Is Government Budgeting for Economic Growth?
An Assessment
By Sajid Amin Javed & Wajid Ali

As usual, conflicting claims on the growth of economy in 2015-16 and opinions on the budget 2016-17 echo in every nook and cranny of the country. Those who are on the side acclaimed the economic performance and declared the budget historical. The opposition raised doubts on the numbers presented in economic survey 2015-16 and announced a complete rejection of the budget also. Everything goes as usual. Let me quickly admit that the budget 2016-17 is historical—at least it’s first ever 4th consecutive budget from PML-N. The rest seems to be a routine business. Much has been said on it. The possible omission in debates, however, is the nature of proclaimed economic performance of last year and the budget presented. The question is: what are the bases of the recorded growth and does the budget 2016-17 tackle the structural issues of the country? The answer to the question is NO. The stated improvement in macroeconomic indicators is rootless and the fundamental of any economy like exports, fixed and private investment, savings and debts are showing deterioration in Pakistan. Budget 2016-17 fares not well in coming with solutions to these structural problems of the economy and seems guiding nowhere.

The latest economic survey reports overall economic growth of 4.7 per cent missing the set target of 5.5 per cent by 0.8 percentage point. Without falling into the debates on the credibility of the number, let’s admit that the rate is highest in the last 8 years and that increase in GDP growth compared to last fiscal year 2015-16 is a healthy sign. But, one can notice that almost all Asian neighbouring countries like India, Sri Lanka and Bangladesh, having more or less the same economic structures, outperformed Pakistan with growth rates of 7.5 per cent, 5 per cent and 6.6 per cent respectively. Important than the numbers, however, is the bases of the acclaimed economic performance. A scrutiny in this context does not present a pleasant picture and raises questions on nature and bases of economic growth and other major indicators registering improvement.

The government must be thankful to the industrial and services sector for making the growth rate of 4.7 per cent possible. Industrial sector registered a growth of 6.8 per cent during last fiscal year 2015-16 surpassing the target of 6.4 per cent. It is worth noting however that bulk of it comes from electricity generation and distribution and construction sector recording a growth rate of 12.1 per cent and 13 per cent respectively. Let’s not forget that this growth in energy production is because of fall in oil prices. The other sub sectors either missed the target or fell in negative growth zone. Most importantly, manufacturing sector recorded a growth of 5 per cent and failed to meet the set target of 6.1 per cent.

Services sector, contributing to more than 70 per cent to the growth in fiscal year 2015-16, hardly met the set target of 5.7 per cent. But, one needs to keep in mind that growth in services is a result of huge government borrowing and lose money supply. The cost of government borrowing was the lost private investment-crowded out by government borrowing. This may partially explain a net decline in private investment in last fiscal year as compared to 2014-15. A careful examination of the loss of this crowding-out effect may present different picture. Depressingly, agriculture sector registered a negative growth of 0.19- the worst in last two and half decades. This also affected the exports of the country. The incumbent government thinks negative growth of agriculture has primarily resulted in growth lower than the target and puts all the burden on failing cotton crop (28% decrease).

Export sector has also registered a declining trend to which the government put forward falling commodify prices as a defense. But, the same government forget to mention the role of falling oil prices in lowering fiscal gap. The gap narrows because of 37.2 per cent decline in import bill because of plunge in prices of oil. Also, the government has claimed a sizable increase in tax revenue as success story. But let’s not forget that it was only possible through increased indirect taxes which is regressive by its very nature and cannot be celebrated. Indirect tax is 60 per cent of total taxes and sales taxes as per cent of indirect taxes increased from 69 per cent to 71 per cent in fiscal year 2015-16-not a healthy sign for tax structure of the economy. Further, growth in indirect taxes, recorded as 32.5 per cent in outgoing fiscal year, is directly related to widening inequality in the society. It is, however, important to note that, in absolute terms, tax to GDP ratio does not increase by the desired level in last fiscal year and stays in narrow band of 9 to 11 per cent. The ratio must be about 20 percent for a growing economy. A quick reminder, however, is that the increase must come from direct taxes.

The health of economy could also be measured by foreign direct investment, which shows a slight increase of about 5 per cent than previous year but more than half of the FDI during fiscal year of 2015-16 came from China. In the first 10 months of fiscal year 2015-16, total FDI stood at 1016.3 million dollar among which Chinese share is $549.9 million and the upshot of subtraction of this amount would be fallen in FDI by 25%.
per cent. Most importantly, FDI by China is strategic in very nature and does not reflect the “efficient destination” status of the country for foreign investors. Too much reliance on CPEC for economic revitalization would be a fruitless tree unless serious improvement in economic fundamentals is not assured. Moreover, the inflow of FDI concentrated only too few sectors such as power, chemicals, cement, auto, and pharmaceuticals. FDI into sectors such as export oriented, power, telecom, chemicals, cement, auto and pharmaceuticals responsible for advancement of technology and enhanced value-addition seems missing priority in investment of the country. The budget 2016-17 seems missing this again.

Similar holds for the claims of fiscal gap falling from 8% in 2012-13 to 4.3% of GDP this year. The unpaid circular debt of Rs 180 billion supports the fiscal deficit not to rise by an additional of 0.61 per cent of GDP. Also an extra windfall gain from oil price plunge added to the relief (Pakistan saved $2.5 billion in the first four months of fiscal year 2015-16 because of fall in oil prices). Similarly, the current account deficit of $1.6 billion in fiscal year 2015-16 is slightly improved as compared to 1.84 in 2014-15 as per cent of GDP it is -0.6 per cent. The State Bank of Pakistan report shows that Pakistan gained an amount of $3.33 billion from oil prices fall during first seven months of outgoing fiscal year, which is 1.17 per cent of GDP. Remittances, which stood about $12.7 billion between July and February of departing fiscal year, remain very close to exports of $14.3 billion also help the current account deficit from further worsening.

It is evident from the preceding discussion that all these sources of relief are non-structural and that the structural parameters of the country do not show a real improvement. A decline in exports despite the increased energy supply and lowered cost of production (low oil prices) suggests the structural flaws in the economic structure of the country. Similar indication can be drawn from declining fixed and private investments. Fixed investment missing the target of 16.1 and remain 13.6 as per cent of GDP while private investment missing the target of 12.2 and remain 9.8 as per cent of GDP despite the fact that SBP has announced historical lower policy rate of 6 per cent. Despite better security situation and record low interest rates together with grander access to credit, the running government missed the set target of investment in fiscal year 2015-16. The set target of fixed investment was 16.1 per cent of GDP but it actually achieve 13.6 per cent of GDP. In addition to fixed investment, private investment, which stimulates aggregated demand and create employment opportunities, also fell from the set target of 12.2 per cent of GDP to 9.8 per cent of GDP. This figure is lower than that of 2014-15. The low private investment might be because of lesser investment in agriculture and industrial sector, where sharp fall in cotton profitability led to low investment growth in agriculture sector. Also lower inflation, caused by falling oil prices and strong Pakistani rupee, affected the savings negatively and savings to GDP ratio reduced from 14.7 percent of GDP in 2014-15 to 14.5 per cent of GDP in 2015-16. A key reason in Pakistan’s declining investment may be the rising cost of doing business as reported by the World Bank. This year’s budget may increase the cost of doing business further as we have imposed WHT, GST and related taxes. We have also not simplified the tax code.

And finally, double taxation between provinces and federal government may aggravate the situation further. Similarly, the fall in exports might be caused by the declining rate of existing capacity utilization which leads to fall in growth rate of private investment in manufacturing sector from 11.2 per cent in 2014-15 to 2.2 per cent in 2015-16. There also seems some inconsistencies between growth in construction sector and investment in this sector because the growth in the former is 13 per cent while the later grow by only 4 per cent. These lower levels of investment in agriculture, industry, infrastructure, human capital and energy have serious repercussions for growth of the economy. We must also remember that lower public investment in Pakistan is associated with low tax collections because of suboptimal tax structure together with unnecessary non-development expenditure. The resulting fiscal deficit then encourages the government to borrow from domestic banks leaving less credit for private sector-crowding out of private investment.

The significant fall in Pakistan exports of about 12 per cent in outgoing fiscal year induced the incumbent government to initiate Strategic Trade Policy Framework (STPF) 2015-18, which aims to archive the export target of US$35 billion by June 30, 2018. The long-term plan of the government to get target of worth US$150 billion exports in view of Vision 2025 appears absolutely unachievable because getting this target requires 24 per cent growth rate in exports. Present budget though offers zero rating to some industries but a clear reflection on the structural hurdles seems missing. For example, exclusive focus on energy production ignores the high cost of energy production in terms of lost export competitiveness. Implementation of conventions of GSP may support boost exports but budget 2016-17 is silent improving labour and environmental laws at industry level. Similar silence can be observed in case of environmental laws. Also lower priority on raising productivity speaks for missing the eye on structural barriers to exports. Despite consistent incentives given to export sector like falling mark-up rate from 9 per cent in 2010 to 4.5 per cent in 2016 together with drop in Long Term Financing Facility (LTFF) rate from 11.4 per cent in 2010 to 6 per cent till recent, export performance is on down track and need serious attention. The rising tariff rates on commercial activity are likely to dampen the business activity rather to boost it.

A look into budget 2016-17 demonstrates that the government does not earshot to the economic survey of Pakistan that it presented itself. For example, the package offered for agriculture can be contested in three ways. Firstly, the amount of subsidies given is very meagre. Secondly, these subsidies never reach to poor small farmers. You talk to the farmers and they will let you know that as they have to buy inputs on “delayed-payments” and the seller would ask them the unsubsidized price or they are refused. Even they claim that announcement of subsidies results in “non-availability” of the subsidized items even at unsubsidized rates. The budget offers no reflection on institutionalization of the arrangements. But, most importantly the government seems missing the fact that the deteriorating performance of agriculture is structural issue and needs to be dealt through structural reforms. Adding to this argument is silence of budget on climate change and related issues.
A success story often told by the incumbent government is the all-time high 21611.7 million dollars of foreign exchange reserves of Pakistan. Of these, 16810.4 million dollar is in foreign currency. The claims are made about improving our import bill from 15 days to almost 6 month. It sounds true. But, most importantly, what one needs to look into are the sources of these reserves. First and foremost, a major increase distils down to fall in oil prices and the increased remittances from abroad. We are not getting into details of donations/loans making part of these reserves. The sustainability of these reserves can be better judged within the context of declining exports. A period in which our exports have actually declined, foreign exchange reserves have increased. One also needs to carefully examine the rise in debt and these reserves over the time of sitting government wherein the former out-classes the later.

A closer scrutiny suggests that the growth in the economy is rootless and is not explained by and based on the fundamentals. Most of the indicators showing positive growth mainly benefit from an outsized fall in oil prices. The government missed all the targets which have groundings in improved economic structure. Also the budget 2016-17 seems rout-less and guides the economy nowhere. It lacks any agenda for the structural reforms. Not only the budget seems to be overly growth centric, but also worsens the distribution side of the economy further by imposing a new bunch of dismal taxes. Compromising the tax base expansion, the burden is again on the shoulders already in tax net and easy-to-apply indirect taxation remains preferred too for the revenue generation. Employment creation and income generation do not appear to be the priority and the focus is on “price-reduced” driven purchasing power/consumption. Also PSDP component of budget-206-17 clearly ignores any significant plan on economic development such as sustainable development goals-the SDGS. Amid new estimates of poverty, the alleviation of it is left for “increased growth” also and federal government clearly misses any poverty alleviation programmes. Pakistan Poverty Alleviation Fund (PPAF) is ignored and the supported one, the BISP, is not poverty “alleviation” programme by very design. The job is apparently left for provinces-already facing capacity issues.

The preceding discussion corroborates that the link between economic planning and budgeting is missing. Clearly some of the priorities under Vision 2025 have not been honoured. For example, the budget for education seems not honouring the planning commission’s slogan of “knowledge based economy”. To be specific, the budget clearly misses the essence of a forward looking “fiscal policy” linking to the long-term economic growth and development framework. It serves as political statement embedded in good balance sheet with no clearly defined objectives and economic policy. A sustained long run growth in the economy is not possible without improved productivity. The government needs to introduce fiscal and tax policies which encourage enterprise innovation and support to increase R&D investment to bring innovation in production. The government also needs to carefully examine the barriers to private investment in industrial sector. Tax reforms need to be introduced to expand the tax base and stop tax evasion. Along with other measures, structural reforms in agriculture sector need to be taken if exports are to be increased. On top of it, a bifurcation between budgeting and the planning sections of the government needs to be engulphed and both must be hitting the mutually well-defined objectives. The existing structures of the economy and the patterns of budgeting cannot bring any fundamental shift.

Budget 2016-17: Targets and Possibilities
Dr Abid Qaiyum Suleri
Owing to the peculiar nature of government revenue generation in Pakistan, which predominately depends on indirect taxation, higher revenue targets means increased taxation irrespective of the income level. However, middle and lower- middle income groups have to bear the maximum brunt of indirect taxes. The poor, unfortunately, have nothing left to lose whereas the rich are immune to price-hike shock.
Credit must be given to the PML-N government for meeting its tax revenue target of Rs3.1 trillion in the outgoing fiscal year. However, a detailed look at the budget document reveals that this increase was achieved through reliance on indirect taxes, mostly customs duties and sales tax. The taxes on income target were missed by Rs231.6 billion. The FBR taxes target for the next fiscal year has been increased by another Rs500 billion. As there is not much increase in the number of taxpayers so, one worries that the target would yet again be achieved either through indirect taxation or by exposing existing taxpayers to the new regressive taxes. Both measures would add to the miseries of common man.

On the expenditure sides, the government is trying to invest in sectors which would boost growth in the country. After realizing that poor performance of agriculture and exports were the two major factors hitting the GDP growth target last year, the federal government laid special emphasis on agriculture and exports in the new budget.
Exporters complain about their sales tax refund with the FBR. While the finance minister has promised to clear all backlog of such refunds after following a certain procedure, accumulation of new refunds has been controlled through providing a zero rating regime for five major export sectors (textile, carpets, cutlery, sport goods, and leather). It means neither the exporter would have to pay sales tax nor will they claim any refunds. This is a step in the right direction. However, it is not enough as our exports have suffered from a chronic policy neglect, most of which is beyond the control of the Ministry of Commerce.
Exporters, for example, perceive Pakistani rupee to be overvalued against US dollar. They complain against high electricity tariff compared to the regional competitors. They also complain that Pakistan’s trade tariff regime is not very export friendly and needs to be reviewed. They hope things would get better after the import of LNG; however, till the last winter they were deprived of gas supply during the winter. Unless the above-mentioned issues are addressed in a holistic way, one should not expect an overnight change in export performance. Unfortunately, many of these things did not get addressed in the federal budget.
PML-N is historically considered an urban centred party that often ignores rural development. Special emphasis on agriculture in the budget speech reflects that the PML-N wants to change this perception. Subsidies on agricultural tube wells would reduce the cost of
irrigation. Likewise, the subsidy on fertilizers would reduce the cost of input.

However, the federal government would require a strong cooperation from the provincial governments to make sure that tube well subsidy is not misused and the benefits of fertilizer subsidy don’t just stop at fertilizer dealers. Like exports, the measures taken to revive agriculture are not sufficient. Agriculture is getting affected from climate change. Climate change is about water, either there is too much water over a short period of time (leading to floods) or there is no water at all (drought). In both cases, we have to rethink our water management strategies and plans, which don’t seem to be there in the federal budget.

Likewise, we would have to conduct research on new varieties of crops, which can tolerate heat and water stress. Last year, the cotton crop failure was occurred not due to lack of availability of fertilizer, but due to lack of availability of certified seeds. It is good to note that the finance minister hinted at bringing Plant Breeders Rights (PBR) Act in Pakistan, which would encourage private seed corporations to invest in research and development. However, the Act needs to be balanced by farmers’ rights acts, who are the custodians of gene material for the last many centuries. Otherwise, we would be in a situation where farmers would neither be able to save their own seed, nor exchange it with others.

Another important aspect for growth in agriculture is bringing agricultural universities, agricultural research centres, agricultural extension departments and district management at the same page. These four are working in their own silos without much coordination and integration. The federal government’s initiative would never work without a uniform support from the above-mentioned four types of institutions.

The third important pillar for growth is Public Sector Development Programme (PSDP). An effective PSDP should result in increased opportunities for employment and livelihoods. The federal PSDP has been increased by Rs100 billion. However, this increase is for special development programme for temporary displaced persons and security enhancement, which in itself is a good thing to do but would not contribute in job creation. The rest of the PSDP is business as usual, which if implemented effectively, would sustain the current growth pattern but may not bring any revolutionary improvement in growth figures.

After examining the three major initiatives for growth, now let us see the broader budgetary framework. The current government would be the first one to successfully complete an IMF Extended Fund Facility programme. Under this programme, the government had to curtail its fiscal deficit (difference between revenue and expenditure) to a pre-defined limit. This year, the government has budgeted it to be at 3.8 per cent of the GDP.

The federal government, after disbursing provincial share, would be left with net revenue of Rs2779.7 billion. The two non-negotiable expenses that it has to meet are “mark-up payments and foreign loan payments” and “expenditures on defence affairs” — the former amounts to Rs1803.8 billion whereas the latter is Rs860.1 billion. In total, they make Rs25664 billion and are 95.5 per cent of the net federal revenue. After making the two non-negotiable expenses, the government is left with 4.5 per cent of its net federal revenue — expenditures to run civil government, subsidies, pensions, and PSDP which would get financed through further borrowing up to the tune of 46 per cent of the net federal revenue (or 58 per cent if provinces does not come up with provincial surplus of Rs339 billion).

Simultaneously, the budget speech made by Finance Minister Ishaq Dar in parliament and the finance bill are two separate things and should be analyzed separately. While the former reflects the political priorities and wish list of a government, the latter gives an estimate of revenue to be collected and expenditure to be made in any given fiscal year.

Unlike the speech, where tall promises may be made, the finance bill is a manifestation of priorities on how to balance spending with income. In a deficit budget (like ours where spending is more than income), attempts to curtail the fiscal deficit are always tricky and they become even trickier when a country is in an IMF programme with a predefined maximum limit for its fiscal deficit. Budget-making in such circumstances entails reverse engineering – using the IMF’s permissible fiscal deficit as a starting point and then adjusting the income to meet the cost of expenses. On the expenditures side, once again (like previous budgets) the federal government has very limited cushion to be innovative. After paying the provincial shares from the federal divisible pool, the federal government will be left with net revenue of Rs2779.7 billion. Now let us look at its expenditures.

Federal expenditures comprise current expenditures and development expenditures. Around Rs1,803 billion (47 percent of total current expenditures – TCE) would be consumed in mark-up payment and foreign loans repayment, whereas Rs860.1 billion (21 percent of TCE) are being allocated for defence. Combine the two expenses and 95.8 per cent of net federal revenue is gone. The federal government is then left with 4.2 percent revenue and a huge deficit (to the tune of 58 percent of its net revenue) to take care of civil government, subsidies, and federal PSDP. This deficit would be taken care of by further borrowing – both from external and domestic resources, public debt, and estimated provincial surplus etc.

Thus subsidies, federal PSDP, and 75 percent expenses of running the civil service are dependent on further debts/external assistance. There can be no compromise on debt servicing, defence expenses and the running of the civil government. That means the PSDP and subsidies would have to be curtailed in case of any slippage in external or domestic financing.

Now let us analyze the budget speech where the government set quite ambitious targets for itself, such as achieving high growth through the federal budget, adding 10,000MW electricity into the system, and bringing relief to the ordinary citizen’s life. One must appreciate that Finance Minister Ishaq Dar rightly recognized policy neglect of agriculture and exports. In the case of agriculture, a subsidy on electricity tariff on agricultural tube-wells and on fertilizers has been announced. According to the finance bill, subsidies and grants have been reduced by 20 per cent in the Budget 2016-17 compared to the outgoing budget. Due to limited revenue cushion, the government would have to reduce some existing subsidies if it wants to implement the newly announced agricultural subsidies. However, reduction in electricity/fertilizer prices will not address...
the single largest problem for the cotton crop, i.e. the lack of availability of pest-resistant seed. Both the federal and provincial governments would have to team up and bring agricultural universities, research organizations and extension departments on the same page to bring agriculture back on track in this country. In the case of exports, zero rating of five vital sectors is another welcome move, but will only address one part of the problem. To bring exports back on the radar, the policy bias against exports would also have to be reduced by allowing the Ministry of Commerce to have a say in other economic policies (such as exchange rate, tariff, energy prices, etc.) that negatively affect exports.

On the promise of 10,000MW electricity generation by 2018, one hopes many of these projects are installed by then. However, getting this electricity into the grid may be overambitious. I personally think Budget 2016-2017 is a status-quo budget and cannot be termed as growth oriented. However, Pakistan will complete its EFF programme in August 2016. The finance minister may review his fiscal prudence policy at the end of the EFF programme in August 2016. The finance minister may review his fiscal prudence policy at the end of the IMF programme and can come up with some out-of-the-box thinking, which can boost growth. Till then, one will have to live with the status quo.

(Courtesy daily The News, Islamabad)

Are Budgetary Interventions Enough for Export Promotion?
Vaqar Ahmed

Budget 2016-17 witnessed a commitment to export promotion. It is important to mention at the outset that fiscal policy has limitations. A key shortcoming is that it can create incentives through change in public sector’s tax-benefit regime, however it cannot address the lack of structural reforms currently hurting Pakistan’s exports. We, therefore, recommend that budgetary interventions such as zero-rating regime need to be accompanied by several reforms, some of which are outlined below.

Revisiting role of Finance Division and FBR in export promotion:
Given the arbitrary changes in the fiscal regime faced by exporters, a tax incidence analysis is required to understand which sectors are being hurt by: multiplicity of taxes and double taxation at federal and provincial level; exemptions provided in the tax code for select sectors, business entities and individuals; and the inability to rationalize tariffs, arbitrary imposition of regulatory duties and cascading in the sales tax system. The tax incidence analysis should then guide the next Finance Act in June 2016 and directives related to export promotion by Economic Coordination Committee (ECC).

Inter-ministerial coordination to bring down the cost of doing business:
The Ministry of Commerce (MoC) will need to carefully analyze the binding constraints to export growth. For each constraint, a desired policy response will be beyond the MoC domain and hence the need for an inter-ministerial coordination group. Alternatively, the Cabinet Committee on Exports may be revived. Such a high powered coordination forum can then protect budgetary allocation for trade policy initiatives, credit guarantee support for exporting Small and Medium Enterprises (SMEs), reducing human interface in tax collection, and providing greater autonomy to the Central Bank for exchange rate management.

Federal-Provincial coordination to harmonize the regulatory regime for exports:
Post 18th constitutional amendment, provinces have come forward with their own growth and investment strategies. The export and industrial promotion incentives provided under these require harmonization. Several current incentives hurt product sophistication of non-traditional exports and geographical diversification of Pakistani exports. Furthermore, they have given rise to unfair business practices, which have strengthened monopolies and allowed businesses to relocate and evade their tax and other liabilities. The reform of various regulatory constraints on competitiveness now rests with provinces. For example, the provinces will have to ease compliance with local taxes, enforcement of legal contracts, execution of real estate transactions, obtaining of utilities connection (e.g. electricity) for commercial purposes, and dealing with permits (e.g. for construction and trade). The MoC will need to propose specific measures for approval by Council of Common Interest.

Curtail informal trade to safeguard local competitiveness:
Studies have suggested a joint working group of the ministries of Finance, Commerce, and Interior, FBR, and Central Bank to discuss policy measures that could curtail or incentivize formalization of current informal inflow of merchandise from Afghanistan, China, India, Iran and United Arab Emirates. Integrated border management systems at the land trade routes may be effectively operationalized.

Improve Pakistan’s stagnant logistic performance:
Pakistan’s score on logistics performance index has not improved since 2012. This indicates lack of improvement in customs clearance process, quality of trade- and transport-related infrastructure and logistics, ease of arranging competitively priced shipments, ability to track and trace consignments, and frequency with which shipments reach the consignee within the scheduled time. The MoC, in collaboration with FBR and National Logistics Cell (NLC), should update assessment on missing trade facilities and non-tariff barriers at border points. The business community has long desired that more land-trading routes should be opened with Afghanistan, India and Iran to foster trade activity.

Strategy for promoting services trade:
There is a need for special unit at the MoC to gather data on services trade as per international definition and standards. A network may be created to help government organizations, related to trade in services, interact with each other. FBR may be consulted on provision of tax incentives and business enterprise financing to facilitate services sector. A Service Export Development Strategy can be initiated with the support of various organizations and extension departments on the same page to bring agriculture back on track in this country.

1. This summary is derived from an ongoing research effort in collaboration with the World Bank. Inputs from Mr. Shahid Kardar, Mr. Wajid Rana and Mr. Connor P. Spreng are acknowledged. Comments are welcome and may be communicated at vaqar@sdpi.org.
of private sector and Trade Development Authority of Pakistan (TDAP). The latter can enhance Pakistan’s presence in international services trade exhibitions.

**Enhancing Pakistan’s trading benefits from EU GSP plus scheme:**
Pakistan will need to expediently ratify 27 conventions required by the EU. While a focus on export marketing in EU region is essential, the Ministries of commerce and Industries will need to work with the private sector to improve exporters’ ability to comply with the EU’s regulatory framework on Sanitary and Phytosanitary Measures (SPS) and Technical Barriers to Trade (TBT) issues.

**Helping exporting sectors to integrate with global value chains:**
The existing and new exporters will require support in skills upgradation and dissemination of innovative production techniques. This may initially be targeted for few sectors in which Pakistan has dynamic comparative advantage. For future, the government may reduce burden on its development expenditure by inviting foreign investors for export-oriented joint ventures with the mandate of capacity building and technology transfer. The MoC may use the capacity available with Board of Investment to mobilize effort in this direction.

**Greater regional integration through deep agreements that go beyond market access:**
Revisions to already signed FTAs should now include investment and services trade provisions. Specific measures in the regional context could include careful revision of transit agreements and one-stop border posts. The MoC should initiate the next round of trade negotiations with India and offer deep forms of integration at the next heads of state SAARC Summit to be hosted in Islamabad.

**Encourage export diversification through the promotion of intra-industry competition:**
In the short-term, the MoC may pursue simplification of tariff regime where a three-slab structure may be retained. Regulatory duties should be gradually abolished. In the medium-term, a move towards a uniform tariff regime is recommended.

**Cliché Agriculture Policy and Current National Budget**
Asad ur Rehman

Calling agriculture the backbone of our economy, largest employer of labour force, provider of livelihood and food security, and supplier of raw materials to manufacturing sector has so repeatedly claimed in every policy paper, economic survey or budget speech that it has turned into a cliché. Even a glance at policy literature of last two decades is enough to prove the above-mentioned assertions. Yet, there does not exist any rationally constructed long-term plan in all these years for the upkeep and transformation of this sector. Ad-hocism, which once was a makeshift arrangement, now becomes a norm generally for economic policy making in Pakistan and the worst affected of it is agriculture, which is in need of serious reforms. Before analyzing the structural issues hurting agriculture, we need to have a brief look at the diagnosis provided by Economic Survey 2014-15 and the steps announced to address these issues in the budget speech 2015-16. Projected growth in agriculture has shown negative growth of 0.19%. Important crops registered a negative growth of 7.25% while value addition in cotton sector has recorded a decline of 21%. Total share of agriculture in Gross Domestic Product (GDP) stands at 19.8% touching the lowest in history. These figures speak volumes for the thrust of economic policy that the government followed during the last three years. The medium term macro-economic framework has, in particular, affected negatively the agriculture sector. This failure in agriculture is associated with different structural, environmental and policy failures that put at stake the livelihood and food security of 50% of population associated with one way or the other with agriculture. Coming to the steps announced for getting agriculture and farmers out of noose, two strands of policy options were used: a) subsidizing the inputs, and b) increasing the access of farmers to credit markets. Nothing is new in these policy interventions - neither the nomenclature nor the tools. Subsidies are not new to this sector and even the incumbent government has given quite big relief packages already to this sector with no appearance of concrete benefits. Kissan Package 2015 was criticized for being used to appease voters and it was said that political concerns were dominated over economic concerns in the design of that package. Likewise, increase in the availability of credit through formal channels could be seen as a positive step increasing fiscal strength of farmers to mitigate the effects of receding commodity demand. Good intentions aside this step failed to comprehend one existing reality that credit markets function more informally in Pakistan and a large portion of farmers use informal means to access credit. Amidst such fragmented informal credit markets and great administrative disadvantages associated with formal borrowing efficacy of this policy tool also lost for small farmer (less than 12 acres), who is 90% of the lot. Crop insurance is an area that has been neglected. Since to ensure the supply of commodities and raw material for industry insurance provides an important guarantee to famers, its ubiquitous absence has felt particularly. The reason provided for this lackluster performance of agriculture in last 5 years is explained as ‘.... [Emerging] from high costs of production and low commodities prices’. It is not all that meets to eye in pushing agriculture to such a bad situation. The consumption of cotton might have reduced internationally but sources from APTMA in 2015-16 were lamenting about the reduced supply of cotton that cost 2,00,000 jobs to the textile industry. Pakistani exports mostly consist of food items and apparels which usually have very inelastic demand. Pakistani exports are mostly oriented towards United States and Europe and their demand has almost remained the same. Similarly, the low production could not have triggered high price for cotton that indicates again the emergence of monopoly power working against farmers’ interests. Same trends are reflected in other commodities, i.e. rice, wheat/flour, sugar where consumer price remained high (almost same since 2010-11) while producers of rice, wheat and sugar cane received sometime half of the revenues if compared with the same time period (2010-11). This is also an indication of failure of regulation on the part of the government.
Technical factors such as Total Farm Productivity is being hurt by low per hectare availability and bad management of water, absence of good varieties of seed, medieval land tenure system, little connectivity of market and farmland through physical infrastructure and limited access to cheap storage capacities and extension services. Since the last two decades, only the investment on water infrastructure is envisaged as building new dams, however, the bad conditions of irrigation delivery and distribution network did not receive any attention. Cotton crop failure in the year 2015-16 is attributed to Cotton Leaf Curl Virus (CLCV), another technical failure of seed policy. BT Cotton seed has replaced the traditional seed market but regulation of this market has remained least of the priority of public policy, which has led to a spurious expansion of varieties of seed and resulted in crop failure. Medium-term macroeconomic framework of the government decides on policies of austerity for agriculture that has actually backfired. Current budget has realized the enormity of loss but the prescription to undone the structural loopholes.

Lastly, the public policy in Pakistan treats agriculture as a homogenous sector with the same and unaltered needs all the time. Research shows that farmers in Pakistan are not a homogenous lot and cultivable area is divided into different cropping zones. Small number of farmers own large tracts of land whereas small average farm size is owned by a large number of farmers. Universal subsidy on fertilizer will benefit more to large farmers as they use more fertilizer and pesticide with little effects for small farmers. Similarly, subsidizing the electricity means more pumping of water and exploitation of below surface water at higher rate, which reduces per capita water availability in the coming years. Thus, it is safe to conclude that decline in agriculture is just not an outcome of low demand but a complex mix of stagnant rate of value addition, lack of fiscal cushions available to farmers to confront crop failure and competitive decline of manufacturing sector (using agriculture raw materials) is at the core of problem.

These all bit and pieces effectively indicate that public policy for agriculture has effectively failed in mapping the problems of this sector, which then leads to policy prescriptions that see problems of this sector very simplistically. This formulaic understanding is an outcome of deliberation process in which the framers of policy do not include farmers in it and appeasement of sectional interest, i.e. large farmers and agri-processing industry remained the top priority. Universalist design of subsidy is not a mistake but very rational way of distributing rents to avoid any political pressure for these groups in future. This leads to misallocation of resources and laid to waste the taxpayers money. More targeted nature of subsidy could spare resources for re-erecting and orienting extension services and irrigation networks. Similarly, crop insurance is a very long standing policy imperative that has been remained on the back burner for quite a long; it is the high time to bring it back on agenda. Equally is important to update the capacity of irrigation infrastructure provision of effective delivery of extension services about adopting new agricultural practices. Whether the present budget proposed any policy action to treat these economic, technical and informational anomalies, the answer is a glaring ‘no’. It is mostly remained trapped in clichéd public policy design that is light years away from the ground reality of agriculture in Pakistan.