The Pakistan Business Council
FOSTERING ECONOMIC GROWTH
(A Company set up under Section 42 of the Companies Ordinance 1984)

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Mr. Khusro Bakhtiar
Federal Minister of Industries and Production
Islamabad

Dear Minister,

Promoting the growth of Industry

The Pakistan Business Council (PBC) would like to share its recommendations on promoting the growth of industry both for your consideration and as proposals for the Economic Advisory Council (EAC).

Background

Attached is a note setting out the context in which Pakistan has prematurely deindustrialized. Investment as a percentage of GDP significantly lags the region. Industry suffers from disproportionate burden of taxes. Energy rates are the region's highest and until recently there were frequent power outages. The corporate manufacturing sector is penalized vs. commercial importers, unincorporated businesses and the real estate sector. Counterfeiting, adulteration, smuggling and under-invoicing plagues the formal sector. The net result is that Pakistan's share of world exports has declined, exports in value terms are stagnant and narrow in both composition and destination. With import-reliant private consumption dominating the GDP, not only have jobs been lost but the country's external account continues to experience recurring imbalances, forcing it to go to the IMF repeatedly. Worse still, crop failures and food shortages result in inflation and persistent shortfalls in the cotton crop denies textiles, the country's main export sector of its primary input. Pakistan is the "sick man" of South Asia. We lag in virtually every key socio-economic measure. With a large informal and undocumented economy, weak political will and an under-resourced FBR, the tax base remains narrow, denying the country the resources to invest in social welfare. Clearly there is need for change and a strong case to revive industry, the engine of employment, exports and import substitution. However, the country lacks a well-articulated Industrial Policy which outlines the priority sectors and proposes horizontal and vertical frameworks to support investment.

Make-in-Pakistan

PBC believes that the sustainable solution for creating jobs, promoting value-added exports and encouraging import-substitution is "Make-in-Pakistan." Jobs need to be created for the two million youth that annually reach employable age, besides the estimated 10 million jobless and under-employed. Skills need to be developed to add value to and diversify exports. Economic diplomacy needs to focus on gaining more favorable market access for our exports. Services should be provided the same if not more attractive incentives than goods to grow exports. Import substitution can result from cascading tariffs on industrial inputs. High utility costs that render industry uncompetitive need to be addressed. The growth pf the informal economy needs to be arrested by discouraging the use of cash and promoting digital solutions to document the economy. The policy for FDI needs to differentiate positively in favour of export and import substitution – much of the current FDI is in quick and high pay-back market-seeking, domestic consumption sectors which drain the external account. In the long-run, sovereignty can only be sustained through economic solvency.

Recommendations for reviving Industry

1. Reliable, affordable and competitive energy

With the region's highest energy costs, industry struggles to compete. The five zero-rated export sectors are presently provided power at regionally comparable cost but there is no long-term commitment to maintain this practice, nor do other export sectors or import substitution industries benefit from it.

The energy sector is beset with over-capacity, poor transmission and distribution and weak governance all of which result in line losses, non-recovery of bills and theft. By penalizing honest consumers with the cost of these systemic inefficiencies the competitiveness of country's industries and hence its capacity to create employment and generate exports is already impeded. An additional 27% reported increase in energy costs will further harm consumers and lead to inflation. High tariffs for electricity also reduce the incentive for domestic users to switch out of the less efficient and underpriced gas, local reserves of which are depleting rapidly. Reforms therefore need to holistically address the causes of sub-optimal pricing and usage and minimize reliance on imported fuel. Otherwise, the broader objectives of job creation, balancing the external and fiscal accounts, as well as raising higher taxation revenues for social development will remain affected.

The key reform measures for the energy sector are:

- Federal government to restrict its role to removing the existing bottlenecks in power transmission infrastructure and to ensure that the merit order in generation is maintained;
- Implement the terms of the MOU reached with IPPs to reduce the capacity charges and complete the renegotiation with those IPPs yet to be addressed;
- Utilize excess generation capacity through marginal pricing to promote industrial use, also to generate economic activity;
- Either privatize or transfer management of government owned Gencos (which are not due for retirement) to technically qualified private sector companies on an incentive for loss mitigation/incremental profit generation. Facilitate this through adequate protection from NAB and build appropriate safeguards on asset stripping and forced dismissal of employees;
- Move to multi-seller/multi-buyer arrangements, allowing market dynamics to set the price for both generation and distribution of electricity;
- Permit wheeling of electricity;
- Establish power/energy commodity exchange(s) for transparent pricing;
- Transfer all government owned Discos to the provinces at no cost;
- Provinces to establish Public Private Partnerships to operate the Discos on prescribed performance improvement incentives;
- Give consumers choice in the last mile of distribution. The GoP should set an example of this in the federal capital where it owns the Islamabad Electricity Supply Company (IESCO). Provinces and - KE can follow, the latter after its exclusivity expires in 2023;
- Unbundle KE post its exclusivity period. In the meantime, expedite the resolution of constraints affecting long term investment in safe and reliable supply of power to the country's largest city and commercial centre. In doing so, also rectify the harm done to Pakistan's image as an FDI destination;
- Phase out the country-wide uniform pricing formula so that the more efficient DISCOs can supply at a lower cost to consumers and provinces are able to use this to attract industry;
- Remove all "cross subsidies" e.g., from industrial / commercial to residential consumers – The government can provide targeted cash transfers to the most deserving population segment via the Ehsaas program;
- Any properly justified new capacity addition to be allowed only on renewables, without any take-or-pay sovereign guarantees;
- Retire all inefficient and costly generation plants in the public sector;

- Consider facilitating the conversion and deployment of existing coastal furnace oil plants for seawater reverse osmosis desalination;
- Promote renewables, especially for off grid use;
- Fast-track additional LNG terminals, storage and transmission to meet the shortfall between demand and supply of gas;
- Use the Ehsaas programme to subsidize gas to the deserving population. Right price gas to promote conservation;
- Incentivize conversion of domestic cooking and heating to electricity or other fuels such as LPG etc.;
- Aggressively promote energy conservation.

2. Equitable, predictable and pro-growth and pro-formalization fiscal policy

Pakistan's taxation regime needs fundamental reforms for sustainable growth of both the country and its tax revenues. These reforms are contingent on the political will to pursue those outside the tax base and must address the FBR's capability and capacity to implement. The reforms will take time to bear results. In the meantime, any short-term, knee-jerk revenue-seeking actions will undermine taxable revenue and hence, tax revenues in the long run.

Taxes should be simple, predictable and supportive of business growth and for the formalization of the economy. The aim should be for higher tax revenues to flow from the combination of improved profitability of existing taxpayers and from broadening of the tax base. Industry, which presently contributes taxes disproportionate to its share of GDP must be facilitated to create more jobs, boost value-added exports and promote import substitution. The impact of taxes on manufacturing vs. commercial importers should be reviewed to support the former. FBR and the formal sector should work in partnership to broaden the tax base. The earlier tax credit to encourage taxpayers to transact with the formal sector should be revived. The vast amount of information on non-taxpayers provided by withholding agents should be mined. Higher advance taxes should be levied on utility bills of non-tax filers. Corporate entities, especially those listed, which operate to a higher standard of governance and accountability and their shareholders must not be penalized in comparison to unincorporated entities and their owners, otherwise the incentive to incorporate will be undermined. There should be a level playing field in the holding periods for capital gains tax on sale of company shares vs. real estate.

For some time now, FBR is given an unrealistic tax target, which in the absence of resources and capability, force it to extract more tax from existing taxpayers. For FY '22, the mooted 27% higher tax target is an example. It is more than twice the expected nominal growth of the economy. Significant changes are required in the structure, resources, and technology of the Federal Board of Revenue before setting targets. Separate targets should be set for revenue from existing and new taxpayers. Targets for existing taxpayers should be in line with expected growth in the nominal GDP. Tax target from new taxpayers should be set in line with the evolving capability and capacity of the FBR. Tax refunds due should be excluded from revenue when assessing performance against either of these targets.

Minimum tax based on turnover is fundamentally flawed and acts as a barrier to entry of new players as it raises the initial investment required to cover tax payable in early loss years. FBR's reliance on minimum, advance and withholding taxes has grown sharply as this is an easier way than assessing taxable profits. This reliance should be phased out gradually. Levying minimum tax on SEZ enterprises and others in their tax holiday periods defeats the purpose of the tax holiday.

The use of cash in the economy should be discouraged. The Punjab Government's incentive to reduce GST on some card payments is an example to encourage non-cash transactions. Restrictions on use of cash above a certain limit would also assist. The transit treaty with Afghanistan has been misused through diversion of goods to Pakistan. As the treaty has expired, Pakistan can renegotiate to put quantitative and qualitative restrictions on what can transit, insist on letters of credit, charge duty and GST on import which would only be refunded to the Afghan government on exit, track and monitor containers, strengthen inspection of empty containers returning to Pakistan and make physical controls along the border stronger. The civil and military authorities need to be on the same page to do this. Electronic Data Interchange with key trading partners should be deployed to check under-invoicing of imports. The provinces have little incentive to check smuggling as customs duty and GST evaded are federal taxes and do not hurt their revenues. Provinces may be incentivized to conduct raids on shops that deal in smuggled goods. Positive lessons from the success of cell phone registration with PTA and Urdu language labelling requirement for imported food items can be applied to other smuggling prone goods.

3. Land and Utilities for Industry at an affordable cost

The industrial areas around large cities are crowded, being encroached for housing, land is therefore expensive, and the areas lack basic utilities to allow industry to expand. Special

Economic Zones, that provide land at an affordable cost with "plug and play" utility etc., facilities need to be expedited. Anomalies in taxation of SEZ enterprises which promise tax holiday yet levy minimum tax on turnover need to be addressed.

4. Long term finance at a competitive cost for the private sector

Private sector is crowded out by government borrowing. Commercial bank lending is primarily for short to medium term and banks are shy to take exposure to SMEs. Supply side factors – food shortages and higher utility costs threaten to raise core inflation which will lead o higher borrowing cost. The recent SBP TERF facility has demonstrated private sector appetite for investment at an affordable and predictable cost. Over Rs. 400 Bn has been availed for investment in plant and machinery and a further estimated Rs. 300 Bn of investment has gone into land and buildings. With a sale to fixed asset multiple of 4-5, the interest cost subsidy will be more than offset by higher tax revenue and the positive multiplier effect of new livelihoods. Pakistan lacks development finance institutions that take long term equity stake and credit exposure. The country's exports will continue to be directed towards safer more evolved economies of the West, even if Pakistan needs to tap the higher-risk opportunities of the African and Central Asian markets to diversify and expand its exports. A credit guarantee institution is required to support development of the African and Central Asian markets.

5. A National Charter for Exports

Without a long-term export policy or charter which is underpinned by a well-articulated industrial policy and led and regularly monitored by the Prime Minister, Pakistan's exports are unlikely to grow and diversify in a sustainable manner. The key building blocks for robust growth of exports are:

- A 5-year National Charter for Exports owned and monitored by the Prime Minister will give exports the high priority that it deserves. This should shift the mindset of bureaucracy from "control" to "empowerment." Long term policy, which brings all stakeholders on a common platform, needs to facilitate planning and encourage investment to build scale and improve competitiveness.
- Exports need to be an integral part of an industrial policy, which promotes manufacturing, including import substitution. A stand-alone export policy without strong linkages with manufacturing and imports is not sustainable over the long run. A National Industrial Policy would perforce address all elements of manufacturing, including exports and import substitution.

- Export incentives are funded by tax payers and require proper accountability. It is recommended that this be done for each sector at least on an annual basis and their continuation or adaptation be contingent on meeting prescribed, medium to long term objectives. Short-term incentives lead to short-term performance.
- There should be a shift from retrospective to prospective investment to promote growth of exports. A leap of faith is required on the part of the government to set aside a substantial amount for up-front investment from the Export Development Fund (EDF) for non-core and new markets. With 75% of export reliance on traditional products and with Textiles comprising 60% of exports, of which in turn, 68% are destined for the European and North American markets, Pakistan needs to invest heavily in diversifying both products and destinations. The operators in the non-core sectors are generally small and do not have the means to develop exports. Moreover, the current 10% FX retention allowance for non-core sectors is inadequate in size to fund such development.
- As a matter of principle, all import levies and domestic transaction taxes, irrespective of where they are incurred in the supply chain leading up to the final point of export should be refunded to the final exporter, allowing price competitiveness. It is difficult for smaller exporters to operate the existing draw back systems and re-export schemes. A standard per unit-based refund rate which is periodically updated, will make it simpler for them to export. This is especially where the final exporter is reliant on others in the supply chain to import and process items before adding further value prior to final export.
- Pakistan could learn valuable lessons from the Turkish ***"TURQUALITY"*** Programme through which the Turkish government has been funding the development of 10 worldwide Turkish brands. A ***"PAKQUALITY"*** initiative should be promoted under the PPP model to ensure that Pakistani brands also become regional / global icons.
- Pakistani exporters are required to realize export proceeds within a short time. This does not permit warehousing of products abroad, for subsequent sale on a "just in time" basis, which is increasingly demanded by foreign buyers unwilling to carry inventory on their own books. Larger exporters should be permitted to warehouse inventory abroad. This is even more essential to serve online sales portals, such as Amazon, which will not allow access to foreign suppliers unless they are shipping promptly from a domestic point. This would entail longer time for remittance of export proceeds.
- The five core export sectors are offered energy at a rate presently competitive with comparable countries. This competitive tariff should remain guaranteed. In principle, all exports should be entitled to energy at a cost which is globally competitive. Where industries produce a mix of exported and domestically marketed products, a rebate should

be offered on the quantity exported to render the input cost of energy to a globally competitive level.

- Focus economic diplomacy to negotiate market access, at a minimum to achieve parity with key global sourcing competitor countries. Whilst prescribed goods from Pakistan currently are allowed entry into the EU duty free under the GSP+ facility and Textiles have parity access in the USA with countries like Bangladesh, exports from Pakistan suffer from higher duties into Japan, Canada and Australia, relative to Bangladesh. EU's GSP+ will expire in 2023. It is vital that Pakistan lobbies in Brussels to retain duty free access. Similarly, Pakistan needs to consider ongoing lobbying in Washington to obtain preferential access into the USA.
- Banks are reluctant to lend to SMEs due to higher risk. SMEs on the other hand are unable to take risks associated with credit to foreign buyers. A vendor financing and export house model would promote greater integration of the SMEs into the export chain. Japan and Korea developed their exports through the export house model with companies like Mitsubishi and Mitsui offering a model and learning opportunity.
- Commercial banks need to manage their risks as their primary responsibility is to safeguard their shareholder's interest. Development is not a shareholder business; it is a stakeholder business with the state having a major interest in managing its trade balance. Developing export markets involves risks as most foreign buyers will not provide letters of credit, especially to SMEs who lack negotiation power. An Export Development and Credit Guarantee Bank owned by the government can take on the task of helping to fund SMEs and to build non-traditional and riskier markets in Africa, Central Asia and Latin America. The past failure of DFI's like the IDBP, PICIC etc., is not a sufficient reason to avoid setting up a well-resourced and governed institution. Instead, learnings should be taken from the past mistakes.
- A quarter of Vietnam's exports are generated by Samsung alone whilst many other Japanese, Chinese, South Korean, Taiwanese and US investors account for a sizeable percentage of its exports. Pakistan has not attracted foreign investment into exports, even in the agriculture sector where there could be potential. Instead, a liberal FDI policy has attracted many FMCGs which reap the demographic dividend from a rising middle class but do not export or create import substitution. A differentiated FDI policy which factors impact on the external account is recommended for fresh foreign investment. Existing foreign companies operating in Pakistan should be encouraged to export into their global value chains.

- The Apparel (Value-added sector) exports from Pakistan cover the bottom 20% of the global
universe of apparel, leaving 80% of apparel demand unaddressed. This is where countries like Vietnam and Bangladesh have moved with speed. Bulk of Pakistan's exports are 100% cotton based, whilst global demand is shifting to man-made fibres, which are also ideal for the emerging technical textiles. The per unit price commanded by Pakistan apparel exports is between 11-50% of Vietnam's and 20-33% of Bangladesh's. Hence there is significant scope to change the cotton/man-made fibre mix and to go up the value chain. The main onus of this is on the current large players who need to invest in capacity and capability including skills. There is little that the government can do other than providing a long-term policy framework. Secondly, anti-dumping duty on imports required as input (for example fabric from man-made fibre) for exports, should not be levied and the bonding facility should apply as for other imported inputs.
- Travel Advisories limit the number of foreign buyers from travelling to Pakistan. The government can help by advocating a differentiated approach for larger cities where most of the industry is located. Also, it could subsidize the first few year's costs of running Pakistan-based buying offices for larger buyers. These could potentially be located near major airports to assure further security. In the meantime, it needs a fast visa approval process with an added challenge that many buyers representatives are Indian and Bangladeshi nationals.
- There is no WHO approved manufacturing facility in Pakistan. This is a major impediment to exports. Pharmaceutical companies contribute to a Central Research Fund. Companies may be allowed to draw on this fund in relation to their contribution in the previous years to meet the costs of drug registration abroad and towards establishing WHO certified facilities. Additionally, those meeting a prescribed export performance realization may be given a rebate. Pharma exports amounted to $200 Mn as compared to carpet exports which generated $75 Mn of exports. Yet the pharmaceuticals sector is not one of the five major focus sectors for exports whilst carpets is.
- Footwear, Leather, Furniture, Cutlery, Sports suffer from design and skill deficiencies which can be addressed through a combination of FDI, technical agreements and training by establishing or improving dedicated design centres.
- Unlike export of goods which attracts rebates, export of services is not similarly incentivized. The Services Export from India Scheme (SEIS) should be studied to accelerate export of services from Pakistan. Rebates, which are earned on realization of export proceeds in foreign exchange will also encourage full remittance of sale proceeds.

IT and IT enabled service companies lack immovable collateral for bank borrowing. Their work-in-progress and receivables should be accepted as collateral and they should be offered concessional lending like for export of goods. Call centres are charged GST even on export services. This should be withdrawn. Equipment required to develop software and operate call centres and back-office services should be permitted to be imported free of duty and GST. Cluster development through co-location of software developers in IT Parks would bring additional benefits of collaborative working.

Some of the recommendations are repeated under different heads. This is to ensure completeness. The Pakistan Business Council assures you and the Economic Advisory Council of its support. It also advocates a national consensus to be developed amongst all political parties and key stakeholders to put Pakistan on a string growth trajectory. For this we have developed a Charter of Economy from which the receommdations in this letter are drawn.

Yours faithfully,

Ehsan Malik

cc: Members of the Economic Advisory Council

Additional Co-opted members of EAC Working Groups

THE BACKGROUND

The Pakistan Business Council (PBC) believes that notwithstanding the many immediate and urgent challenges facing the economy, the foremost socio-economic need of Pakistan is the creation of livelihoods for the 2 million people that reach the age of employment every year. This is closely followed by the need for significantly higher investments in human capital, notably in healthcare and education. In both of these, Pakistan lags South Asia, which in turn ranks poorly vs other Asian countries. The Covid pandemic has starkly revealed the gaps in our healthcare. Even prior to the Pandemic, 40% of children suffered from stunting and 44% of kids in ages 5-16 did not attend school – the Pandemic has only worsened a bad situation. The Ehsaas Programme provided a useful safety-net during the lockdown but clearly there is room to strengthen it further. Whilst uplifting the socio-economic well-being of people is primarily the responsibility of governments – both federal and provincial, the private sector cannot abdicate its role in creating livelihoods, especially for women and in improving the lives of people by offering affordable and better-quality goods and services and by becoming more responsible towards the environment. No business can thrive indefinitely in a failing economy.

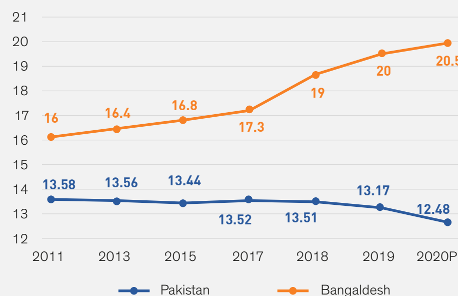
Pakistan is the "sick-man" of South Asia. We lag behind in virtually every socio-economic indicator. Our per-capita

Pakistan Lags in Most Socio-Economic Indicators

Measures	Pakistan	Bangladesh	India	Sri Lanka
Health Expenditure as % of GDP	2.7%	2.4%	3.9%	3%
Rank in Global Health Exp Index (of 187)	181	185	159	178
Malnourished Children	37.6%	31%	34.7%	17.3%
Hospital beds/1000 of pop.	0.6	0.8	0.7	3.6
Physicians/1000 of pop.	0.98	0.53	0.78	0.96
Life Expectancy (yrs)	68.4	73	69.1	77
Govt Education Expenditure % of GDP	2.9%	2%	3.1%	2.8%
Primary School Attendance	62%	91%	95%	99%
Upper Secondary School Attendance	33%	39%	64%	90%
Adult Literacy	59.1%	74%	74%	92%
Human Development Index (of 188)	151	136	129	72
Quality of Life Index (of 111)	93	77	73	43

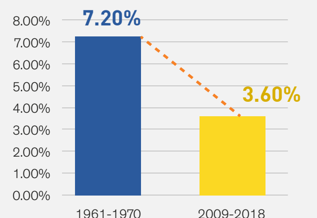
The Country is prematurely de-industrializing

Manufacturing as % of GDP: Pakistan vs Bangladesh



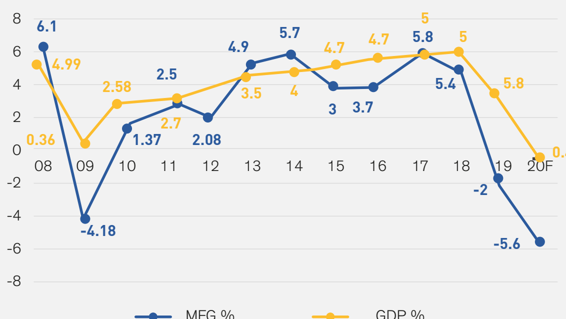
Pakistan's Long-Term Growth Rate has halved

Ten Year Moving Average GDP Growth

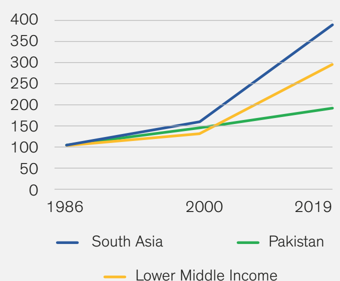


Growth of Manufacturing and GDP are Correlated

GDP & Manufacturing Correlation

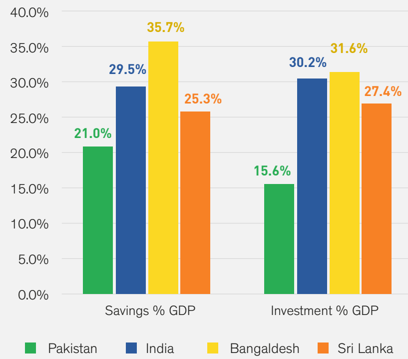


Pakistan's Per-Capita Earnings have Improved the Least



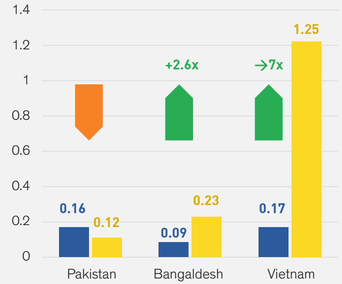
earning, which once exceeded China, India, Bangladesh and Sri Lanka, has eroded to just 12% of China's and is now 30% lower than India and Bangladesh's. The long-term GDP growth rate has halved to under 4%, grossly below the 6-7% required to generate badly needed jobs. The country has prematurely de-industrialized with declining manufacturing, stagnant exports and growing import reliance. The latter, even for items of daily use. Poorly negotiated trade agreements and disparity in market access vs. Bangladesh has further impacted the balance of trade. Trade in South Asia is the least integrated with the world and Pakistan is constrained by sanctions on Iran. As a result of recurring external account crisis, Pakistan has since independence, been in IMF progammes for more years than out of it. Investment is half the rate of South Asia. Private sector is crowded out by the government from bank credit and SME funding is well below South Asian levels. The country has been slow to switch from revenue seeking import tariffs, which are one of the highest in Asia. Industry carries a disproportionate tax burden. High tax rates, in a largely undocumented economy and a complex taxation system create incentives to informalize the economy. This despite efforts to digitize and reduce the cash in circulation. Smuggling, counterfeiting, under-invoicing, misdeclaration of imports, adulteration, grey production and misuse of the Afghan Transit Treaty severely impact tax revenues and create an unfavourable playing field for the formal sector. The corporate sector is also encumbered by over-regulation, framed with a controlling and suspicious, rather than an empowering, pro-growth, mindset.

Pakistan lags South Asia in savings and investment

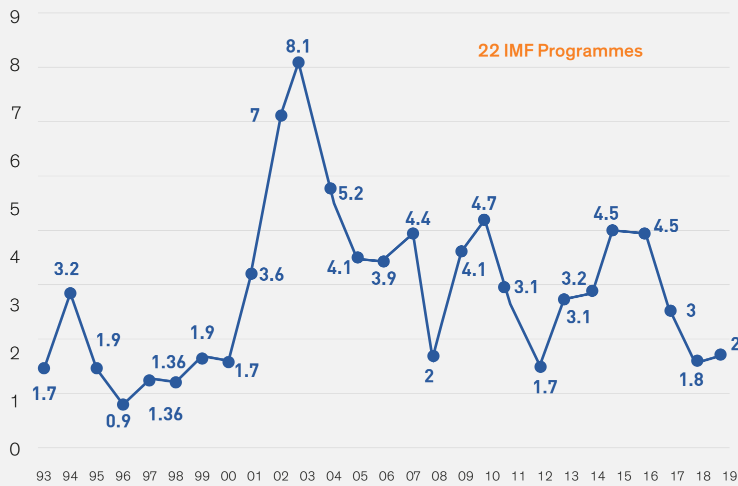


Share of World Exports has declined

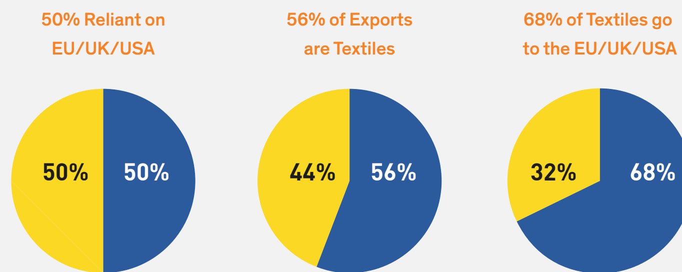
% Share of World Exports



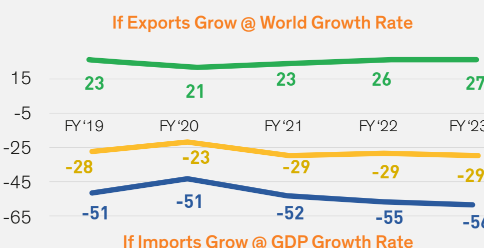
Recurring external account crisis and IMF programmes



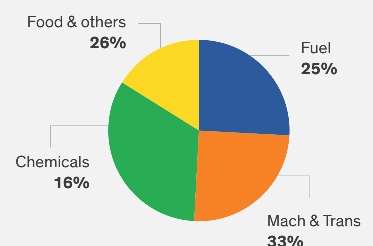
Narrow Product and Regional Diversification of Exports



Projected Trade deficit to revert to the 2019 level



More than 75% of imports are unavoidable in the near term

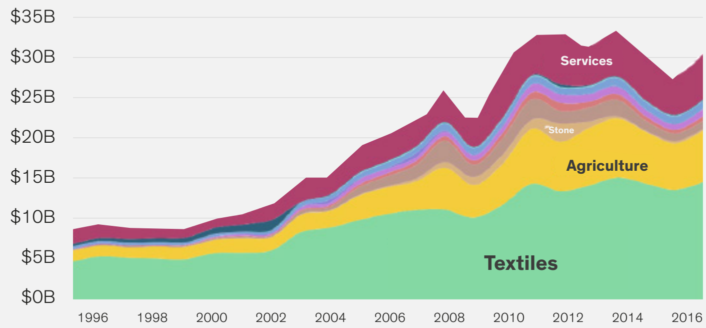


The competitiveness of industry is impacted by one of the highest electricity tariffs in the world. Successive governments have frittered away the country's gas reserves by mispricing it to domestic users. We are also running out of water. Most industrial areas around large cities are choked, lack basic utilities, which business is forced to procure at additional cost. Poor rail network, an ageing truck fleet and slow port handling impact cost, speed and reliability of logistics.

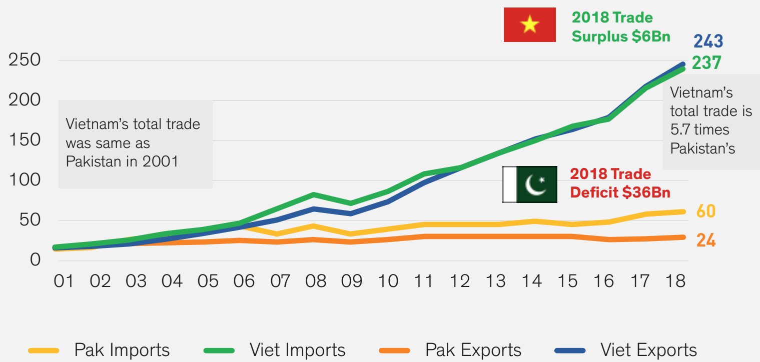
With neither cost, nor ease of doing business helping and in the absence of consistent policies, some businesses have been provided indefinite protection which reduces the incentive for them to become competitive. Large-scale investment is primarily directed into sovereign-guaranteed, fixed-return projects. However, recent actions of the National Accountability Bureau (NAB) are unlikely to sustain private sector interest in Public Private Partnerships, which the government is citing as a panacea to our utilities and transportation gaps. Without reforms in the NAB law, bureaucracy too will remain paralyzed.

Whilst Vietnam attracted foreign investment into export-oriented industries, Pakistan's foreign direct investment has largely been in quick pay-back, low-technology, consumer goods for the domestic market. With western and Japanese companies actively pursuing a China + supply chain strategy, Pakistan stands out for its failure to attract any significant investments from any company relocating from China. Our exports are narrowly focused - 60% reliant on Textiles and 50% directed to Europe and the USA. With the Green Party in

Export Mix has not Diversified



Pakistan and Vietnam: two contrasting strategies (and vastly different results)



FDI: Vietnam export focused; Pakistan consumption driven

Vietnam

Samsung alone accounts for 25% of Vietnam's Exports

SAMSUNG, LG, SUMITOMO ELECTRIC

Pakistan

Unilever, P&G, Nestlé, L'ORÉAL, PEPSI, Coca-Cola

Vietnam's export evolution

Product	Value
Phones and their parts	US$49.1 billion
Textile & garments	US$30.5 billion
Computers, electrical products	US$29.3 billion
Fishery products	US$8.8 billion
Footwear	US$16.2 billion
Wooden products	US$6.3 billion
Vehicles and their parts	US$8.0 billion
Iron and steel	US$4.5 billion
Cameras, video cameras, and parts	US$5.2 billion
Machinery, instruments, accessories	US$16.5 billion

power, continuity of EU's GSP+ is a risk. Access to the US could also become contingent on social and environmental objectives. Our textile exports are still cotton-based when global demand is shifting to man-made fibres. Export of services is not incentivized in the same way as goods are. Neither government, nor industry have made concerted attempts to improve productivity whilst India, Bangladesh and Sri Lanka made significant progress to supplement their low-wage advantage through higher productivity. Gender inclusion remans poor. Pakistan lacks globally recognized product standards and certification systems. Indeed, post the 18th Amendment, there are five different provincial standards for food items. Also, the focus of the provincial food authorities is primarily on the formal sector, whilst the informal sector escapes scrutiny. We have also failed to prepare our workforce for the knowledge economy, relying instead on remittances by a largely manual workforce in the Middle East.

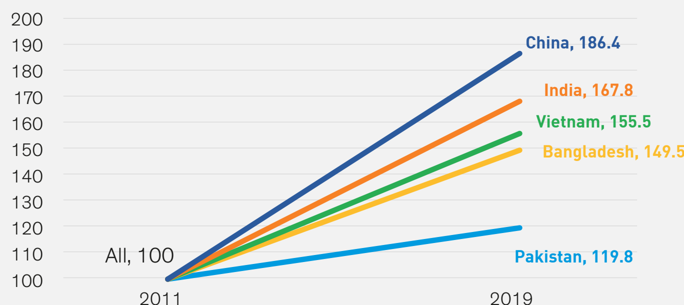
In none of the five major crops does Pakistan's per acre yield exceed 50% of the global best. Agriculture output is marred by fragmentation of land holdings; forced reliance on exploitative middle-men; gaps in affordability and availability of mechanization and modern techniques, including land levelling, precision application of seeds, fertilizers and insecticides; poor seed quality especially of cotton; wasteful use of water; outdated harvesting techniques; and weak cold chain and logistics resulting in high waste. To make matters worse, guaranteed support price for sugarcane has disincentivized cultivation of cotton, denying the textile industry opportunity to add value and for the country to earn

Vietnam's Trade Agreements

- China
- ASEAN
- US
- Japan
- CP Trans Pacific Partnership
- EU (ratification pending)

Lowest increase in productivity

2011 at 100

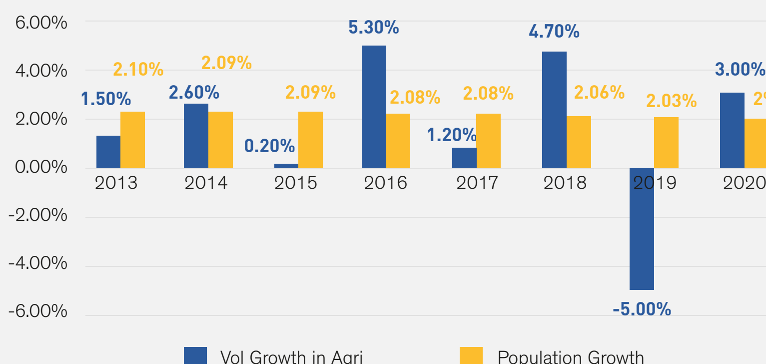


Farm productivity: Substantial room to improve

Output Tons/Hectare	Pakistan	Best in the world	Pakistan as % of Best
Wheat	3.1	8.1 (France)	38%
Cotton	2.5	4.8 (China)	52%
Sugar cane	63.4	125.1 (Egypt)	51%
Maize	4.6	11.1 (France)	41%
Rice	2.7	9.2 (USA)	29%

Cotton Production	2004 Mn 480 lb bales	2020 Mn 480 Lb bales	Change %
India	19	28	+50%
Pakistan	11.1	6.3	-56%

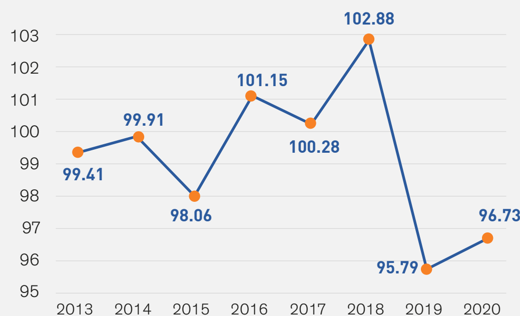
Pop. Growth Outpaces Real Growth of Agriculture



foreign exchange from exports. Livestock and dairy are largely run on subsistence basis and quality and yield are poor. The potential of horticulture is also under-exploited. It is a pity that the agriculture sector which can potentially uplift the largest section of the country's population and help arrest urbanization has not received the focus it deserves. Additionally, poor management of supplies threaten food security and cause inflation which hurt the poor most.

The losses of State-Owned Enterprises cannot continue to be absorbed by a fiscally stressed economy. Currently neither being restructured nor privatized. CPEC investment needs to move from power to logistics and agriculture. The dream of attracting Chinese private sector remains, a dream. SEZs have yet to take off into plug and play industrial zones, liberated from bureaucratic constraints and the slow dispute settlement procedures that apply elsewhere in Pakistan.

Cumulative Change in Agri Output Adj. for Pop. Growth



Food Inflation Y-O-Y March 2021 Rural

	% Change		% Change
Eggs	61.3	Sugar	22.7
Tomatoes	-3.0	Pulse Masoor	15.9
Wheat	32.6	Onions	-30.8
Spices	23.3	Chicken	50.1

SOE Footprint and Losses

Number of SOEs
204

Total Loss in 2016/17
Rs. 191.5 Bn

Largest Contributors to losses

Discos
Rs. 148 Bn

Roads and Highways
Rs. 134 Bn

Railways
Rs. 40 Bn

Aviation
Rs. 40 Bn

On a positive note, Pakistan is enjoying significant improvement in law and order; availability of electricity is no longer an issue; flight of capital abroad and into the undocumented real estate sector has been stemmed; prior to the onset of Covid, Pakistan's macro-economy was stabilizing; we have a competitive exchange rate; and the FTA with China has been renegotiated. The State Bank is playing a very positive role in supporting business through the pandemic. The government has moved to release tax refunds and processes are being reviewed to stem their build up in the future. Import tariffs on industrial inputs are being reduced. Subject to mortgage availability, affordability and suitable repossession law, the low-cost housing initiative can trigger growth. However, front-loaded and unrealistic tax targets and sharp increase in already the region's most expensive tariffs for utilities, combined with the threat of higher borrowing costs on account of inflation do not bode well for growth of industry, employment or the economy. Neither is this a recipe for sustainable growth of tax to GDP ratio.