

Perspectives on Economy of Tomorrow

High-level consultative meeting held on December 16, 2017, Avari Hotel, Lahore





Background

The Friedrich-Ebert-Stiftung (FES) and Sustainable Development Policy Institute (SDPI) jointly organized a high-level consultative meeting ‘Perspectives on Economy of Tomorrow (EoT)’ on December 16, 2017 in Lahore. The meeting looks in to formulating ways and means of a more inclusive and sustainable future economy with inputs from a broad base of stakeholders. The meeting deliberated upon the current state of macroeconomic policy, issues in fiscal and monetary policy, the outlook and challenges of the provincial economies, and matters related to export competitiveness in Pakistan. The agenda for this meeting is annexed.

Summary of Proceedings

The purpose of the high level consultative meeting on ‘Perspectives on Economy of Tomorrow’ was to search for policy options, which could bring about inclusive growth, social justice and a focus on sustainability. The conference also took stock of the socio-economic challenges that Pakistan continues to face at the federal and provincial levels.

In his welcome remarks, Abdul Qadir, Programme Coordinator and Advisor of the FES, said that the economy of tomorrow is about a normative vision of ‘good societies’. It is about establishing an economic foundation in order to build just, equitable and sustainable societies. Good societies are not the natural outcomes but are created by implementing laws, policies and practices, which govern the society and drive economy, and labour market in a smooth way. The global, financial, ecological and social crises of our times — with their multiple implications in the industrialized world, but now increasingly visible in emerging and developing economies — are of political nature. Despite very different starting points, most of the countries are now sharing similar challenges to find ways to produce socially just, sustainable and green dynamic growth. These moments of distress have inspired public discourses to engage in critical reflection about dichotomies between growth and just about every social or ecological concern. A fundamental rethinking is underway about the roles of democracy (government, citizens, community organizations) in public policy

For a change, platforms for the discussion on reform agendas have to be established as well as new alliances with diverse stakeholders have to be created. Alternative narratives and long-term visions with the ability to convince different groups of society are needed for winning public debates and influence policy programmes. With such consideration, the Pakistan office of the Friedrich-Ebert-Stiftung (FES) initiated a working line on the Economy of Tomorrow (EoT) by forming a panel of distinguished experts and opinion leaders from diverse backgrounds,

combined with a network of eminent think-tanks from across the country, which has produced policy studies, as well as national and international discourse on the subject.

In his opening remarks, Rolf Paasch, the Head of FES Pakistan, highlighted the theme behind the concept of *the Economy of Tomorrow*. He showed concerns about shrinking space for the civil society organizations that have so far remained important partners of the German institute in promoting the idea of a just economy. Paasch also hoped that despite a difficult working environment, the FES projects would achieve their objectives, as these have gained local ownership. His concerns regarding tightening noose around the INGOs were subsequently shared by the other participants during the course of discussion.

Dr Vaqar Ahmed, the Deputy Executive Director of SDPI, said that the government missed its own target of fiscal and current account deficits for 2016-17, however the first five months of the current fiscal year 2017-18 do give some reasons to celebrate. We observe that the government's tax revenues show a 19.5 per cent growth, which may help in bringing down the budget deficit to some extent. Similarly, after a four year decline, merchandise exports in the first five months of this fiscal year have grown by 11.8 per cent. During the same period, remittances have also shown 1.3 per cent growth. The recent weakening of rupee against major world currencies may further encourage remittances from abroad.

However, this celebration is short-lived as one looks at the factors which continue to weaken the fiscal discipline. For example, the government's expenditure has fast grown and in November this year the government crossed its own limit set for the circular debt, which now stands at over PKR 421 billion. Such discretionary expenditures which are increasing at the cost of energy sector system inefficiencies are bound to increase, as we approach the election year where more and more voters would need to be appeased.

Where is the Economy Likely to be Tomorrow?

Pakistan's former Finance Minister Dr Hafiz A. Pasha highlighted the challenges that Pakistan was facing due to ill-advised policies of the government that came to power in June 2013. His main argument was that Pakistan was in financial crisis that unlike the past may prolong this time. He said that IMF may not be an ideal lender of last resort this time and going back to IMF may get difficult given the deteriorating US-Pakistan relations. The US happens to have a key role in allowing IMF support to any country, he added.

Dr Pasha argued that Pakistan's external financing needs will be \$32 billion for next 16 to 18 months. Out of this, only \$8 billion will come in CPEC financing and foreign direct investment, he said, adding that the government will have to take \$24 billion loans to manage the situation.

“The situation can further deteriorate during the caretaker government time, which, if things proceed as per Constitutional scheme, will be installed by June 2018.” Dr Pasha warned that the real challenge will emerge after the departure of the caretaker government. “By that time, the cracks will widen and the foreign currency reserves will be less than \$3 billion.”

Dr Pasha maintained that the option to come out of the situation will be another bailout from the IMF. “But this time, the IMF will not allow joyride to Pakistan due to change in US policy stance towards Pakistan”. He said the IMF could ask Pakistan to cut down the size of \$62 billion CPEC to about 20%. He suggested that Pakistan should not entertain any such demand.

He further said that in addition to problems on the external account, the fiscal policy will remain expansionary and the central government borrowings from the SBP for budget financing could exceed Rs1 trillion by the end of this fiscal year. This will push inflation higher in Pakistan. Dr Pasha’s also showed concern on the presentation of (public sector) statistics that, according to him, are unrealistic.

Dr Pasha said elites have captured the political economy of Pakistan and are incurring an estimated Rs3.5 trillion or \$315 billion damage to the country every year. “It includes Rs2 trillion losses due to weak tax compliance.”

Dr Pervez Tahir upheld Dr Pasha’s concerns and said that the forces that used to bail out Pakistan in the past are not willing to do it this time. He also urged the political leadership across the aisle to work out a new social, political and economic agenda.

Dr Tahir was Criticizing the Pakistan’s planning structure, he argued that instead of top-down approach that is currently followed by the Planning Commission, there should be bottom-up approach after the fiscal devolution under the 18th Constitutional Amendment.

Dr Aliya Khan emphasized the need for better understanding of the Economy of Tomorrow and the resources needed to implement this new paradigm. She also raised the question whether the CPEC would benefit the common people or these benefits would be limited to a select class. Another important point was tackling the issue of ticking population bomb. Dr Aliya Khan also sought to correct regional imbalances in social and economic development across Pakistan. She asked if the CPEC will correct these regional imbalances or would further widen the gap?

Discussing the state’s weak focus on improving human development and allowing space to voices of the marginalized, she stressed the need for effectively implementing Article 25-A of the Constitution that guarantees free and compulsory primary education.

Mr Sakib Sherani, the former Principal Advisor at the Ministry of Finance, presented a summary of his works on institutional reforms for an inclusive economy. The presentation highlighted that the issue of lack of institutional reforms remains a key reason for bad governance. In his bid to establish a link between corruption and low human development, he said corruption impedes human development. The weakened institutions remain unable to plan efficiently and only offer limited options for development. He added that the quality of civil services has deteriorated. A key outcome of missing institutional reforms can be seen today in the form of inequitable tax system in Pakistan.

Mr Sherani said because of dysfunctional tax system, the government is implementing predatory taxes. He suggested bringing about reforms in areas where low political capital is required. He also suggested change in the status quo without creating much ripples and proposed to reform the Federal Board of Revenue first that what he said does not require much political capital.

Mr Sherani also proposed setting up a National Reforms Commission comprising political scientists, development specialists, system design specialists and members of the civil society. Mr Sherani said that institutional reforms were never introduced in Pakistan due to the nexus between corrupt bureaucracy and politicians.

To a question on the issue of tax reforms, Dr Raheel Ahmed Siddiqui, the Chairman of Punjab Revenue Authority (PRA) said he had accepted the chairmanship in 2015 when PRA's citizens' tax base remained at 8750, which had now gone up to 45,000. "The PRA embraced a duty review in the Punjab to distinguish 25,000 potential citizens through which they came to realize that 68 per cent of them didn't hold a national tax number (NTN) in spite of working in real markets of huge urban communities".

Ms Kishwar Khan, a representative of Competition Commission of Pakistan (CCP), highlighted the linkage between the CCP objectives and an inclusive economy. She pointed out that the poorest are the worst hit by higher prices caused due to an increase in competition. She hinted at several cases involving cartels that exorbitantly overcharged consumers for essential commodities, where CCP imposed heavy fines, e.g. cement, cooking oil, and poultry. She emphasized that the development of a competition culture requires the competition agency to be impartial and transparent. To attract businesses towards voluntary compliance, it should be visible to them that the commercial activities of all types of businesses are being scrutinized. The major challenge facing the CCP is the pending of cases as a number of appeals filed against the decisions of the Commission are pending with the superior courts. This limits the success of the competition law to

bring about changes at the market place. According to the Global Competition Review, the CCP is at par with the competition authorities of Turkey, Switzerland and Singapore.

Mr Asad Feroz, the fellow member of Institute of Chartered Accountants of Pakistan, talked about inequality, unfairness of the tax system and the corrupt practices. He also highlighted deficiencies in the tax laws that according to him are the reason behind low tax-to-GDP ratio in Pakistan.

Mr Mohammad Tahseen, the founding director of South Asia Partnership Pakistan, talked about the role of security establishment and foreign policy in the Economy of Tomorrow. The prevalent law and order milieu in the country has implications for the economy at all levels. He also briefly touched upon the role of persistent inequality that, in turn, brings about socially unjust outcomes for the have-nots.

Provincial Economy, NFC Reforms and Social Sector Development

This session was important in the sense that it discussed the state of fiscal decentralization after the 18th Constitutional Amendment and the 7th National Finance Commission Award. Mr Javed Jabbar, former federal minister for Information, talked about bringing constitutional amendments to empower the local governments for an inclusive socio-economic development in Pakistan. The local governments, which are the third tier, are completely dependent on the provincial governments for decision making and resources. His argument was that Local Government elections should be held even before the national elections to make sure that the last tier is not ignored.

Mr Jabbar also called for EoT to look into the challenge from Artificial Intelligence (AI) to the low-skilled and mechanical jobs. He suggested that EoT group should also take into account the enormous uncertainty caused by the AI at macro and micro levels of the economy.

Dr Nadia Tahir, Director (Research), Lahore Chamber of Commerce and Industries, gave a detailed presentation on the economy of Lahore. The presentation particularly highlighted the stress on Lahore's municipal structures and infrastructure due to heavy influx of workers and migrants from nearby towns. According to her analysis, Lahore has a large economy of over Rs1 trillion and its contribution to federal revenue is 15.1 per cent. Lahore's contribution to income and employment is also the second largest and the annual GDP growth rate of Lahore was higher than that of the Punjab and Pakistan. However, she emphasized that a shift from manufacturing to the services sector has been the most notable feature of urban growth.

Dr Abdul Salam Lodhi, Associate Professor, Balochistan University of Information Technology, Engineering and Management Sciences, talked about the economic woes of his province. A large part of these challenges being faced by the province are due to the prevalent security

situation. There is a dire need to improve the law and order situation on ground so that the confidence of local and foreign business community can be revived.

Dr Muhammad Rafiq, Associate Professor, Institute of Management Sciences, Peshawar presented a SWOT analysis of Khyber Pakhtunkhwa province. Increased urbanization has led to greater public and private investment in urban amenities. Also, growing consumer market, is fueled by remittances as KP's share is 25 per cent out of the total workforce abroad. Mineral sector is one of the cash cow sectors of KP along with its potential of producing 25,000MW of electricity through hydel power. KP is also trying to work on new institutions such as establishment of TEVTA & Technical University.

He further said that there is a slow and unstable economic growth. "Poor infrastructure due to ongoing armed conflicts and natural disasters, low human resource base and skill levels, poor performance of KP's manufacturing sector due to energy shortages, and higher costs of doing business are key constraints to sustaining the growth momentum. Going forward the key opportunity will be how best KP makes use of CPEC to link the province with regional markets." Finally, he proposed moving away from income-based economic model to the one that is based on prosperity and takes care of environmental degradation.

Balance of Payments, export competitiveness and trade with reference to GSP plus

The last session focused on the challenges to Pakistan's Balance of Payments. Mr Ali Khizar, the Head of Research at daily *Business Recorder*, talked about the benefits that Pakistan availed in the past three years due to GSP plus status granted to Pakistani exports by the European Union. His work showed that GSP plus status has helped Pakistan in areas of high value addition that generated employment opportunities.

He emphasized upon protecting the GSP plus status of Pakistan and at the same time underlined to comply with the social standards defined in the 27 conventions of the United Nations that Pakistan has ratified.

Contrary to the expectations of the EU governments, participants noted that Pakistan has asked certain INGOs to close down their operations (a decision currently under review), which is not a good move in the eyes of GSP reviewers. Several local NGOs as part of their survival plan are now transitioning in to becoming social enterprises.

Ms Amara Farooq, who has the legal background and also works as social entrepreneur, cited her works in the social sector. She argued that the provincial and even some federal government departments were not fully aware of the commitments that Pakistan has given

under the UN conventions on child labour. She stressed the need for more alignment between the prevailing social conditions in the country and the commitments given under the GSP plus.

Ms Shanze Anwar, the Chief Executive Officer of Fazal Trade Impex, shed light on the opportunities offered and challenges posed by CPEC to Pakistan's foundry sector. The technology used in Pakistan's foundry is relatively low as compared to India, she said, adding that in some areas, however, it was better than Chinese technology. She said that Pakistani and Chinese foundries are now entering into collaborative arrangements for human resource development.

Ms Anwar said that China wants to relocate some of its steel industries to Pakistan. She further said that Chinese technology is of lower quality than that of the European one. Pakistani foundries were largely based on European technology, therefore, she warned that the relocation of Chinese foundries would not benefit local foundries. She further said that the accuracy and precision of the European technology was far superior to Chinese one, therefore, the Chinese may not expand their footprints beyond small-scale steel complexes.

The meeting ended with the vote of thanks by Mr Abdul Qadir and Dr Vaqar Ahmed.

Annex: Programme Agenda

Perspectives on Economy of Tomorrow

December 16, 2017

Avari Hotel, Lahore

1300	Arrival of participants, lunch and registration
1400	Welcome Remarks Mr Abdul Qadir, Friedrich Ebert Stiftung (FES) Pakistan Dr Vaqar Ahmed, Sustainable Development Policy Institute (SDPI)
1410	Chair: Mr Javed Jabbar Keynote lecture: Where is the Economy Likely to be Tomorrow? Speaker : Dr Hafiz A. Pasha Panelists: Dr Pervez Tahir Dr Aliya H. Khan Open discussion
1530	Institutional Reforms for Inclusive Economy Chair: Dr Raheel Ahmed Siddiqui Presentation: Mr Sakib Sherani Panelists: Mr Asad Feroz Ms Kishwar Khan Mr Mohammad Tehseen Open discussion
1630	Short break
1645	Provincial Economy, NFC Reforms and Social Sector Development Chair: Mr Kamal Monnoo Panelists: Mr Javed Jabbar Dr Nadia Tahir Dr Abdul Salam Lodhi Dr Muhammad Rafiq Open discussion
1800	Balance of payments, export competitiveness and trade with special reference to GSP Chair: Dr Vaqar Ahmed Speakers: Mr Ali Khizar Ms Ammara Farooq Ms Shanze Anwar Open discussion
	Closing remarks and vote of thanks by FES and SDPI

