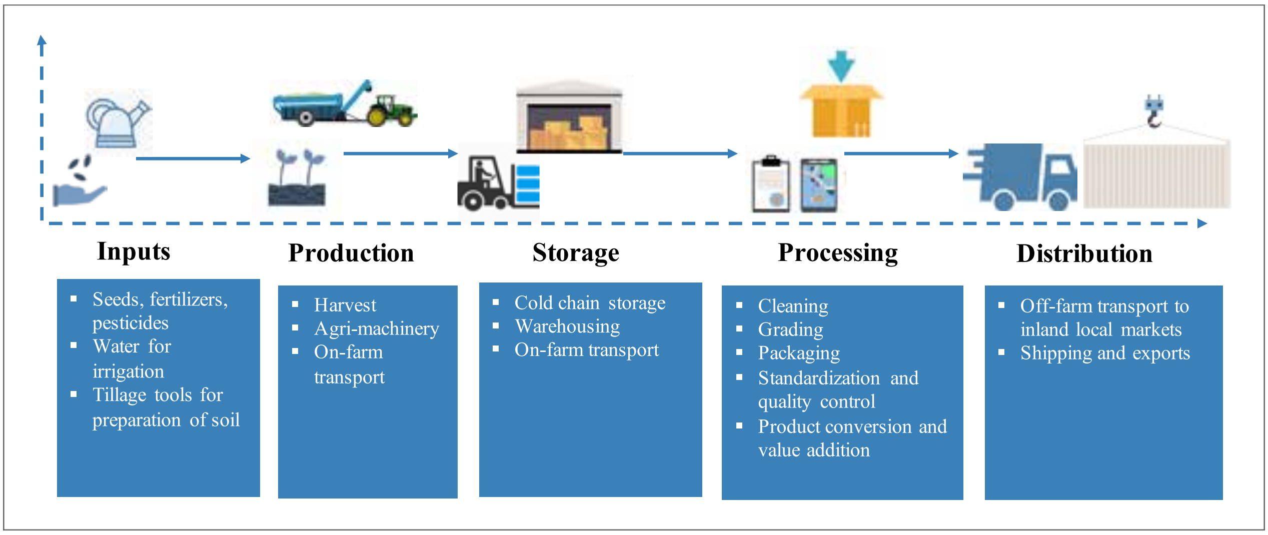


Figure 10: Farm to market value chain

Scaling is key: Lack of scale in agriculture sector is a hindrance in capturing larger share of the export market. More than 90 percent of the land ownership in Punjab is below 25 acres of land.[26] On the one end, this is helping in breaking the feudal influence, but on the other, it is a hindrance in attaining economies of scale. The technological transfer benefits under CPEC are to be dealt with care as the sustainability of advance technology is low on smaller farms. Government should enable the renting model of combined harvesters and other agriculture machinery for small farmers.

Even so, there is no substitute to big scale farming. The government needs to explore cooperative and corporate farming models. There are lessons to be learnt from corporative models such as Amul in India and Friesland Campania in Europe. The provincial governments should give fiscal incentives for corporate farming.

Creating efficiencies: Going forward, water is expected to be scarce and over 95 percent of water in Pakistan is used for agriculture. There is a need for efficient use of water by incentivizing modern water techniques (sprinkle and drip irrigation) and through pricing mechanisms. The increase in the price of water and the revenues on water can be used to subsidize modern tools, as well as, in running awareness campaigns. It is imperative to conserve water before it is too late.

Farmers should be given incentives to focus on high value-added crops and exporting crops. In the past few years, due to skewed government policy, farmers producing cotton have shifted to sugar cane[27] which is hurting textile exports. There is a need to undo this trend as cotton value added products provide more jobs and generate foreign exchange by exports. There is also a need to conduct research on developing palm oil fields in coastal areas to reduce the import burden of palm oil.

26. Maliha et.al. Bonded labour in Agriculture. [online] International Labour Organization (ILO). Available at: http://www.ilo.org/wcmsp5/groups/public/@ed_norm/@declaration/documents/publication/wcms_082026.pdf [Accessed 14 Jun. 2018].

27. "The area under cultivation of cotton crop decreased from 2.96 million hectares in FY15 to 2.49 million hectares in FY17—down by 16%. On the flip side, the area under cultivation for sugar cane increased by 7% between these years". Economic Survey of Pakistan (2017-18) [online] Available at: http://www.finance.gov.pk/survey/chapters_18/02-Agriculture.pdf [Accessed 14 Jun. 2018].

Creating food value chain effeciencies

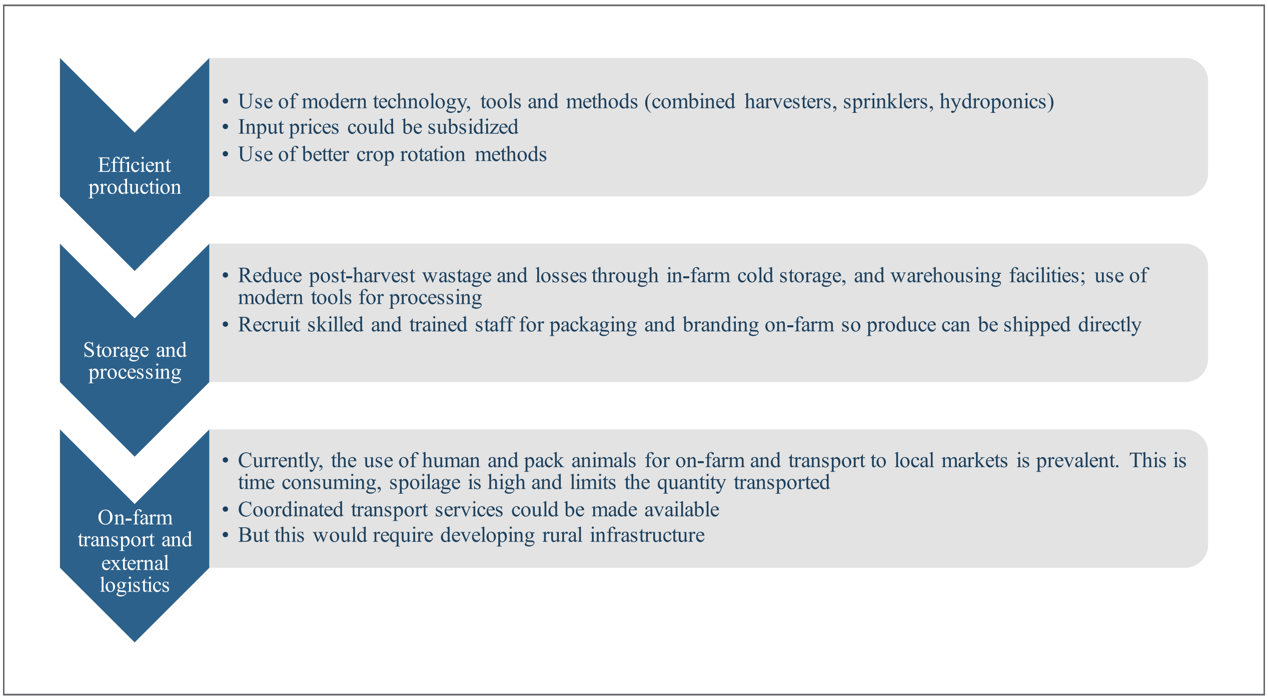


Figure 11: Food value chain efficiencies

2.2 Missing Manufacturing base

At the time of independence, Pakistan inherited a miniscule base of manufacturing industries. The country built the industries through state-run institutions like Pakistan Industrial Development Corporation (PIDC) and Pakistan Industrial Credit and Investment Corporation (PICIC). Later many of these units were privatized. The progress was reversed by the nationalization phase of the 1970s which decelerated growth potential of the industrial sector. Even after the privatization spree of the 1990s, it could not come on global standards. As a result, there is a plethora of competitiveness issues plaguing the manufacturing base in Pakistan. In the last decade, power outages were the biggest impediment for industries. That issue has been largely dealt with—not only energy supply has increased but industries are now getting priority over domestic consumers. But other issues relating to taxes and import tariffs remain very much present.

LSM hindered by taxes and high cost of business: Large scale manufacturing (LSM) sector is the most regulated sector which contributes majority of the direct income tax collected by the FBR. The higher incidence of taxes, complex tax and regulatory compliances structures, and low score on other variables of ease of doing business explain the lack of investment and innovation in this sector (more on taxation in **chapter 3)**. The outgoing government has tried to introduce business conducive policies. Corporate tax rate was decreased from 35 percent to 30 percent in a staged manner during 2013-18. But super tax at 3 percent for big companies was imposed for three consecutive years while the tax on dividend has also been increased by 2.5 percent. These steps have eluded the benefits of low tax rates so far. In FY18 budget, super tax is aimed to abolish in a staged manner by 2021 which is a good step. The road map for corporate tax is to further decline to 25 percent in a staged manner by 2023.

Tariff liberalization: In the 1990s, when trade tariff liberalization was adopted by India and Bangladesh (1992-98),[28] Pakistan was slow to react. The seed of losing trade competitiveness was sown back then. Due to relatively higher tariffs in the 1990s on machinery imports, cost of production of final goods as compared to regional players was high. Pakistan rationalized the tariffs in 2002, but by then India and Bangladesh had already taken the first movers' advantage. However, trade liberalization in Pakistan was not uniform across the sectors as some industries (textile, automobile, ceramics, etc.) were heavily protected through higher tariffs on imports. These protectionist policies created anti-export bias and investment was routed to catering domestic demand.

The biggest damage was done by imposing higher restriction on final goods rather than on raw materials and intermediate goods. This impeded backward industrial linkages. SMEs usually operate as vendors to big manufacturers; however, stiff competition from imports never let them grow which also led to snail-speed growth in the inputs market which never got the chance to grow to scale. Dependence on imported parts then became crucial for most industries. In automobiles for example, nearly one-third of the local car price goes into imports.[29]

At the tail end of its tenure, the outgoing government started thinking about correcting these imbalances. The new auto policy is bringing competition in the sector as several players are entering a market that was dominated so far by the big three Japanese companies. The government has recently announced a national tariff policy where the above-mentioned distortions are promised to be rectified. The manufacturing industry has historically catered to the domestic markets and exposure to global markets has been minimal, either through exports or through global value chains (GVCs).

Positioning in Global Value Chains:

In order to be part of the GVCs, rationalizing tariffs is not enough. Instead policymakers have to position Pakistan in the global value chain. Pakistan cannot compete in the markets where designing or technological planning is needed, but it can position itself in intermediate or semi-finished goods markets.

This effort must start from within the region. The country must be able to gain a foothold in the regional supply chain which is possible if deeper trade linkages are established with neighbouring countries. Being a signatory of the TIR convention now can really help on the transportation end. CPEC is a great opportunity where negotiations should aim at developing industries that are part of China's industrial value chains, in planned special economic zones. Then, we need to develop industrial linkages with India and Iran. Pakistan could certainly learn from Asian countries that have been successful at separating political differences from potential economic gains.

Value chains require speed and flexibility. Intermediate goods need to enter and exit the customers fast. Towards this end, improvements in customs clearance, efficiency in logistics, harmonization of quality standards and certifications, and competitive freight and insurance can lend much-needed support. While Pakistan largely relies on roads to transport goods, globally, railway is the optimal way to transport

28. State of the Economy- Annual Report (2016-17). [online] State Bank of Pakistan (SBP). Available at: http://www.sbp.org.pk/reports/annual/arFY17/Anul-index-eng-17.htm[Accessed 14 Jun. 2018].

29. The fault in our cars. [online] Business Recorder (Feb 2018). Available at: https://www.brecorder.com/2018/02/06/397319/the-fault-in-our-cars/[Accessed 14 Jun. 2018].

intermediate goods and raw material. Improving railways infrastructure is part of CPEC and a good chunk is committed to this sector. This should be the priority infrastructure for the next government.

Following illustration is based on authors' interpretation of the smile curve in GVCs.[30]

GVC lifecycle

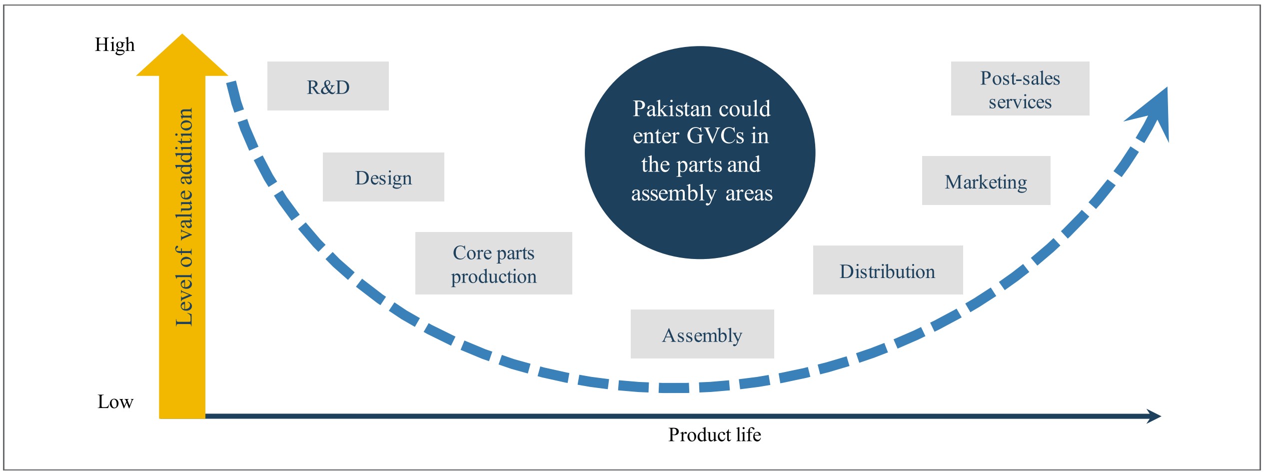


Figure 12: How Global Value Chains work

Following illustrations are based on author's interpretation of value chains in textile[31] *and automotive industry.*[32]

The car value chain in Pakistan

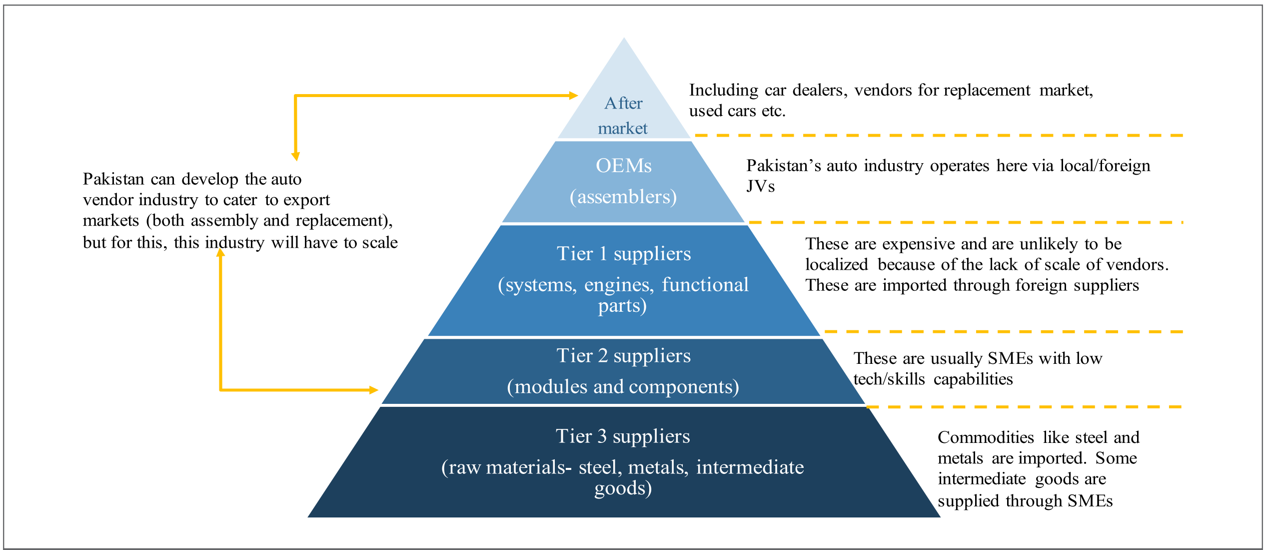


Figure 13: Pakistan's potential role in the automotive value chain

30. Measuring Smile Curves in Global Value Chains. (2015). [online] Institute of Development Economies (IDE). Available at: http://rigvc.uibe.edu.cn/docs/20160329210052329340.pdf [Accessed 14 Jun. 2018].

31. Global value chains: More a development strategy than a mere process. (2015).[online] Deloitte Development LLC. Available at: https://www2.deloitte.com/insights/us/en/economy/global-economic-outlook/2015/q4-global-value-chains.html [Accessed 14 Jun. 2018].

32. How Automakers Can Survive the Self-Driving Era. [online] A.T.Kearny. Available at: https://www.atkearney.com/automotive/article?/a/how-automakers-can-survive-the-self-driving-era[Accessed 14 Jun. 2018].

Anatomy of an apparel

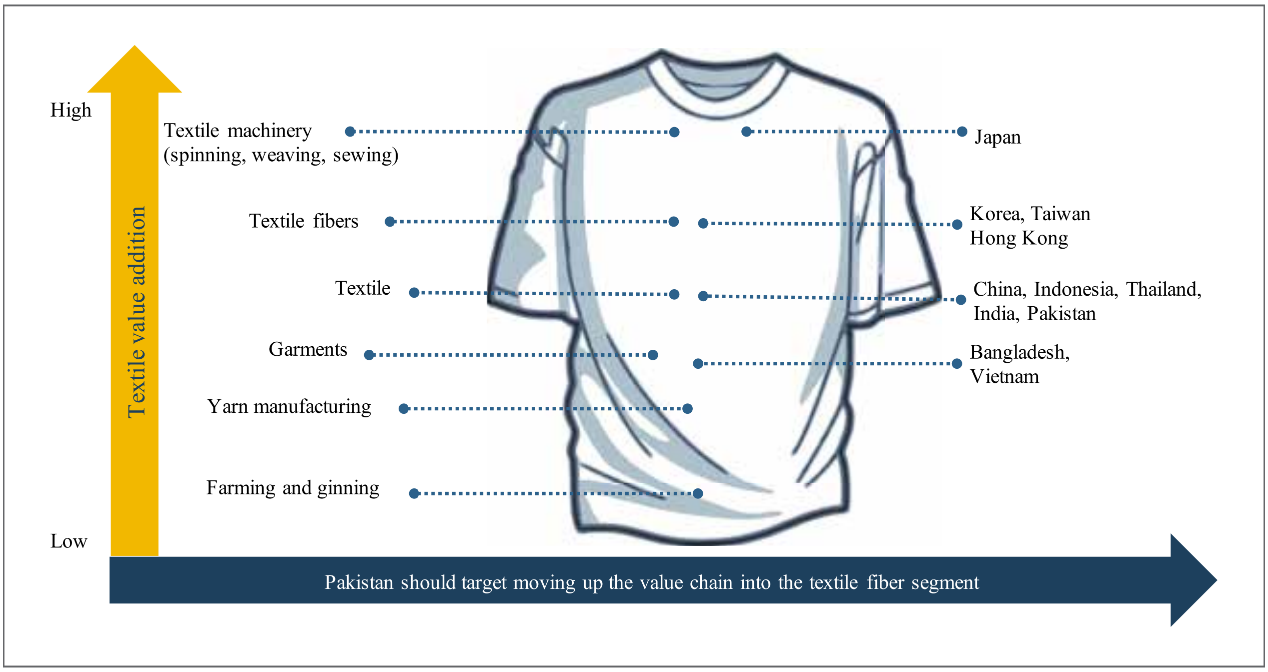


Figure 14: Pakistan's potential role in the global textile value chain

2.3 Services are under-served at policy levels

Pakistan's economy has prematurely transitioned from agriculture to a services-oriented economy. This means Pakistan has missed the gravy train to creating a strong manufacturing base. But the emergence of the services sector is relatively new in Pakistan. It is not plagued with excessive taxation and compliance issues which have been making manufacturing industries uncompetitive, so it will be easier to develop the country's services sector and create an exportable surplus. But this requires recognition, facilitation and policy incentives, not reforms.

Domestic services catering to upbeat consumer demand are likely to continue growth at a decent pace. The wholesale and retail trade segment contribution to GDP crossed agriculture in 2017.[33] In the last decade, the mushrooming growth in the retail economy has seen the emergence of shopping malls and brands in textile and food. Domestic modern eateries and textile brand culture emerged in big urban centres and is now penetrating in other cities as well while online shopping is giving access to populations living in every nook and corner of Pakistan.

Necessary goods: The government has failed in provision of some of the most crucial public goods due to inefficient administration amid lack of funds, for instance in providing 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 for public-private partnership (PPP) models in these areas. There are still tens of millions of school-age children who are out of school while health facilities are not available to large pools of population. The focus should be to tap these in PPP models.

33. Economic Survey of Pakistan (2017-18) [online] Available at: http://www.finance.gov.pk/survey/chapters_18/02-Agriculture.pdf [Accessed 14 Jun. 2018].

Logistics: If the country can enter GVCs, a lot of development would have to go into logistics, transport and other services that will have to be quick, cost-effective and safe enough to meet global standards. This will be a huge business creation for transport and logistics service providers.

Branding: If the retail branding industry is given the right incentives and recognition, a few of our top textile brands have the potential to not only bring good name to the country but also generate export surplus from opening branches in South Asian and Middle Eastern countries. Domestic brands should be transformed into regional brands. Meanwhile, such exports can be built easily for under-developed and culturally similar economies. Pakistani businesses are generally not welcome in Afghanistan, but medical and retail services businesses are entertained well. There is potential in exporting doctors and paramedical staff and retail outlet professionals to Afghanistan.

Indigenous goods: A huge potential exists for bridal wear, jewellery and other traditional industries where design element is thriving in the domestic market and the products are also being exported. But these are largely informal businesses. There is a novelty attached to hand-made products and these skills have existed in Pakistan for generations. There is a need to formally recognize design art in ceramics, pottery, carpets, textile, bridal wear, and jewellery etc. There are more than 20 sub-design industries where Pakistan has the competitive edge. Policy interventions and fiscal support are required for scaling up the potential of these indigenous sectors.

The market for many of these products exists not only in finished goods but also in design making; however, due to a lack of government support economies of scale have not been attained. There should be a policy to cater to these product lines and develop export markets for them. Once the industry starts developing, local brands may surface. Brands can be built by getting requisite international certification to enter premium exporting markets. Meanwhile, the immediate need is to facilitate textile, jewellery, bridal and other designers to render their services to international clients.

Tapping tourism: With improved security situation and economic recovery, domestic tourism has gained momentum in the past few years. The next step is to tap international tourism. But there is a shortage of necessary infrastructure like hotels, tour operators, and other amenities to cater to international tourists. International travel has increased from 8.5 million passengers in 2011 to 14.6 million in 2017,[34] but there has not been any new hotel constructed in major cities like Karachi and Islamabad.

There are a few tour operators in Pakistan catering to international tourism in the country. 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. But international tourists require additional safety and proper guides that are in scarce supply. Western diplomats stationed in Pakistan feel that there is tourist attraction in the culture and heritage of Lahore, as well as, in the beauty and adventure of hilly areas in the North. In order to capture this opportunity, there is a need to invite international tour operators to Pakistan.

ICT services and exports: India has become a top global ICT exporter in the world with annual quantum crossing $110 billion—six times of Pakistan's total exports.[35] The potential is huge in

34. Pakistan Civil Aviation Authority [online] Available at: https://www.caapakistan.com.pk/AT/AT-EO-Stats.aspx [Accessed 14 Jun. 2018].

35. On IT exports. [online] Business Recorder. Available at: https://www.brecorder.com/2018/05/22/418872/on-it-export/ [Accessed 14 Jun. 2018

Pakistan as well, yet the sector is mostly operating informally. ICT export numbers are guesstimates at best as most of the proceeds are routed through remittance channels. The industry estimate is nearly $2 billion[36] annual exports, not including some of the export proceeds that are not brought back to the country as they are held by the parent company registered in a third country.

The 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.[37] 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 is common. The government needs to provide financing and set up strong intellectual property rights for 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, enter the market it will be difficult to build the scale that is required to service IT needs of clients 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 service opportunities starting from running call centres to doing medical transcription and providing other business process outsourcing opportunities. CPEC provides an opportunity to run English speaking call centres for Chinese companies operating around the world. There are services like eBay where goods can be imported in Pakistan and with little value addition re-exported to other destinations. Alternately, trading of goods between two different countries can be facilitated through a platform in Pakistan. These services exist informally in Pakistan but most are registered in a third country. All they need is the facilitation to legally route the export proceeds in Pakistan.

36. ibid

37. ibid

CHAPTER 3: STABILITY LEADS TO SUSTAINABILITY

3.1 Bring fiscal house in order

The persistent higher fiscal deficit is at the core of economic turbulences the country has faced in the past ten years. In the period 2003-07, the fiscal deficit remained largely below 4 percent (3.5 percent average)[38] for a straight five years. That was the time when the current account deficit was low too as exports were growing in real terms. Since then, the fiscal deficit virtually remained higher than 5 percent (6.2 percent average)[39] and the fate of current account and exports was no different.

Structural change in the budget allocation took place after 7th NFC Award when the provinces' share in revenues increased. This has limited the ability of the federal government to spend on development and running government machinery without piling up debt. The 7th NFC Award and 18th Amendment were good steps as the provinces increased spending on social sectors including health and education due to their enhanced share in revenues. Environment is now a provincial subject after 18th Amendment, but so far there is little or no focus of provinces on mending fast deteriorating ecological imbalances.

Current fiscal operations are not sustainable as federal government cannot run its machinery and development solely on debt. The focus of next government should be to enhance revenues and more importantly, curb unnecessary expenditures. The tax to GDP ratio is significantly low in Pakistan. The number is growing—it increased from 9.3 percent in FY10 to 11.6 percent in FY17[40] —but this is far from potential. The aim should be to reach 15 percent by 2023.

Overhauling tax infrastructure: A major problem, as pointed out by Sakib Sherani during a FES session, is that the government is not collecting enough tax but also not collecting the tax from the right source. He remarked that 73 percent of the country's tax collection was paid by industries, whereas, almost 5-6 million members of elite class evaded tax that otherwise would greatly contribute towards the economy. "Even the tax that is collected, is not used on health and education, but it is siphoned off through useless contracts and projects", he said.

There is a trust deficit between tax payers and the state and this gap has to be bridged. Sakib Sherani pointed out the government's policy of predatory taxation, i.e. resorting to increasing the taxes instead of increasing the tax net, which was not helpful in achieving the national tax collection goals. "This policy has increased the incentive of evading the tax because we are now burdening the people who were already taxpayers", he said.

Meanwhile, tax collection authorities have to be reformed as tax harassment by FBR is a general perception amongst the business community. SMEs do not file taxes or fully declare income because of high cost of compliance. This not only discourages compliance but also dampens investor interest. This has to be simplified. There should simple forms and one window filing facilities for SMEs for all federal and provincial taxation. As Dr. Vaqar said at a FES session: "There are 56 annual taxes that the industries have to pay to 13 different institutions, which is not favourable for business".

38. Economic Survey of Pakistan (2017-18) [online] Available at: http://www.finance.gov.pk/survey_1718.html [Accessed 14 Jun. 2018].
39. ibid
40. ibid

The connection between taxation and inequality is also evident. Higher consumption-based tax in the country has resulted in the concentration of income and wealth in the hands of top few percent of the society. The tax policy is regressive in nature as three-fifth of FBR tax collection is on consumption or imposed at import stage, whereas, three quarters of the two-fifth direct taxes collected are in an indirect form. The presumptive method in indirect taxes on intermediate goods and services are resulting in cascading of GST which has increased the cost of doing business. Tax administration is inefficient and has failed to enhance demand-based income tax collection. Tax policies which are also formed by FBR have set the system on autopilot by relying on indirect taxation.

The outgoing regime has charted a plan for upcoming government to reduce the corporate income tax rate to 25 percent by 2023[41] and individual's rates are already reduced significantly. However, there is no decline in rates on withholdings within direct taxes. The GST has kept unchanged at a very high rate of 17 percent while heavy duties are imposed on imports. The challenge for the new government is to enhance tax collection with an objective to lower the reliance on consumption tax. The new government should announce a plan for reduction in GST in staged manner—for example 0.5 percent a year to take to 14.5 percent in 2023.

The income tax rates reduction plan, at the same time, should continue. There is utmost need to make tax administration efficient. The demand-based collection by FBR should increase. The carrot is in the form of reduction in tax rates, but stick should be used by tax collecting authorities for those who defect to pay even at lower rates.

Dealing with non-filers: The penalties on non-filers were based on higher withholding tax, but businesses were either treating these as full and final liabilities or passing it to the consumers. The government has raised collection through higher taxes on non-filers but that has enhanced the informal economy and inflated prices. In Budget 2018-19, this policy was revised. Non-filers can no longer buy real estate, a new car, or open a foreign exchange account. This could potentially lead to an increase in number of tax filers if the measures are implemented in letter and spirit. Once the businesses and individuals start filing, the tax administrators can use stick for those who are under-reporting their income. In a symposium arranged by Sustainable Development Policy Institute (SDPI) in Islamabad, Miftah Ismail shared that a list of tax evaders, especially in the real estate sector, had been prepared and hopefully a large number of evaders would be brought into the tax net with the help of NADRA. "We are enabling a system in which only those can buy properties or plot who is a tax filer, otherwise, one cannot buy any piece of the land," he explained.

Challenges in provincial taxation: After the 18th Amendment, provinces who used to outsource the collection of GST to FBR are now collecting it themselves as three provinces have established their own tax revenue authorities. The provinces are now collecting 0.5 percent of GDP on services while none was collected five years ago. Although this is a positive development, in an event arranged by the Punjab Revenue Authority in Lahore, Dr. Hafiz Pasha argued that Pakistan had the potential to triple the collection. He gave the example of India where GST collection on services was a federal subject and stands at 1.5 percent of GDP. "There are multiple provincial tax collection agencies including excise and taxation and revenue

41. Budget Speech (2018-19) [online] Available at: http://www.finance.gov.pk/budget/budget_speech_english_2018_19.pdf [Accessed 14 Jun. 2018].

authorities. These all should be clubbed to one revenue authority for each province to collect GST on services, income tax on agriculture, tax on immovable properties etc.", he recommended.

Moreover, a major challenge as pointed in Sherani's book on institutional reforms was the lack of coordination after the 18th Amendment. He says: "the absence of an overarching policy framework or better coordinating mechanisms has led to the same tax base being subjected to multiple taxation across provinces, as well as difficulties in obtaining sales tax refunds".[42]

Soft measures such as promoting a tax culture can also be beneficial. The government can run tax campaigns on print and electronic media, hoardings, and digital media by using simple key messages that highlight the benefits of higher tax collection and disadvantages of lower tax collection on poor service delivery. But the tone must be set from the top and tax compliance must first be demonstrated by the bureaucracy and the political leadership.

3.2 Austerity begins at home

It is imperative to cut down unnecessary expenditure by bringing fiscal discipline across federal and provincial governments. The civil service reforms are essential to slash down administrative expenditures. After the 18th Amendment, subjects which are devolved to provincial level are still operating in some capacity at federal level to absorb all the existing civil servants and contractual employees. These duplicate functions should be abolished, and the resources should be deployed in neglected areas.

Privatization: The ailing public sector entities are eating around Rs.500 billion per year. The restructuring or privatization of these entities has remained on the agenda of the past three governments. Whenever any government tries to privatize, white elephant opposition comes in the way, irrespective of which party is in power. There should be unified economic agenda of all political parties to stop the drainage of taxpayer's money in companies like PIA, PSM and power distribution companies, etc. Speaking at a symposium titled 'State of the economy and future priorities' organized by FES Pakistan and SDPI, Dr. Hafiz Pasha emphasized, "Privatization of at least 11 state owned entities including PIA and Steel Mills must be a top priority".[43]

The first step is to restructure these companies and turn them around financially. Poor governance and mismanagement are at the core of the problem. Once these entities are profitable, the decision to keep or privatize will take place thereafter. The beauty of turnaround is that the loss-making companies could become potential earners for the government by paying dividends. This can create fiscal space for instilling social reforms.

The problem is that theft in distribution and non-recovery in billing is higher in a few DISCOs while the brunt of tariff has to be borne by all. This incentivizes theft. Once DISCOs are decentralized, the theft and non-recovery have to be taken from respective DISCOs own customers. This may help in lowering losses by better accountability mechanisms. This is why distribution companies should be moved to provinces who should decide the fate of the company in view of its performance.

An important learning on privatization comes from Dr. Pervez Tahir's book on the subject where he argues that: "privatization does not necessarily promote efficiency and competition. It is, therefore,

42. Sakib Sherani. Institutional Reforms in Pakistan- The missing piece of the development puzzle (2017).

43. Economic policy must respond to needs: minister. (March 2018) The News. [online] Available at: https://www.thenews.com.pk/print/297991-economic-policy-must-respond-to-needs-minister[Accessed 14 Jun. 2018].

necessary to strengthen the regulatory bodies to protect consumers and the public besides creating a level playing field for investment. Privatization leading to cartelization is worse than public monopolies".[44] This is an important consideration.

Project management: Development expenditure needs to be efficient in order to match private sector ventures. The projects are executed better in urban centres but the administrative capacity needs to be built in poorer regions as well. Lack of project management leads to cost and time overruns.

The Planning Commission should be an independent institution equipped with modern project management tools and experts. The total country development outlay including federal PSDP and provincial Annual Development Programme (ADP) should be finalized under one secretariat after getting vetted by federal planning commission to avoid duplication of projects and to prioritize projects synced to country growth strategy. The five years economic plan should be formed after adequate deliberation with all stakeholders and government should stick to the plan by resisting political pressures.

Project feasibility, procedures and approval processes should be smoothened by defining and implementing an institutional framework. The problem of throw-forward and public interest projects with commercial viability should be dealt with alternative financing modes, such as public-private partnerships, built-operate-transfer, and build-own-operate models.

Social sector expenditure and its distribution: The spending on social sectors such as health and education have increased significantly after the 7th NFC Award; however, still there are large gaps which require efficient spending on basic needs. The problem is that spending is concentrated in urban centres, especially provincial capitals. Even those resources allocated to backward districts are re-routed through provincial central bodies. This defies the purpose of decentralization. The disparity amongst districts is increasing and it is resulting in higher migration to urban centres. Consequently, higher spending in urban centres is not enough to meet the growing need.

The process has to be reversed by building vibrant urban centres in each district and this requires district-wise administrative spending. The natural progression of 7th NFC Award and 18th Amendment is to develop Provincial Finance Commission (PFCs). The next government should form PFCs and build economic corridors across the country to bring vibrancy in the backward districts. The marginal social and economic return of spending in poor districts is higher than spending in large urban centres. This will reduce the clogging in urban centres by engaging the youth in their home towns.

3.3 Making existing exports competitive

In order to take exports up from $20-25 billion, Pakistan needs to explore new avenues of exports by becoming part of the GVCs, developing agriculture value-added sectors, and expanding the ICT base. As discussed, these measures will take time to provide meaningful results.

There may be an immediate need to make existing exporting sectors competitive to bring stability in the external accounts. It is pertinent to note that bringing competitiveness to exporting sectors through fiscal measures and other policy incentives will not only help existing exports to grow but will also pave way for new exporting avenues. Exports used to be 13 percent of GDP in FY05 and now they are hovering around 7 percent of

44. Dr. Pervez Tahir. Economic and Social consequences of Privatization in Pakistan. (Dec 2014). FES

Factors affecting exports that need immediate intervention

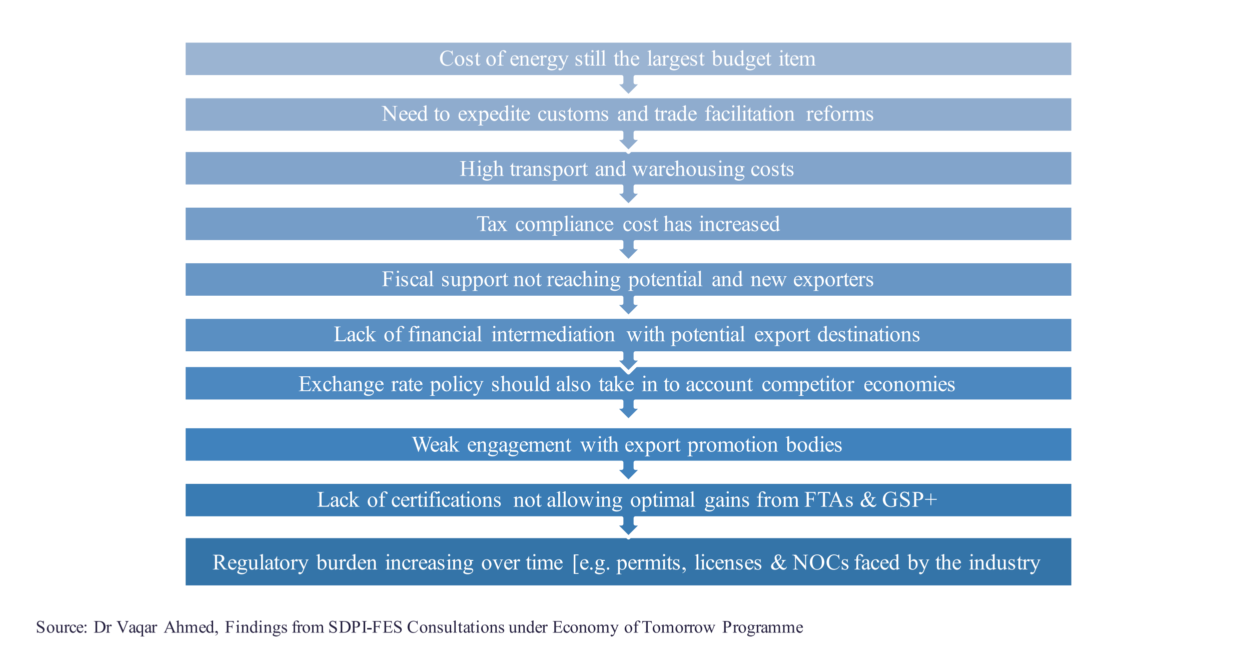


Figure 15: Ten factors that affect exports

GDP.[45] The textile sector constitutes 60 percent of total exports and other manufacturing contributes 15 percent.[46] The need is to revive the sector to decade old competitiveness levels.

Making exports competitive would involve not only removing bottlenecks but having policies that support exports. At a recent FES session, Dr. Vaqar Ahmed said that there was a need to synchronize Pakistan's different economic policies. He remarked: "Currently we have a trade policy that aims at promoting the exports, whereas we have a fiscal policy that is not export-friendly".

3.4 Bringing energy efficiencies

Energy inefficiency is the prime reason for industrial non-competitiveness and the recurrent balance of payments crises. At the same time, energy discipline can take the country on a sustainable growth path without any worry of external shocks. On average, energy imports remained around one-third of the total import bill over the past ten years. The 2008 crisis was due to the oil prices shock and oil is heading north again in 2018. Majority of power plants in the country are thermal, running on very low efficiency. 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 the clean energy race. In power generation, the country concentrated on furnace oil (during the 1990s and 2000s) while the world was moving out of it. Now imported gas and coal are the new fad in the country as the rest of the world races toward becoming green and reducing carbon footprint.

45. Econ data. [online] State Bank of Pakistan (SBP) Available at: https://www.sbp.org.pk [Accessed 14 Jun. 2018].
46. Economic Survey of Pakistan (2017-18) [online] Available at: http://www.finance.gov.pk/survey_1718.html[Accessed 14 Jun. 2018

The oil and gas sector used to attract decent investment in early 2000s. Since then, owing to bad security situation and unattractive exploration and production polices, investment dried out. The Sui Gas reserves are fast depleting and no substitute is yet discovered. With improved security conditions, the immediate need is to refresh the E&P Policy 2012 to attract foreign investment in the sector. The idea is to reduce the reliance of imported thermal fuel for power generation and transportation by enhancing domestic production.

Improving energy mix: 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 lately has moved to natural gas which emits less carbon. But after three plants commissioned on imported RLNG, the imported gas projects should be capped. Pakistan has started taking baby steps to harness renewable energy to meet the demand shortfall and to strike a balance between affordability, availability, sustainability and viability.

Focus on renewables: The new power strategy is to focus on indigenous energy sources while having imported fuel-based projects as a stopgap 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 projects 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.

The wind potential of the Gharo Wind Corridor in Sindh alone is 40,000MW.[47] Then there is the whole Balochistan coastal belt, as well as, other parts of Sindh such as Jhimpir and Jamshoro. Currently, merely 1500MW wind projects are either commissioned or in the process of development. The solar potential is nothing less. Thar Desert of 400 sq km can hypothetically serve the country's entire energy demand. There is desert potential in Southern Punjab which is marginally tapped by Punjab government where part of the 1000MW park is commissioned while the rest is under development in Bahawalpur.

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 is required to tap the renewable potential. The wind corridors are in far and 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. According to the Danish Ambassador to Pakistan, this country needs minimum 250MW in wind power projects to attract investment.[48]

47. Investment up to $2.7b expected in wind projects.[online] Express Tribune (2012). Available at: https://tribune.com.pk/story/418393/investment-up-to-2-7b-expected-in-wind-projects/[Accessed 14 Jun. 2018].

48. Wind power needs scale for investment. [online] Business Recorder. Available at: https://www.brecorder.com/2018/04/23/413531/wind-power-needs-scale-for-investment/[Accessed 14 Jun. 2018].

Governance challenges: The Aggregate Transmission and Commercial (AT&C) losses are around one-fourth of the energy cost and this is jacking up energy prices. The previous regime added requisite megawatts and the upcoming government will have to upgrade transmission network to fully absorb the power generation capacity. The difficult part is to lower power theft and enhance bill recovery which are major causes of the build-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.

Energy conservation: There is no better way to energy efficiency than to conserve energy. Since the price of energy is too high, marketable solutions are welcomed. For example, LED lights and inverter air conditioners should be encouraged. Similarly, policy incentives should be introduced to convert inefficient gas geysers to solar and electric sources. A few political parties have announced their agenda to build millions of new homes. There can be policy incentives for insulation of homes from outside temperature. The new homes can be mandated to use solar panels on rooftops and all the net metering technology can be deployed for selling excess energy into the grid. Banks can be directed to provide solar energy financing solutions and club in case of mortgage loans.

Meanwhile, metros and other public transport systems need to be extended to all cities. The road toll tax should be designed according to the congestion on the road. This will encourage commuters to use public transport systems 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.

3.5 Creating competitive markets

Lack of competitive markets in Pakistan has given rise to monopolies and cartels, lower quality products, higher prices, and overall economic injustice. These have affected the poorest consumers the most by creating difficulties in attaining affordable essential commodities, utilities and services. Any anti-competitive practice in the agricultural inputs and agro-based industries would have devastating effects to a large segment of population that depends on agriculture for their livelihood.

Market-based competition rewards those who offer relatively better goods and services. Through enhanced competition, Pakistan's internal markets will deliver more for national consumers as well as export markets. Trade liberalization and tariff rationalization, good corporate governance, and accountability and monitoring of anti-competitive practices are essential. Trade offers opportunities to generate profits, create employment, raise income levels and spur greater economic activity. But only those firms that are competitive can compete in global markets. Meanwhile, the anti-competitive business conduct of a few businesses reduces productivity and the benefits to consumers that may arise out of competition. Fair competition in the long run boosts economic growth and allows businesses to grow as well.

Labour markets: Pakistan is near the bottom in competitiveness in the GCI ranking on factors that determine the level of productivity. Labour productivity however is dismal and employment figures include the vulnerable, unhealthy and unskilled labour. Challenges facing the labour market include:

- Freedom of association - agriculture and domestic workers are excluded
- The worst forms of child labour and child labour in the informal economy
- Gender gap in participation and income and lack of workers' protection in female-dominated jobs
- Forced labour in agriculture, supply chains, domestic work, brick kilns, migration and trafficking
- Inadequate regulation and protection of non-standard workers, for instance the gig economy, contract labour, recruitment and placement
- Inadequate and non-universal social protection
- Low protection level of overseas Pakistani migrant worker
- Unsafe working conditions

Lethargic labor productivity

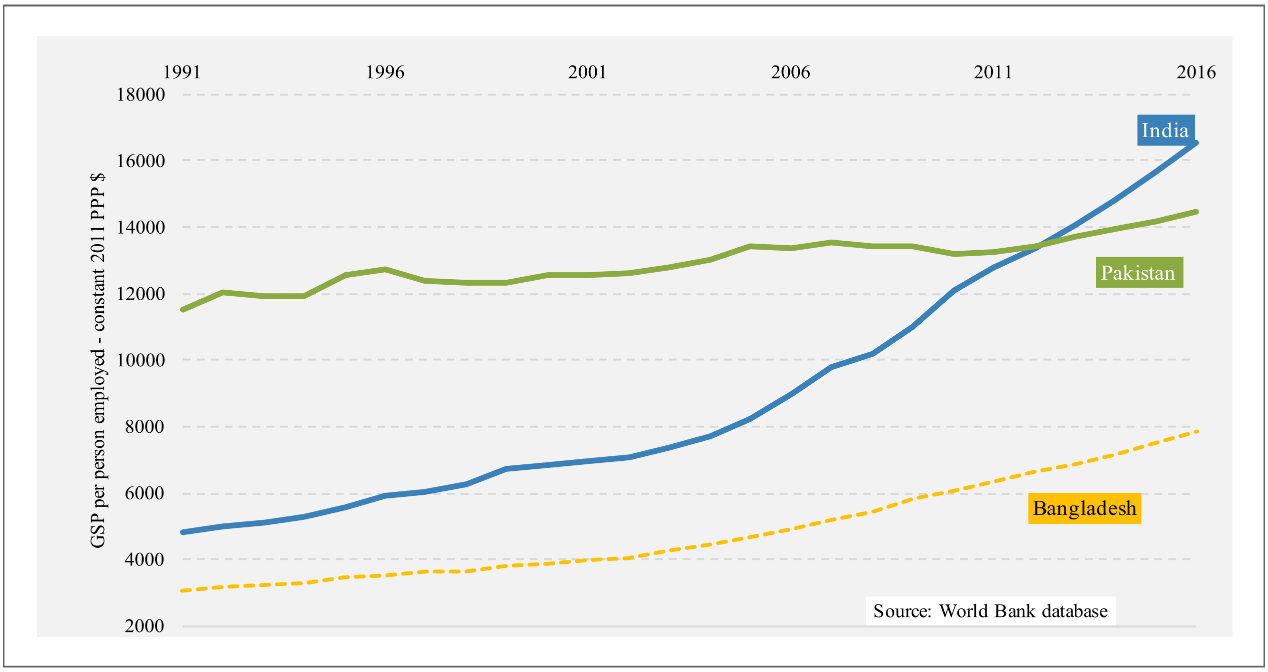


Figure 16: Labour productivity in Pakistan versus regional peers

Pakistan has to move towards universal ratification of the International Labour Organization (ILO)'s fundamental conventions and ensure their implementation. Considering changes in the labour market and new forms of work, legal frameworks have to be strengthened in terms of workers' rights. 'Decent Work for All' for ordinary working people guarantees a decent national living wage. In the context of globalization, the trade strategy should be pro 'decent work'.

Trade schemes like the GSP plus demands respect for labour rights. Actions need to be taken including devising frameworks to observe violations of fundamental rights at work, the causes and consequences of such violations, and indicators to gauge the effect of inadequacy in labour administration at any level.

Legal recourse: Curtailing anti-competitive behaviour after the damage is done to businesses, consumers and the economy is not useful. Competition policy should act as deterrence for anti-competitive practices and this can only happen with a sound and speedy legal system. Quick disposal of justice and redressal is essential which means discouraging the higher incidence of stay orders that have slowed down the process by a number of years and is an oft-used delay tactic in business related disputes.

3.6 Water, water everywhere, but none to drink

It is undebatable that water is a basic need for humans, but it is also one of most scarce resources. There are problems of both water quality and water quantity in Pakistan and both are equally pressing and need immediate attention. Within South Asia, the average rainfall in Pakistan is the lowest—less than half of India and less than one-fifth of Bangladesh.[49] This leaves the country to rely primarily on ground water—annual average of 50 million acre feet (MAF) and river flows—annual average of 145 MAF.[50] In terms of water storage, the situation in Pakistan is only better than Ethiopia in the whole world. Pakistan's storage capacity is merely 150 cubic meters per person which is much lower than many other economies. The reservoirs storage capacity is 30 days of consumption versus standard requirement of 120 days.[51]

Pakistan is being categorized close to water scarcity with per capita availability of 1,017 cubic meters versus 1,600 cubic meters per capita in India.[52] The problem is not only that we keep on wasting water—below Kotri escapages averaged at 28 MAF against the ecological requirement of 8.6 MAF.[53] There is a huge unrealized cost the country is paying in the absence of adequate storage. This is apart from wastage due to outdated agriculture water distribution system which averages 24.3 MAF in annual wastage.[54]

Global warming is changing the equilibrium. According to a World Bank study, Eastern Himalayan glaciers may retreat for the next fifty years and afterwards the river flow may decrease by 40-50 percent. In days of high melting, possibility of floods is high after which droughts will become common.

Water policy and coordination: The national water policy has been established which is a good first step; however, there should be a consensus amongst all political parties on the implementation of this policy. The construction of the Diamer Basha dam should be expedited. Other dams and reservoirs should be constructed as per plan and water projects should have priority in development budgets. Concurrently, run of river small dams should be constructed regularly in KPK.

Water contamination: A major concern is that groundwater and surface water (rivers flow) is mixing with contamination from 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

49. World Bank Open Data. [online] Available at: https://data.worldbank.org/ [Accessed 14 Jun. 2018].

50. State of the Economy- Annual Report (2016-17), Chapter 7. [online] State Bank of Pakistan (SBP). Available at: http://www.sbp.org.pk/reports/annual/arFY17/Chapter-07.pdfttp://www.finance.gov.pk/survey_1718.html[Accessed 14 Jun. 2018].

51. ibid

52. ibid

53. ibid

54. ibid

only contaminate the surface water but also seeps through fresh water bodies into the ground water aquifers making it unfit for drinking and agriculture use.

The underground water samples in some places have arsenic levels of 200 micrograms per litre against World Health Organization (WHO) requirement of 10 micrograms and government's limit of 50 micrograms.[55] 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 (approx. 50 million people) is at risk of arsenic poisoning from contaminated groundwater.[56] 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 corporations should be mandated to have their own waste treatment systems and no new industries should be allowed outside the designated industrial zones.

Water productivity and pricing: The depletion of groundwater will not only affect the population but the agricultural and industrial sectors as well, yet 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.[57] Had the water been properly priced, productivity could have been much higher. There should be a policy reform in water management. Fiscal incentives should be given for making and importing water sprinklers and drip irrigation solutions, as well as, other tools to reduce water wastage. On the soft, yet equally important side, the importance of water, its impending shortage and the pitfalls 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.

3.7 Bringing ecology in balance

Pakistan in general, and KP in particular, is marred by several environmental problems such as air pollution, water pollution and sanitation problems, solid waste management issues, rampant deforestation which is highest in Asia, heavy use of pesticides and inorganic fertilizer, water table depletion, land use changes, and climate change induced snags. Most recently, the fast-growing smog problem in Punjab and KP, the presence of arsenic material in the ground water of Indus Basin area at alarmingly high levels, and the inclusion of Pakistani cities amongst the top ten most polluted cities of the world are some of the examples of worsening environmental resources.

High levels of environmental problems culminated in economic costs of Rs.365 billion in 2006 or 6 percent of the GDP.[58] The causes range from population explosion to rising poverty levels, institutional problems such as capacity, incentives and autonomy, technological inadequacies, social capital (communication, networking, and trust), property rights, rule of law, and environmental regimes. But the root cause of almost all the

55. ibid
56. ibid
57. ibid
58. Environmental Issues and Impact. World Bank [online] Available at: http://siteresources.worldbank.org/SOUTHASIAEXT/Resources/Publications/448813-1188777211460/pakceach2.pdf[Accessed 14 Jun. 2018].

environmental problems is related to the ownership of these resources.

Pakistan Environmental Protection Act (PEPA) 1997 was the first ever legislation for environmental protection in Pakistan which was followed by the declaration of National Environmental Policy 2005. The major thrust of these documents was based on the adoption of National Environmental Quality Standards (NEQ). After the 18th amendment, environment became a provincial subject and at present, each province has developed its own environmental policy with little or no changes from PEPA 1997. For example, the KP Environmental Protection Act 2014 includes only one amendment to PEPA 1996 relating to minimum penalty.

There have been some successful market and community driven environmental initiatives like the hunting trophy in Gilgit-Baltistan and Chitral regions, the solid waste management system by means of private companies in Lahore and Rawalpindi, and the solid waste management through donkey-cart owners in Hayatabad and Peshawar. Similar market-based instruments need to be introduced which are based on market prices, and other economic variables to offer incentives or disincentives for polluters to reduce or eliminate negative environmental consequences or externalities. Examples include environmental taxes, charges and subsidies, emissions trading and other tradable permit systems, deposit-refund systems, environmental labelling laws, licenses, and payment for ecosystem, etc. There is no unique solution to environmental problems. Majority of the developed countries in the OECD have adopted a mix of environmental policy choices. Likewise, the 'Better Regulation Agenda' of European Union reveals the problems and prospects of the mix of the regulatory regime adopted in their regions.

It is imperative to assess an appropriate policy instrument for each of the important environmental sectors including air, water, land, solid waste, land use, pesticide and fertilizer use, forestry and fishery, and suggest market-based instruments wherever appropriate and feasible as every sector is unique in terms of its capacity, foot prints, institutional arrangement, and property rights.

In order to understand the impact of environment on the economy, the inclusive wealth index should be used that has in the past been argued to be a better alternative to measuring GDP. The index is composed of produced capital (investment, output, growth, depreciation etc.), natural capital (fossil fuels, minerals, forest, agriculture land, fisheries etc.), human capital (population, mortality, employment, labour force etc.), health stocks such as population by age, probability of dying, value of statistical life etc. and IWI adjustments (technological changes, carbon footprints, and oil capital gains etc.). Some argue inclusive wealth would show the complete picture of a country's total assets. Policymakers can use this to prudently adjust the use of resources for a sustainable livelihood. For example, trends regarding the use of water and forest resources, pasture and grazing land, skilled labour and the quality of education, air pollution and climate change, etc. (declared as human footprints) can be matched with their availability (called carrying capacity). This information can thwart episodes like zero day of water in Cape Town.

CHAPTER 4: BRIDGING THE MANY SOCIAL DIVIDES

Inequalities are a stark reality in even the most developed economies. In a country like Pakistan, poverty too is ill-distributed and access to food and basic needs are dramatically different from one province to another and from one district to another. Meanwhile, access to primary and secondary education is different not only across provinces, districts and cities, but between male and female students as well. Similarly, gender gaps exist not only in education, but also in the availability and access to health and nutrition, income and wages, and overall treatment within society. In a FES panel discussion, Dr. Hafiz Pasha argued that over the last 15 years, Pakistan had not only lost its growth momentum due to reasons including war on terror and electricity shortage, but also due to the growing rise in inequality among its citizens. "In last 15 years, the rich-to-poor ratio of Pakistan has swelled to 12:1m which is alarming", he remarked.

4.1 Poverty and rising inequality

There are several measures to assess poverty level but while food deprivation and extreme poverty may not be as high in Pakistan as some other neighbouring countries such as India, the overall living standard in the country has not improved. In fact, rising income levels has made way for greater inequalities within and between provinces and cities. The extent of the divide is such that the income share of the highest income population of the country has grown while the income share of the lowest income population has actually fallen leading to wide-spread income inequalities.

Pakistani people are less poor today than they were 10-15 years ago. According to the old method of calculating poverty, i.e. the Food Energy Intake (FEI) that uses caloric intake and household expenditure as metrics, poverty came down to 9 percent in 2014 from 35 percent in 2002.[59] The government revised this poverty line with the Cost of Basic Needs (CBN) method that uses food and non-food needs as part of its measure. Accordingly, poverty came down to 29.5 percent in 2014 from 64.3 percent in 2002. Meanwhile, according to the Multidimensional Poverty Index (MPI) that takes into account education, health and standard of living, the poverty level come down to 38.8 percent in 2014-15 from 55.2 percent in 2004-5.[60]

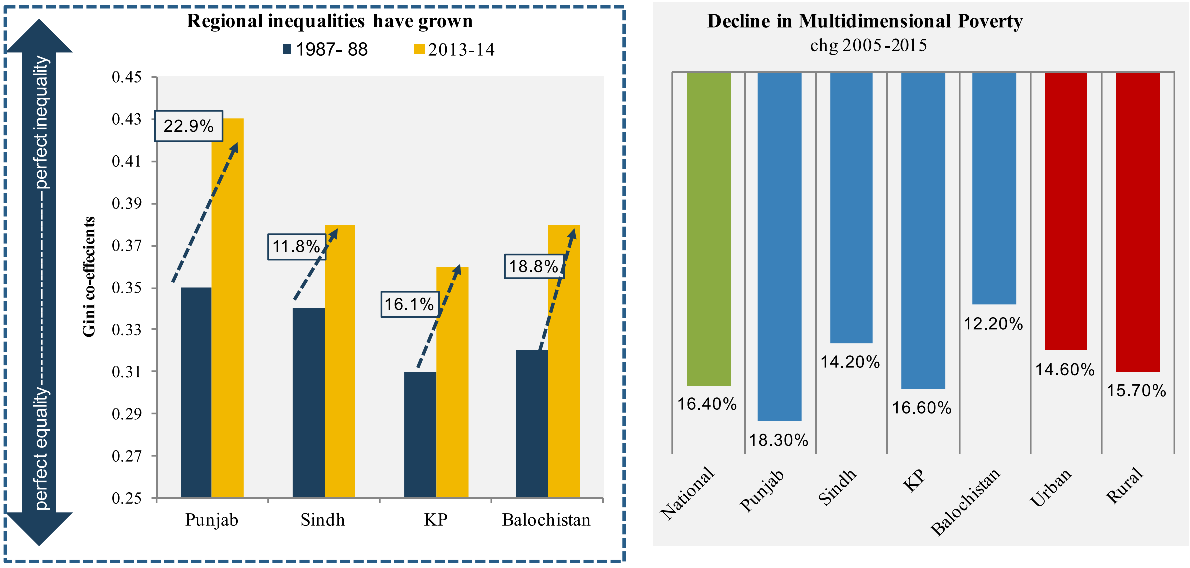
Reduction in poverty is deeply polarizing: The MPI measure is important to not just pinpoint true levels of poverty but also understand the depth and severity of poverty and living standard in the country. One important inference is that while poverty levels have come down, disparity within provinces, cities and districts may not have closed. In fact, the least poor region Punjab reduced poverty levels the most (18.3 percent), while Balochistan the poorest region reduced poverty at the lowest rate (12.2 percent) between 2005 and 2015.[61] Poverty reduction has been more pronounced in the already less poor region.[62]

Balochistan accounts for less than five percent of the country's population and saw the least reduction in poverty levels across the regions.[63]

59. Inequality: Missing from the Public Agenda. Ministry of Planning, Development & Reform (2016).
60. Multidimensional Poverty in Pakistan. Ministry of Planning, Development & Reform; Oxford Poverty and Human Development Initiative (OPHI); United Nations Development Programme (UNDP), Pakistan (2016)
61. ibid
62. ibid
63. ibid

This implies that a small number of people were brought out of poverty in Balochistan. The income level gap between Balochistan and other provinces is only widening.

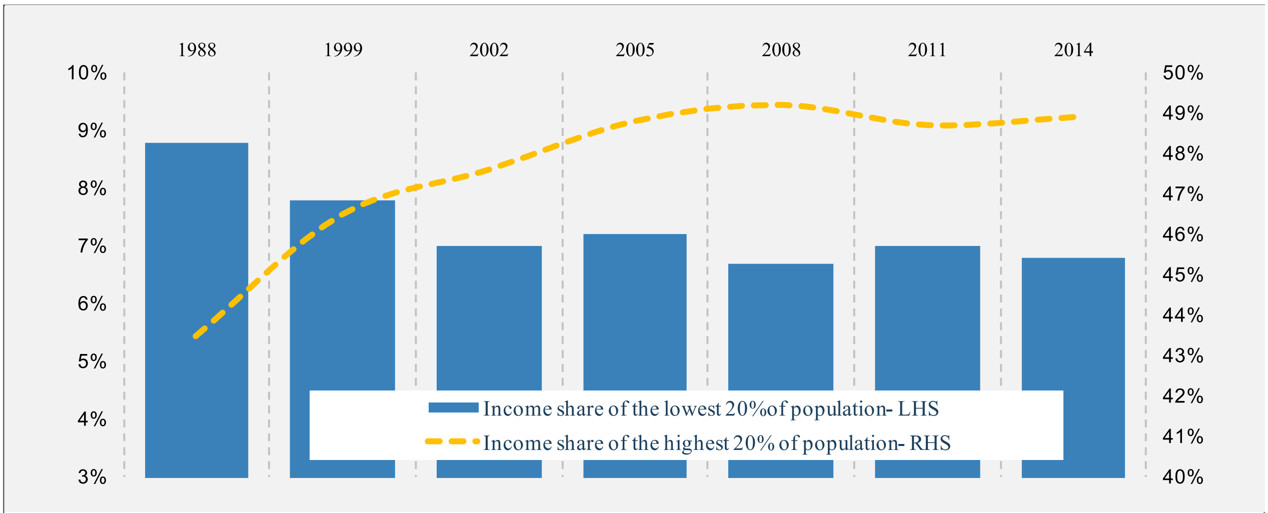
Income inequalities: regional disparities



Source: Data provided in UNDP study June 2016: "Inequality: Missing from the Public Agenda" and Multidimensional Poverty in Pakistan report

Figure 17: Income disparities across regions

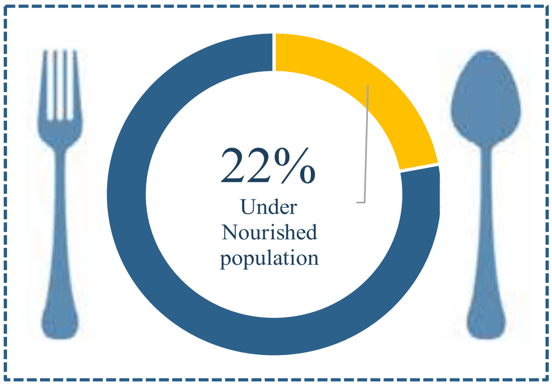
Extent of the divide



Source: Data provided in UNDP study June 2016: "Inequality: Missing from the Public Agenda"

Figure 18: Income inequality: lowest and the highest 20%

Falling poverty, rising malnutrition: It is often said nobody goes to sleep hungry in Pakistan, but the question is whether reduced hunger and destitution is enough. Food expenditure in the country is significantly high because of higher prices of basic food items. So, while poverty is falling, everything else is on the rise, be it inequality, malnourishment, stunting in children, infant mortality, child mortality, and overall health of the country.



Nearly 45 percent of children born in Pakistani homes are stunted while 22 percent of the population is malnourished one way or the other.[64] Under-nutrition leads to reduced cognitive capacities which in turn leads to poor performance at school, lesser chance of landing a skilled job and lower productivity overall. Studies suggest that stunted children start schooling later, are less likely to go on to higher education or graduate and earn 20 percent less than non-stunted children.[65] In fact, they are also less likely to escape poverty, so the vicious cycle of malnourishment continues. Stunting is an economic drain as a country can lose 3 percent of the GDP due to stunting in children.[66] One would wonder how despite reduced poverty levels, poor nutrition has prevailed and grown. The reason for this is rising disparity as the unequal distribution of food ensures that the rich are better off while the poor slide further down in terms of both availability of food and the quality of food. This is what has led to food insecurity in the country.

Meanwhile, the food that is being consumed by the population, especially in the lower strata of society, is devoid of essential nutrients. Deficiency of nutrients such as essential vitamins or minerals is what leads to a number of health issues, especially in children and mothers. Nearly two-thirds of children are anaemic in Pakistan while one-third have iron deficiency. Among women, deficiencies of zinc, calcium, vitamin A and vitamin D are very common. Nearly half of the women in the country are anaemic.[67] Anaemic mothers lead to anaemic children. Moreover, inadequate access to water, sanitation and hygiene are also prominent reasons for poor health of large shares of the population. The vulnerable population is also likely to develop intestinal infections and diarrhoea due to these issues. In fact, in 2017, Pakistan was number one in neo-natal mortality, worse than some of the poorest Sub-Saharan African countries and some war-torn nations, according to UNICEF. Clean water supply, sanitation, and hygiene are integral in preventing malnutrition and child mortality.

47%

Of children in pre-school have Vitamin-A deficiency

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64. Yohanneset.al. 2016 Global Hunger Index: Getting to Zero Hunger. [online] Available at: http://www.ifpri.org/publication/2016-global-hunger-index-getting-zero-hunger[Accessed 14 Jun. 2018].

65. Global Nutrition Targets 2025- Stunting Policy Brief. WHO. [online] Available at: http://apps.who.int/iris/bitstream/handle/10665/149019/WHO_NMH_NHD_14.3_eng.pdf;jsessionid=9553E6ABBD4A03FB99123267257E981A?sequence=1[Accessed 14 Jun. 2018].

66. ibid

67. Fill the Nutrient Gap- Pakistan, World Food Programme (WFP). Scaling up Nutrition Movement, Pakistan (2017).

Policy interventions are necessary: The economic cost of malnutrition is around $7.6 billion or 3 percent of GDP every year for Pakistan as it leads to low productivity, higher health costs, and loss of future labour.[68] The government needs to step in to introduce food distribution schemes, food fortification programs and boost overall food security. While better distribution of food is necessary, creating education and awareness is equally important.

On the fiscal side, measures such as reduction in indirect taxation can be taken to reduce the burden on the poor. Food security would also include enhancing food fortification programs, providing micro-nutrients to children and necessary nutrients to women, especially those of child bearing age. Punjab and KP have initiated programs like wheat fortification to improve nutrition and consumption of fortified food while a DFID program was launched in late 2016 to increase the micronutrient content of flour and edible oil or ghee through fortification.

It is not to say that addressing malnourishment, stunting, food fortification, and spending on clean water, hygiene and sanitation will be cheap. It cannot be. But estimates suggest that the return on investment to reduce malnourishment is $30 to every $1 invested.[69] The government must decide whether that is worth the investment before the cost to the economy of these issues becomes unbearable.

Economic costs of malnutrition

Lost future workforce as more than 177,000children die every year before their 5th birthday because they or their mothers are malnourished.	$2.24 *billions*
Healthcare costs to systems and families due to poor breast feeding practices and zinc deficiencies in more than 90 million cases of diarrhea and respiratory infections in children	$1.00 *billions*
Depressed GDP from lower productivity as more than two-thirds of Pakistan's children lack mental and physical development as they suffer from stunting, anemia or iodine deficiencies	$3.70 *billions*
Reduced economic output in industry, agriculture and other manual jobs as more than 10 million working adults with anemia experience chronic weakness and fatigue.	$0.66 *billions*
Total economic cost of malnutrition in Pakistan	$7.60 *billions*

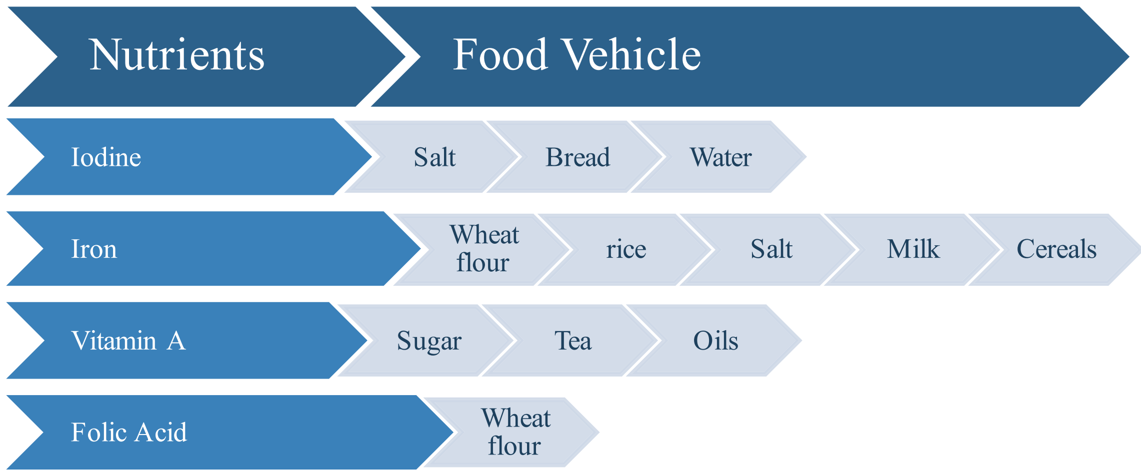
Source: World Food Program website (www.wfp.org)

Figure 19: Economic costs of malnutrition

68. The Economic Consequences of Undernutrition in Pakistan: An Assessment of Losses. World Food Programme (WFP). Scaling up Nutrition Movement, Pakistan (2017).

69. Copenhagen Consensus Expert Panel (2012).

How to make food fortification possible?



Source: World Bank

Figure 20: Food fortification

4.2 Gender gaps across the board

In the year 2018, when globally women are increasingly fighting for equal rights and opportunities, vying for greater economic participation and closing the gap that exists in social and economic sectors, Pakistan has hardly made any progress in this area. In fact, Pakistan is placed near the bottom of the Gender Gap Index published by the World Economic Forum—just one place ahead of Yemen, but below Saudi Arabia, Syria and Bangladesh.[70] Gender imbalances in economic participation and opportunity, political empowerment, educational attainment, and access to healthcare are wide and show little to no improvement compared to the rest of the world.

Girls in school: Literacy rates in Pakistan have historically remained low but these rates actually fell during the outgoing government's tenure—to 58 percent from 60 percent in 2014 with a wide gap between male and female. In fact, only 35 percent of the female adults in Pakistan are primary school educated (as opposed to 62 percent males), while only 19 percent of the entire adult female population has secondary school education.[71] In the lower segments of the society, girls are less likely to be sent to schools as boys are given priority since they are the potential breadwinners. But even those children who are going to school, whether male or female, attain abysmally low-quality education where rote learning is common and teachers at both public and low-cost private schools are not equipped or qualified enough to teach.

70. The Global Gender Gap Report 2017.[online] World Economic Forum. Available at: https://www.weforum.org/reports/the-global-gender-gap-report-2017[Accessed 14 Jun. 2018].

71. ibid

Gender gaps: at the school

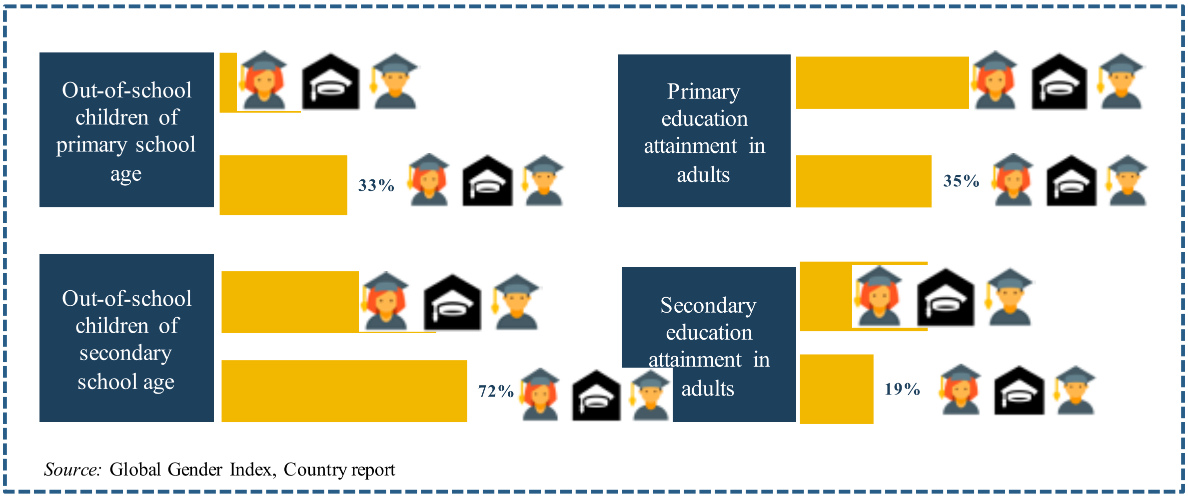


Figure 21: Gender inequality in education

Women at the workplace: Females at the workplace are few and far between. Majority of the female labour force participation (only 24 percent as against 82 percent for men in Pakistan[72] and 48.6 percent world average)[73] is in the agriculture sector. Much of the female employment is part of the informal labour force (75 percent)[74] where wages are minimal while many rural female workers remain unpaid which has affected GDP estimates. As Dr. Pasha argues in his book: "At the lower end of the labour market, a very high proportion of unpaid family workers are women. Almost 80 percent of these women are engaged in agricultural activities. Since this labour input is not remunerated, despite its contribution to output, the GDP of Pakistan is understated".[75] In fact, female participation in the formal sector is only three percent. It makes sense given 70 percent of women labour force does not have any education.[76] In the formal sector, women in Pakistan earn 61 percent of what men earn with the same level of qualification.[77]

76%

Of women in the labor force are working informally

Job options dwindle, and wage discrimination rises as we move up the income level. Most of the formal jobs for women are at lower levels—mostly secretarial, clerical or administrative nature and women are visibly absent from managerial or leadership positions, especially in the corporate world. Of the 878 directors on the boards of KSE-100, only 35 are women.[78] Laws that can

62%

Of the total unpaid family laborers in the country are women

72. Dr. Hafiz Pasha. Growth and Inequality (2018).
73. World Bank Open Data. [online] Available at: https://data.worldbank.org/ [Accessed 14 Jun. 2018].
74. The Global Gender Gap Report 2017. [online] World Economic Forum. Available at: https://www.weforum.org/reports/the-global-gender-gap-report-2017[Accessed 14 Jun. 2018].
75. Dr. Hafiz Pasha. Growth and Inequality (2018).
76. Turning Promises into Action: Gender Equality In The 2030 Agenda For Sustainable Development (2018). UN Women
77. Dr. Hafiz Pasha. Growth and Inequality (2018).
78. Women on Boards. [online] South Asian Federation of Exchanges. Available at: http://www.safe-asia.com/WOB/[Accessed 14 Jun. 2018].

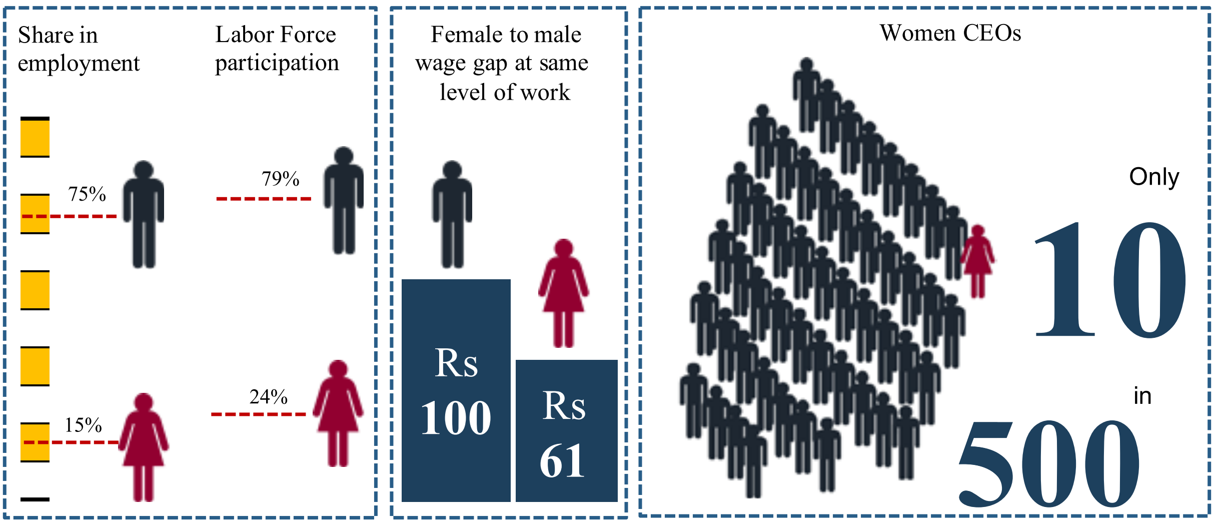
50%

of the children born to women working in the fields are stunted; where the country average is 44 percent.

mandate gender-based non-discrimination in hiring practices are not present in Pakistan while companies are disinclined toward promoting gender diversity likely due to prevailing belief systems about gender-specific roles dictated by social dogmas and patriarchy.

Lack of formal employment and low levels of education are bad enough but unpaid labour and being nutritionally challenged while working in fields is even worse. Against the country average of 44 percent, nearly 50 percent of the children born to women working in fields are stunted.[79]

Gender gaps: at the work place



Sources: Global Gender Gap Index, UN women, Woman on Board 2016

Figure 22: Women at the workplace

At the first EOT meeting of the Pakistan Panel held in 2013, it was highlighted that it was important to look into the positioning of women in the labour market as women are prepared to be workers or primary breadwinners while the society also does not accept this as the norm—domestic labour is not considered part of productive labour even though that work has economic value.[80]

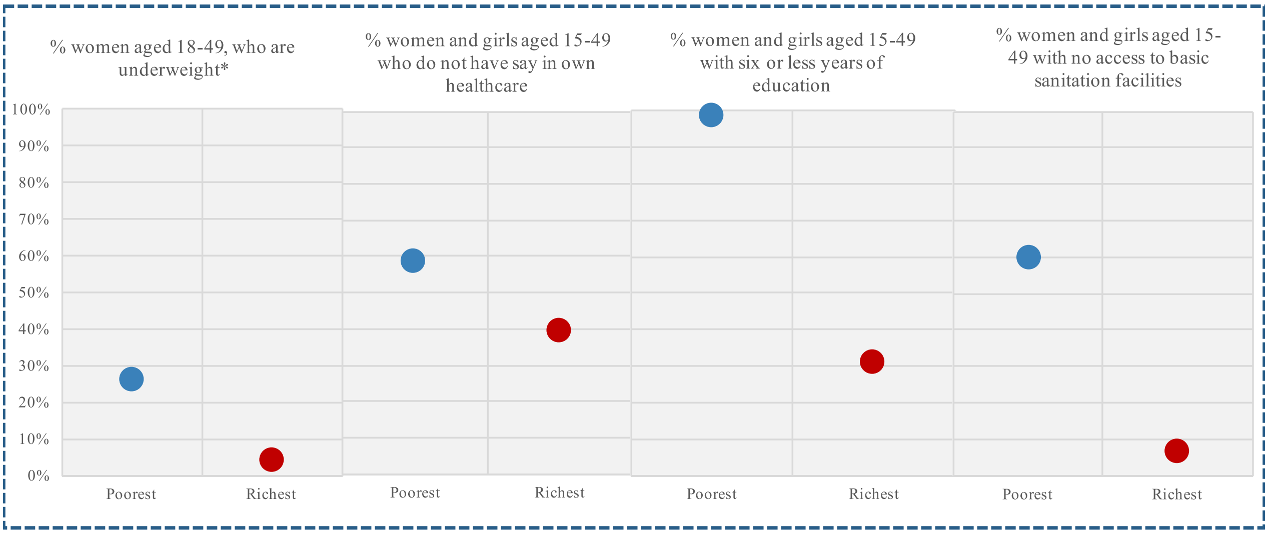
Women's healthcare and nutrition: Pakistan is among the worst country in the world for new-borns, ranking lowest in neo-natal mortality and high in the world ranking on infant and child mortality. The direct connection this has to mothers is no coincidence. In fact, anaemic and malnourished mothers are more likely to have stillborn and stunted children, often passing deficiencies onto their children. According to a study conducted on gender inequality, the gender gap in food security is nearly 11 percent[81] leading to lower nutrient intake in women and higher incidences of malnourishment and disease.

79. Mysbah et.al. Women's Agricultural Work and Nutrition in Pakistan: Findings from Qualitative Research (2015). LANSA Working Paper Series.

80. Building the Economy of Tomorrow- report of the first meeting (2013). FES.

81. Turning Promises into Action: Gender Equality In The 2030 Agenda For Sustainable Development (2018). UN Women.

Condition of women and income connect



Source: Turning promises into action: Gender equality in the 2030

Figure 23: Women in rich and poor households

A study conducted by Leveraging Agriculture for Nutrition in South Asia (LANSA) pointed out that women were more likely to be undernourished and underweight if they worked in the agricultural fields.[82] The study argues that there is a strong association between nutrition and empowerment of women—women may be able to make better decisions about food intake for themselves and their children if they were paid and had decision making in their hands.

But some of these statistics are staggering. More than 58 percent of the women in poor households do not have a say in the matter of their health while 98 percent do not have more than six years of education.[83] They are uneducated, not paid for their labour, and do not have a say in health matters. It is then hardly surprising why they are malnourished, and their children fall in the same category.

The cycle of malnourishment: Malnourished mothers breed malnourished children—there are no two opinions about that. The best way to curtail malnourishment, stunting, and wasting in children, not to mention, reduce infant and child mortality is to provide proper nourishment to young girls and women in the household and at the clinic. Women should make their own decisions for the proper care of themselves and their children but getting them access to education and providing basic trainings on health and nutrition will always need the policy push on the provincial government sides. Dependence on donor agencies for this work can no longer be enough.

Gender inequality due to socioeconomic inequalities: Gender inequality must also be looked at from the inside out—there are inequalities within the gender itself. In urban areas and among higher-income groups, female

82. Mysbah et.al. Women's Agricultural Work and Nutrition in Pakistan: Findings from Qualitative Research (2015). LANSA Working Paper Series.

83. Turning Promises into Action: Gender Equality In The 2030 Agenda For Sustainable Development (2018). UN Women.

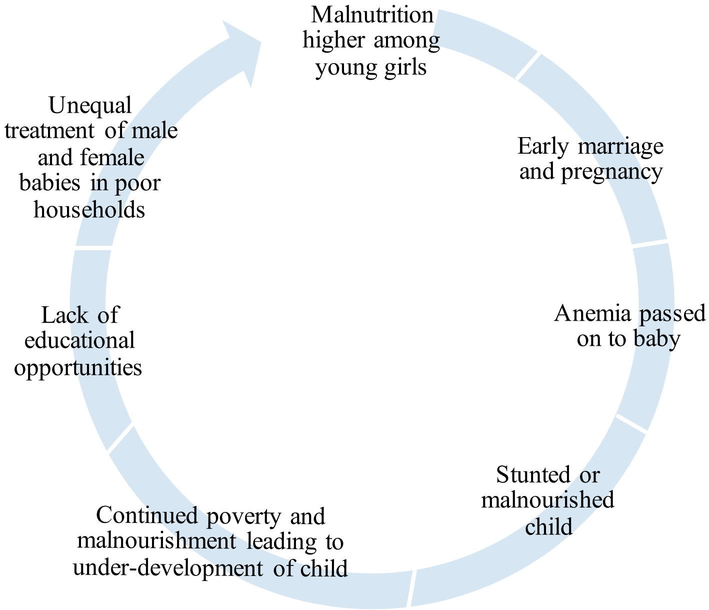


Figure 24: Mother and child connect in malnutrition

education is much higher and improving. There are sections of the economy where women have civil liberties and have the awareness to raise their voice and seek equal opportunities and rights at the workplace, at school, at the university, and in political circles. In urban communities where families are moving into the middle class, more women are opting to venture out and look for job opportunities to supplement household incomes. The kind of opportunities available is still at lower secretarial and administrative levels, but nevertheless there is a change. On the flip side, there are still households where it is preferred to keep daughters at home and marry them off at puberty.

While the government can raise expenditure for healthcare and nutrition targeting women, provide basic amenities, clean water and sanitation to medical facilities, ensure provision of important nutrients to young girls and women, harness efforts to increase school enrolment, introduce laws that can bridge the gap in wages, etc., can the new government fight societal norms grounded in centuries old traditions and values? Would it want to? The issue of gender gap is related to mindsets, not only at home but also at the workplace and in every other aspect of life.

CHAPTER 5: CATALYZING GROWTH

Urbanization in Pakistan is the highest in South Asia. Majority of the population is youth that is moving from rural to urban areas in the quest for better education, employment, and better overall living standards. The concentration of provincial spending, especially in Punjab, is higher in big urban centres due to which cities attract more population. This, in turn, requires even higher infrastructure to absorb migrants. It is a vicious cycle. When cities grow, it leads to higher social, environmental and income inequalities. The traffic congestion, sporadic industries, and slums create health and environmental hazards. City administration becomes non-inclusive and citizen participation becomes low.

5.1 Building cities and economic corridors

The optimal way to mitigate and address the challenges of urban migration is to develop vibrant urban centres with all the social amenities and economic opportunities. New cities should be developed on the principles of social cities with citizens' participation to enhance economic development, education, health and security. To start with, the government should select five small cities to develop. One city should be on GT road, somewhere in the midpoint of Lahore and Islamabad. Similarly, a city can be developed between Lahore and Multan and another one between Karachi and Bahawalpur.

Provision of school education across these cities is paramount. Similar syllabus across the country for high schools could be developed. Universities, research centres and teaching hospitals also need to be developed. Other supporting infrastructure including roads, better energy supply and distribution, housing, and fiscal incentives should also be developed to help boost industrialization in designated industrial zones. These steps will help locals and nearby rural inhabitants to attain employment and business opportunities close to home. Moreover, people who have migrated to bigger cities may be motivated to move back. The influx of experience and utilization of youth will have its broader economic impact.

According to United Nations Development Programme (UNDP), the three most important investments to empower youth is to give them quality education, gainful employment, and meaningful engagement. Building cities and economic corridors is the right recipe for meeting these objectives. Two-thirds of the country's population is below the age of 30 and almost half of it is between the age of 15 and 29. We must engage the youth close to its home so that big urban centres are not clogged in ways that hinder economic growth.

Youth involvement: The youth between 15 and 29 years old constitutes two-fifth of the labour force. According to UNDP calculations, in order to absorb this youth into the job market—at current participation and unemployment levels, adjusting to number of retirees—the country needs 4.5 million new jobs in the next five years. This implies that 900,000 additional jobs a year are required to utilize the potential of youth.[84] In a panel discussion during a FES session, Dr. Hafiz Pasha opined that while there was a need to improve the educational setup of the country, i.e. the supply side, there was also a need to enhance the industry's absorbing capacity so that the talented youth of the country

84. National Human Development Report 2017: Pakistan. United National Development Programme (UNDP).

does not sit idle. "Pakistan's unemployment rate is enormously high at 10 percent. 25 percent of the unemployed population is graduate, whereas 17 to 18 percent of these is youth", he said.

Building connectivity: Cities cannot be built if they are not parallel to connecting the population across the country to these cities. Disparities between districts are common within the country—improving connectivity through road and other infrastructure can help bridge these gaps. The ADB undertook a few studies to understand the key conditions, factors and constraints for successfully developing economic corridors in Pakistan. The economic perspective is evaluated by analysis of four potential ECDs in various parts of the country and found strong potential in mining, tourism, agriculture, horticulture and livestock on the E-35 link (which connects Islamabad to KP and onwards to China and Central Asia), the N-50 link (connecting Balochistan to rest of the country), and N-70 (joining Multan to Qila Saifullah). In the case of M4 (Faisalabad to Multan), the economic gains can be made in textile, light engineering and agriculture. This is an initial assessment of four areas and a similar research is required for many other corridors.

Modernizing physical infrastructure cannot be over emphasized. But doing so, detailed mapping of economic potential across districts is required. The Urban Unit is doing this job in Punjab, but this effort is needed across the country. Yet infrastructure alone is also simply not enough for the development of ECDs. Setting up the enabling environment by strengthening institutions and regulations is key and this can happen if all the stakeholders from provinces and federal governments dealing with various routes are on board. The coordination amongst them in policymaking and implementation will be the key for bringing great ideas to life in Pakistan.

Once ECDs are in place, the issue of poverty and inclusiveness would significantly reduce. Studies on poverty and inclusiveness show that employment and economic growth alone (holding everything else constant) can have a positive impact on the level of multidimensional poverty in Pakistan. This finding is broadly consistent with the results of a range of global studies. In order to reduce broad-based poverty, broad-based growth is required. Apart from having political and regulatory capital, developing economic corridors requires a huge sum of financial and human resource capital. This is where the Pakistani Diaspora can be tapped who can play a role in injecting direct financial and human capital.

Pakistanis living aboard have estimated wages and salaries of $52 billion (20 percent of GDP) per year.[85] Ten percent of this coming back to the country in the form of investment would be double the amount committed by CPEC per year for next twenty years. Still this will not be enough. The ADB estimated that around $98 billion (38 percent of GDP)[86] was required to bring backward districts at par with the developed ones.

The gaps in infrastructure and connectivity have constrained Pakistan from growing at a strong pace with other economies in the region. With improvements in energy infrastructure and better security conditions, the logical socioeconomic progression is to start filling the connectivity gaps both within the country and across the region. CPEC, which is believed to be the harbinger of economic change in the country, is bridging the connectivity gap with one of our giant neighbour and filling gaps in the remotest areas within the

85. Sugiyarto, G. (2017). Supporting Economic Corridor Development in Pakistan: Building Up Strategic Framework. Asian Development Bank (ADB)

86. ibid

country. But that is not the only connection in the region we should explore. There is Central Asia Regional Economic Corporation (CAREC) and other countries' ECDs including six in India. Development of new channels will plug in the disconnection of Pakistan with global production networks and global value chains.

5.2 Building housing stock

Housing is one of the basic needs in any country and the current housing shortage in the country is estimated to be 10-12 million, and growing each year.[87] In fact, close to half of urban dwellers live in slums or *kacchi abaadi* which is 8 million in Karachi and 1.7 million in Lahore. While the housing gap exists at all income levels, it is the lower income segments that require houses the most. The housing sector however not only provides housing to those who need it, it also leads to economic growth and creates millions of jobs as more than 50 different industries—mostly SMEs—are involved in the construction of the housing industry.

There are 60,000 mortgage holders in Pakistan and it is possible most of these were given before 2008 as mortgage financing has continued to come down since.[88] As a percentage of GDP, it is less than 1 percent. While the SBP provides growth targets to banks for SME and agri-financing, there are no targets for mortgage or housing related financing to banks.

Mortgage in Pakistan

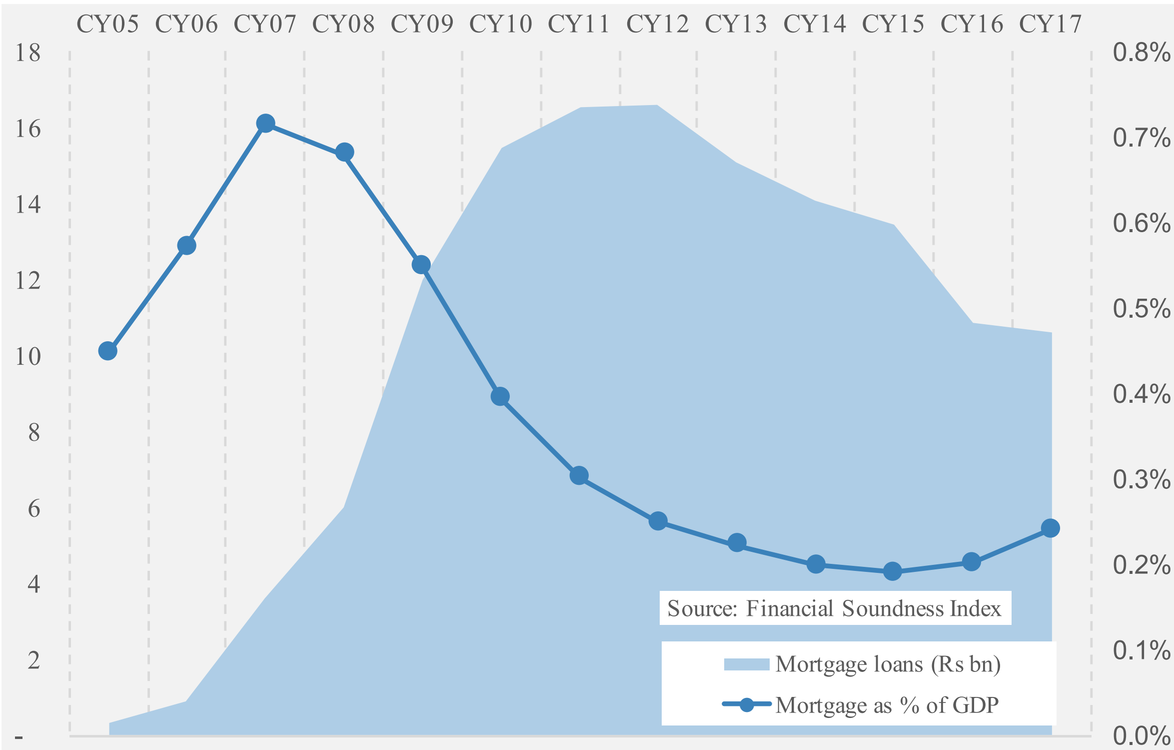


Figure 25: Pakistani mortgage market

87. The World Bank. Project Information Document. Pakistan Housing Finance Project (Dec 2017).
88. Financial Soundness Index. State Bank of Pakistan (SBP).

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 which lead to speculative increase in land prices making the resultant cost of house unaffordable for even 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 illegal and 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 does not help that the regulatory environment is also critically weak. Poor documentation comprising largely paper-based land registration and disputed titles leads to unclear land records. Lack of clean titles means the property cannot be used as collateral by banks. Land administration is also weak as it is marred by old and inefficient master planning of cities, restrictive building codes and zoning, governance issues at national and local government levels, and unreliable public utility connections which together add to the cost and time of the project. Meanwhile, 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 in this regard.

Providing affordable housing will have to be a top agenda of the next government with the current and growing shortage of 12 million of which nearly 5 million is for low cost housing. This segment requires unique solutions and potentially public-private partnerships that have worked in the past. There will have to be government intervention in the form of land subsidy and commercial banks or MFIs will have to come into mortgage.

Turkish housing models: In Turkey, a government backed housing agency called TOKI was established that was made responsible to tackle housing shortage and fill the gaps in mortgage lending. The TOKI first of all uses the cross-subsidy mechanism where 85 percent of the housing stock is subsidized, while 15 percent generates the revenues.[89] Land is provided by the government while affordable flexible payment schedules are offered to poor and lower middle-class families. For any lending, TOKI acts as the guarantor of the project and keeps the rights to the property with itself until the debt of the lender is repaid by the buyers. This helps in curbing the potential of defaults.

New regulatory framework in India: The Modi government has taken several measures in India to achieve the goal of "Housing for All" by 2022. A Credit Linked Subsidy Scheme for the middle-income and under privileged groups was introduced. Employees were allowed to take out 90 percent of their provident funds to use as down payments for their mortgage. The National Housing Bank substantially raised its assets base while private mortgage lenders were encouraged to diversify their sources of fund through external commercial borrowings, masala bonds, insurance, provident funds and mutual funds. New credit bureaus were established to help lenders assess credit-worthiness of borrowers. Meanwhile, foreclosure laws in India were strengthened to allow lenders to foreclose on properties without having to get into litigation. The Indian government passed the Real Estate Regulatory & Development Act in 2016 to not only better regulate the sector but to also protect the consumer and ensure timely delivery of projects.

89. Housing Programs, TOKI [online] Available at: http://www.toki.gov.tr/en/housing-programs.html. [Accessed 14 Jun. 2018].

The Pakistan Mortgage Refinance 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.

5.3 Branding Pakistan

Image building of Pakistan is also critical. There is a dire need to enhance the image of Pakistan as the security situation at home has improved but changing perceptions takes time and requires a lot of effort. CPEC may be bringing a softer image to Pakistan in the international arena. After all, CPEC and infrastructure related development is certainly more appealing to investors and tourists than news of bomb blasts.

In today's global village, countries have emerged on the horizon in the last few decades with strong and persistent branding campaigns. 'Malaysia truly Asia' is what comes to mind when someone talks about Malaysia. India is spending resources on 'Incredible India' campaign which has transformed India's image in the global community as a growing business destination and a cheap and cultural tourist location.

There are numerous other stories of glory ranging from "Asia's World City' Hong Kong to 'Amazing Thailand'. Sri Lanka was until some time ago home to rampant terror attacks but is now a cosy place for summer holidays. Many countries in East Europe and the Arab world are similarly branding themselves for tourism and investment.

> Which government institution would be responsible for building brand Pakistan? What should be the slogan for the country? What strategies should be adopted to change perceptions? These are the questions which should be on priority for the new government.

There is an excellent pool of expats living across the globe who are excelling in their respective careers. The need is to engage this valuable resource and facilitate them to keep on conducting seminars and talks on building a better image of Pakistan. They should encourage and bring groups of foreigners to Pakistan to experience the rich culture, witness the development, and enjoy first-hand the little-known scenic beauty of the northern areas.

Scenic beauty has been bestowed upon the country by nature, but it is absolutely critical to maintain these tourist destinations. The tourism department has to work on building the requisite infrastructure of hotels, restaurants, amusement parks, and other entrainment avenues and brand them all under one umbrella. International events and conferences can be hosted while bilateral exchange with friendly countries can attract a critical mass of foreign tourists and investors in the country. New airports can be built which host international airlines and issue free transit visas. The private-public partnerships framework has to be strengthened and there should be continuous dialogue on how to build the brand Pakistan. The Board of Investment (BOI) and ministries of tourism and culture ought to lead from the front.

Social media can certainly play a critically important role in spreading the brand Pakistan message. Greater social media presence, electronic and traditional media campaigns, together with involving key influencers, bloggers, journalists and even celebrities to create dialogue and work on image building is essential to developing and marketing brand Pakistan.

About the author

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The views expressed in this publication are not necessarily those of the Friedrich-Ebert-Stiftung.

Imprint

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The report is part of a series of publications under the regional and national FES project on Economy of Tomorrow.

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FES Islamabad Office was established in 1990, through the cooperation with national institutions of Pakistan had already commenced during the middle of the 1980s. Based on its commitment to the basic values of social democracy including peace and social justice, FES-Pakistan formed partnerships to carry out activities for promoting dialogue involving state institutions, political parties, social partners, civil society actors, opinion leaders and citizens.