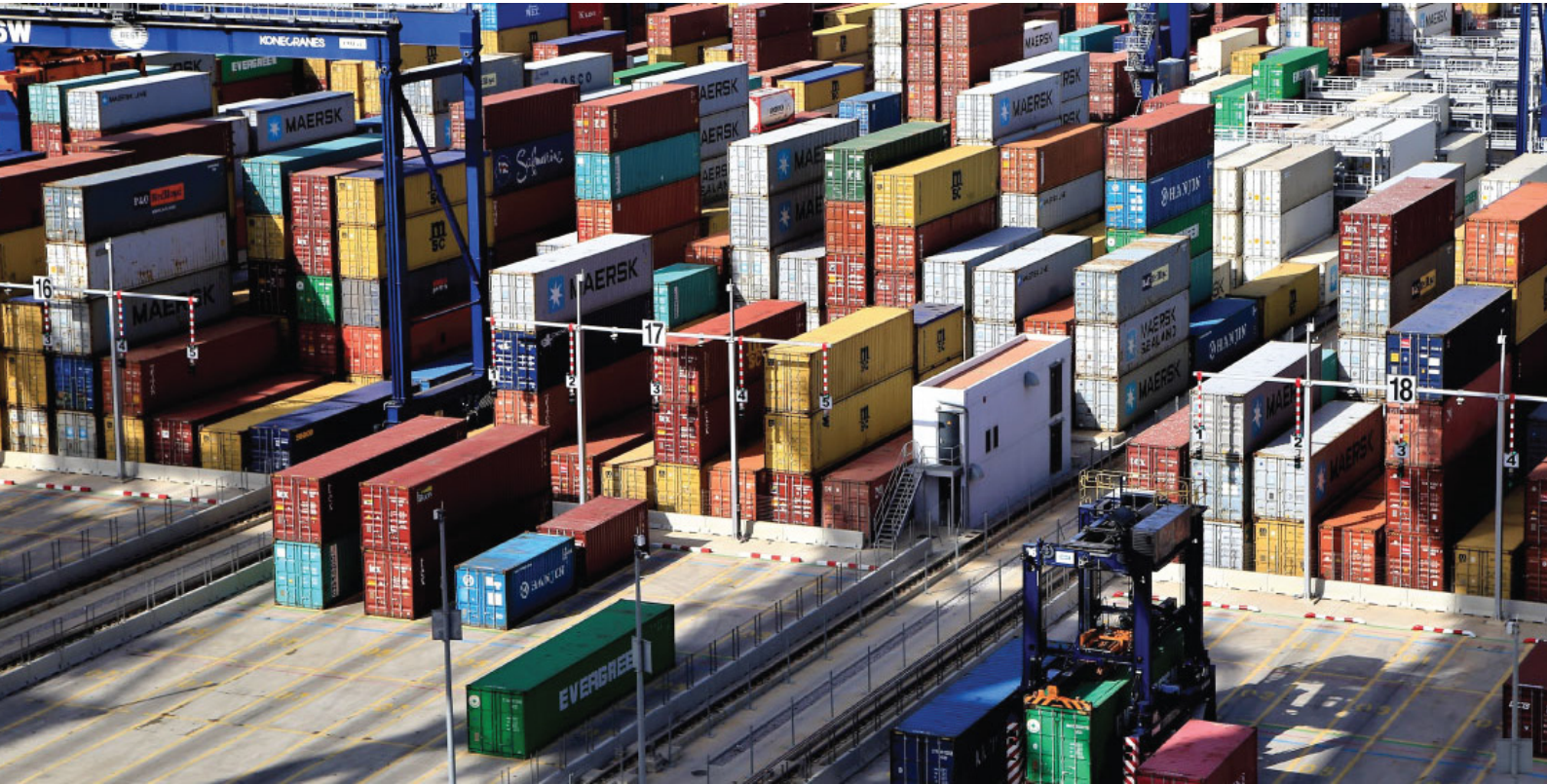


A CASE FOR DOMESTIC COMMERCE-LED GROWTH



Omer Siddique

▶ A CASE FOR DOMESTIC MARKETS AND DOMESTIC COMMERCE LED GROWTH

Though presented in different garbs over the years, Pakistan's growth policy has been informed by the Haq/HAG¹⁰ model of the 1950s. The Haq/HAG model is based on chasing industrial production, creating foreign exchange surplus through export promotion, and a large government footprint with a suspicion of the market and the private sector (Haque, 2006). The government's footprint, according to an estimate by Haque and Ullah (2021), is approximately 67% of GDP. As a result of these policies, domestic commerce that caters to domestic consumers and markets, domestic markets, and private sector development has been neglected. The negligence of domestic commerce and too much focus on exports have stifled domestic trade and market development.

¹⁰HAG stands for the Harvard Advisory Group.

However, domestic commerce, which includes the services sector and several activities including the wholesale and retail sector, is too important a sector to be ignored. According to Haque (2006), the development of domestic markets and commerce is the key to economic growth. However, a growth strategy based on production for mercantilist goals has stifled domestic commerce in Pakistan. Unleashing the potential of domestic commerce may be the path to high sustainable growth in the country. A vibrant domestic commerce sector is the core of the economy facilitating intermediation between supply and demand, entrepreneurial development, risk-taking, innovation, and competitive markets. Such an economy transitions from commodity exports to brand names, process and capital exports, all of which command a higher rate of return.

However, in Pakistan, historically the focus has been on import substitution and production for exports rather than focusing on domestic market development. Thus, exports are subsidized, while imports are heavily taxed for import substitution. It means that inadequate investments are made in domestic market development. Interestingly, a PIDE and Ministry of Planning study (Faraz, Siddique, and Saeed, 2023) shows that despite several incentives for decades, Pakistan's export-oriented industries have not performed as expected in terms of productivity. On the other hand, Pakistan's services-oriented industries, which operate predominantly in the domestic market and are open to competition, have performed considerably better in terms of productivity growth.

Markets are like the nervous system of an economy because it is in these markets that consumer demand is clearly articulated (Hayek, 1945). Well-functioning markets clear demand and supply through price adjustments, which convey relevant market information to all agents. Consumer markets are, therefore, the 'front end' of the economy where the demand and supply of many products, brand names, new products and new services are all equilibrated through the price system. In such markets, innovations and entrepreneurship thrive through risk-taking and understanding of consumers' tastes and markets. Innovation and entrepreneurship taking place in the domestic market later will move out and lead to higher exports and foreign exchange earnings. Entrepreneurs and innovators need neighborhood markets to perfect their products, brands and recipes, which they will then export. Multinationals like Coke, McDonald's, and Ford all started as domestic industries. Their testing ground was the domestic consumer market.

In the consumer-focussed growth paradigm based on domestic commerce strategy, domestic consumer markets are allowed freedom resulting in the development of entrepreneurship and new products. Many new activities and businesses are developed. These new goods and brand names that are developed are the key to developing new export markets. More importantly, in this model not only goods are exported but there is a greater likelihood of businesses being exported leading to the birth of the Pakistani multinational.

Developing markets and giving all businesses room to compete and grow, will establish entrepreneurship and develop a dynamic comparative advantage (Haque, 2006a). Focusing on markets and consumers instead of production and mercantilism will allow many synergies of development to be exploited. Complex linkages between the various activities of domestic commerce will reinforce growth. For example, large, branch-networked retail needs to be supported by extensive development of distribution and warehouse networks, office space, and transport networks. All this in turn could enable tourism and hotel development. All this reinforces Pakistan's integration into the global marketplace.

In the case of the domestic commerce-led growth paradigm, the development of domestic markets is considered the primary driver of growth. In this paradigm, production in the economy caters to the domestic demand for goods and services domestic consumers are the main focal point for the producers.

Several examples from around the world show that this strategy has paid handsome dividends and brought phenomenal growth in the case of large domestic markets and provides an effective way to breed entrepreneurship, risk-taking, innovation, product and brand development, and competitive markets. For example, Nike was founded in 1964 as a distributor of Japanese shoes and it is now the most valuable sports brand in the world. These examples show the conducive business environment in the domestic market facilitates entrepreneurs to grow, thrive, and branch out to exporting.

Domestic Commerce as the Engine of Growth

An economy is a complex network of economic agents and activities and it works best when all participants share the benefits of economic activity. According to Adam Smith, the welfare of economic agents would be maximized when they are free to trade with each other. The mercantilist approach, which incentivizes export promotion and import substitution, is a suboptimal strategy. Export promotion and import substitution inflict costs on domestic markets and consumers, which is the case in Pakistan. For example, exports are subsidized which is essentially a subsidy to the foreign consumer and high tariffs on imports for import substitution make consumer goods for the Pakistani consumer very expensive. The result is inadequate trading at home and welfare loss to domestic consumers. It also means that inadequate investments are made in domestic market development since the products are expensive and consumers are poor. Favoring exports and import substitution results in lopsided development.

In a balanced development paradigm, the domestic market and external trade support each other because it is in domestic markets that innovation and entrepreneurship take place. Entrepreneurs and innovators need neighborhood markets to improve products, build brands, perfect processes, and create recipes, which are eventually exported. The world is rife with such examples: Coke, McDonald's, and Ford. Their testing ground was the domestic consumer market.

Domestic commerce has the potential to be the growth driver because of its dynamism. Experiences of other countries show that domestic commercial activities have driven growth. Many brands, such as Coke, Apple, and Nike, were perfected in domestic markets before going big and global. India's recent growth has been based on the services sector, which is predominantly domestic commerce. Domestic markets that are competitive and not highly regulated breed entrepreneurship and product development.

In Pakistan, however, the growth policy has been historically based on encouraging manufacturing for exports at the cost of the development of domestic markets. As a result, domestic commerce has been neglected and has been unable to play the role of the growth driver. There have been various constraints to the development of domestic commerce including the absence of a policy framework for domestic commerce (the first domestic commerce policy was formulated in 2021), confusing and cumbersome regulatory

environment, and urban zoning and development that discourage domestic commercial activities. For Pakistan to grow sustainability, it will need to change the focus of its growth paradigm from the Haq/HAG mode of the 60s to the one that favors domestic markets and commerce.

The Development of Domestic Commerce and Markets in Pakistan

Despite being an intrinsic and major part of the economy, domestic commerce has been a relatively neglected sector in Pakistan compared to exports-oriented manufacturing, which is evident from the fact that the first-ever domestic commerce policy was proposed in 2021 (PIDE, 2023).

Because of the neglect of domestic commerce, Pakistan's domestic commercial sector is in a poor state despite the recent emergence of shopping malls, a few brand names, chain stores, and department stores. The state of local retail stores is still the same as they have no inventory, they do not carry quality goods and warranties, and consumer protection is unknown. Domestic markets in Pakistan still lack city centers, warehouses, storage, and community and public spaces of any significance. Moreover, there are hardly any businesses based on domestic commerce listed on the stock exchange. PIDE's State of Commerce report (PIDE, 2023), shows that there is no Pakistani chain listed on the stock market. Moreover, apart from a few Pakistani brands, there is no Pakistani business that operates internationally. Even the ones that have an international presence, cater to the Pakistani diaspora abroad (PIDE, 2023).

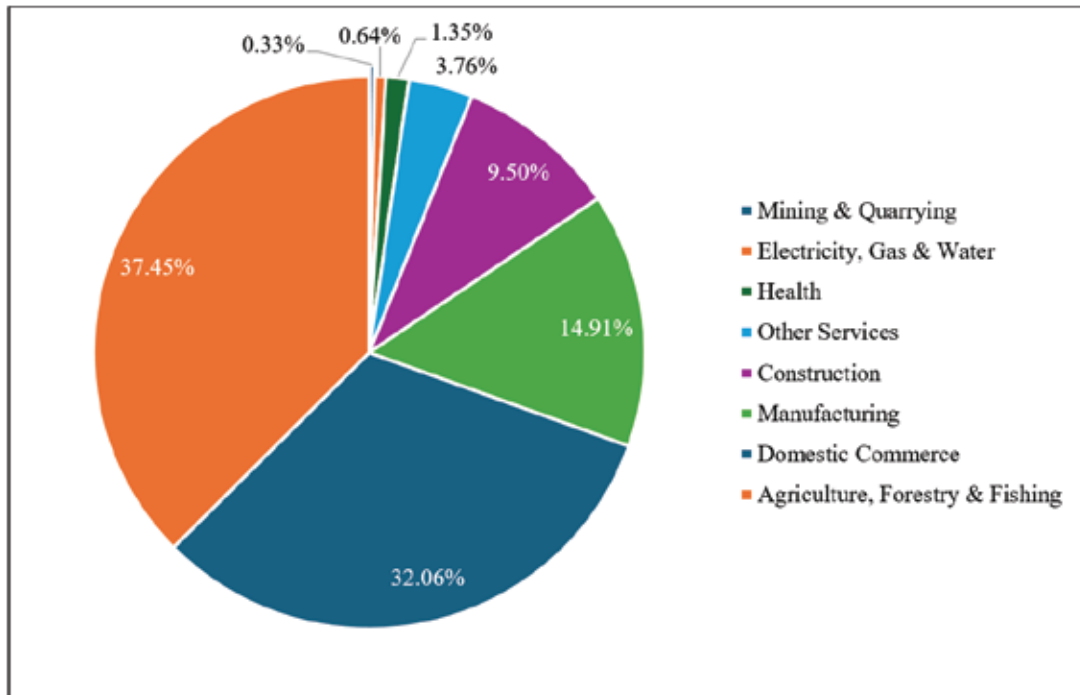
Situation Snapshot

Domestic commerce in Pakistan contributes significantly to its economy, both in terms of employment and output.

Employment

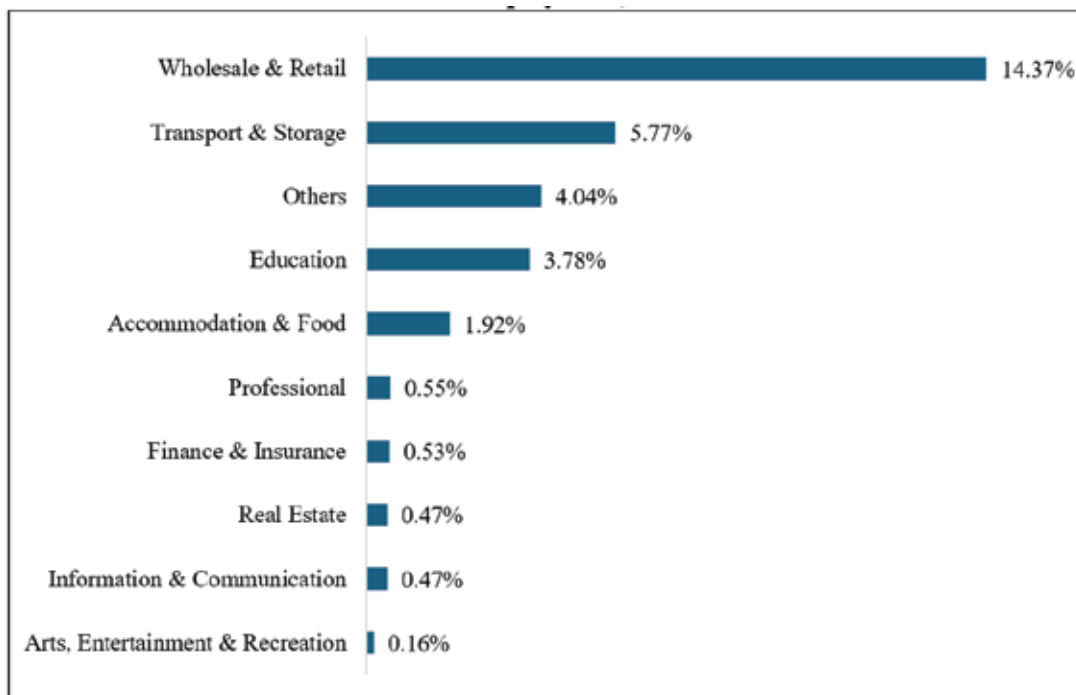
According to the calculations based on the LFS 2020-21 data, domestic commerce's share in total employment is 36.02%. It makes domestic commerce, as shown in Figure 1, the second largest sector after agriculture in terms of providing employment. Among the domestic commerce activities, the WRT has the greatest share of employment in total employment at 14.37%.

Figure 1 Sectoral Employment Shares (Percent)¹¹



Source: Calculations based on Labor Force Survey 2020-21

Figure 2 Employment in Domestic Commerce Activities (Percent Share in Total Employment)



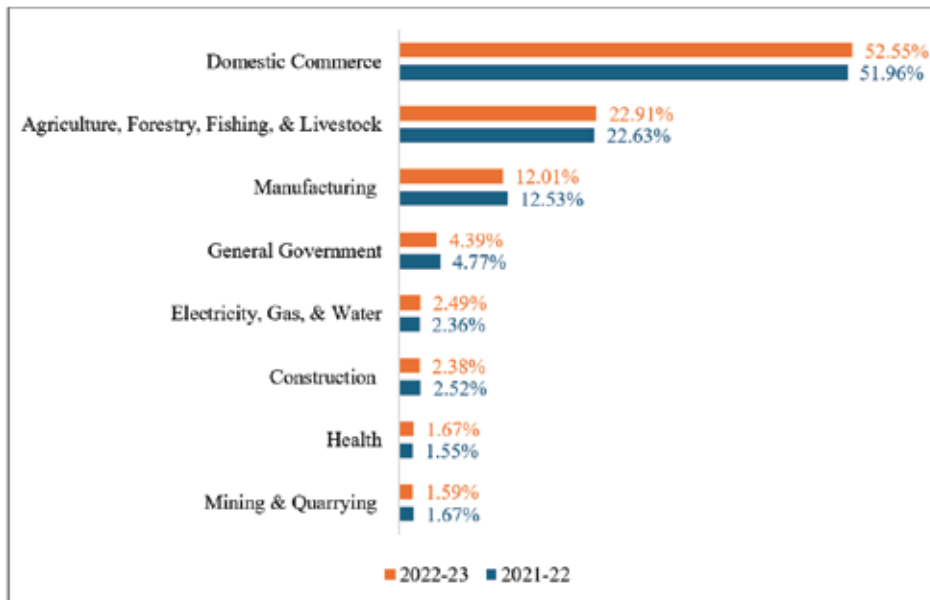
Source: Labor Force Survey 2020-21

¹¹It must be noted that the LFS, or any other official statistics, does not categorize domestic commerce separately. For this report, domestic commerce sectors are selected based on the nature of activities as shown in Figure 2.

Output

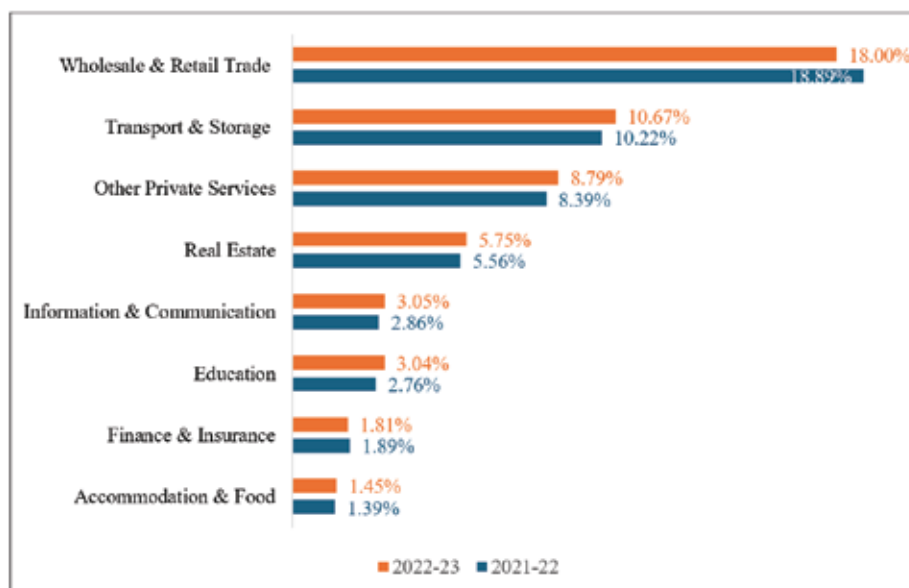
Domestic commerce’s share in the GDP is 52.55% in 2022-23, which increased from 51.96% in 2021-22 (Figure 3). Among the activities in domestic commerce, the WRT sector’s share is the highest at 18% of the GDP (Figure 3). Thus, as is the case with employment, the WRT contributes the most to the domestic commerce output.

Figure 3 Sectoral Shares in GDP (Percent)



Source: Pakistan Economic Survey 2022-23

Figure 4 Share of Domestic Commerce Activities in GDP (Percent)



Source: Pakistan Economic Survey 2022-23

Figure 5 Share of Domestic Commerce Activities in Domestic Commerce Output: 2022-23 (Percent)



Source: Pakistan Economic Survey 2023

The number of wholesale and retail establishments

Since the major proportion of the WRT is informal, estimating the number of establishments in this sector is a challenging task. However, there are some numbers available based on which the number of WRT establishments in Pakistan is estimated.

1988 is the earliest year for which the number of WRT establishments is available as the census of economic enterprises was carried out in 1988. According to the census, there were 1.0028 million WRT establishments in Pakistan (PBS, 2005). The number increased to 1.57 million in 2002 (PBS, 2005). According to the Pakistan Business Council (PBC) and Consortium for Development Policy Research's (CDPR) report on the WRT sector of Pakistan, there are 2.39 million WRT establishments in Pakistan (PBC/CDPR, 2023). PBC/CDPR (2023) has based the estimates on the number of commercial electricity connections in Pakistan.

According to estimates made for the present report, there are 2.66 million WRT establishments in Pakistan. The projections are based on data collected for this report and use the estimates of the average number of employees per establishment to estimate the total number of WRT establishments in Pakistan.

These numbers show that there has been respectable growth in WRT establishments. The annual average growth rate since 1988 is 4.14%. This growth rate is greater than the population growth rate (1.36%), lower than the employment growth (4.83%), and lower than the sector's output growth (6.50%). The fact that the number of WRT establishments and employment have grown at almost the same rate while the sector's output has grown at a higher rate shows that the WRT sector is efficient and productive.

Table 1 Number of Retail & Wholesale Establishments (Million)

Region	1988	2002	2022 PBC	2022 PIDE
Pakistan	1.0028	1.57	2.39	2.66
Islamabad	n/a	0.01	n/a	0.05
Punjab	n/a	0.97	n/a	1.49
Sindh	n/a	0.31	n/a	0.66
Khyber-Pakhtunkhwa	n/a	0.23	n/a	0.31
Balochistan	n/a	0.04	n/a	0.14
Source:	PBS Economic Census 2005	PBS Economic Census 2005	PBC/CDPR (2023)	PIDE SoC Report Estimates

Taxation

Taxation in the WRT sector has always been a subject of discussion because relative to its size, its share in direct taxes is negligible. At the same time, data on the sector's contribution to taxation is very hard to find. The sector-wise share of direct taxes is not available in every FBR Yearbook. The latest year for which sectoral data on direct taxes is available is 2018-19, which is presented in the following table.

Table 2 Sectoral Shares in Direct Taxes and Real GDP: 2018-19

Sector	Net Direct Tax (PKR Billion)	Share in Direct Taxes (%)	Share in Real GDP (%)	Tax Share and GDP Share Gap
Construction	73.90	5.11	2.78	+2.33
Electricity & Gas Distribution	63.94	4.42	2.25	+2.17
Manufacturing	499.30	34.54	12.33	+22.21
Mining & Quarrying	0.58	0.04	2.12	-2.08
Services	350.32	24.23	17.10	+7.13
Transport	31.93	2.21	11.43	-9.22
Wholesale & Retail Trade	42.85	2.96	18.13	-15.17
All Others	382.70	26.48	--	--

Source: FBR Yearbook 2018-19 and Pakistan Economic Survey 2022-23

Table 2 clearly shows that the contribution of the WRT sector to direct taxes in Pakistan is very small compared to its size. On the other hand, the manufacturing sector has a 12.33% share of real GDP but contributes 34.54% to direct taxes. The WRT sector's gap between its share in direct taxes and share in GDP is -15.17, the largest among all the sectors reported in the table.

Moreover, taxation compliance in the WRT sector is very low. The following table shows the sector's profile vis-à-vis national tax number (NTN) holders and tax filers.¹²

Table 3 Income Tax Compliance in the Wholesale & Retail Sector

Year	WRT Establishments (Numbers)	NTN Holders (Numbers)	NTN Holders (% of Establishments)	Filers (Numbers)	Filers (% of Establishments)	Filers (% of NTN Holders)
2002	1,566,722	37,212	2.38	14,984	0.96	40.27
2007	1,471,062	57,985	3.94	22,219	1.51	38.32
2022	2,657,715	457,676	17.22	156,635	5.89	34.22

Source: Ahmed (2012) for 2002 and 2007. Numbers for 2022 are projected based on Ahmed (2012).

As Table 3 shows, although the number of NTN holders has increased from the previous years for which data on the number of WRT establishments is available, their share as a percentage of total establishments is very low at 17.22%. What is even more alarming is that the filers as a percentage of total establishment is even low at only 5.89%. It must be borne in mind that these numbers are projected (see Footnote 3), which shows that tax compliance is low in the sector. Although one cannot completely absolve the sector from low tax compliance, the authorities must also equally share the responsibility for low tax compliance in the sector. However, from the businessmen's perspective, the state's inability to perform its fiscal responsibilities causes distrust in the state, which deters the establishments from moving to the informal sector. The problems with taxation in domestic commerce and wholesale and retail are discussed in Section 4 below.

Regulations

As is the case with any other economic sector in Pakistan, domestic commerce, especially the wholesale and retail sector, has to deal with various regulations. (For detailed analyses of a plethora of regulatory bodies in Pakistan and costs associated with complying with regulations, see Haque, Qasim, Khan, 2023; Haque & Qasim, 2022; and Haque, Qasim, & Khawaja, 2022.)

¹²The sectoral data on NTN holders and filers is not available for public use, even for research purposes. Therefore, using data reported in Ahmed (2012), in this study the numbers of NTN holders and tax filers in the WRT sectors are projected for 2022. Projections are made using a non-linear projection method.

Shops and establishment acts

In Pakistan, including Islamabad, the rules and regulations applied to retail and wholesale establishments are enforced by the respective municipal corporations and development authorities. In the case of it is Islamabad Metropolitan Corporation (IMC) and the Rawalpindi Metropolitan Corporation (RMC) in the case of Rawalpindi. However, the businesses located in cantonment areas are overseen by the respective cantonment boards, e.g., Rawalpindi Cantonment Board in Rawalpindi.

The rules and regulations applied to the retail are based on the Shops and Establishment acts of respective provinces. While looking at these acts, one thing becomes evident which is that even though these provincial acts are dated differently, they are almost identical, which shows that all these acts are essentially the West Pakistan Shops and Establishment Act, with minor changes, such as the vaccination of the owner and employees after the COVID-19 pandemic.

These acts primarily deal with the registration of establishments, maintenance of registers, and definitions of holidays, etc. For example, regarding the closure of business at least one day during the week, the Punjab Shops and Establishment Ordinance 1969 says that “The choice of a closed day shall rest with the employer, who shall intimate such choice to the Inspector appointed under section 25 of this Ordinance.” However, as it is clear from business practices, such a practice is rarely followed and most of the businesses remain open seven days a week. That shows the weak implementation of even the dated rules and regulations.

PROCEDURES AND COSTS OF GETTING A TRADE LICENSE IN ISLAMABAD

In Islamabad, getting a trade license to run a retail or wholesale business involves the following steps:

- Find a suitable location for your business and prepare a lease agreement for the business (i.e., retail, etc.).
- Prepare documents.
- Permission to display a signboard.
- Apply with the relevant authority.
- Wait for inspection.
- Processing at the metropolitan municipal authority.
- Get the license.

The whole process takes a considerable amount of time, which incurs opportunity cost in addition to monetary costs on the businessman starting a new business. For example, in Islamabad, it takes an average of 5.3 months to complete, and the monetary cost associated with getting a trade license and registration is PKR 80,185. In the case of Islamabad, the trade license is processed by Islamabad Metropolitan Corporation (IMC) but the application has to be submitted to the Capital Development Authority (CDA).

Source: PIDE Sludge Audit Volume 1 (2022)

Other departments and authorities

Other than dealing with the local authorities, the establishments in the organized retail and wholesale sector must comply with other rules and regulations and be registered with the following departments/authorities:

- Labor laws in case the establishment employs workers other than the owner (provincial authority).
- Employees Old-Age Benefits Institution (EOBI) (federal authority).
- Retailers and traders must pay which includes the Employees' Old-Age Benefits Institution (EOBI) contribution.
- Social security of employees (Employees Social Security Institutions, such as Punjab ESSSI, which is a provincial authority).
- Taxation (federal and provincial authorities).
- In addition to income tax and sales tax, the traders have to pay a professional tax collected by the Excise and Taxation Departments.
- Sectoral regulations relevant to the line of business (e.g., food authority in the case of a restaurant or an eatery, which is a provincial subject).
- A separate fee is charged by the relevant authority to issue and renew the license to operate the business.
- Consumer protection (provincial authority).
- Signboard (municipal authority and cantonment board).
- The signboard fee is paid according to the size of the shop and the size of the signboard, hoarding, etc.
- Lease and rent (provincial authority).
- Stamp duty (on all contracts agreements, which is a provincial authority).

Table 4 Rules & Regulations Applicable to Organized Retail Sector

Business Area	Category	Jurisdiction	Law
Retail Outlets	Labor	Sindh	The Sindh Shops & Commercial Establishments Act, 2015
		Punjab	The Punjab Shops and Establishments Ordinance, 1969
		KP	The Khyber Pakhtunkhwa Shops and Establishment Act, 2015
		Islamabad	West Pakistan Shops & Establishment Ordinance, 1969
		Balochistan	The Balochistan Shops and Establishments Act, 2021
	Employees Old Age Benefits	Federal Authority	EOBI ACT, 1976 and amendments

	Social Security	Provincial Authorities	e.g., The Punjab Employees' Social Security Ordinance
	Consumer protection	Sindh	The Sindh Consumer Protection Act, 2014
		Punjab	The Punjab Consumer Protection Act, 2005
		KP	K-P Consumer Protection Act, 1997
		Islamabad	Islamabad Consumer Protection Act, 1995 & 2011
		Balochistan	The Balochistan Consumer Protection Act, 2003
	Signboard	Provincial/Municipal Authorities/Cantonments	e.g., Punjab Outdoor Advertisement & Signboard Policy, 2013
	Trade licence/municipal by-laws	Provincial/Municipal Authorities/Cantonments	e.g., Islamabad Trade Licence & By-Laws
	Lease/rent regulations	Provincial Authorities	e.g., The Punjab Rented Premises Act, 2009
	Taxation on the sale and purchase of goods	Federal Board of Revenue	Sales Tax Act w.r.t. POS Integration (applicable only to Tier-1 Retailers)
General	Taxation on the sale and purchase of services	Provincial Authorities	i.e., businesses receiving a service must also register and file returns
	Stamp duty on all contracts/agreements	Provincial Authorities	The Stamp Act, 1899
	Income taxes, customs duty, etc.	Federal Board of Revenue	The Income Tax Ordinance, 2001

Source: Courtesy Chain Stores Association of Pakistan 2023

POLICY LANDSCAPE

In Pakistan, domestic commerce operated without a defined policy framework for the longest time. The first-ever national domestic commerce policy was formulated in 2021, which was later updated in 2022. The National Domestic Commerce Policy 2022-24 has many contours, but in this paper, only the salient ones are discussed.

Real estate

The Policy rightly has identified real estate as the key area of domestic commerce. This is a market that must be developed as such with transparency and access to information and in this regard, priority given to the modernization of zoning is a step in the right direction. However, in Pakistan, especially in Islamabad, zoning laws have anti-high-rise building construction and anti-mixed-use buildings bias. PIDE has been arguing for changing the zoning laws for a long now. For example, Haque and Nayab (2020) have argued that for the development of domestic commerce and economic growth urban management and zoning need to be revisited. The study also highlights excess demand for affordable retail and office space and a low level of business sophistication. Moreover, PIDE's State of Commerce Report (PIDE, 2023) also shows that in Pakistan, for example in Islamabad and Rawalpindi, real estate is mostly confined to the sale and purchase of residential properties. Commercial properties are very few and the housing societies in twin cities also focus mainly on residential plots and construction with very little space allocated for commercial activities (also see Haque & Khurshid, 2023).

Taxation

While having a one-window facility is convenient for tax filing, etc., the real issue is that if the documentation requirement is also not reviewed and streamlined, the problems would remain. In this regard, PIDE Growth Strategy (2021) has suggested a regulatory guillotine to reduce the regulatory burden on the economy. Also, a one-window facility would not work without addressing issues such as minimizing the layers of taxation to maximize transactions, removing sales tax fragmentation, doing away with mini budgets, etc. (Nasir, Faraz, & Anwar, 2020).

Development of e-commerce

The Policy envisages giving special preference to various sectors, such as e-commerce. However, it must be noted that offering special preferences often creates distortions in the economy, for example, in the automobile industry. Therefore, the costs and benefits must be weighed. However, before that, for e-commerce to thrive in particular and commerce in general, internet availability is indispensable. In Pakistan, though, the availability and reliability of the Internet have been big issues. The coverage of connectivity is unreliable and, in some cases, is even nonexistent. Thus, the Internet should be declared a necessity rather than a luxury service as it is argued by Anwar & Qayyum (2021) that the Internet should be provided to everyone.

The wholesale and retail sector

The policy suggests using goods inventory as collateral and preferring loans. However, it can lead to the indenture of businesses and dampen commercial activity and banks will prefer to finance businesses where they have assured a return. For businesses unable to pay the loan, what will the banks do with the goods inventory? It would be better to explore other financing options, such as transferring ownership of the assets to the bank till the loan can be paid off.

Local brand development

Local brand development is an important aspect of any strategy to promote domestic commerce and, later on, exports. To this end, the interaction between HEC, ORICs and industry needs to be strengthened through the MoC as academia and software houses are by and large aware of international developments. As argued above, local brands will only be developed if domestic markets are allowed to function unencumbered, which will ultimately lead to the development and perfection of goods in the domestic markets for exporting.

Skill development

For skill development, the training provided by the institutes must be in line with the current requirements of the economy to meet the existing demand and must also be in line with emerging global trends so a modern workforce can be created. A major hindrance for businesses is that the graduates in the market do not have the skills that are required on the job

and the businesses have to expend time and resources to train them.

HEADWINDS

Pakistan's domestic commerce sector is beset with various hurdles.

Current growth paradigm

The main hurdle, as discussed above, is the mercantilist approach to the growth paradigm. The current paradigm has given rise to the presence of government in almost every sector of the economy, which has stifled private sector and market development.

Regulations

In operating a business for the domestic market, there is involvement of too many departments and authorities such as FBR, municipal authorities, Labor Department, and Social Security, among others. Almost every week, a government official visits the business (89% in the case of Islamabad). For an average small-scale WRT entrepreneur, documentation requirements can become, tedious, and confusing. For the record, there are more than 120 regulatory authorities in the federal government alone. Moreover, the release of shipments arriving at the port is often delayed because of red tape. To expedite the release, the customs officials demand.

If small retailers want to expand their business, they require capital. However, they do not engage with formal financial institutions because of documentation requirements and the fear of being approached by the tax authorities, among other things.

Zoning regulations

Another factor that has stifled domestic commerce in Pakistan is the way Pakistani cities have expanded where space for domestic commerce, especially the WRT, is severely limited (for details, see Haque and Nayab, 2020; Haque, 2015; Haque and Waqaar, 2006). The current zoning regulations and urban planning have encumbered domestic commerce in Pakistan (Haque and Waqaar, 2006).

Haque and Waqaar (2006) have identified the following problems with the current urban development model and zoning regulations that have held domestic commerce in Pakistan back.

- **Outdated Urban Zoning**

In Pakistan, urban zoning is uninformed of modern city and commercialization needs. The unfriendly zoning laws are perhaps the biggest constraint to serious domestic commercial development.

- **Anti-Commercial Bias**

Urban zoning and city planning have anti-commercial bias. To commercialize residential real estate, large commercialization fees are demanded leaving domestic commercial activity only with residual space. While Pakistan's urban city planning follows the American-style

large suburbia, unlike the American model zoners remain unfriendly to large commercial development. There is a particular dislike for mixed-use where the poor and the middle classes can live.

- **Poor Retailers**

Urban zoning is in particular very unfriendly to the poor retailer who lacks the capital to get into structured expensive retailing that in any case is in short supply. Unlike Bangkok, Hong Kong and Singapore, urban zoning allows no space for street vending through kiosks in city centers. This change alone could have a huge impact on poverty.

- **Clustering of Commercial Activities**

Clustering of commercial activities or consolidation of lots for large commercial development can be extremely difficult. Even if the government zones an area as commercial, each lot has to be converted separately through a cumbersome procedure and payment of large fees. For example, the area around all hotels in Lahore, Rawalpindi, and Islamabad remains undeveloped because zoning does not allow lots around these to be converted to commercial space. In other countries such space is used for clustering commerce.

- **Excess Demand for Domestic Commerce Activities**

The flawed urban management policy has created a huge excess demand for offices, warehouses, flats, retail, and other forms of commercial space. Businesses make do by converting the existing housing stock illegally to these required functions. This imposes costs on businesses through increased rent-seeking and the provision of non-standard and non-purposive space.

- **Excessive Government Ownership**

The government owns large tracts of land in city centers for official residences, offices, training institutes and other non-commercial official purposes blocking the productive city center development.

WEAK CONTRACT ENFORCEMENT

Domestic commerce expansion requires complex contracting mechanisms as well as delegated management structures. The current state of law and order and especially the contract enforcement regime would need to be seriously strengthened to enable the contracting requirements of, say, a retail network or a large franchise operation (Haque and Waqaar, 2006).

High cost of doing business

The cost of doing business for domestic commercial activities is higher because of the above-mentioned constraints. On the other hand, industry because it is favored by the policymaker, and agriculture because it has political clout, enjoy relief in the form of subsidies or tax concessions. Consequently, domestic commerce has not been able to achieve the scale to attain a seat at the policy table (Haque and Waqaar, 2006).

Taxation regime

Due to too much focus on industry and exports, taxation seems to visit this sector more than the favored sectors. Resistance by the sector to unfavorable tax zoning and regulatory policy

leads to these businesses being termed 'informal' or 'smugglers'. The main problems with the taxation regime for domestic commerce in general and wholesale and retail sector in particular are:

- There is a multiplicity of taxes and the cost of compliance has increased.
- There is a multiplicity of taxes and the cost of compliance has increased.
- Some products are treated as both goods and services, so there is confusion about whether the product is taxed by provincial authorities or federal authorities because goods are taxed by the federal tax authorities, while services are taxed by provincial tax authorities.
- The tiered taxation system keeps a large segment of the sector in the informal sector.
- The fear of penalties, adverse action by FBR officers for claiming refunds of excess amounts paid, and even correct incomes declared are assessed exorbitantly through audits and other arbitrary actions deter WRT business owners from becoming NTN holders and filing tax returns.
- The distinction between a filer and a non-filer encourages non-filers to remain out of the tax net because they get away with paying higher fees.

CONCLUSIONS AND SUGGESTIONS

Regulations

It goes without saying that Pakistan's regulatory regime requires an overhaul. In this regard, Haque and Waqar (2024) have proposed the strategy of "regulatory guillotine." The regulatory overhaul requires clear rules, digitization, and market liberalization. The bureaucratic desire for permissions and papers must end. However, in this regard, piecemeal will not work and for this regulatory guillotine needs to be implemented, which is tried and tested. Examples of the countries which adopted this strategy include Hungary, Mexico, South Korea, and the UAE. India achieved this in 1991. In the regulatory guillotine strategy, The Cabinet Decision should remove all registrations, licenses, certificates, and other permissions (RLCOs) within 3 months, except for prohibited activities. In that period, fresh RLCOs should be presented to the cabinet with a clear cost-benefit analysis After three months only newly approved permissions, if any, will prevail.

Taxation

The simplification of the tax regime should be followed on the following lines (Haque & Waqar, 2024):

- Tax administration must be automated and streamlined to minimize human interaction.
- For tax simplification, administrative changes are required, especially digitization. Tax policy should be consistent for at least 10 years.
- FBR must focus on administrative changes to bring about efficiency in the taxation system.
- Abolish the filer-non-filer distinction.
- In the income tax regime, there should be a uniform tax rate across all sources of income, including agricultural income.
- The elimination of presumptive tax regime and tax on turnover and alternative corporate tax should be withdrawn.

- There should be uniform taxes on the association of persons (AOP), sole proprietors, and corporations.
- Withholding taxes must be withdrawn and an advance income tax regime should be adopted.
- The sales tax system needs to be harmonized/equalized across goods and services.
- Early implementation of the point of sales (POS) through outsourcing.
- Sales tax should be in the VAT mode, with a low and same rate for goods and services.

Zoning Regulations

- There is a need to revise zoning laws that divide the majority of the urban space in Pakistan into residential and urban categories. Mix-use of land for both commercial and residential purposes needs to be encouraged through legal provisions in the master plans of cities.
- Since only a part of most cities comes directly under government control, with the rest being under the hold of private societies, these societies also need to be apprised of the availability of commercial space.
- Make it mandatory for all private housing societies to allocate 20% of total land for commercial purposes, with a further minimum of 20 % mix-use of land.

Brand development

- To develop “Made in Pakistan” brands that are valued the world over, flexible zoning rules must be prioritized to allow large showrooms and department store space.
- To encourage the development of Pakistani brands that are valuable, there can be incentives in the shape of exports-related incentives/ concessions. For example, for every PKR 100 million in branded exports, there could be a concession of 1-3% further corporate income tax concession for 10 years.

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