EFP ECONOMIC COUNCIL

Presents Trade and Investment Policy Recommendations to the Government of the Islamic Republic of Pakistan

Submitted to kind consideration of Ministry of Commerce of the Islamic Republic of Pakistan

GOVERNMENT OF PAKISTAN
MINISTRY OF COMMERCE

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EXECUTIVE SUMMARY

Established in 1960 as a not-for-profit firm, the Employers' Federation of Pakistan (EFP), carries the statutory mandate to connect the various stakeholders, business entities, and social partners with the Government of Pakistan, in a colossal effort to achieve rapid industrialization in the Islamic Republic. To prove its unwavering commitment to uplifting the economy, as well as to strengthening her bilateral ties with foreign countries, the EFP Economic Council has proposed a set of policy recommendations to favor a progressive trade and investment climate in Pakistan.

With one third of the population of Pakistan living in multi-dimensional poverty, acute shortage of water and gas supplies, and a dwindling female worker participation level coupled with alarmingly low expenditure on human capital development, as well as frequent power outages, it is no surprise that competitiveness of Pakistani exports have eroded. The administration is faced with tough macroeconomic challenges, such as a bloated balance of trade deficit, declining foreign reserves and rising unemployment rate. There is a need to develop short and long term economic policies to improve business environment, and this can be accomplished if nationwide vocational and technical training institutes are set up to upgrade the skills of workers, the true potential of Agro Processing is harnessed, and seeking efficiency driven foreign direct investments are pursued to lift-off the economy to the next stage of industrialization.

The government has long pursued import-substitution policies, protectionism, as well as untimed, and untargeted subsidy programs to encourage GDP growth but current scenario speaks otherwise. There is a growing need to explore renewable energy sources, lower barriers to trade, and upscale joint ventures with foreign manufacturers to reawaken and reactivate the dormant sectors of the economy. This will not only create wealth and increase foreign reserves through a rise in exports of manufacturing, industrial and agricultural products, but also help in alleviate poverty, malnutrition, and hence, the overall standard of living.

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EFP Economic Council Policy Recommendations

1. *In light of a devalued currency, impose a* ***zero-duty*** *on the import of "long-run price-elastic" raw materials. Also impose a very* ***high duty on import of luxury items*** *and allow for a simultaneous "controlled anti-dumping policy" to maintain quality of imports.*

2. *In order to divert investment into and reap maximum benefits of potent sectors, the Government of Pakistan (GoP) is advised to apply a "****time-constraint****" on provision of subsidies, as well as adopt a <u>targeted subsidizing</u> approach.*

3. *In order to mitigate the power crisis in the industrial sectors, the GoP is advised, instead of lowering high energy tariffs, rightly channel financial and entrepreneurial resources towards the use of* ***energy supply mix option.***

4. *While ensuring a transparent flow of information between government and private sector, the GoP is advised to mimic the* ***German Mittlestand (GM) Trade and Industry*** *model to encourage entrepreneurship in the small and medium enterprise sector.*

5. *The GoP is advised to impose* ***stringent regulations on Statutory Regulatory Orders*** *to prevent the loss of billions of Rupees in tax revenue.*

6. *Pakistan's poor Human Capital Index demands an increase in budget allocation towards* ***upgrading of the healthcare system*** *that represented only 1% of the GDP in FY18.*

7. *The GoP is highly advised to take a note of the* ***high gender wage differential*** *and* ***low participation of women*** *in the formal sector, and hence introduce new reforms on the social inclusion, and safe guarding of rights of women.*

8. *To improve the macroeconomic stability of the agricultural sector, the GoP is advised to* ***curtail the continued support for import policies to oil seeds****, and instead extend the hybrid seeds program of Canola to other oilseeds*

9. *The GoP is strongly advised to aggressively pursue* ***Agro Processing,*** *as this will not only increase the value of agricultural exports in terms of scale and output, but also diversify the offering to the international market*

10. *The GoP is requested to take note of the* ***persistently low value addition*** *in the Textile Industry, and the low level of diversification. One of the reasons is* ***lack of investment in human capital****, and the other is the abuse of scare water resource and fertilizers that have diminished the quality of cotton bales.*

11. *The Government of Pakistan should consider the need to* ***upscale joint ventures with foreign manufacturers****, such as U.S. Food and Auto companies, to create wealth..*

12. *The GoP is advised to* ***shift focus from market seeking to efficiency driven*** *foreign direct investments to allow for optimum exploitation of natural resource and increasing competitiveness of exports.*

13. *To curb money laundering, the GoP is advised to consider* ***limiting the freedom of currency convertibility****, which has granted foreign players restriction-free access to local markets, and hence, allowed for the easy movement of investment capital, and inflow of dividends.*

14. *Pakistan faces severe Non-Tariff Measures (NTM) by developed countries, which often violate World Trade Organization (WTO) rules. While, taking note of child labor abuse, the GoP is advised to adopt the NTM laws practiced by the Japan Ministry of Health, Labor, and Welfare (MHLW).*

A Detailed Analysis of each Policy Recommendation

Promote a Zero-Duty on Raw Material, and Adopt Targeted and Time-Constraint Export Subsidizing

A zero-duty on goods under the Free Trade Agreement (with China, for example), will ease the burgeoning trade deficit through the influx of various duty-free raw materials needed for manufacturing. Moreover, to ensure that the deluge of cheap (or free) goods do not pose a threat to indigenous firms, an anti-dumping agreement policy should be signed with the trading country to avoid the escalation of such an issue. The FTA will diminish the incentive of profit-making through smuggling, which normally takes place to avoid custom duties and tariffs.

According to the Marshall Lerner condition, which states that a devaluation of currency can only translate into positive balance of trade, if in the long-run, both exports and imports are price-elastic. Although, in the short-run, owed to lags in delivery, decision to change real variables, storage, transport, etc., demand for exports will remain price-inelastic, as it takes time to adjust. In the long-term when consumers have adjusted to this price change, the export demand will become price elastic, which will translate into improvement in balance of trade, and hence increase in quantity of exports. If the cost of imports relative to the revenue earned from exports in long-term period is lesser, then only the devaluation will be deemed effective monetary measure and hence Marshall Condition will be fulfilled. Taking this forward, and applying it to a case of subsidies to export manufacturers through fiscal measures, such as tax exemptions, energy cost reduction, and other rebates or through monetary policy of lowering policy rate, can prove to be beneficial if the raw materials imported are price-elastic in the long run.

Pakistan has long pursued import-substitution policy, which has its benefits of lessening the burden on balance of payments by shifting dependence from goods manufactured abroad, to local manufacturing. However, to encourage firms to manufacture locally, subsidies are provided, and in the case of Pakistan the subsidies are often provided for an extended period of time. This, as will be described in the agricultural section, often diminishes export competitiveness. The reason being, a long-term subsidy tends to increase the supply of goods beyond the equilibrium level of output, which creates dead-weight loss – an economic situation when the cost of subsidy surpasses the gains. To fix this issue, the government can also lower the price of goods to make local goods more competitive against foreign goods – a form of protectionism the government has long used but this time, the differentiating factor will on "comparative advantage" basis.

Moreover, subsidies should be targeted, as this can help divert investments right into those sectors of the industry, where any technological advancement, or adoption of unique labor practices, is expected to positively correlate with rise in export competitiveness. Here, the targeting of subsidies is only recommended to help solve short-term specific problems pertaining to efficiency of production. This targeted and time constraint subsidizing, shall help prevent the overuse of ground water allotted for irrigation purpose, and abuse of fertilizers, as discussed in agricultural section later. Lastly, this strategy of the government going to ensure that farmers don't remain dependent on subsidies, and hence exports will remain competitive.

The previous government adopted an untargeted subsidy policy, for example Sasti Roti Scheme, Metro Bus Project, and low electricity tax rates in major cities of Punjab. This was unjustifiably availed by the top tier and middle class, which outstripped the benefits associated accrued to lower middle, and lower classes. Moreover, it is quite often in the case of Pakistan that an alarming number of farmers and manufacturers take to the streets to oppose any move by the government to remove subsidies. In order to address this concern and ensure that product competitiveness is not crumbled, the governmental agencies need to spread awareness on the long-term implication of agricultural subsides, as discussed above.

Therefore, with the complete or partial abolishment of taxes on essential raw materials, such as production machinery and equipment, through agreements with other trading partners based on free trade of price-elastic imports, and pursuing a targeted export subsidy, should accommodate the devaluation of currency well and hopefully improve the balance of trade. As a matter of fact, the PTI government has already relieved duties on 82 raw material and inputs tariff lines (Khan, 2018), for export sectors, as well as approved a 6-7 billion in subsidy on urea for the Rabi season which has translated into growth in agricultural sector (The State of Pakistan's Economy, 2018, p. 3)

Lastly, it is imperative that a committee be formed by the Ministry of Commerce, to analyze the prospective impact of aforementioned policies and ensure effective implementation.

Instead of Reducing Energy Tariffs, Seek Viable Renewable Energy Options

The ideal situation for Pakistani manufactures would be the reduced energy tariffs as it will lessen their tax burden and so boost competitiveness. These tariffs, in the past, have adversely affected the manufacturing sector in terms of higher cost of raw materials, but cupped with the prevalent energy crisis, has trickled down in the form of a circular debt crisis. A circular debt arises from the slippages in the payments of bills that in turn, trigger a chain of delayed payments. As a matter of fact, up until today, the over 20 million populated South East Asian country has heavily relied on furnace oil to run industries and has not bode well for exporters. Despite of the 90% subsidies directed at the energy sector, the issue of circular debts, has only added to the woes of the exporters. The solution lies in making the energy sector financially viable, through measures such as tariff adjustments aimed at improving the distribution of resources, and fuel policies targeting the switching to cheaper indigenous fuel tariff differential subsidies.

Back in 2006, the Alternative Energy Development Board (AEDB) introduced the Policy for Development of Renewable Energy for Power Generation, to promote renewable energy sources. The government granted approval to AEDB, which started dealing with energy projects having capability to harness over 50 MW of wind and solar power. (Government of Pakistan, 2006, p. 5). The developmental phases that followed, included grid-connected small hydro, and biomass fueled power units, as well as off-grid solar photovoltaic projects. It is interesting to note here that in the case of Pakistan, all the available renewable energy resources (water, solar, wind, etc.) are quite unpredictable in their behavior amid global warming and water shortages, yet highly potent. For example, energy produced from biomass costs less and can easily be utilized for heating, electricity, and other purposes. However, the problem is that that systems are developed on a very small scale and hence, not economically viable nor reliable. On the other hand, there is an abundant access to solar energy in the south-east Asian country, but the solar photovoltaic systems, as proposed by AEDB, are again too costly to carpet nationwide.

Perhaps, an energy supply mix option could be considered, which is bound to help boost economic growth, given the financial resources are rightly mobilized as per say (Yazdanie, 2010). Nevertheless, owed to a lack of awareness regarding renewable energy targets or RETs (small-scale projects like roof-top solar panels); high cost associated with import of technologies and limited domestic technical expertise, as well as a ‘high risk’ perception regarding investment, has restricted the Pakistani administration to either lower energy tariffs, or increase subsidies – both proved infeasible. The governmental agencies must coordinate well the private sector, and if the 18th Amendment is fully implemented at provincial level, Pakistan can successfully achieve its international climate commitments of improving the electrification rate, and decarbonizing the power system (Zeeshan Ashfaq, December 2017)

In Sindh, there is currently a shortage of gas even though the region has many gas sources such as those in Ghotki, and Badrin but the gas mainly comes from Sui. This has added to the woes of the industries, who are facing an increase of 85.31% increase in gas CPI in November 2018 as compared to same period, last year. (Sindh Bureau of statistics, 2017). Although, the PTI government has imposed the higher prices in order to recover the billions of Rupees from consumers, this has only increased the prices of fertilizers, and other various inputs required for agriculture for example.

The Doing Business Profile of Pakistan

The business index of Pakistan was measured by using information based on country's densely populated financial hubs of Karachi, and Lahore that received similar scores. According to the Ease of Doing Business ranking, out of a total 190 countries worldwide Pakistan stands at 136th position (World Bank Group, 2018). What this simply means is that investors, whether local or foreign, still face difficulty in setting up businesses in Pakistan despite the jump from last year's 147th position.

Several factors help explain this poor score, from poor allocation of FDI, and tax distortion, obsolete technology, inefficient public sector transport, crippling labor market, and delayed time (180 days) to receive electricity connection. In Pakistan, as compared to last year, today it takes 10 days to start up a business instead of 17.5 days (World Bank Group, 2018). For examples, on the 'Registering Property' index, Lahore led the way for Pakistan's improved rank by automating property registration, and increasing transparency of land but these reforms have only helped reduce the registration time by 13 days to 208 days, a number that is still higher than South Asia's average of 114. (Tahir Amin and Wasim Iqbal, 2018). Whereas, the best performing country in this category, New Zealand, takes only 1 day to have investors get started. Although, there still exists complicated bureaucratic system, and excessive regulatory procedures, the authorities enhanced the online one-stop registration system, combining several formalities into a single application, as well as, establishing an information exchange system between the registry and the tax authority

On the 'Getting Electricity' indicator, however, connecting to the electricity grid poses another problem with South Asia region ranking 128. On a Distance To Frontier (DTF) scale that measures (on a scale of 0-100) the absolute level of regulatory performance, compared to the best performance observed across all economies, Karachi and Lahore scored only 45; whereas, India, scored 80 with a world ranking of 22. The average monthly consumption of energy in Pakistan is 26,880kWh, based on a 30 days period and 9 a.m. to 5 p.m. working hours. This comes with a cost of setting up a connection is $1587.1 in Pakistan. Whereas, in Japan, the cost is $0 (World Bank Group, 2018). Several surveys conducted on 71 lower-middle income economies by (referenced here) have cited electricity to be the biggest constraint to business. This is a big problem because poor electricity supply negatively impacts productivity and discourages investment. And in Pakistan, the high losses in transmission, and lack of quality electrical professionals have only exacerbated this concern.

On the 'Trading Across Borders' indicator, although Pakistan has eased importing and exporting by adding electronic document submission option to the customers platform, but its 171 rank is still the second lowest in comparison.

Trading Across Borders Index

	Rank	Average cost of exporting ($)	Time to file documents (hrs.)
Pakistan	171	663	130
India	146	474	144.5
Sri Lanka	**86**	**414**	**91**
Bangladesh	176	633	246

Source: (Tahir Amin and Wasim Iqbal, 2018)

The average cost of trading in Pakistan is the highest, as compared to OECD and high income countries. Including both border and documentary compliance, this cost stands $1200; whereas, in OECD countries it is only $299.4, and $0 in high income countries. In fact, in comparison to Sri Lanka, Bangladesh and India, Pakistan fares lowest in terms of cost of trade. According to the table above, Sri Lanka's highest rank is explained by the lowest average cost of exporting per individual, as well as the lowest time required to file documents.

'Protecting Minority Investors' was Pakistan's best performing indicator, which measures the strength of protection offered to minority shareholders against the misuse of assets by top managers for personal gains, governance threat, and risk of corporate abuse, giving Pakistan a second highest rank of 26 next to India's 7th.

Protecting Minority Investors Index

	Rank	DTF Score
Pakistan	26	71.7
India	**7**	**80.0**
Sri Lanka	38	66.7
Bangladesh	89	55.0

Source: (World Bank Group, 2018)

This is primarily because of the implementation of new laws in Pakistan that permit minor shareholders to sue the director in face of prejudicial transactions with third parties. On a deeper analysis, it has also been found that on the Distance To Frontier (DTF) scale of 0 to 100, India and Pakistan both scored high, so Pakistan is doing well to protect minority investors.

On the 'Resolving Insolvency' indicator, the economy stands at 53rd position, with a DTF of 59.86 – both highest in the region. This was achieved through the introduction of the reorganization procedure and improving the continuation of the debtor's business during insolvency. Although, the country significantly improved its global ranking from 82 last year, the time to recover debt of 2.8 years (33.6 months), is still higher than best performing country of Ireland's 0.4 years (4.8 months) and that of South Asia (World Bank Group, 2018). This needs attention.

Resolving Insolvency Index

Country	Rank	DTF (0-100)	Cost of recovering debt (% of estate)	Strength of insolvency framework (0-16)	Time to recover debt (years)
Pakistan	**53**	**59.86**	**4.0**	**11.5**	**2.8**
India	108	40.84	9.0	8.5	4.3
Sri Lanka	92	45.05	10	7.0	1.7
Bangladesh	153	28.20	8.0	4.0	4.0
South Asia			9.9	6.6	2.6

Source: (World Bank Group, 2018)

Yet, Pakistan scored the highest insolvency framework index, which goes to show how well the country has implemented international practices to accommodate debtors in areas concerning: commencement of insolvency proceedings, management of debtor's assets during the proceedings, reorganization proceedings and creditor participation.

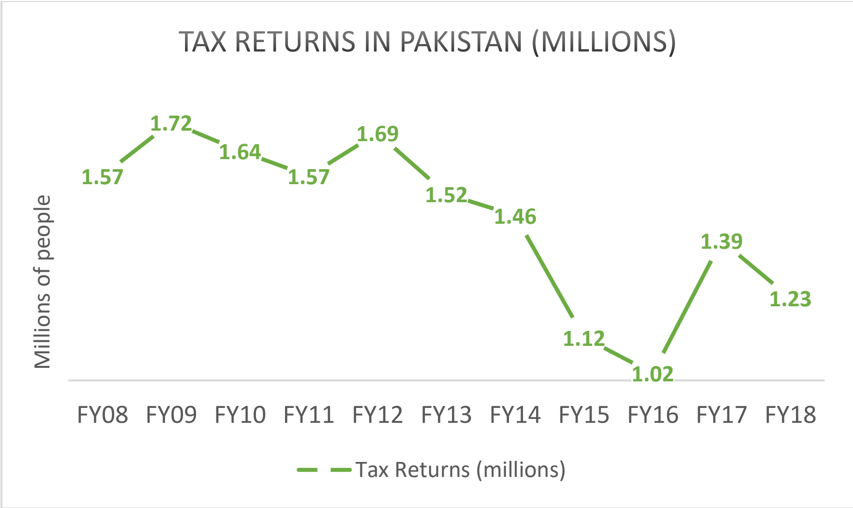
The GoP strives to achieve a next year's target of index below 100, and for that much can be done. Firstly, since paying taxes was the lowest in region and also the worst performing (World Bank Group, 2018), it is quite evident that either the government does not have sufficient information on the public accounts, or an effective tax collection mechanism to prevent under-reporting of taxes, especially corporate taxes, could be adopted.

Paying Taxes Index

Country	Pakistan	India	Sri Lanka	Bangladesh
Rank	173	121	141	151

Source: (World Bank Group, 2018)

In Pakistan, it is not the tax base which is small, but instead the number of people filing returns. During the last four years, according to FBR, Statutory Reconciliation Orders (SROs) allowed the evasion of Rs. 650 billion worth of taxes.



Source: (Pakistan Bureau of Statistics, 2018)

According to data acquired from World Bank and Pakistan Telecommunication Authority, there are around 145 million mobile phone subscribers, but hardly 28% or 40 million pay income tax, and less than 700,000 individuals filed income tax returns.

Since the tax paying power of an individual depends on his or her fiscal status, taxes should be levied accordingly (all forms of regressive taxation be abolished) and so tax relief measures in the FY19 budget should be rationalized and the expenditures be curtailed to achieve the FY19 fiscal deficit target of 4.9%. In Pakistan, hardly 1 million people pay taxes which is another concern, and so made it harder for the government to address the disparaging issue of poverty, and infrastructural development (more on this in later sections).

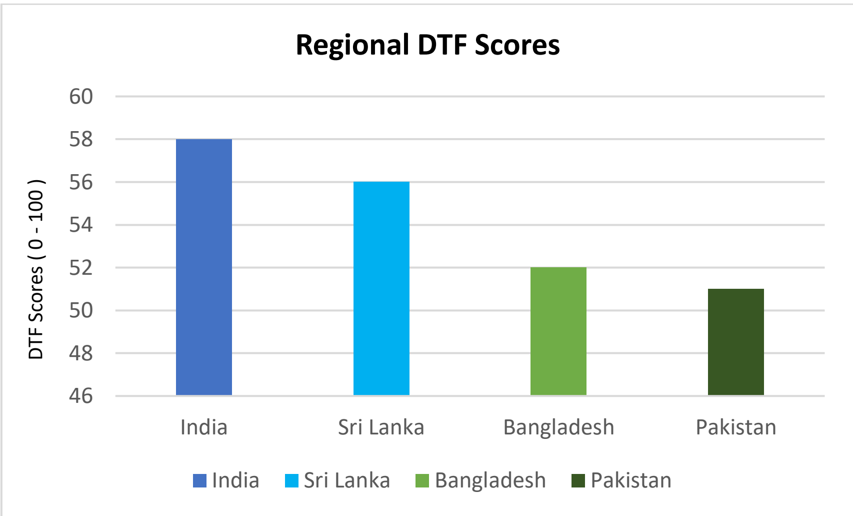
In order to address the low 'getting electricity' index, Pakistan must expand renewable energy program under AEDB. Due to persistent load-shedding, 'the reliability of supply and transparency of tariff index' could not be measured and hence negatively affected the indicator's score (Russell Bedford, 2017). Furthermore, compliance laws should be simplified to accommodate foreign investors. Since the Doing Business Index is largely a reflection of the overall investment climate, lengthy and costly procedures should be curtailed to facilitate foreign direct investments, which must in turn, be allocated to investment magnet sectors of the economy.

Lastly, a regulatory reform committee should be formed, at federal level, to accommodate entrepreneurs entering the Small and Medium Sized Enterprises through imposition of policies aimed at fostering a transparent flow of information, one-window registering process, and improved communication between state and private sector on any reforms introduced.

An Analysis of Global Competitiveness Index 4.0 Ranking of Pakistan

The theme of the 2018 Global Competitiveness Index (GCI), centers on gauging the various factors of productivity to best speculate how close an economy is to the frontier of the best performing country, in the amidst the imminent fourth industrialization revolution. The GCI 4.0 was evaluated through the employment of a total of 98 indicators, which were then divided into 12 pillars. It was found that the United States of America fared the highest on the Distance To Frontier (DTF) scale with a score of 86. We evaluate for Pakistan's 107th rank, through 9 pillars, namely: Institutions, Health, Skills, Infrastructure, Labor Market, Business Dynamism, ICT, and Macroeconomic Stabilization. And then carefully use these to compare the performance with regional economies of Sri Lanka, India, and Bangladesh. From the GCI pillars, one thing is certain, the root causes of terrorism, unskilled labor force, widespread and frequent power outages, high cost of setting up business, water shortage, deep-rooted corruption, low quality of land reforms, protectionism, surmounting debt obligations, and poor e-participation rate have slowed the economy and rendered its policies ineffective.

From the DTF scores of South Asia, India with a score of 58, ranked the highest among the four countries. Whereas, Pakistan with a score of 51, performed the worst.



Source: (World Economic Forum, 2018)

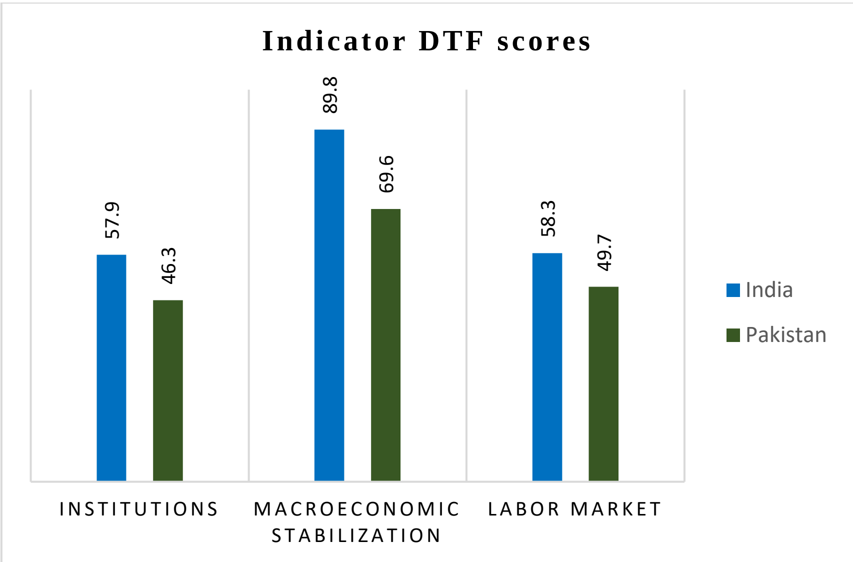
South Asia, propelled by India's thriving economy, proved to be the world's fastest growing regions with an average GDP growth of 7.1%. The GoP is still bogged by issues of protectionism, low competitiveness, weak institutions, and obsolete technology. The lack of technical training and investment in human capital, as well as, inept redistributive policies have maimed the production efficiency and competitiveness of the export sector. In today's highly unpredictable and fast changing world, with rising geopolitical tensions and a range of vulnerabilities, it is therefore imperative for Pakistan to upgrade technology, improve health of population, and work on skill development. According to the table below, Pakistan's ICT Adoption score and Human Capital Index, which is a combined score of health and skills, are quite low. Moreover, the country has received a score of '0' on the incidence of terrorism, which is the worst in the world (World Economic Forum, 2018)

	ICT adoption	Health	Skills
Pakistan Score	127	109	125
Best performing country	South Korea	Singapore	Finland

Source: WEP GCI 4.0 Report

India

The analysis of three pillars: Institutions, Macroeconomic Stability, and Labor Market, Pakistan's inferior performance to India can be evaluated as follows.



Source: (World Economic Forum, 2018)

Pakistan's low ranking of 109, as opposed to India's 47, is evidently explained by the high rate of terrorism in the country, as stated earlier. From the Macroeconomic Stability pillar that gauges the level of inflation and fiscal stability in the country, Pakistan's debt crisis score was 39.1, as opposed to India's 79.8, which is quite evident from the over $33 billion dollar external debt piled up. Otherwise, the country has earned a world ranking of 1st position in inflation (3.5%, last year) a figure that has risen to almost an average of 5.5% lately (State Bank of Pakistan, 2018). There are two reasons to explain this: 1. The over 30% depreciation of Rupee against the Dollar (to under Rs. 140 for every 1 USD) directly impacts fuel costs for examples the recent hike in gas prices and the surge in transportation costs resulting in rising food prices; 2. high cost of borrowing from State Bank of almost Rs. 5.4 trillion which is intentionally done to reduce consumer demand amid high expected inflation rate, and hence the rise in policy rate to 10 percent to encourage foreign investments – all to boost the exports and export sector's competitiveness.

The poor DTF score of 49.7 as compared to India's 58.3 in the Labor Market sub-indicator of the pillar of Institution, could be as a result of poor female participation in the work force.

	Female Participation Ratio Rank	**GDP Per Capita (US$)**	**10 Year Average GDP Growth (%)**
India	124	1983	6.8
Pakistan	138	1541	3.6

Source: (World Economic Forum, 2018)

According to the GCI 4.0 report, the female participation ratio of Pakistan stands at 0.17, as opposed to India's 0.29. This is a growing concern, because a well-functioning labor market can help keep Pakistan stay afloat, amid economic shocks. More on this in the "Need for Skills Development" section.

	Digital Skills		**E-Participation**		**R&D Expenditure**	
	Index (1-7 best)	**Rank**	**Index (0 – 1 best)**	**Rank**	**% of GDP**	**Rank**
Pakistan	4.1	75	0.5	103	0.2	88
India	4.6	48	0.96	15	0.6	53

Source: (World Economic Forum, 2018)

The two countries also exhibit the lowest levels of technological readiness in South Asia, as depicted from the digital skills, E-participation, and R&D Expenditure stats found in table above. From the results, it can be seen that both countries exhibit similar (poor) in digital skills and R&D expenditure. On the other hand, India has a superior E-participate rate, which goes to show that there are active government websites that regularly provide quality, relevant and useful information to the citizens, as well as, take feedback through participation tools. For Pakistan, these results go to show that the country's level of readiness for technology is not at par with rival India and the world where fourth industrial revolution is about to make its imminent admission.

In order to address this issue, the state needs to integrate the depraved segments of society in the rural areas, and the younger generation, into the modernization process. The PTI government is currently in the phase of launching an online portal for both simplifying tax procedure and to provide platform to citizens to voice their concerns. Moreover, investments need to be directed towards innovative activities, which will help hammer up the quality of human capital across Pakistan – raising standard of living.

Country	Innovation Rank	Attitude towards entrepreneurship risk Index (1 – 7 best)	Attitude towards entrepreneurship risk Rank	Quality of Research Rank
Pakistan	75	4.1	58	41
India	31	4.7	19	8

Source: (World Economic Forum, 2018)

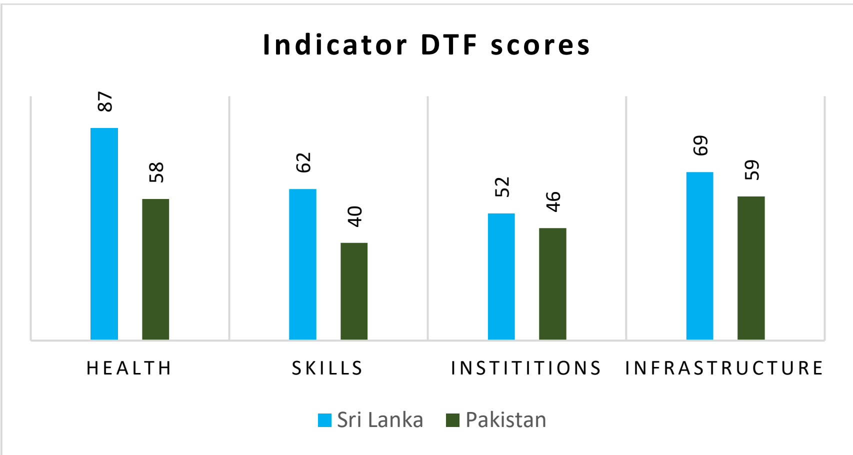
Although an arch-rival of Pakistan, India is a fine example of a country that has fast-tracked on the pathway to innovation, primarily by having better quality of research institutions and higher degree of entrepreneurship, as shown in the table above.

Sri Lanka

Among the 9 pillars used for regional performance assessment, the four pillars of: Health, Skills, Institutions, and Infrastructure, were the main drivers of Sri Lanka's gain over Pakistan. First thing to note is that institutions in both Pakistan and Sri Lanka, are not performing well. While, for Sri Lanka, it is poor quality of land administration and corruption, for Pakistan, it is both high rate for incidence of corruption, poor quality of land administration, and terrorism.

	Pakistan	Sri Lanka
Incidence of corruption ***(0 to 100 best)***	*32*	*38*
Quality of land administration **(**0 to 30 best**)**	*7.6*	*2.5*

Source: (World Economic Forum, 2018)



Source: (World Economic Forum, 2018)

In health, Pakistan scored a much lower, which is evident from the allopathic medicinal treatments provided to citizens in Sri Lanka by a large force of medical doctors, catering to the ailments of public (Samarage, 2006). On the other hand, Pakistan has a deteriorating healthcare systems, plagued by issues that need urgent attention by the current government. The budget allocated for healthcare system is hardly 1% of GDP (Rs. 384.57) (Pakistan Economy Survey, 2018). As a result, there is an alarmingly low ratio of number of hospital beds available for citizens (1 for 1580), as well as, very few doctors (1 for 957) to attend patients. The private sector, which offers superior health care services, is expensive. The Pakistan Medical and Dentil Council (PMDC) and Drug Regulatory Authority of Pakistan (DRAP) have failed to prevent the unauthorized use of faulty stents (Daily Times of Pakistan, 2018) that often result in deaths due to improperly diagnosed medications and implants.

The government must impose reforms to revitalize the physical and mental capabilities of especially the youth, so they can lead way for innovation and idea generation. Pakistan's labor force is much less skilled, which is due to two key reasons: poor mean years of schooling, and a low school life expectancy.

	Mean yrs. of Schooling	**School life expectancy (yrs.)**	**Quality of vocational training ranking**	**Digital skills ranking**
Sri Lanka	9.8	13.9	60	85
Pakistan	5.2	8.6	90	75

Source: (World Economic Forum, 2018)

It is a global phenomenon, proved time and again that highly educated population is more productive because they possess superior cognitive abilities, can perform tasks more efficiently, and contribute more to new knowledge. Sri Lanka, is one of the very few developing countries that offer free education to its citizens – over 90% literacy rate, as opposed to less than 58% in Pakistan (Pakistan Economy Survey, 2018). Lastly, Pakistan's poor infrastructure rank of 93rd against Sri Lanka's 65th is clearly evident from the stark difference in the sub-indicator scores on Electrification Rate, and Electric Power Transmission and Distribution Loss.

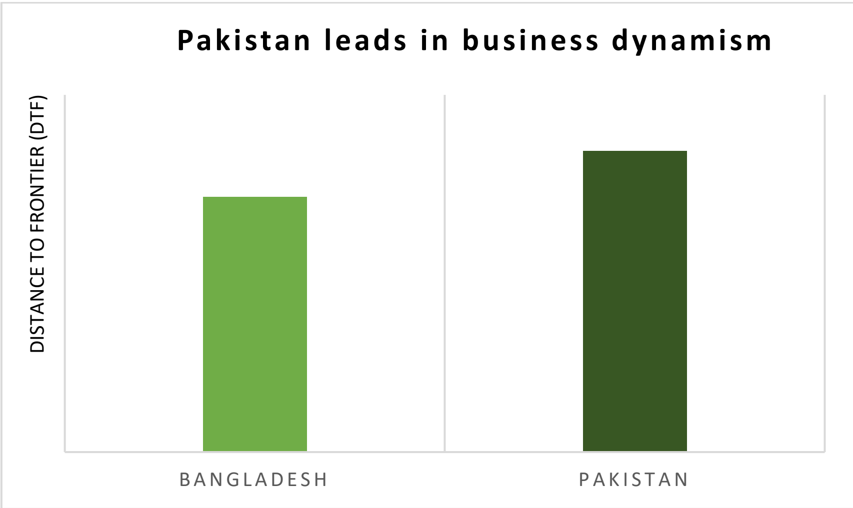
	Electrification Rate Rank	**Electric Power / Transmission Distribution Loss Rank**
Sri Lanka	1st	7th
Pakistan	109th	42nd

Source: (World Economic Forum, 2018)

However, as explained earlier in the Energy section, much can be done to improve this through further exploration of renewable energy resources in Pakistan.

Bangladesh

As compared to Bangladesh, the only indicator in which Pakistan led from the front, was Business Dynamism. The improved cost of doing business, as explained in earlier section, was the best performing sub-indicator of this pillar which earned Pakistan a good 73rd rank of Pakistan, as opposed to Bangladesh's 107th rank. This is a positive indication that country is on the road to progress.



Source: (World Economic Forum, 2018)

An Industrial-Friendly Perspective on Industrial and Agricultural Sectors of Pakistan

In order to promote a business friendly environment, one centered on a strong macroeconomic framework and governed by efficient law and credible administration system, steps need to be taken to uplift the Textile, Agriculture, Information Technology, Energy, Transport, and Financial sectors.

AGRICULTURAL SECTOR

The agricultural industry of Pakistan is the largest income and employment generating sector that affects the livelihoods of almost two-third of the rural population. However, there are several problems faced by this sector, such as the continued enactment of import-substitution policy that has not only impaired the level of product quality, but also raised the cost of production. This negatively affects the competitiveness of our exporting agricultural goods in the global market.

Cotton, which is the life line of textile sector and considered among the four major crops beside wheat, rice, and sugarcane, is a major source of foreign exchange earnings that registered a growth of 11.8 percent in F18 since FY17. (State Bank of Pakistan, 2018). However, the heavy use of chemicals has not only amplified its cost of production but also affected its competitiveness. The resulting residual effect on subsequent crops has implication for health, and environment. This has significantly dropped consumer rating on the international front. Aside from the pesticide abuse, the non-availability of quality and variety of seed also limits the yield.

According to SBP Report 2018, (State Bank of Pakistan, 2018) supportive price policies for other crops, such as, sugarcane and wheat have reduced area for oilseed production. Furthermore, the continued support for import policies on oilseed, has marred the possibility of local oilseed production which could help increase variety and so help increase yield. On the other hand, sugarcane that posted the highest 68.5 million tons in FY18 and is also among the four major crops, not only occupies land year round but also consumes a lot of scarce water.

In order to address such issues, the government of Pakistan can take some effective measures. These could include, developing hybrid seeds and improving post-harvest handling by adopting modern technology; developing cheaper agricultural machinery, and controlling seed adulteration. In fact, the Seed Act of 1976, which empowers the state to monitor the quality of seeds, should be revised. Lastly, the government should free the market by intervening as little as possible. The investment of private sector in marketing infrastructure like cold storage, remains low because proper signals of incentives does not reach producers.

The Agro Processing and the Fruits Industry

Despite its major percentage contribution to the GDP, agricultural sector has lost employment to the manufacturing sector. There are two aspects to explaining this trend of shift: one on demand side, and the other on supply side. On the demand side, the Engel's Law, which states that the relative amount of income that an individual spends on food falls as income rises, implies that as economies industrialize, people spend proportionately less on food, and more on manufactured goods and services. While, on the supply side, the vast improvement in technology and the various innovations has compromised the level of employment in production, as fewer workers are required. Hence, the combined effect is a major shift in employment from agriculture to services sector (as explained later). In order to address this concern, and achieve economic growth in agricultural sector, agro processing can be tapped.

The Agro processing can be defined as set of techno-economic activities, through use of agricultural raw materials mainly for the purposes of food processing, carried out to conserve and handle agricultural production. Besides the capability of adding value in terms of scale and output, the agro industry has vast potential to serve as an engine of economic growth to generate employment, support rural developments, raise levels of income of the poor, and ensure food security (The State of Food and Agriculture, 1997). Pakistan, being a lower-middle developing country, often exports products that are high in demand by consumers but due to the lack of infrastructural and technological advancements in machinery and methods of production, export earnings have dropped. This issue can be addressed through product diversification, which is possible through agro processing.

Pakistan is an agrarian economy, where the cost of labor is low, raw materials in abundance, and a high number of unskilled labor is employed in the agricultural sector which presents a good scenario agro-processing. The Hirschman's Linkage Hypothesis, states that best developments evolve from engaging in those 'interdependent' activities that induce further progress, and Agro processing is highly interdependent as it uses raw materials from agriculture, further processes it, and then ultimately sells in the market. This means, this industry has a strong stimulus to grow. A recommendation could be the shift of focus on processed food through agro-processing, for example juices, instead of sending only fresh fruits.

Pakistan's prime export fruits and vegetables include: mango, kinnow, dates, pine nuts, onions, potatoes, red chili and guava that account for over 75 percent of total annual produce. During the first 5 months of 2018, fruits worth $2.395 million were exported to major exporting countries: USA, Canada, UAE, Saudi Arabia, and China. (Pakistan Economist, 2018). However, Pakistan hardly has 0.20 percent share in the $100 billion worth of international trade, chiefly owed to the quality of exports have not been up to the mark. The major reasons for this vary from non-standardized nursery plants, use of age old tools, disease infested seeds, poor management and cultural practices, as well as, post-harvest losses.

A major issue arises from the high and consistent of Oil seeds, instead of promoting its production locally. This is largely due to supportive pricing and indiscriminate targeting of subsidies in the agricultural sector, for example, towards wheat and sugarcane that has exacerbated the import of oilseeds. Then, planters, harvests, and seed driers needed to groom the crops cultivated (oil seeds) are missing or in few quantity. During the last 10 years, the area allotted to Oil Seeds has dropped considerably, for example, from 900,000 acres of land allotted to Sunflower has come down to only 200. Although, the Public Agricultural Research Council has introduced hybrid canola seeds which has helped increase the Canola seeds yield, but more efforts need to be invested in other seeds category.

Furthermore, the FTA and import supportive pricing policies have reduced the incentive for farmers to produce locally. This is evident by the lowest sales tax on soybean which is used as poultry feed, and can help augment the livestock market in Pakistan, has only encouraged its imports.

Land allotted to Oil Seeds production (thousands of acres)

	FY08	FY15	FY17	FY18
Sunflower	900	380	200	200
Canola	180	30	25	50*
Rapeseed	600	600	550	600

Soybean oil import registered a 172.75% increase in FY17 from FY18

Source: (State Bank of Pakistan, 2018)

Yet again, the raw materials which need to be imported should be price-elastic in the long run, as explained earlier. The government, in FY18, had to import 2.2 million metric tons of edible oil worth over $1.7 billion dollars (9.94% of total exports worth almost $17 billion in FY18). Hence, there is an urgent need of producing oil seeds locally, to curtail the high imports. The government could consider working with the stakeholders to encourage the local production of oilseeds; push more on the hybrid seeds into other Oil Seed category, and impose quotas on the import of oil seeds.

In Pakistan, the primary focus of farmers has been on producing for table consumption, and processing (for example, the fiber extracted from mango pulp is a major by-product that is used as a natural bioactive compound to counter diseases). In order to resolve this issue, a biotechnology could be applied to treat pests, contaminants and maintain quality, along with the use of organic bio-fertilizers. It must also be noted that Pakistan has not introduced Plant Genomics, till yet. This technology can enhance crop breeding by changing the microbiological structure of plants. Much of the water used is wasted over sedimentation in reservoirs; in particular 84 percent flows during the *Kharif* season, and 16 percent during the *Rabi* season (State Bank of Pakistan, 2018). A national water quality management program should be initiated to monitor the discharge into rivers that are used to water crops through canal irrigation.

TEXTILES SECTOR

The textiles and clothing boasts the second largest labor force (source: statistics portal and State bank). According to SBP, Pakistan's textile exports grew by 7.7 percent to USD 10.0 billion, in the first three quarters of FY18

FY17 Statistics for Textile Exports

% GDP contribution of industries	17.8
% GDP contribution of Textile industry	8.5
% exports of textile goods	57 or $7 billion in FY18

Source: (State Bank of Pakistan, 2018)

However, a number of problems persist in this industry. These range from outdated technology, lack of diversification, and the inefficient production processes leading to high wastages; longer time from designing to sample creation; and contamination in cotton (as discussed earlier); ineffective feedback mechanism to link industry with research institutes; lack of investment in human resource and the resulting informal on the job training of labor force to deal with the capital intensive system. For example, instead of technologically upgrading the most potent garment manufacturing industry that registered a USD 0.22 billion to USD 1.92 billion value of exports growth in FY18 Q3 from same period in F17, the administration decided to maintain focus on producing goods like leather that faced a drop in revenue

Exports in millions of US dollars

Items	FY17	FY18
Readymade garments	1704.6	1918.9
Leather	252.4	196.8

Source: (State Bank of Pakistan, 2018)

Due to the recent increase in Policy Rate by government to 10%, many exporters like Towel manufacturers who end up paying huge amounts of interest on borrowed funds, will suffer. Already the percentage contribution of towel manufacturers is less than 3% of total exports (or $598 million). In Pakistan's towel business, cloth is produced in batches (1000 kg on average) instead of in a continued processing (3500 kg on average). The cost of doing business for towel exporters in Pakistan has risen. This is a direct result of lowering of Drawbacks from Low Taxes and Levies (DLTS) which were proposed to be added instead to exports in the Strategic Trade Policy Report of Ministry of Commerce (Pakistan Ministry of Commerce, 2018). These

DLTLS have been irrationally slashed from 3 to 1.5 percentage, which is not sufficient for exports growth. These problems need to be accounted for.

The Japanese model, which includes the government's advisory council to regulate the garment and textile industries, can be adopted to counter these concerns in the industrial sector. Pakistan and Japan should sign an FTA/PTA which can be achieved if the export sector uses pressure tactics to influence the government. Through this approach, controls and regulations can be liberated to ensure the optimum level of competition, as well as introduce a trade policy that ensures the availability of imported raw materials. Here, an important point to note is that it takes on average 17 days for consignments to be traded between the two countries of Japan and Pakistan, which calls for a faster track through CPEC.

Furthermore, the textile industry uses a range of imported inputs from synthetic fibers to dyes and chemicals, but high tariffs are applied on these, which hurt domestic producers by raising the cost of production which in turn level of erodes competitiveness. The import duties levied on synthetic fibers make raw materials expensive for the spinning industry and so, in order to compensate the exporters, tariffs should be rationalized. Although, in 2017, the GoP reduced the tariffs on imports by 5% (Export.gov, 2018) and gave rebates to various imported commodities. In the case of Textile exports, which account for over 60% of exports 2018 has witnessed a fall in export of textile goods as a result of lowering of rebates, making it less viable and less competitive. (Tribune, 2018)

Source: (World Integrated Trade Solutions, 2016)

From the bar charts shown above, despite of employing over 40% of the industrial labor force and contributing to almost 60% of exports, the textile industry of Pakistan has mainly focused on the manufacturing of low-valued added goods like spinning yarn and cotton, which is one of the reasons why it has the lowest regional textile exports, today. The other reasons vary from the low DLTLs, which is only 1 to 3 per cent compared to other regional countries that not only sell at a lower than world price, like India, Bangladesh, and China but also invest in R&D and upgrading of technology to support exports of textile goods. Pakistan, on average, pays 22%

on tariffs on various imports of Textiles – a situation which was better before WTO, when USA imported textile goods from Pakistan in quotas. (Tanveer, 2012)

Textile trade of countries with US, 2016	Imports (billions of dollars)	Exports (billions of dollars)	Trade Surplus
Pakistan	0.228	2.88	2.65
Bangladesh	0.107	5.55	5.45
India	0.432	7.93	7.50

Source: (World Integrated Trade Solutions, 2016)

From the table above, all the three regional countries have a trade surplus, with India leading the way as it is in direct competition with China, which is understandable. However, Pakistan has the lowest trade surplus in the region, of only US$ 2.65 billion, yet it imports higher than Bangladesh. This is again because Bangladesh has invested more on higher value added goods, and its export prices are lesser.

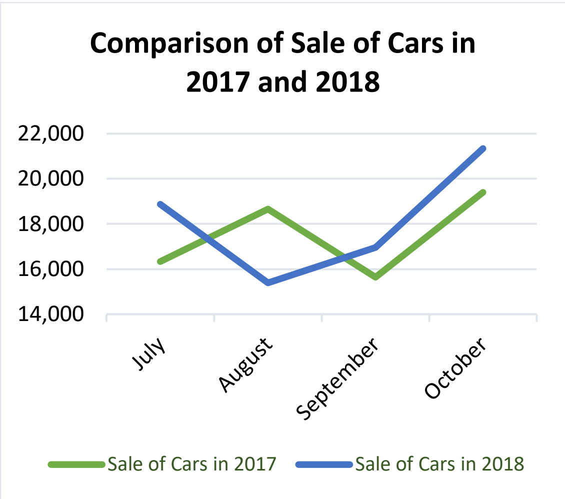
Question is, how will Pakistan compete? To answer this, Pakistan could start with fixing its longstanding power crisis, which has severely hurt the cost of doing business as already mentioned earlier. The GoP could offer cheap loans, and provide special training to the textile workforce in an attempt to boost the image of Pakistani apparel and textile, as well as, to introduce new textile items in the international market, while making sure cost is not revealed.

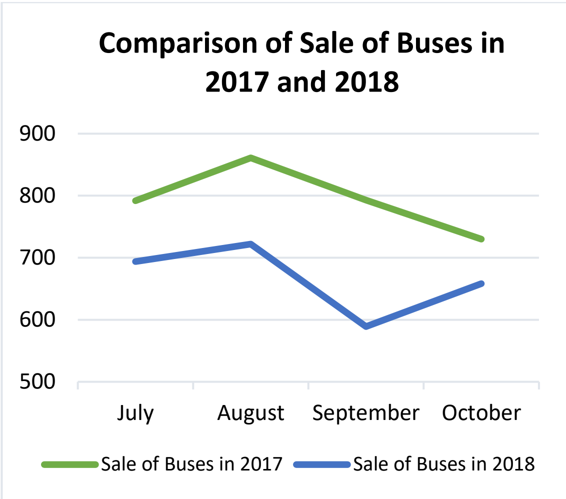
PAKISTAN AUTOMATIVE INDUSTRY

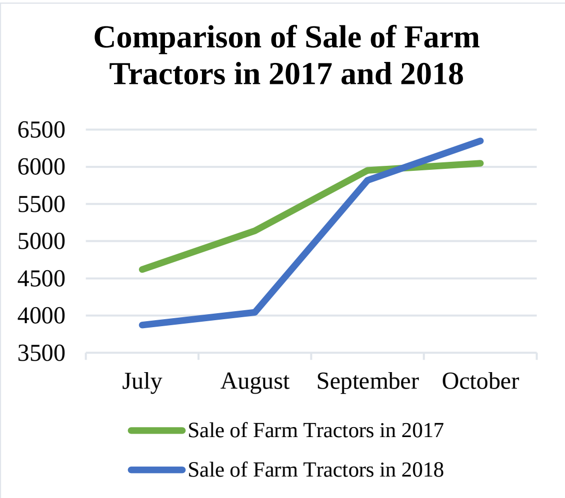
Pakistan's automobile industry has great growth potential as the domestic market seeks to expand and raise the income level, as well as the financing facilities. The sector employs an estimated 35 million people (Pakistan bureau of Statistics) and last year, contributed Rs. 12 billion to the Rs. 41 trillion GDP, which is an estimated 0.03% of the $313.3 billion GDP (State Bank of Pakistan, 2018). These statistics are quite low, and the recent restriction on car purchase for non-filers of tax returns, has dropped car bookings.

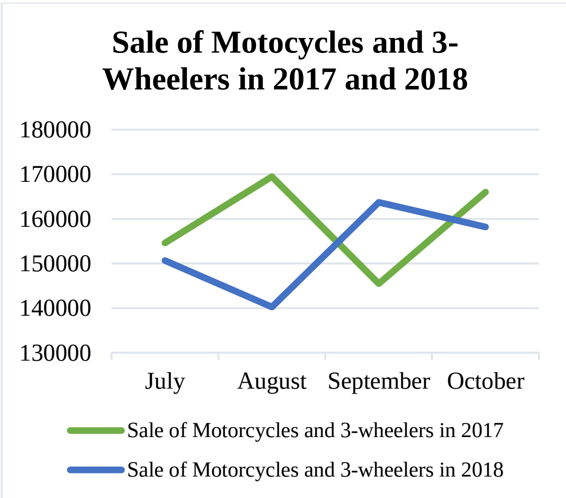
Aside from newer problems arising from hike in the policy rate by SBP in 2018 to 10%, a host of problems are being faced by this manufacturing sector. For example, product design and engineering capabilities are constrained due to diseconomies of scale, smuggling, and under-invoicing. These issues can be addressed by the government, through careful provision of infrastructure requisites, expanding regional and global markets through linkages and export systems, and again, by establishing training institutes to engage engineers for technical consulting.

Meanwhile, it can be seen from the graphs shown below that the total sale of all types of cars, buses, and farm tractors is trending upwards in Pakistan, in 2018 as compared to in 2017. However, the total sale of motorcycles and Rickshaws is on the decline. In fact, last year, the production of motorcycles increased by 9.04 percent, going up from 187,825 units in June 2016 to 204,804 units in June 2017, but this year this trend has sharply declined by almost 4 percent (158196 units in October 2017, to 166001 in October 2018), while the production of all types of cars has increased by a startling 90 percent in the same period of October from 2017 to 2018.









Source: (Pama, 2018)

INFORMATION TECHNOLOGY

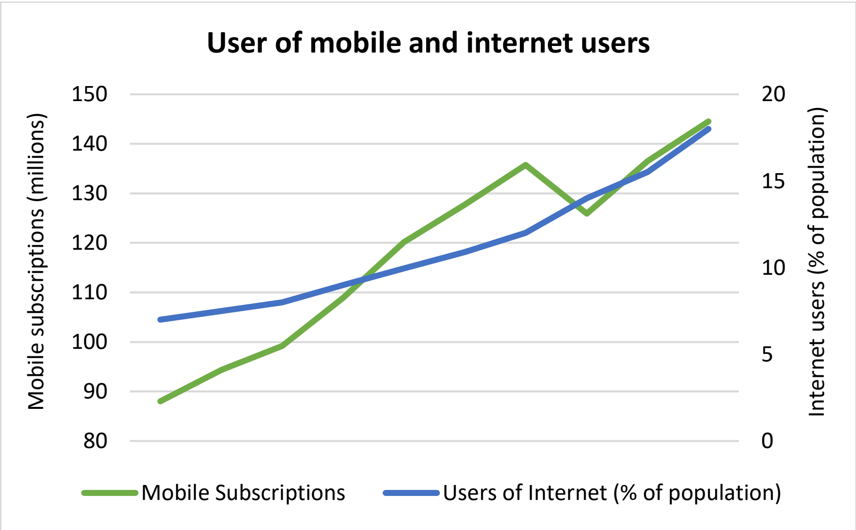
According to the GCI 4.0 report, Pakistan has a low ranking of 127th position in the adoption of Information and Communication Technology.

	Pakistan	India	Sri Lanka	Bangladesh	China
ICT Ranking	**127**	117	109	102	26
Mobile Subscriptions	**73.4**	87.3	135.1	88.1	104.6
Internet users	**15.5**	29.5	32.1	18.2	53.6

Source: (World Economic Forum, 2018)

Although, this is the lowest regional ranking, a shift of trend is being witnessed in Pakistan as business community has finally realized how key a role technology plays in driving down costs, improving productivity, and in providing quality services to customers. Technology has become an integrated part of the banking sector; intelligence agencies, airline industry and even stock market where stocks are now traded online.

In Pakistan, today, the IT industry is fast growing in all directions. From Enterprise software growing at 17%, and health care by 4% to retail and commerce by 8% - all witnessing growth. As a matter of fact, IT sector giants like Facebook and Amazon are anticipating big innovations owed to the escalation in the number of startups in the country (Tribune, 2018). However, there are still challenges of Low E-Readiness (as showed earlier) and a nationwide negative perception of adopting IT: locals think that IT does not play an important role in the buying decision of importers, and instead it is the strong bond of trust between traders which matters. There is also a dearth of internet users, despite of the high number of smartphone owners, as shown in the graph below.



Source: (World Bank, 2018)

Some recommendations, apart from developing an E-government (as suggested earlier), could be in the form of a specialized E-tribunal or research councils, which will impart relevant information to the special needs of telecommunication and information technology, as they come. This will encourage internet usage, and as the number of business transactions increase, leading to GDP growth.

TRANSPORT SECTOR

Despite the GCI Road Connectivity Index of 62 and Quality of Roads Index of 69, Pakistan still faces major issues in the transport sector. Issues vary from inadequate maintenance system, poorly targeted investment, operational and financial inefficiencies, low private sector participation and even environmental impact.

In order to rejuvenate the railway transport sector, some steps can be taken. These could include strengthening the transport facilities through electrification, restoration of inactive routes, and modernizing information and communication system.

CONSTUCTION AND HOUSING SECTOR

With a growing population of over 202.5 million (Worldometers, 2018), the supply of housing does not match the rise in demand amid rising prices. According to the United Nations Development report, Pakistan's HDI ranking is 150 out of 189 countries, with an HDI index of 0.562, life expectancy at 66.6 years and gross national income per capita of $5,311. While these statistics provide an unpleasant image of Pakistan around the world, what's more unsettling is the poor housing facilities provided to the poor amid stark rise in income inequality (as discussed earlier with reference to GINI Coefficient). The rise in poverty has pushed people to the slums in major cities like Karachi and Lahore, where the existing underdeveloped infrastructure has wreaked havoc on the lives of many. There is inadequate access to housing finances, owners' rights are not clearly defined and enforcement of tax laws are not ensured.

In order to address this issue, the government can introduce two types of financial support services: a one-time capital grant, and a set of allowances. (Dr. Atta Ur Rehman, 2010). The one-time capital grant, provided directly to the poor, can be utilized in construction, repair or even the purchase of houses. The House Building Finance Corporation can assume this responsibility, and launch targeted campaign to extend coverage to the poor households. Secondly, the house allowance (shared by both private and public sector) which is a form of social safety net, will fill the gap of weak institutional governance and tight housing markets.

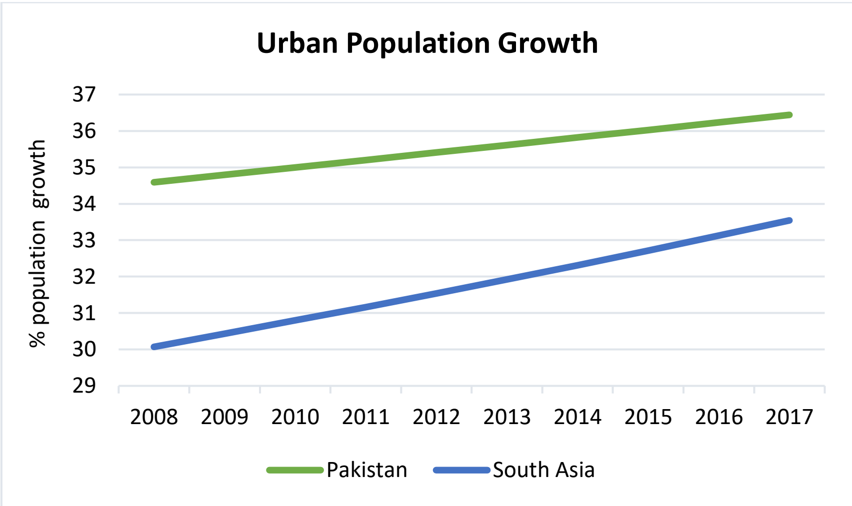
ENCOURAGE JOINT VENTURES, MARKETING CAMPAIGNS, AND ROLE OF MNCS

Given Pakistan is currently reviewing plans to implement a new industrial policy, it is imperative the role of MNC subsidiaries and joint venture partners be exploited towards localization of technological development activities. Countries like Bangladesh and China have invested into joint ventures with foreign manufacturers through smart marketing, and managerial skills. Moreover, when MNCs and joint ventures are effectively operating, the growth generated has spillover effects in rest of the sectors. The US food companies, who are serving the Chinese markets, could be collaborated with to benefit Pakistan. Lastly, there is also a negative perception of 'low quality, low price, and inconsistent and unreliable suppliers' image which also needs to be rectified. This can be achieved through clever marketing campaigns on the international front.

A Shift of Focus from Market-Seeking to Efficiency Seeking FDI to Encourage Investment-Friendly Environment

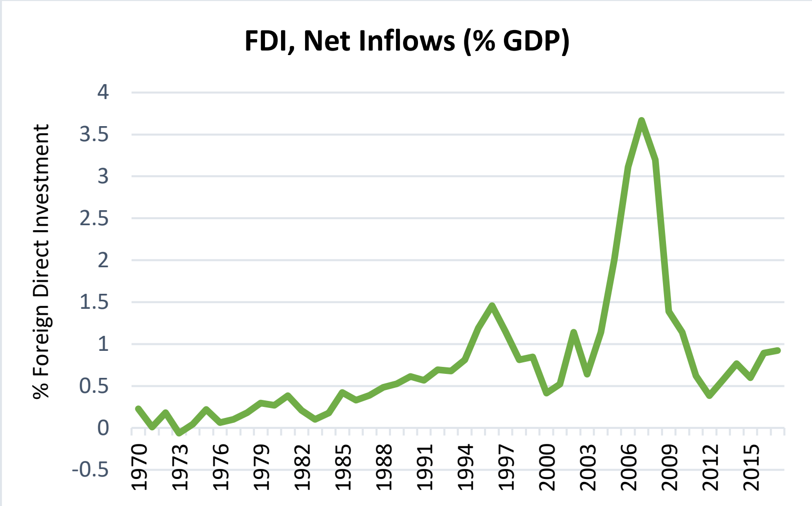
Foreign Direct Investment (FDI) plays a pivotal role in the economic development of a country. In the case of Pakistan, which is categorized as a lower-middle income country by the 2018 GCI 4.0 report, foreign investments have become the need of the hour to help in domestic industrial development. The two types of FDI that need top attention are: Market Seeking, and Efficiency Seeking. A major chunk of FDI has been in the form of 'Market Seeking' FDI in Pakistan, over the past decades.

A Market-Seeking FDI refers to a type of investment, where foreign investors seek to serve the host market. Over the past many years, foreign investors have scrupulously eyed at the rapidly urbanizing population of Pakistan that is growing at South-Asia's highest annual pace of over 3% as shown below. In 2017, the urban population growth recorded in Pakistan was 36.4%, against South Asia's 33.4%. (World Bank, 2018)



Source: (World Bank, 2018)

This growing high-income segment of the urban mass serves as an attraction for various Trans-National Corporations (TNCs), who seek to expand in these lucrative urban markets. These TNCs like Coca-Cola, Nestle, and Unilever, usually operate with the sole aim of making profits to keep their global sales-revenue smooth and maintained. The operation of these companies does have positive trickle-down effect in other sectors, as they incorporate local firms into their production process. As a matter of fact, these enterprises tend to provide local firms: access to international markets, make new technology available, and provide technical training to local labor. However, the positive outcomes primarily depend on host country's capacity to absorb such market-seeking investments, and in the case of Pakistan, this type of FDI has not worked so well.



Source: (World Bank, 2018)

The graph above is plotted for Net Inflow of FDI in Pakistan (% GDP) against a time span that ranges from 1970 to 2017. As is evident, the net inflow of FDI in Pakistan has been quite low in the first four decades owed to poor infrastructural facilities needed to accommodate investors, and then later a similar trend during the nationalization process of the 70s. Later, the FDI picked up in the 80s, as remittances poured in, Export Promotion and industrial Zones were established, trade was liberalized, but due to stringent regulations and terrorism, there was a significant drop up until 2000. However, in 2000s, after the 9/11 episode, net inflow of FDI kicked in as Pakistan became coalition partner of US in the fight against terrorism. This rising trend continued until the reinstatement of democratic government in 2007 and the FDI has since then stayed at around less than 1% of GDP.

The market-seeking FDI, throughout Pakistan's course of existence, has increased employment, labor wages, and encouraged trade but did not uplift Pakistan into the fore-fronts of industrialization. Such market-seeking FDI, which involves a high rate of profit repatriation, and hence puts pressure on the balance of payments, is not going to do help upgrade the technological base of Pakistan, nor put it on the track of sustained growth through higher export share in international markets. What Pakistan needs today is, Efficiency-Seeking FDI.

An Efficiency-Seeking FDI takes place when corporates shift their business to another country to drive down production and transport costs (Federico Carril-Caccia and Elena Pavlova, 2018). The nature of this type of FDI is not only export-oriented, but also export-diversified. For this reason, it is difficult to attract such an FDI, but the benefits range from creating new and diversified jobs, boosting production efficiency through technology transfer in R&D sector, and fostering economic growth. Pakistan is a resource rich country, with cheap labor costs to accommodate such an investment and with the foreign investment of new capital, improved production methods, new knowledge, and new managerial and marketing skills, the domestic firms can increase competition and mobilize human capital – all of which leads to an increase in overall productivity levels.

Nevertheless, the Doing Business Report has posted low rankings for Pakistan in the cost of doing business index. Whereas, GCI 4.0 ranked Pakistan as the worst hit country from terrorism, with poor rating for institutional quality, and infrastructure. The higher cost of doing business, corrupt institutions, weak contractual enforcement and private property rights, stringent trade regulations for important raw material imports, and low security has discouraged efficiency-seeking FDI. This is why the country has mainly received market-seeking over the past many years. For a country like Pakistan that is going through fiscal budget crisis, amid escalated political tension, the efficiency-seeking FDI seems to be the only resort.

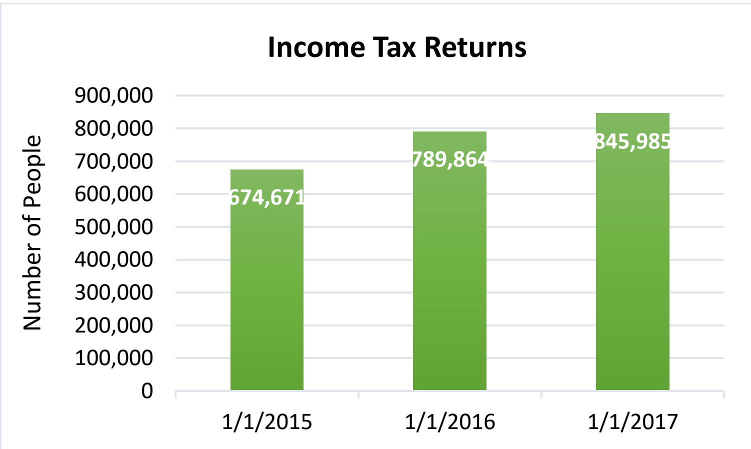
In order achieve such a feat, joint ventures and other such collaborations can be thought of as viable option, but this type of strategy can only work if foreign investors are sure that business contracts are upheld, their intellectual property rights are not infringed upon and their profits are not eaten away by high tax rates. Currently, Pakistan's performance in soft business infrastructure is dismal. Hence, improvement in this area can truly turn Pakistan into a cheap input option for foreign investors and promote the efficiency-seeking FDI. Pakistan needs to complement its urbanization-induced market-seeking FDI with efficiency-seeking investment. This can be achieved through joint ventures or technical collaborations between foreign and local companies in the form of parent-affiliate arrangement with the means of collaborating of domestic companies with foreign companies, which the strong business community could arrange.

De-Liberalize the Liberalized Financial Sector of Pakistan

According to the 2018 Services Trade Restrictive Index (STRI) index, Pakistan administers one of the most liberal public-private investment policy frameworks. As a matter of fact, the country liberalized capital account in the mid-90s and today, the financial sector of Pakistan is, by and large, characterized of a restriction-free environment engaged by a fully convertible currency. However, despite the many advantages of an autonomous capital account, which range from: the two-way freedom of converting local and foreign assets, free movement of investment capital; easy inflow of dividend, remittances, and interest payments; bi-lateral trading of equities by locals and foreigners, as well as of FDI into domestic projects, the fully liberal financial sector has made Pakistan vulnerable to shocks.

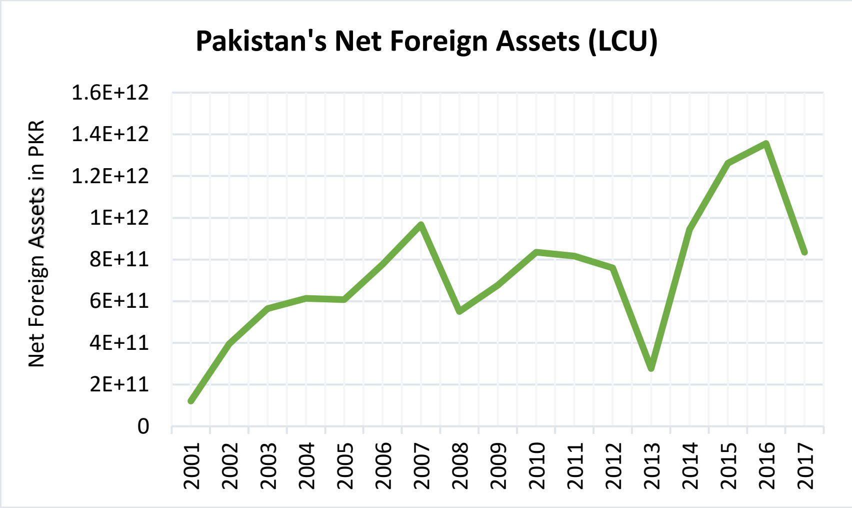
A fully convertible currency opens up door for all global players of the like of investors, businessman, and trade partners, to participate in the local markets, which helps raise the competition bar and boost growth through gain of access to useful capital for the sectors. Allowing capital to flow freely like this without restriction, between countries, comes with a heavy financial cost and especially for a country like Pakistan, where corruption, social-economic complexities, incompetent institutions, and lack of security (all of these discussed in earlier sections) are rife. And this, leads to economic setbacks. One of them being capital flight, and the other: tax evasion.

According to the bar chart below, despite the rise in the number of income tax filers, the total taxpayers remains extremely low. As a matter of fact, according to (referenced here), during the past 5 years, there has been a decline in the number of tax return filers from all sectors, except the salaried class (Tribune, 2018).



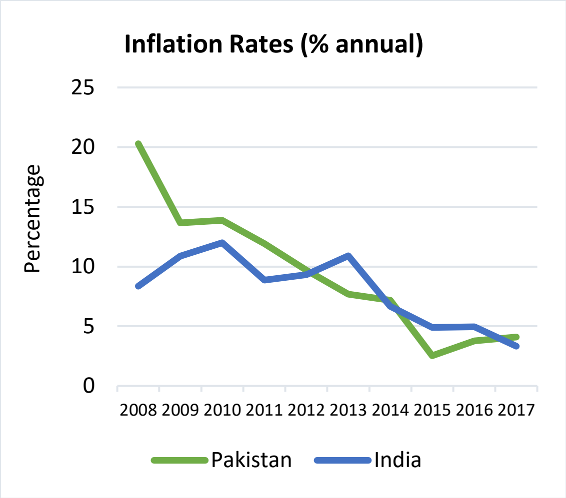
Source: (Pakistan Bureau of Statistics, 2018)

A country's fully liberal financial system can only function if there are adequate level of reserves to absorb any forthcoming domestic and exogenous shocks. Pakistan, being a high consumer demand based economy, is prone to domestic shocks, and with an escalated debt level, the economy can easily suffer from exogenous shocks like hike in global oil prices that directly affects the manufacturing sector. Additionally, the macroeconomic framework, with respect to fiscal and monetary, should be sound. Moreover, the easy convertibility of currency entices people to convert their local current accounts into foreign accounts, thereby giving rise to net foreign assets (as shown by graph below).

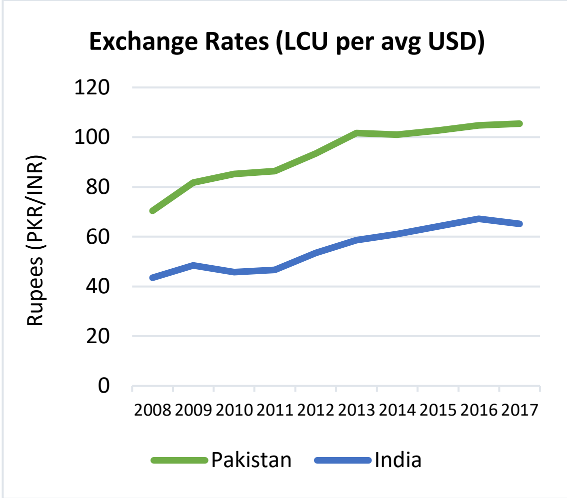


Source: (World Bank, 2018)

However, according the graph shown above for the 16 year period from 2001 till 2017, there is a steep decline in the net foreign assets and this trend has continued into 2018 as Imran Khan-led PTI took over the reign of the Islamic Republic. In its November 2018 move, the SBP proposed several reform amendments to keep the unexplained billions of Dollars' worth currency in foreign held accounts and over $2 billion of annual outflow of currency (money laundering) through illegal channels in check, such as repealing of Foreign Currency Accounts Ordinance of 2001, and altering the Protection of Economic Reforms Act (PERA) of 1992. (Tribune, 2018). In the paper by (Michael Hutchison and Rajeswari Sengupta and Nirvikar, 2010), it was found that greater monetary independence leads to lower inflation; greater exchange rate stability leads to lower inflation volatility, and greater capital account openness is associated with higher inflation volatility. The Mundell-Flemming framework might also suggest that with higher inflation volatility is caused by lesser stable exchange rate, which leads to monetary independence – causing a great challenge to policy makers.



Source: (World Bank, 2018)



Source: (World Bank, 2018)

That was a case of India, but according to the graphs above, the two neighboring countries have had similar inflation and exchange rate trends, and both have liberal financial system (except India's currency is not fully convertible). Moreover, any fluctuation in the exchange rate, for example 2015-2016, has impacted the rate of inflation. Currently, Pakistan's exchange rate has depreciated greatly, and inflation is slightly below target but still quite high. Hence, a fully convertible currency is damaging for economy's growth as it not only causes monetary and fiscal destabilization, but also paves way for money laundering – a major cause for decline of reserves.

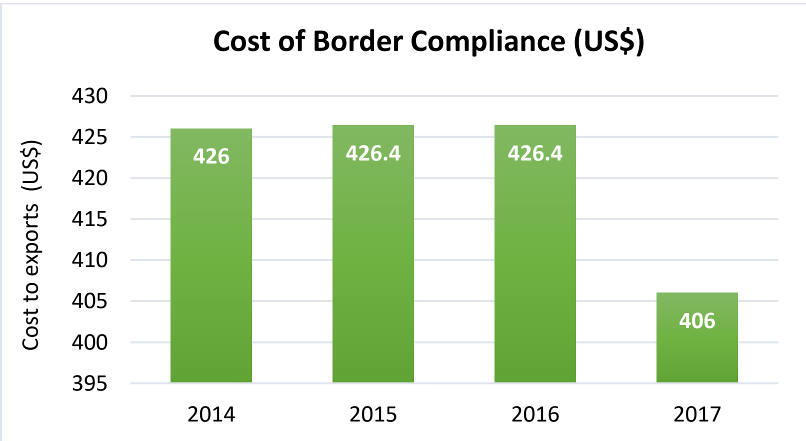
In order to address this issue, Pakistan should consider de-liberating the financial system by curtailing currency convertibility freedom, along with ensuring a thriving managerial and entrepreneurial environment equipped with an effective labor force and a bureaucratic system free of various bottlenecks. In case the government considers to reverse capital flight, as tested for in (Islam, 2014) it must ensure a fair distribution of the reversed capital among formal and informal sectors; include the informal sector under tax net; encourage the need of culture of tax compliance; prevent cross-border movement of illicit capital, and introduce reforms to keep the rampant corruption in check.

Have NTBs Reduced, and NTMs Re-Negotiated

Non-Tariff Barriers (NTBs) is that category of taxes that is imposed on trade and include import quotas, export restrictions, technical barriers, export subsidies and related. Whereas, Non-Tariff Measures (NTMs) comprise of all other regulations besides tariffs. These could be contingent trade protective, price control, export-related, technical barriers to trade, sanitary and phytosanitary, measures. Mathematically, NTBs can be considered as a subset of NTMs. While, NTMs are centered on imposing rules and regulations, NTBs focus on imposing protectionism and discriminatory laws.

These barriers and measures thwart away potential trade and investment opportunities, thereby threatening the local, as well as foreign investors. Pakistan, today, faces several trade-related issues due to visa restrictions, insufficient banking dealings, lack of information, as well as, lengthy custom processes (as discussed earlier in Cost of Doing Business section), unreasonable standards of inspection, and a whole lot more. At times, such stringent regulatory duties and measures, violate rules created by World Trade Organization (WTO). As a matter of fact, NTMs imposed by developed countries restrict trade, especially of agricultural products, and this unfairly renders the efforts of trade negotiators and policy planners in managing, and in curtailing unjust barriers, useless. (Mohan, 2010)

Then, there is the consistent issue of border compliance, especially cross border as well as the time and cost for handling that takes place at its port or border. The time and cost for this segment include time and cost for customs clearance and inspection procedures conducted by other government agencies – all erode competitiveness. The bar chart below shows the cost of compliance for the past four years, and even though the new government has managed to bring it down, the amount is still quite high which only adds to the cost of production. This, as explained earlier, erodes competitiveness and discourages trade and is reason why Pakistan ranks 171st in trade across borders in the GCI 4.0 report.



Source: (Doing Business, 2018)

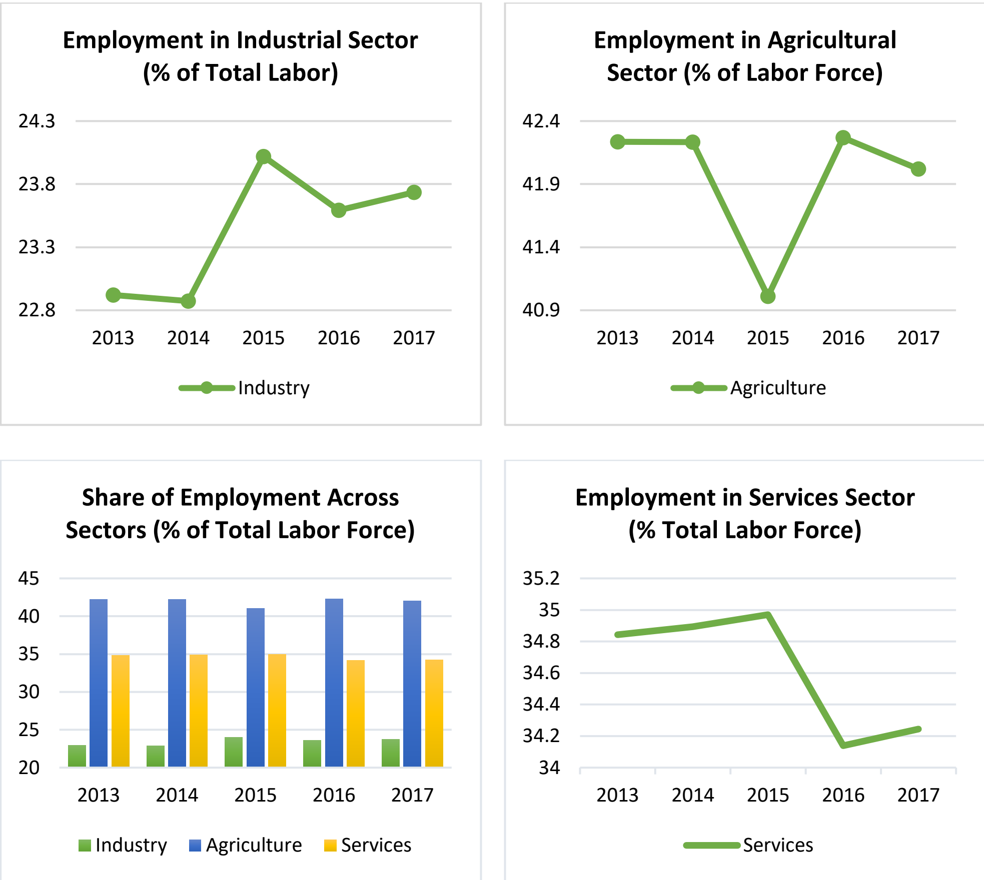
Moving on, Pakistan has recently acquired the EU GSP+ status, which allows local industries a 4 to 12 percent ranged duty-reduced access to EU market. The major exports are of textiles, surgical instruments, and leather and sports goods. Since the market is highly competitive, and NTMs are high as a result, in order to fully exploit the GSP+ status, Pakistan must correctly value its exchange rate and speed-up energy reforms in the export sector, especially textiles and garments. The government of Pakistan must take all necessary measures to strengthen institutions (as discussed in Cost of Doing Business section), grant workers' rights, and forthwith remove inconsistencies with the approved ILO conventions. In doing so, the Ministry of Commerce must also ensure that the imports into EU do not exceed 2 percent, as conditioned upon the provision of GSP+, else it will lose status during review schedule after 3 years of status grant.

Pakistan could adopt the Japanese law charted by the Japan Ministry of Health, Labor and Welfare (MHLW) (Spirito, 2016). According to this law, various domestically manufactured and imported items are not permitted to be sold without 'certification of compliance' with the established standards. For example, the type of fabric, percentage of lining material, washing instructions, manufacturer's name, etc. Additionally, Pakistan must work to reduce the number of children employed in the labor force. According to the Human Rights Commission, in 1990s, the estimate of child labor (children under 10 years old) stood at 5.5 million – a number that has increased more than 3 folds to almost 19 million as of today (source: Pakistan Bureau of stats and UNICEF). Although, this figure is of concern itself, it only adds to the global woe on Pakistani products being produced by exploiting children.

Why a NEED for Skill Development for Job Creation and GDP Growth

The Pakistani economy is undergoing a jobless growth, which raises a key question, "does Okun's Law apply in Pakistan?" According to the Okun's Law, an inverse relationship exists between unemployment and GDP growth. It is worth speculating, in the case of Pakistan, which sectors are facing jobless growth. A jobless growth hints at capital intensive production and hence, a factor substitution between capital and labor.

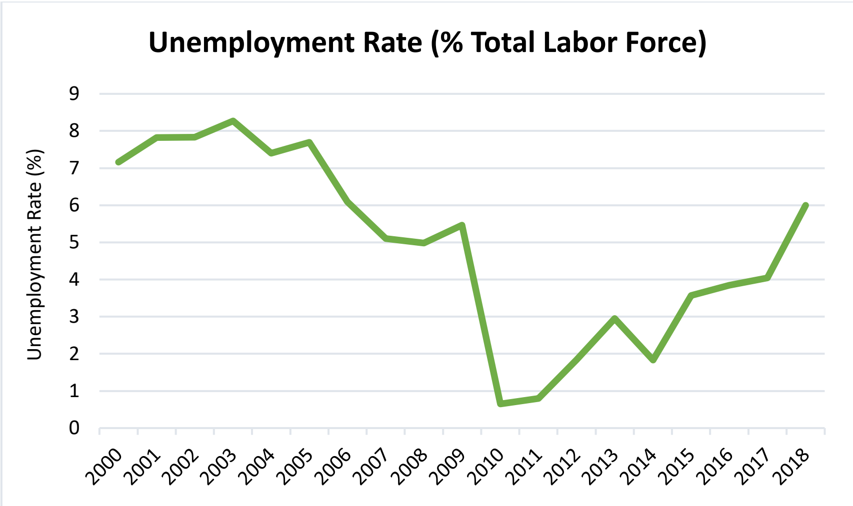
From the graphs below, there seems to be a relationship existing between the three sectors. In the period of 2015-2016, the gradual decline in employment in industry, and services sectors has compensated an increase in employment in the agricultural sector. Likewise, from 2016 to 2017, there has been a shift of employment from agricultural, back to the two sectors of industrial and services. However, overall, employment in the agricultural sector has been the highest, followed by services sector and then the industrial sector.



Source: (World Bank, 2017)

One of the main reasons why people migrate to services sector is the greater and more diverse employment opportunities, which accommodate all forms of unskilled, semi-skilled, and high skilled labor. Another factor that could explain this trend is the rise in income level that has positive association with demand of services (income-elastic demand). On the other hand, despite its 18.86% of GDP contribution (PBS), and an almost 40% share of the total labor force, the unemployment in the agricultural sector is seen rising as of late. This can mainly be explained by the sector's backwardness, and the lack of quality fertilizers, seeds, agricultural education, and ineffective land reforms that lead to seasonal unemployment that directly affect the majority of women who are employed.

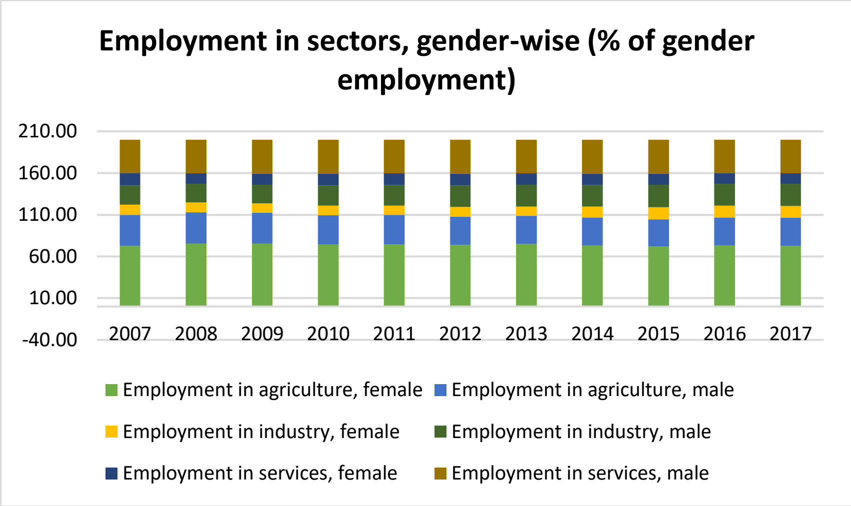
The industrial sector's jobless growth, could be as a result of growing inequality in Pakistan (Ishrat Hussain, 1974), which is evident from the close to zero Gini Coefficient of 0.335 (GCI 4.0). Since Pakistan is a demand based economy, as Dr. Ishrat explains, a rich display of consumption of capital intensive goods, could be the factor dictating the underlying low level employment prevalent in the industrial sector that employs 24% of the total labor force.



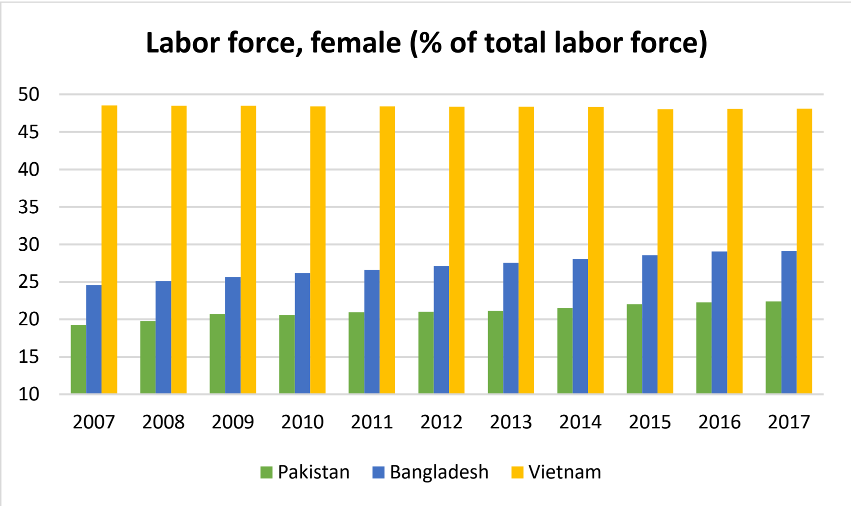
Source: (World Bank, 2018)

However, the larger part of the rising unemployment trend is attributed to the under developed skills of workers. In Pakistan, the unemployment is cyclical, and structural in nature. A cyclical unemployment occurs when there are fluctuations in the business cycles, leading to a situation of recession, when lesser workers are required due to constraint resources and hence lower production. Structural unemployment results when existing skills do not match the emerging industry skills requirements, which may arise from upgrading of production methods, for example, by acquiring new technology.

A factor that could explain the low skills development is poor health and nourishment that affects a vast majority of youth. As a matter of fact, according to UNESCO report, 45 percent of children have stunted growth in Pakistan!



Source: (World Bank, 2017)



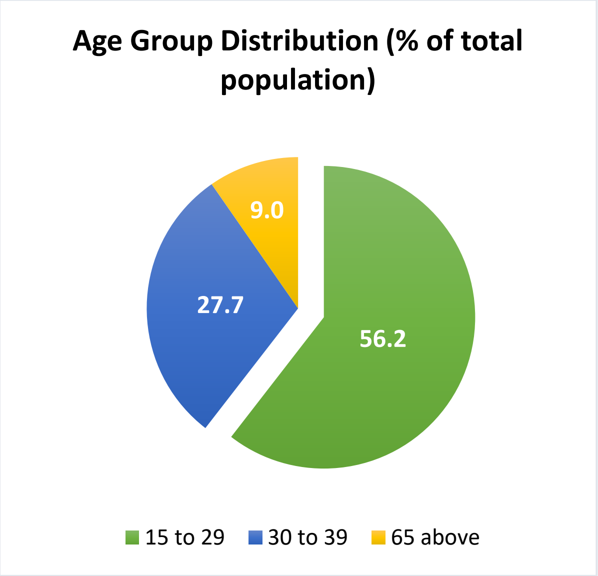
Source: (World Bank, 2017)

Source: (World Bank, 2017)

In Pakistan, women representation is the highest in the informal agricultural sector, and that is because low skills are required, and this often leads to overrepresentation of women in this sector. Additionally, of the total labor force, the participation of women is a mere 22 percent, which is the lowest in the region in comparison to Vietnam and Bangladesh, where the female labor force's participation rate is close to 30 percent and 50 percent, respectively. In such countries, the role of women is recognized as key to economic prosperity, and so the male-female wage differential is also quite low as compared to in Pakistan. (International Monetary Fund, 2018)

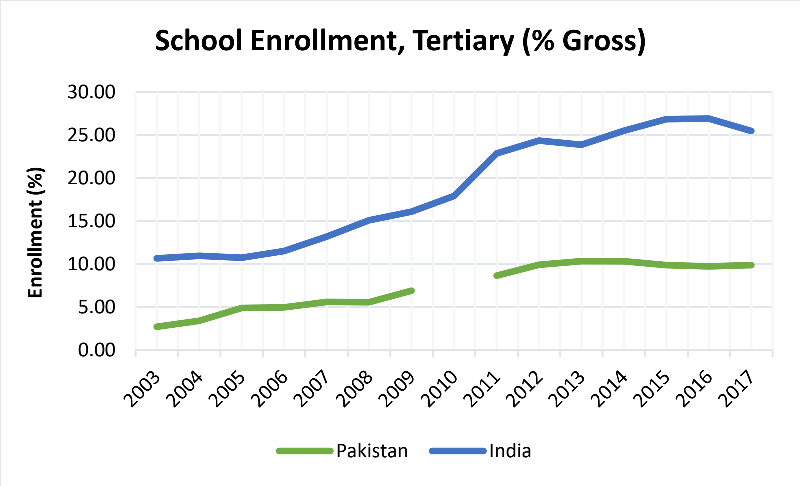
The rising gender disparities, especially in education and health, pose another great challenge to Pakistan (include stats). The annual expenditure on health, education, and nutrition was recorded at (include stats) of GDP, which is again one of the lowest in the region. How can society sustain without the efficient allocation of resources, and with unequal share of power to shape lives? Inclusion of women in the formal workforce is need of the hour, and government must take greater strides in terms of safeguarding rights and representation of women, so that they have decent wages and social security benefits, as well as, build focus towards inclusive and productive employment, than just employment. In order to successfully tackle the SDG 8 goals, labor policies should be directed at tackling the multi-faceted challenges that lie entrenched deep in the labor sector.

Another issue that needs to be addressed is the rising youth unemployment in Pakistan that has one of the largest youth populations in the world.



Source: (Pakistan Bureau of Statistics, 2018)

In terms of tertiary school enrollment, India has a higher percentage. The negative association of unemployment with education, is universally acknowledged, and in the case of Pakistan where the average schooling years is only 5.5, the expected years of enrollment 8.6, and a literacy rate at less than 60%, the rising youth unemployment should be not surprising



Source: (World Bank, 2018)

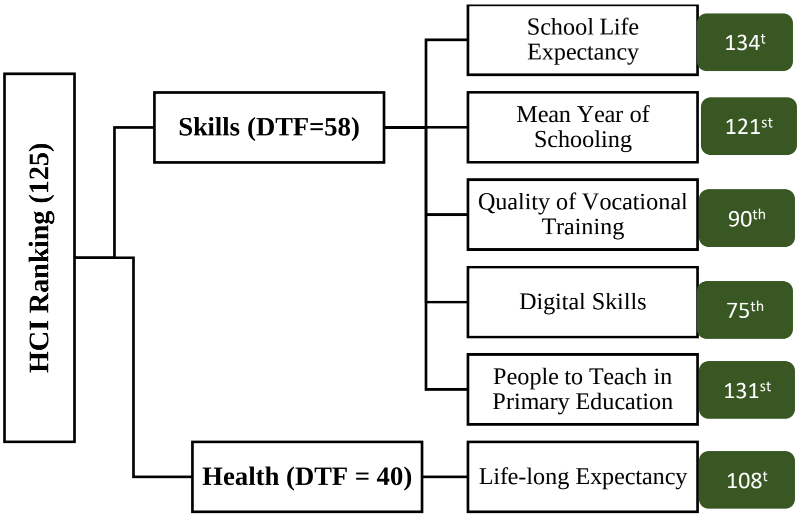
At the same time, the employment gender gap is high in both countries and this is again reflected in the low HCI ranking and over representation of women in low-skilled work like in agricultural sector. As per the Human Capital Index, Pakistan stands at 125th position out of 157 countries. Whereas, Sri Lanka retained the highest regional position of 70, followed by India's 103rd.

Countries	Sri Lanka	India	Pakistan
World HCI Ranking	**70**	103	125

Source: (World Economic Forum, 2018)

The Human Capital Index, which primarily gauges the level of human capital assimilation in the form of education and skill development that may be expected of a child born today, amid the aggravating risks of poor health, limited health facilities, and deploring education system. Furthermore, this index captures how, on average, citizens are groomed to create value. Whereas, the human capital can grow with time through formal education, and exposure to vocational training, it can also depreciate in face of lack of personal development opportunities.

In the case of Pakistan, a child born today is expected to be only 39 percent (World Bank Group) productive, owed to the worrying low primary enrollment rates and high student to faculty ratios.



While, human capital plays a critical role in the functioning of civic institutions, understanding the HCI can prove to be valuable to a wide array of stakeholders. The evaluation of HCI is done in four key areas: 1. Capacity, which takes into account the cumulative investment in formal education; 2. Deployment, which evaluates skill development through work; 3. Development, which gauges how well skilled the future workforce is expected to be; and, 5. Knowhow, which assesses all angles of specialized skill that is available at work.

The development sub-index, paints a horrifying picture for Pakistan, in terms of the quality of the education system, skill diversity, tertiary school enrollment and the availability of employer-led re-skilling, giving a score of 42.9/123rd in development and 48/111th in Capacity. On the other hand, Pakistan again scored a low 43rd rank during the assessment of relationship between Capacity and Deployment sub-indices. This means, there is both low investment in formal education, as well as, low worker skill development. The GoP, in order to meet its SDG 8 target needs to create at least 2 million jobs per annum to counter youth unemployment, and while at it, it must devise policies that enable the efficient deployment and development of talent across the sectors and this can only be done through creation of employment, again the emphasis on productive employment.

CROSS-FUNCTIONAL SKILL	18-24	25-34	35-44
MS Office	41.6	37.7	20.5
Team Work	17.2	13.6	11.0
Time Management	11.7	9.70	2.60
Social media	21.6	20.5	10.7
Communication	7.5	5.7	1.7

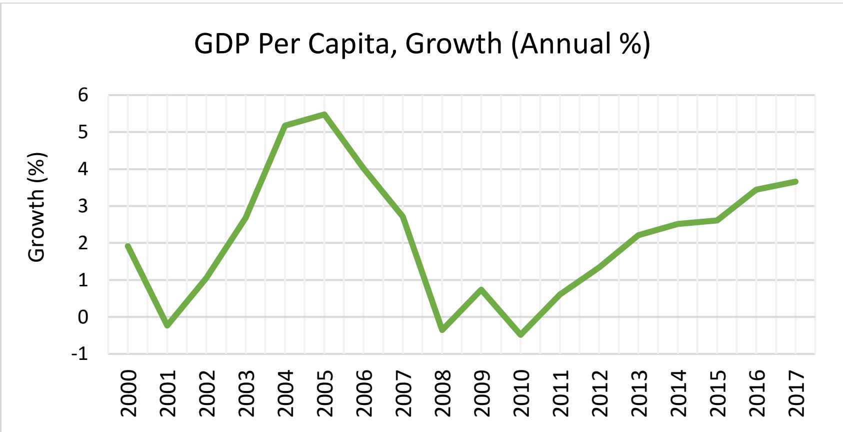
Source: (World Economic Forum, 2018)

The data extracted from the GCI 4.0 report, above, shows the cross-functional skills of LinkedIn members as per age bracket. From the table, the younger generation has mastery over MS Office, Team Work, Time Management, Social Media, and Communication skill sets over their older counterparts. All of these skills are valued greatly by employers, who at the same time must not expect new employees to already possess them, rather consider developing them in workplace – an investment. Likewise, educational institutes need to expose students to practical experiences, so they are well prepared for work

SKILLS	*ICT*	*Engineering*	*Natural Sciences*	*Arts*
SQL	16.9	2.3	3.4	1.0
Adobe Creative	2.0	1.8	0.5	6.4
Team Leadership	4.0	5.4	3.6	1.9

Source: (World Economic Forum, 2018)

As the Fourth Industrial Revolution looms around the corner, and artificial intelligence is set to become the cornerstone of an emerging and inevitable digital economy that is fast accelerating towards Pakistan, with a band of robots who can manipulate complex forms of data and create intelligence algorithms, it is important to keep track of the trending specialized skill sets of graduates. In the table above, ICT graduates possess superior data analytical skills on SQL, for example, as well as in design and leadership. What this means is, focus should be on developing the analytical and cognitive skills, as well as, the non-cognitive skills to augment an individual's innate capacity to innovate, lead, and solve various problems of economy, society and mathematics. (World Economic Forum, 2018)



Source: (World Bank , 2017)

Since 2010, and during the first few months of the new PTI-led government, exports have registered growth, GDP per capita rose exponentially, business performance marked an improvement (11 positions down on Doing Business Index since last year), in terms of stronger market ties, productive efficiency, and quality of goods and services, but the labor market (121st Rank, GCI 4.0) has suffered miserably and is one of the reasons for the appalling state of the manufacturing industry that only contributes less than 13.45% of GDP. (Pakistan Economic Survey, 2017)

All said, in order to reinvigorate the labor market, it must be regulated. The rights of workers should be protected and for this, the ILO conventions should be strictly implemented. All forms of labor discrimination, which affect productivity, health, and ultimately standard of living, should be monitored. Gender gaps in employment and wage differentials between male and female, as discussed earlier, should be managed to facilitate the exploitation of full labor potential. In order to ensure the high educational standard, aside from expenditures directed at building new schools, and introducing technology, focus should be on the quality of the education system in terms of both curriculum, and student-faculty ratio, to enrich the theoretical and practical application aspect.

The private sector should be tapped to help set up vocational training institutes, and ICT literacy programs, to engage high school students in innovative after-school training sessions that train the young minds on how to use electronic items, handle finances, and manage time. This will help diffuse knowledge, encourage entrepreneurship and ultimately play a hand in human development. Lastly, the government should cut down import duties on certain certified equipment that will help in the process.

In the end, it must be noted that training alone does not guarantee employment generation; rather it is the prevailing condition of the labor market.

A BRIEF VISIT TO THE 18TH AMENDMENT

The 18th Amendment, was passed on the 8th of April, 2010, by a majority vote in the Pakistan National Assembly. Accordingly, federal and legislative powers were passed onto the provinces that turned Pakistan to a true democratic republic, where the president cannot alone call for a state of emergency, unless there is a strong backing by the parliament. Amid a growing debate on the repealing of this 2010 amendment, it is vital to highlight the positive aspect, as well as the bitter truths that expose the harsh reality associated with the implementation of the 18th Amendment.

While, a greater revenue has been passed on to the provinces through the National Finance Commission Award (NFC), due to recent halt of coalition funding and defense aid by the United States, the army is worried as federal government does not hold most of the revenue. As far as the labor market is concerned, the decentralization of power has given provinces greater autonomy to pass labor market legislations independently, and to form industrial relations. Moreover, the various trans-provisional labor issues of trade union registration, unfair labor practices, and industrial disputes are now being dealt by provincial governments, in particular the Ministry of Overseas Pakistanis and Human Resource Development. However, for numerous reasons of corruption, weak institutions, disorganized administration, the 18th Amendment hasn't been able to live its purpose.

Since it is a part of this amendment to advocate for fair labor practices, the enforcement of ILO conventions is still in question (confirm this). And if the ILO conventions are not fully adopted, forced labor could become a norm and workers will feel imprisoned as they will not be able to leave their jobs, without the consent of employers. Besides the ILO conventions debate, (need to elaborate more), the role of Ministry of Human Resource and Overseas Pakistanis, is limited to compiling stats to monitor compliance with ILO.

Furthermore, this Act does not cover the labor force in agricultural sector in KP, Punjab and Balochistan and since the power of deciding the fate of educational systems is vested with the provinces, the prevalence of a system marred by several types of inequalities, political interference, and corruption, does not bode well for the amendment. There are huge gaps between the quality offerings of public vs private, especially in the rural areas. In Pakistan, the continued economic inequalities, and cultural strife, essentially emerge from the stark difference in the education provided to the middle and upper middle tier, and to the Deeni Madrassas. The enrollment rates are lowest in South Asia, as previously quoted in report, funds allocated to education are being misused and owed to political ties of faculty, there is absenteeism, and biased wage distribution. What is more, The Ministry of Professional and Technical Training, established shortly after the 18th Amendment passing, failed to submit the first TVET (verify) document until 5 years later. This shows, weak administration at provincial level, and hence the government to reconsider some clauses in the amendment. (Danish Trade Union, 2018)

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