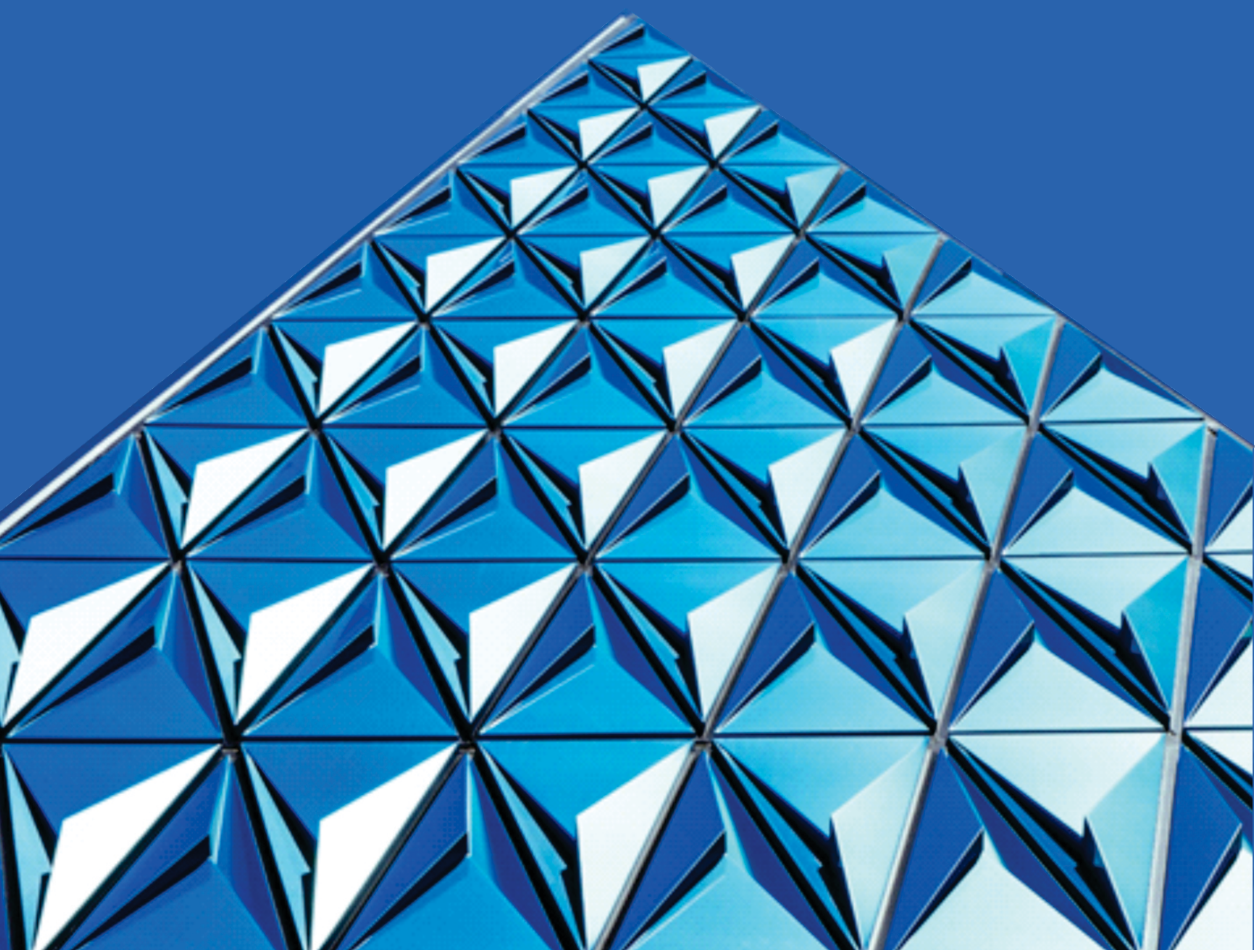
Pakistan Institute of Development Economics – PIDE

KNOWLEDGE ARCHIVES

VOL – II

Edited By:

Fizzah Khalid Butt



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KHNOWLEDGE ARCHIVES
Volume II

Editor

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PAKISTAN INSTITUTE OF DEVELOPMENT ECONOMICS (PIDE)
ISLAMABAD

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FOREWORD

Knowledge entails ideas and thoughts which are empirically tested, managed, and accumulated in different formats. The post-development critique on the ways knowledge is accumulated and managed is grounded on two factors: hegemony of the western knowledge management and critique on the same by the post-developmental and post-colonial thinkers. Pakistan is one of those countries wherein local socio-economic realities had remained manufactured by the West. Very few critical voices have articulated their dissent to these manufactured realities and fore-fronted with the realities that are specific, contextual, and rooted. PIDE, living up to its aim of spirit of free inquiry, comes with the second edition of Knowledge Archives, in which knowledge briefs based on key economic and developmental issues of Pakistan are compiled into a book format. The themes of the current edition are carefully curated to cater to the extensity and expansivity of issues being currently faced by Pakistan.

The knowledge as articulated in these briefs is located. The edition is divided into six key themes: Narratives and Gaps, Transportation, Media Industry, Street Vending-Informal Sector, Trade, Commerce and Investments, and Institutional Governance and Processes.

The first, Narratives and the Gaps, details methodological context of narratives and explains what narratives are, how narratives are collected, what is the importance of narratives in social research and how narratives are analyzed. The section also typifies narratives specific to Pakistan: PayPal in Pakistan, Application of machine learning to economists, and Electoral politics in Pakistan. Narratives have gained significance in social research due to their event-centered and experiential specificity. While doing so, narratives are also being spaced in contemporary social sciences (Economics, Anthropology and Sociology) on experiential, discursive and structural levels.

The second theme, Transportation/Travel and Transport, delves into the track access regime, obsession with the flyovers in Pakistan, and the *Own* money in automobile purchases. The next theme, Inclusive Industries/Media Economy explains the specifics of Pakistan's film policy and the issues and challenges faced by the electronic media economy in Pakistan. Media industries provide alternative avenues for generating growth, value, and employment. Another sector of generating growth, income, and value is through street-vending. The knowledge briefs on this theme define street vending, detail regulatory framework of street vending, pronounces conceptual framework, and prescribes developing a policy solution for *khokhas* in Islamabad.

The next theme takes in academic literature and analysis on the theme of Trade, Commerce and Investments, wherein knowledge briefs related to trade elasticities, the relevance of special economic zones for Pakistan economy, contextual causes of inflation in Pakistan, exchange rate fluctuations, stifling investment in Pakistan in relation to India and China and austerity measures in Pakistan, have been researched upon. The last theme takes an institutionalist lens to Pakistan's political economy, body polity, and governance processes.

The compilation problematizes key areas of economics and public policy and works as a policy takeaway document for Pakistan economy.

FAHD ZULFIQAR

NARRATIVES

NARRATIVES IN RESEARCH

FAHD ZULFIQAR, *Pakistan Institute of Development Economics, Islamabad.*

Bryman (2012) briefly explains that qualitative data usually results in a large amount of textual and contextual information. He further explains that there are two general strategies which qualitative researchers use to analyse qualitative data; analytic induction and grounded theory. In both strategies coding frames are constructed in which codes are generated either inductively or deductively. While generating codes, categories, and themes, the text reduction technique is employed to condense voluminous data. This process condenses larger amounts of text into keywords, codes, or categories, 'decontextualises' or 'fragments' the spontaneity and serendipity of accounts, events, and stories told by people. Bryman (2012) names these stories as narratives that are garnering acceptance from both researchers and activists. This Knowledge Brief is an attempt to explain what narratives are, how narratives are collected and analysed, and what narrative analysis entails.

1. WHAT ARE NARRATIVES?

Narratives are stories of peoples, events, and places (Bold, 2012). Narratives are event-cantered or people-cantered. While detailing narrative, Bryman (2012) narrates:

> *"An event is something that has happened to a person or thing, at a particular time or in a particular situation. Narratives necessarily tell the events of human lives, reflect the human interest and support our sense-making processes. They have the ability to transform our lives and the contexts in which we live."* Bold (2012; 16)

De Fina (2015) classifies narratives as micro and macro. The depiction, construction, and analysis of narratives as recognised by psychologists, anthropologists, and socio-linguistics go beyond the decoding and deconstructing texts and are more situated in local realities such as experiences of HIV/AIDS patients (Bryman, 2012), classroom settings (Bold, 2012), or therapeutic sessions. These micro-narratives are contextual which are then connected with the event they are embedded in to explain the articulation between context and event. For this reason, in most of the narrative-cantered research, interpretationist epistemological and constructivist or postmodernist ontological orientations are upheld by qualitative researchers.

2. WHAT A GOOD NARRATIVE ENTAILS?

Bold (2012) articulates the following qualities of a good narrative:

- **Liminality:** A narrative providing a space in which the reader can open his/her thoughts to something new.
- **Transgression and Evocation:** A narrative eliciting emotional and experiential experiences from readers.
- **Complexity:** A narrative interweaving ideas, layered characters, and non-linear story-telling.
- **Creativity:** A narrative creating concepts, that are fluid, multi-vocal and fresh.
- **Audience Engagement:** A narrative capturing attention by communicating in particular ways.

A good narrative is also amenable to narrative analysis. Narrative analysis is an approach to analyse qualitative data that focuses on the stories that people tell. These stories can be extracted through a variety of research methods, including though not limited, to semi-structured interviews, unstructured interviews, and participant observation. Narratives can be constructed through, and narrative analysis can be applied to documents (official documents or personal documents such as field notes, diaries, and fiction as well non-fiction materials), images (still and moving), and artwork.

3. HOW TO COLLECT NARRATIVES?

Narratives can be collected through individual and group interviews. Among individual interviews are structured, semi-structured, and unstructured interviews. These interviews are classified according to the type of questions being asked; closed and open-ended questions. The data extracted through these questions can be in the form of short answers which can be easily collated or may extract narrative style responses which require retrospective qualitative analyses (Bold, 2012). However, extraction of narratives through interview types which are specifically classified by the type of questions posited at interviewees, is often viewed as a reductionist approach towards narrative construction. To collect narratives which are richer in tone, deeper in content, and context-laden in their specificness to the individual being studied, discursive and situational and contextual interview types are required. In literature, these interviews are classified as narrative interviews, episodic interviews, oral histories, life histories, experience-centered interviews, event-centered interviews, and Biographic-Narrative Interpretive Method (BNIM). In the following is presented the analytical framework derived from the Dave Snowden's framework of narratives and sense-making:

<table>
<tr>
<td>Narrative Interview (NI)

Is the method in which interviewee is stimulated to narrate stories with minimum interruptions from the interviewer (Jovchelovitch and W. Bauer, 2000).
The attempt is not to strictly follow the topic guide and question-answer schema; go beyond interviewer-interviewee monotony and rely more on the self-generating schema.
Adopted in cases when the aim is to minimise the influence of the interviewer and verbalise the interviewee's perspectives through storytelling.
Use of language similar to the interviewees is preferred, which embodies a reflexive methodology that the researcher employs while using narrative research design.

</td>
<td>Life and Oral Histories

Methods for researching social history, social change, and life events. In some cultures history of the communities is passed down from one generation to the next generation through ancestral stories.
Storytelling becomes a very effective method for eliciting experience-centred narratives which are separated from the event-centred narratives. The latter focuses on the set of events in the narrative without caring much for the story's context.
Context and content are the prime features to be considered while collecting experience-centred narratives.
BNIM is a technique for collecting highly detailed analysis of one's life history, and since this method seeks retrospective stories told over time, it requires a longitudinal research design.

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<tr>
<td>Focus Group Discussions (FGDs)

Bold (2012) asserts that during FGDs, individual identities are lost as generalised patterns, and mutual consensus are reached over a range of issues under consideration.
In doing so, there is a possibility of missing out on individual narratives.
Despite these potential weaknesses, the dialogue can generate a collective narrative especially when sensitive domains are researched upon.

</td>
<td>Participant Observation

Narratives can be extracted through natural occurring data. Natural occurring data is captured through participant observation.
Observations as a source for narrative construction are being visited and revisited in ethnographic research. The most commonly employed observational technique is participant observation, in which the researcher plays a dual role of a participant and an observer.
Participation of a participant-observer is relative to the field settings and nature of research. If the content under focus, social realities being explored and lives being studied are novel and intriguing, the degree of participation needs to be more and the relationship between researcher and subjects be reciprocal.

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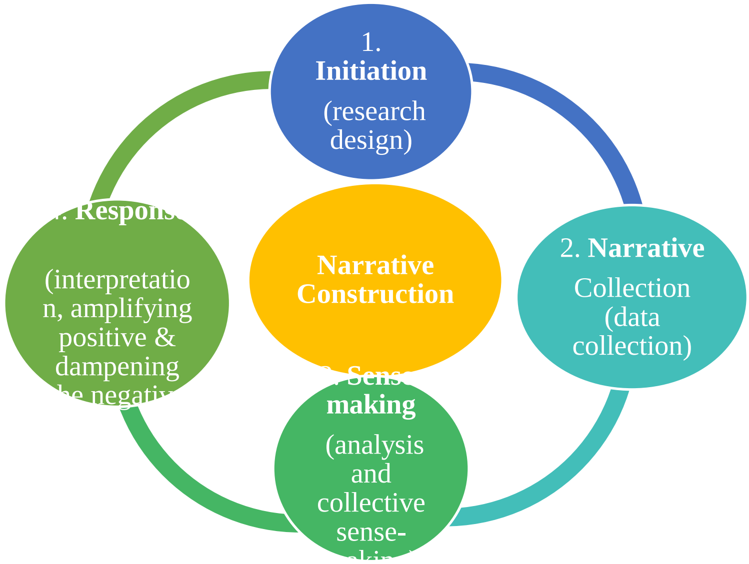

4. LET'S CONSTRUCT NARRATIVES

4.1. Narratives through Drawing

Fig. 1. Depiction of an Abducted Child's Mind[1]

[1] The drawing is secured with consent from the school activity carried out by teachers of a private school in 2016 as part of awareness campaign about child abduction and abuse.

Context: As part of an awareness campaign among school-going children regarding child abduction, teachers asked the students of second grade to draw anything that came to their mind. The attempt was to assess the extent to which students were aware of the rampant child abduction phenomenon which havocked Punjab in 2016. This picture depicts the mind of a girl child who is abducted. Her face is sad, and tears are drawn, flowing down her cheeks. The thought bubbles are drawn to show her state of mind and the multitude of emotions she feels. The two thought bubbles on her left show sad emoji. The first thought bubble on her right shows her house, cat, two dolls, and food - the things she misses. The second depicts sad emoji, and the last depicts a knife, two bombs, one pistol, and a slapping hand as the objects or actions through which she can be harmed.

- This method of extracting narratives is gaining much attention in academia as a guiding principle and starting point through which sensitive issues can be efficaciously researched upon, and narratives can be elicited.
- For this particular illustration, semiotic analysis was used to deconstruct and interpret the discursive objects as can be seen in the above figure (facial expressions, thought bubbles and the meanings each of these objects depicts).

4.2. Narratives through Interviews

> *"I hated my mother; she used to force me to talk to the military officials who visited our house frequently. I was very young and quite beautiful. The military personnel loved to talk to me, my mother knew what their intentions were, yet she would force me to go and talk with them. The military had taken away my father; my mother hoped that if I befriended the military, they would release my father."[2](2012: 114)*

Context: Kabita Chakma, the Organising Secretary and former President of the Women Hill Federation recounts the repercussions she and her family faced after CHT underwent full-scale militarisation. CHT is situated in the Southeast of Bangladesh and is inhabited by eleven ethnic groups. The Hill people's alienation is entrenched since the independence of Bangladesh when the Hill people were denied their constitutional rights. A day after Sheikh Mujid ur Rehman was assassinated, RAW contacted Manobendra Narayan Larma (leader of Hill people's political party) to support Hill people's movement, which resulted in the establishment of Shanti Bahini (military unit set up for Hill people in support from India). Upon realising that this association could be a serious threat to Bangladeshi nationalism, the GOC of the Chittagong Division was given hold of the CHT administration. Militarisation aimed to control security scenarios in CHT. In the name of counter-insurgency enormous violation of human rights took place, the adversity of this violation was borne by the entire population but women were particularly targeted. The violence against CHT women was racialised and sexualised in an attempt to dehumanise CHT population.

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[2]An excerpt extracted from an interview conducted by feminist scholar Amena Mohsin. She interviewed Kabita Chakma, Organising Secretary of Hill Women Federation.

- Chakma's narrative is both event-based and experiential. It also has a temporal reference since it refers to the time when CHT was militarised (1975-1991). The narrative depicts the psychological and emotional rifts between two women; a mother who forced her daughter to lure military personnel and a daughter whose youth was instrumentalised by her mother to trace her husband.
- The narrative also dilutes the dichotomy of public and private domains in conflict-ridden zones where the public domain is associated with men and the private domain with women. The identity of men as protectors and women as protected is challenged through this narrative. Women in CHT had to head their households when men were in the battlegrounds. Sexual violence against CHT women is another war-time strategy documented by feminist scholars through document analysis of official and non-official records and thematic analysis of the interviews conducted with the survivors of sexual violence.

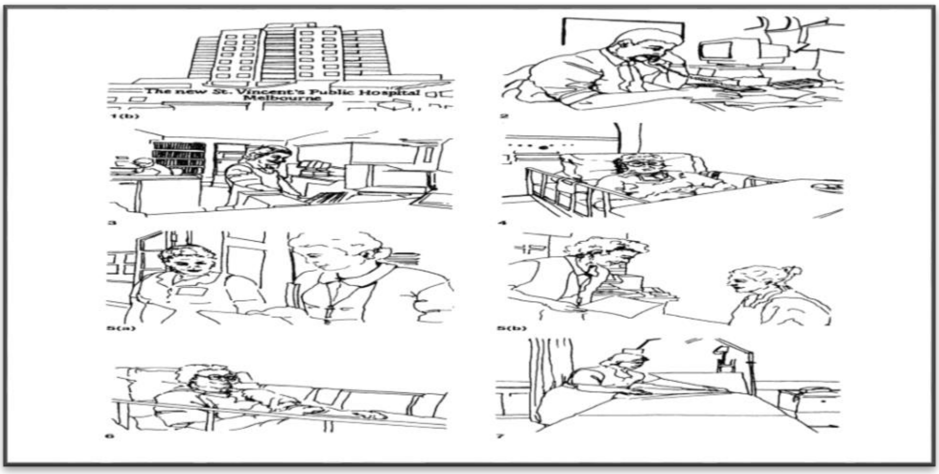
4.3. Narrative through Still and Moving Photographs

4.3.1. Still Images

Context: Alan Kurdi was one of the at least 12 Syrians who drowned attempting to reach the Greek Island of Kos. Kurdi was three years old and hailed from the Northern Syrian town where conflict resulted in the displacement of locals. The family (elder, eight years old brother, and parents) boarded an inflatable boat that capsized 5 minutes into their journey in Turkey, taking the lives of mother and both sons. The first photograph which went viral on media was clicked by a famous Turkish photographer. The collage of photographs above depicts the linear progression of events, which also stitches narrative structure. This structure touches upon meta-narratives of the refugee crisis, illegal migration, human security, and child protection. The photographs have been converted into different artistic expressions (miniatures, paintings, and hoardings) to create global awareness about these meta-narratives.

Photographs imprint individualised and personalised experiences touching upon micro-narratives. Micro-narratives collate and intersect with one another to create macro-narratives, the way the deconstructed photographs in the collage above have stitched into a macro-narrative entailing refugee crisis and illegal or irregular migration.

4.3.2. Moving Images



The above collage of frames is from a documentary film and has been cited by Leeuwen and Jewitt (2001), who define and divide analysis of moving images into six-level analytical categories. These categories are defined as *frame*, *shot*, *scene*, *sequence*, and *generic stage*.

- Starting with a ***generic stage***, we refer to the genre of narrative structure in which there is a story which has a beginning, middle, and an end. The narrative genre starts with the introduction and development of a context, followed by the conflict or contestation in need of a resolution followed by the resolution and finally coda (a reflection or postscript).
- The next analytical category is ***sequence*** which is composed of multiple scenes which are connected with each other thematically, not spatially or temporally. The connection between the scenes can be across different times and spaces but based on themes, the logical connection between scenes exists.
- In ***scenes***, the camera remains in one time-space. Scenes are composed of shots. In ***shots*** camera moves, but this movement is unedited. The last analytical category is ***frame***. A frame is a still extracted from a shot. The figure above is a collage of frames.

Leeuwen and Jewitt (2001) also argue that the process of meaning-making, whether depicted or conveyed through still images, moving images, music, dance, regular conversation, or documentary, perform critical functions which are theorised under the umbrella of **metafunctions** and conceptualised as:

- ***Representation***: Through **representation**, the researcher explains to his/her viewers about what the world he/she is studying, what constitutes that world?, how it can be explained?, what meanings are associated with it, and how meanings of that world can be conveyed musically, verbally, textually, and visually. The researcher re-presents the already presented elements in a film or a documentary according to his/her positionality, understanding, and subjective evaluation.
- ***Orientation***: The second metafunction of **orientation** explains that meanings tend to position characters (in a film) with the viewers. The use of different camera angles and shots provides a deeper understanding of the positioning and characteristics of characters in a film.
- ***Organisation*****:** The last metafunction of **organisation** shows that meanings are sequenced, organised and aligned through using technique and equipment. Cinematography, screenplay, editing, and dialogical combinations work in sync to give the narrative structure of a film a much-needed rhythmic flow.

5. NARRATING ECONOMIES

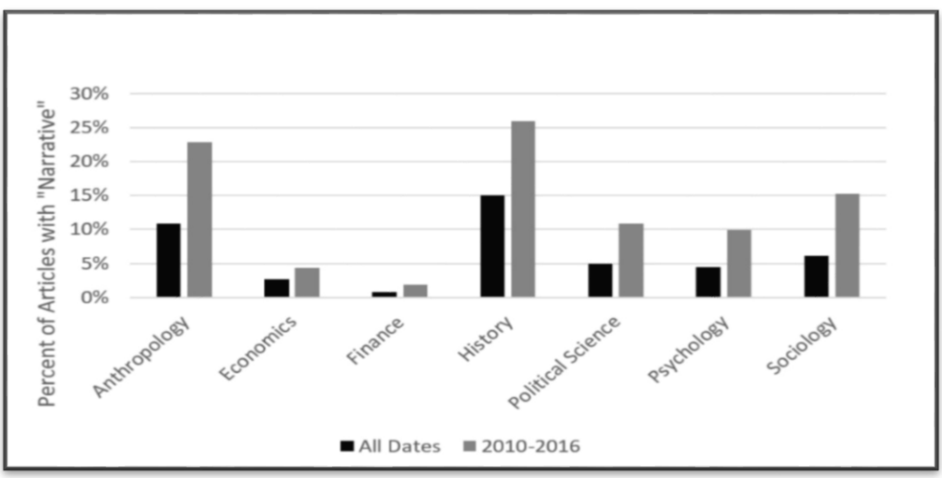
Narrative Economics is defined as:

> *"The study of the spread and dynamics of popular narratives, the stories, particularly of those of human interest and emotion, and how these change through time, to understand economic fluctuations."* (Shiller, 2017; 3).

Whereas narratives are defined as:

> *"..Simple story or easily expressed explanation of events that many people want to bring up in conversation or on the news or social media because it can be used to stimulate the concerns or emotions of others, or because it appears to advance self-interest."* (Shiller, 2017; 4)

Shiller (2017) provides an interesting overview about using narratives in social sciences, which the author exposits in graphical exposition as:



Through this graph, Shiller (2017) argues that the experts in economics and finance have lagged in attending to the importance of narratives. Shiller (2017) also explains that economists rarely tend to understand the significance of historic events such as the Great Depression of the 1930s, following events or economic policies through narratives. Some of the artistic expressions to narrate the Great Depression are as follows, which help deepen understanding of economic events.

Orr makes several points in his cartoon from March 18, 1932.

The attempt in this knowledge brief is to look into different avenues of narrative construction using different ways narrative structures can be developed. These ways can be through employing classical research methods such as interviews or creativity such as drawings, still, or moving images. The narratives constructed through various methods impinge upon explaining contemporary issues, creating awareness, challenging existing socio-cultural structures, or voicing alternative discourses.

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"PayPal is not Coming Soon". Why?

ABDUL JALIL, *Pakistan Institute of Development Economics, Islamabad.*

PayPal is a US-based electronic payment system that acts as a third party for financial payments between two parties. After signing up for the PayPal platform, the customer is supposed to link PayPal with their debit card, credit card or bank account. After completing the procedure, the customer may receive and send money to/from their cards or bank accounts.

PayPal has a strong position in the online fund transferring market. It has around 300 million active users and has an average of 3.5 per cent quarterly growth over the last 20 years (see Figure 1). However, unfortunately, it is not working/coming in Pakistan despite a lot of demand and efforts. There are several buzzwords in the market about the absence of PayPal. Money laundering, FATF and exchange control regime are the most important reasons have told in this regard. However, there is not a single comprehensive study is available on this issue. This small brief is an attempt in this way.

Box 1: A Quick SWOT Analysis of PayPal

Strengths

- It has worldwide operations
- A large number of users
- It provides a variety of services
- It is user friendly
- Around 305 million active users

Weaknesses

- There is a large exposure to frauds and cyber crimes
- There are high service charges as compare to other electronic service providers
- There is must need of internet connection with good quality and speed

Opportunities

- We may shift towards cashless or low cash economies
- There may a good opportunity for digital cryptocurrency
- It may enhance the businesses and transactions

Threats

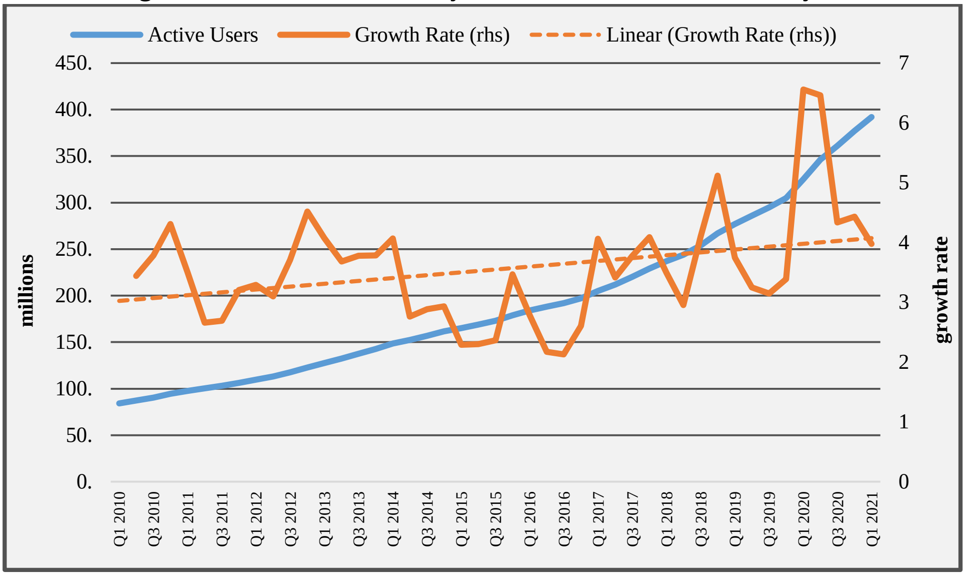
- The stringent regulations and policies may restrict the activities of PayPal
- The competitors are growing
- The hackers and fraudulent activities may damage the repute of PayPal

Specifically, we shall cover the following major points:

- Who needs PayPal?
- What is the regulatory framework for the electronic money institution?
- Is the threat of money laundering the chief reasons?
- Is capital control or exchange control restrictions the concern?

- What about the willingness of the government to bring the e-government or e-participation?
- What PayPal analyses for entering any market?

Fig. 1. Number and Quarterly Growth of Active Users of PayPal



1. WHO NEEDS PAYPAL

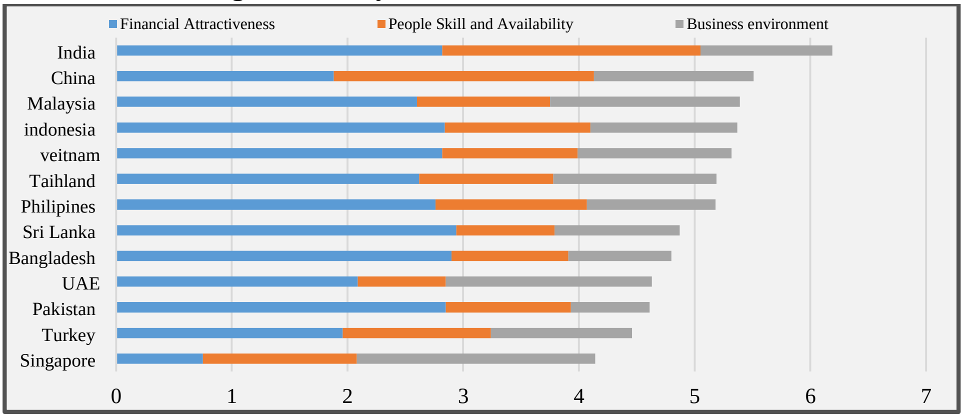
Though PayPal is needed for a variety of financial transactions, but the freelancing community is directly connected with this service. Notably, Pakistan is a significant freelance exporter with a growing market over the last three years. Therefore, the freelancing community is facing massive trouble in receiving payments in the absence of well-trusted electronic payment service providers. Resultantly, they use informal/illegal or indirect ways for creating PayPal accounts in Pakistan.[3]

Pakistan has a good contribution in the freelance markets and has an attractive destination for offshore service. Kearney's Global Service Location Index (GSLI) scales the location attractiveness of the countries.[4] According to GSLI of 2019, Pakistan is the 11th most attractive location in Asia for the offshore service, and its placement is at 30th number is the world's list (see Figure 2). However, the most encouraging number is the financial attractiveness. Pakistan is 5th largest amongst the 50 country index and 3rd most prominent place in the Asian countries. Despite these encouraging facts, they do not have a trusted, user friendly, safe and worldwide accepted electronic payment system. Resultantly, they end up using risky, informal and illegal platforms for the fund transfer. In this situation, they would prefer and require PayPal, which is safer, trustworthy and offers quick services for customers.

[3] There are several YouTube video available for creating/acquiring the PayPal accounts/cards in Pakistan.

[4] https://www.kearney.com/digital/gsli

Fig. 2. Kearney's Global Service Location Index



Source: A.T. Kearney Global Service Location Index.

2. WHY IS PAYPAL NOT COMING?

Although there are some online fund services like Skrill and Payoneer are working in Pakistan. Both platforms are linked with the bank accounts of the customers and the JazzCash account. However, there is little chance for the coming of PayPal, the most widely trusted and accepted mode of fund exchange in the world, soon despite the government's efforts. Now the question is why PayPal is reluctant to come? There are several reasons like regulatory restriction, money laundering, fraudulent activities and capital flight.

2.1. Regulatory Concerns

If not the only, the key concern for PayPal for entering the Pakistani market is the long list of regulatory restrictions.[5] According to the State Bank of Pakistan regulations for Electronic Money Institution (EMI), the EMI has to maintain the initial/startup capital requirement of PKR 200 million for operating in Pakistan. Furthermore, the EMIs also required to maintain the minimum ongoing capital at all times. There are different slabs of ongoing capital according to the Outstanding E-money Balance (OEB).

Slabs	Average OEB	The Required On-Going Capital
1	Up to 4 Billion PKR	PKR 200 Million
2	Between PKR 4 Billion and PKR 10 Billion	PKR 200 Million plus 5% of OEB above PKR 4 Billion
3	Between PKR 10 Billion and PKR 20 Billion	PKR 500 Million plus 7.5% of OEB above PKR 10
4	Above PKR 20	Billion PKR 1.25 Billion plus 10 % of OEB above PKR 20 Billion *

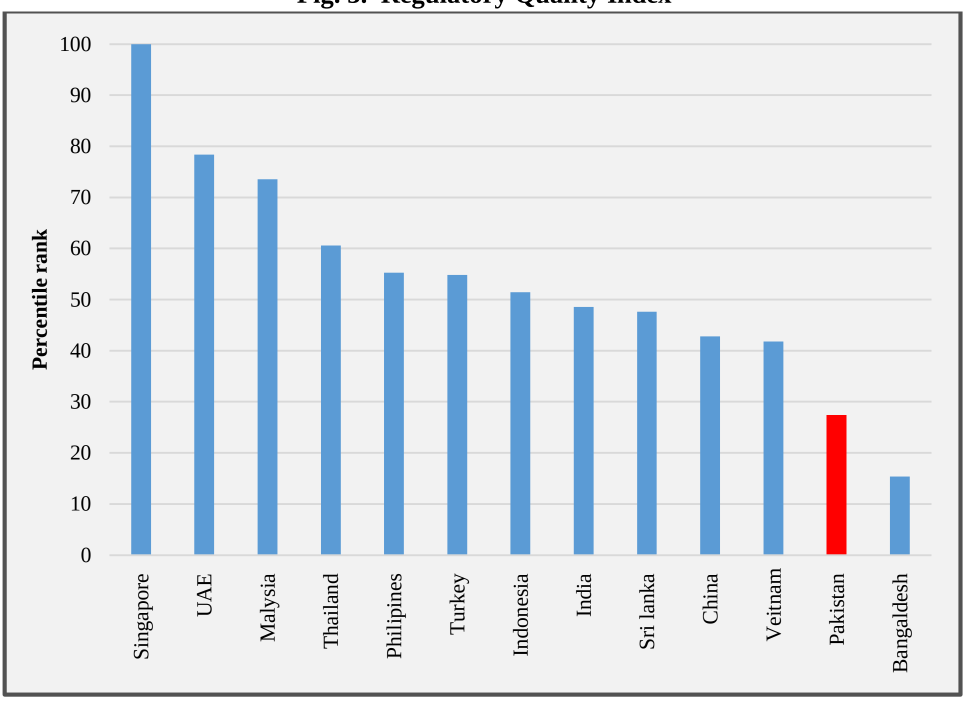
[5] See 'Regulations for Electronic Money Institutions (EMI)' of State Bank of Pakistan https://dnb.sbp.org.pk/psd/2014/C3-Annex.pdf

The second important issue in the regulatory restriction is that the payment service providers, that is EMI, would have to undergo a 3 stage approvals process for a license. First, in-principle approval, second pilot operations and third complete operations. Thus they have to give a lot of time and money to be a payment service provider in Pakistan.

In addition to this, the multiple regulations regarding customer due diligence would also be needed to be followed. After reviewing the regulations for EMI, one can easily deduct that the whole responsibility will be transferred to EMI in case of any illegal or suspected transfers of money. So, if such strict regulations existed in the US, perhaps such firms could not start a business. It may also be noted that PayPal is said to operate with minimum profit margins as compared to other online fund transfer system like Payoneer, and such high cost for regulatory purposes would not fit in their business model.

Sadly, the regulatory quality of Pakistan is almost the lowest, just above Bangladesh, amongst the Asian countries (see Figure 3). We plot the regulatory quality index. The index reflects perceptions of the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development.[6] In addition to this, the 'Economic Freedom Index (EFI) ranks Pakistan 135th out of 180 countries (2020). Therefore, the unnecessary regulations are one of the key hurdles to invite PayPal into our market. PayPal is a business entity. Therefore, they will not come in presence of strict regulations and low profit. The Pakistani market is not a low hanging fruit for them. Businesses always flourish with incentives instead of restrictions.

Fig. 3. Regulatory Quality Index



[6] See Worldwide Governance Index (2020) for more details. www.govindicators.org

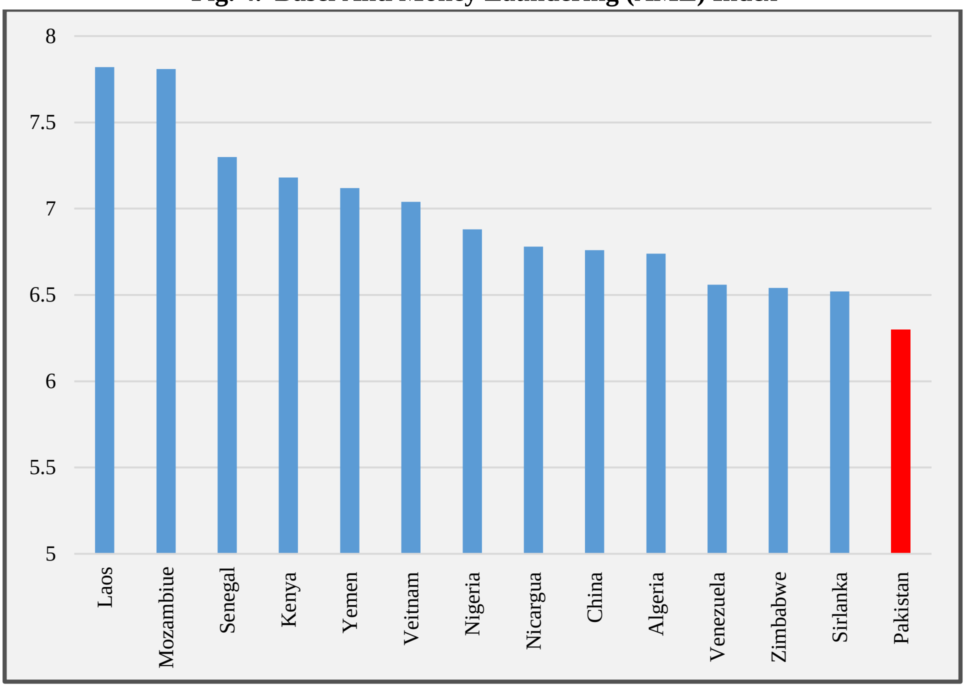
2.2. Money Laundering and FATF

The other vital concern of PayPal for not entering into the Pakistani market is money laundering. There is a concern that money laundering activities have been increased in Pakistan over the past few years. Therefore, the Financial Action Task Force (FATF) has placed Pakistan on the grey list. Therefore, due to FATF, the international electronic payment service providers or EMIs have to comply with strict regulations for customers and avoid money laundering. Otherwise, the SBP has the power to cancel their licenses.[7] Therefore, the PayPal company is reluctant to come due to the strict restrictions.

We argue that money laundering is not a big issue for the PayPal company. The company is working in several countries with a higher risk of money laundering than Pakistan (see Figure 4). We plot the Basel Anti-money laundering (Basel AML) Index.[8] It is an independent annual ranking that assesses the risk of money laundering and terrorist financing (ML/TF) worldwide.

The figure shows the countries where PayPal is working or providing full or partial services have a much higher risk of money laundering than Pakistan.[9] Interestingly, several countries are placed on the grey list of FATF but the PayPal is working in those countries fully or partially. So, the AML and the FATF is less concern from the PayPal point of view.

Fig. 4. Basel Anti Money Laundering (AML) Index



[7] See 'Regualtions for Electronic Money Institutions (EMI)' of State Bank of Pakistan https://dnb.sbp.org.pk/psd/2014/C3-Annex.pdf

[8] See https://baselgovernance.org/basel-aml-index/public-ranking for details and data.

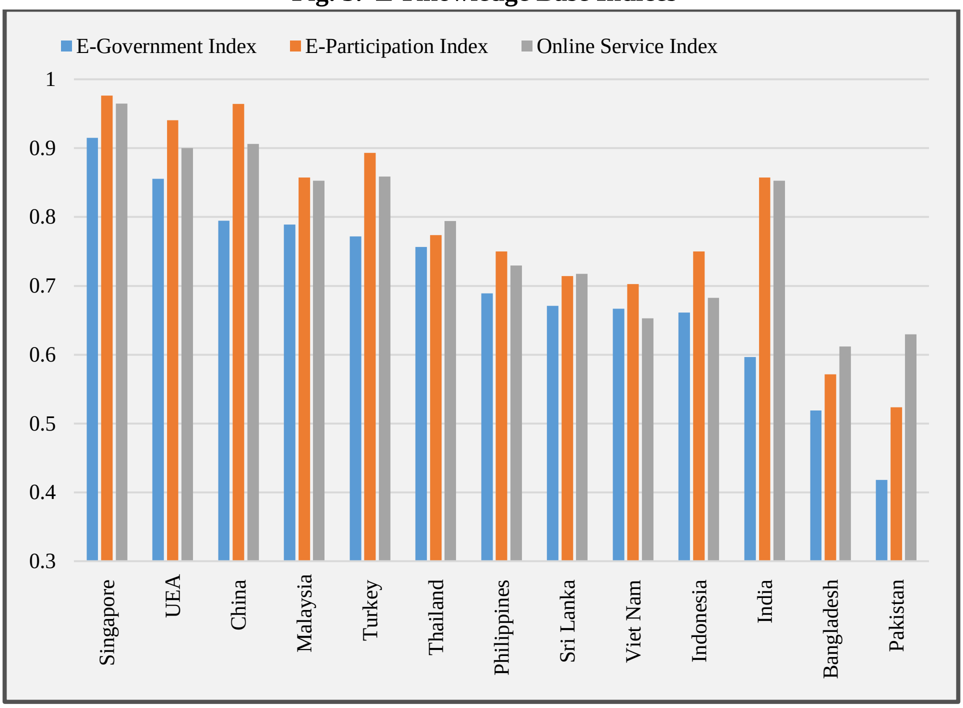
[9] There are three types of countries or regions according to the services of PayPal. First, the countries with the ability to send and receive payments, second countries/Regions with the ability to send and receive payments and have Automatic Transfer and, third the countries/regions with the ability to send payments.

2.3. Willingness of Government and SBP

Overall government attitude in Pakistan is not supportive of digital currency and digital payments. For example, digital currency like Bitcoin is not allowed in Pakistan. The ratio of regular users of alternate delivery channels (ATM, electronic transfers, e-wallets) is still very low in Pakistan.[10] There may also have been the issue of a central payment gateway. Although, PayPal acts as a digital wallet in the USA market, however for some countries it only acts as an institution for money transfer.[11] However, for this, there must be a central platform from where they can transfer to any bank. Such a central platform does not exist in Pakistan.

Pakistan is at the lowest position of various E-knowledgebase indices as compared to selected Asian countries. These indices are prepared by the United Nations.[12] We plot three important indices, that is, E-government Development Index (EGDI), E-participation Index (EPI) and Online Service Index (OSI). The EGDI is based on the access characteristics. That is, how the access and inclusion of information technologies are being reflected in the infrastructure and educational levels.[13] It is alarming that Pakistan is still struggling in all three indices as compared to other competitors in Asia (see Figure 5). So, there is a long way to go in this area.

Fig. 5. E-Knowledge Base Indices

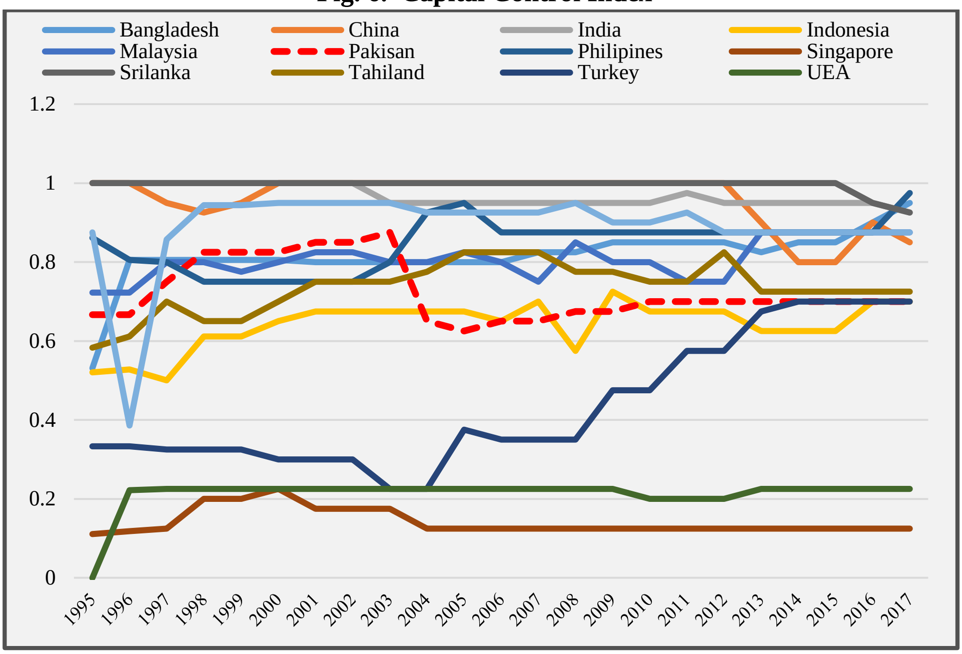


[10] See the Payment System Review reports of SBP for further details.
[11] https://www.paypal.com/sg/webapps/mpp/ua/residence-full
[12] https://publicadministration.un.org/egovkb/en-us/Overview
[13] See the exact definitions and methodologies of all three indices at https://publicadministration.un.org/egovkb/en-us/Overview

2.4. The Capital Controls

From the SBP point of view, the exchange control regime and data privacy are the major obstacles in the way of PayPal entering the Pakistani market. According to the SBP, the PayPal funds transfer mechanism is based on the bidirectional way. Therefore, the outflow of foreign exchange may create extra pressure on the external sector of Pakistan. This may be true for the other countries which have weak foreign exchange buffers. It is also interesting to note that Pakistan is not the only country that has strict capital control. In almost all countries, except Singapore and UAE, the Capital control regimes of the countries are at par or stringent than Pakistan (see Figure 6). We plot the overall capital control index (capital inflow +capital outflow) index based on IMF's Annual Report on Exchange Rate Arrangements and Restrictions. We use Fernández, et al. (2016) version of the index.[14] Interestingly, PayPal is working in almost all countries. So, capital control is not the biggest concern of PayPal.

Fig. 6. Capital Control Index



3. WHAT PAYPAL ANALYSES?[15]

We establish an argument that the FATF, money laundering, exchange control restrictions are not the bigger concerns of PayPal for entering any market. PayPal is a business company, a business with a good profit margin with a lot of ease of doing business. So, what PayPal exactly analyses before entering a market. There are a lot of things, but here we mention a few which are based on anecdotal shreds of evidence. These are related to E-commerce, payment methods, online merchants and risk management.

[14] http://www.columbia.edu/~mu2166/fkrsu/

[15] This section is based on the anecdotal evidences.

E-Commerce

The e-commerce business is the pivotal detriment to the existence of PayPal in any market. They are interested to look into:

- The total volume and value of online purchases by Pakistani consumers.
- Similarly, the total volume and value of online selling by the Pakistani merchants.
- The PayPal company is also interested to look into the growth rates of sale and purchase for a longer period.
- The percentage of the total online intra-border transferred money, that is, the transfer between local consumer and merchants.
- Similarly, the percentage of the online international transferred money, that is, the transfer between Pakistani and non-Pakistani consumer and merchants.

Payment Methods and Penetration Rate

- PayPal looks that what are and how many electronic/online payment methods, payment systems and platform are available for online transactions.
- What is the penetration rate of each payment system or payment method? That is, what percentage of the population owns the online payment, that is credit/debit cards. How actively they are using it.
- What is the percentage of total e-commerce activities are used by each electronic payment system?
- Importantly, they also analyse the risk profiles of these payment methods.

Online Merchants

- They also closely look at a list of some main merchants that may use the services of PayPal for their incoming or outgoing payments.
- The total online transaction volume of the major merchants is also monitored.
- The concentration of e-commerce is also important in this regard. That is, what percentage of total e-commerce/online transactions are related to top merchants.

Risk Management

- The company also analyses the list of data privacy, compliance of due diligence, and regulations that are relevant to PayPal or payment service providers.
- If there are easy ways to adopt these rules and regulation by PayPal without making major product changes then it will be a healthy sign for the starting of the business in any market.
- Are there some authentication methods available for establishing the identity of the merchant and consumers?

4. CONCLUSION

This note concludes that the regulatory framework for EMIs in Pakistan, the e-knowledgebase of the government and the market, especially, friendly market environment are the bigger concerns for PayPal. On the other hand, PayPal does not have a big issue with money laundering, FATF and exchange control regimes. If the government of Pakistan and the SBP is really serious to invite PayPal, then they have to take serious actions in this regard. The recently launched reform agenda of PIDE (2021) also argue that e-governance, optimal regulations, internet access and a friendly market environment are the key drivers for future economic activities. Therefore, this note suggests to the policymakers that this is a very critical time to think in this way. Otherwise, we will be far behind the competitors in the field of the electronic payment system, which is a key component of future transactions, in the next 5 to 10 years.

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MACHINE LEARNING FOR ECONOMISTS: AN INTRODUCTION

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INTRODUCTION

Machine Learning (henceforth ML) refers to the set of algorithms and computational methods which enable computers to learn patterns from training data without being explicitly programmed to do so.[16] ML uses *training data* to learn patterns by estimating a mathematical model and making predictions in *out of sample* based on new or unseen input data. ML has the tremendous capacity to discover complex, flexible and crucially *generalisable* structure in training data. Conceptually speaking, ML can be thought of as a set of complex function approximation techniques which help us learn the unknown and potentially highly nonlinear mapping between the data and prediction outcomes, outperforming traditional techniques.[17]

In this exposition, my aim is to provide a basic and non-technical overview of machine learning and its applications for economists including development economists. For more technical and complete treatments you may consult Alpaydin (2020) and James, et al. (2013). You may also wish to refer to my four lecture series on machine learning on YouTube https:// www.youtube.com/watch?v=E9dLEAZW3L4 and my GitHub page for detailed and more technical lecture slides https://github.com/sonanmemon/Introduction-to-ML-For-Economists.

ML applications have littered the academic literature and triumphed in industry applications. A case in point is Deep Face, a deep neural network created by Facebook for facial recognition. Another poster child for ML's success is Deep Mind's AlphaGo program based on neural networks which defeated the world Go champion in 2016. In addition, numerous applications abound in diverse areas such as fraud detection, spam filtering, speech recognition, recommendation systems, medical diagnosis, gene prediction based on DNA sequences in genomics, sales prediction for supermarkets, customer segmentation research, stock market prediction and house price prediction.

During the past few years, economists have also harnessed the power of machine learning in their research. A few applications from recent economic literature include training neural nets on satellite data to predict local economic outcomes in African

[16] ML is not identical to Artificial Intelligence (AI). It is more accurate to think of ML as a subset of AI.

[17] Using Chebyshev polynomials or manual human effort to approximate functions are examples of traditional methods.

countries Jean, et al. (2016). Cellphone usage data and ML has been used to measure wealth and quantify poverty in Rwanda Blumenstock, et al. (2015), Bangladesh Steele, et al. (2017) and to identify ultra-poor households for targeting development aid better in Afghanistan Aiken, et al. (2020). Larsen, et al. (2021) used text data on news and ML to estimate the impact of news on household inflation expectations.

KEY CONCEPTS IN MACHINE LEARNING

Broadly speaking, ML falls under two categories: supervised learning and unsupervised learning. Supervised learning involves training data on inputs X and output Y to learn the true mapping $Y = f(X)$. For instance, estimating the probability of disease given patient characteristics i.e $P(Y|X)$ requires estimating the conditional probability function. Meanwhile, unsupervised learning does not try to learn $f(X)$ but unearths patterns and associations in the input space X without data on Y.

ML algorithms, when unconstrained are able to estimate an arbitrarily complex function to fit nearly any training data very accurately. However, since our goal is to make out of sample predictions and generalise, we do not want to allow the algorithm to over fit the training data. In order to prevent this *over fitting problem*, we tie the hands of the algorithm through *regularisation*, which constraints its complexity, solving the variance bias trade off. The optimal degree of regularisation is determined by what are known as *tuning parameters* which have to be tuned toward values that optimise out of sample prediction through *cross- validation* for instance. This problem is also referred to as the variance bias trade off and is illustrated in Figure 1. On the left panel, model complexity is too low, which leads to low out of sample variance but very high in-sample bias. Meanwhile, the right panel illustrates the case when there is over fitting with low in-sample bias but very high out of sample variance. Figure 2 illustrates cross-validation, a method in which we partition the data into K folds.

We hold any one fold fixed at a time and train the algorithm on the other folds but use the left out hold for prediction only. We fine tune the *tuning parameters* by minimising the average cross validation error, which helps us solve the variance bias trade off.

Fig. 1.

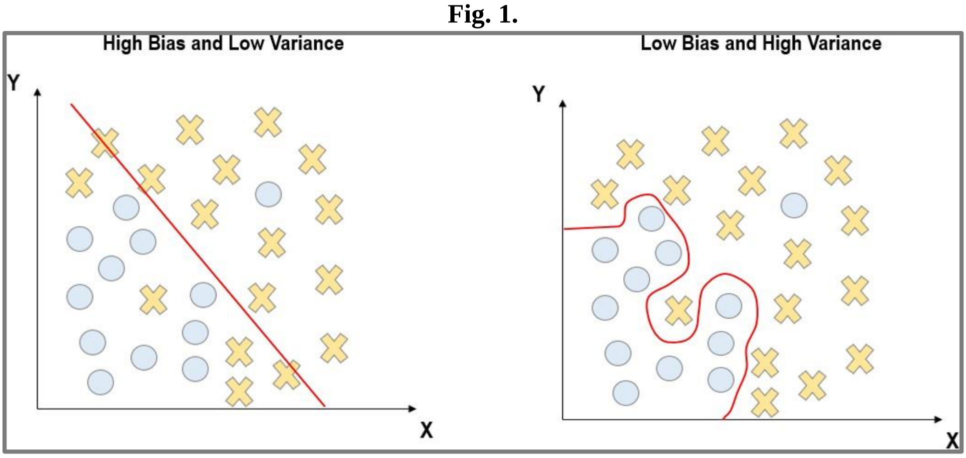
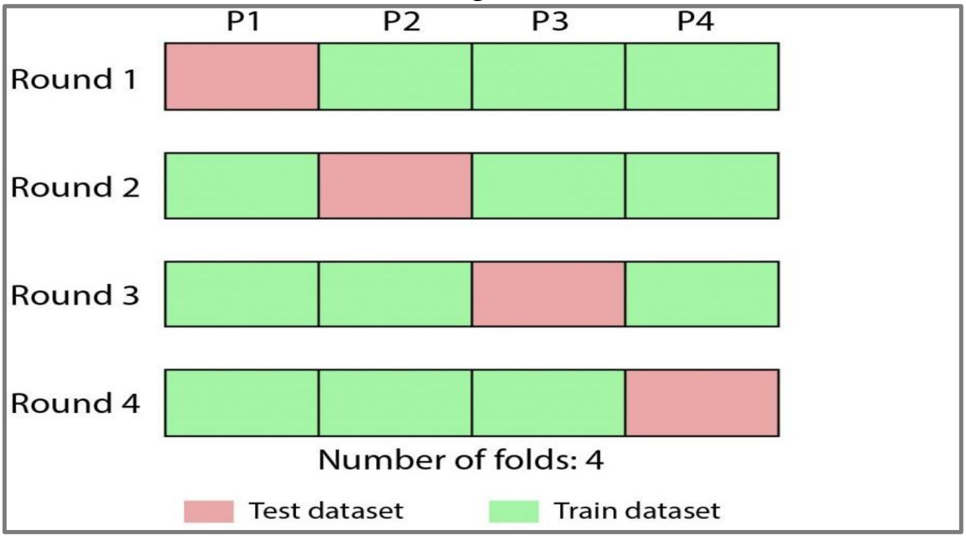


Fig. 2.



For economists, it is essential to keep in mind that the coefficients in ML models do not have causal and policy relevant, structural interpretations unless we impose very strong assumptions on the data generating process. The black box which allows us to learn the true mapping $Y = f(X)$ is still elusive and we do not yet fully understand what is going on behind the scenes. Therefore, the lesson is to look for y^ problems and not β^ problems.

Mullainathan and Spiess (2017), where prediction is the main goal and we are not interested in *identification* of causal parameters in the conventional econometric sense. Having said this, there is now a budding literature which leverages the power of ML to perform causal inference in experimental and observational settings (see Athey, et al. (2015)).

OVERVIEW OF METHODS

There is a panoply of different methods available for economists to use, some of which are supervised learning methods for regression problems such as regularised linear regressions (e.g LASSO, elastic nets, ridge regressions), regression trees and random forests, deep learning and neural networks. Meanwhile, algorithms for supervised learning and classification problems include support vector machines and classification trees. If one is focused on unsupervised learning, then *K* means clustering algorithms and computational linguistics methods such as Latent Dirichlet allocation are some of the options available. In experimental settings, reinforcement learning and multi armed bandits including contextual bandits can help design treatments more optimally. For causal inference using ML, causal forests and other methods can help, especially in identifying heterogeneous treatment effects (see Athey, et al. (2015)). However, in the interest of brevity, I will provide a concise overview of only three methods: LASSO regression, multi-armed bandit problems and computational linguistics. For further understanding regarding ML in economics see Athey (2019) and Athey and Imbens (2019).

LASSO

When we are dealing with big data in the sense of large number of covariates and the goal is to make optimal predictions, it turns out that often a relatively small subset of the covariates is sufficient. In order to identify this optimal subset, we can use regularised linear regression such as Least Absolute Selection and Shrinkage Operator (LASSO).[18] Formally speaking, LASSO solves the following problem:

$$Blasso = \underset{\beta}{argmin} \left\{ \sum_{i=1}^{n} \left(y_i - \beta_0 - \sum_{i=1}^{p} x_{ij}\beta_j \right)^2 \right\} s.t \sum_{j=1}^{p} \left| \beta_j \right| \leq c.$$

A lower level of *c*, which is a tuning parameter translates into more regularisation or lower complexity.

Making *c* sufficiently small will cause some of the coefficients to become exactly zero. The remaining set of retained non-zero coefficients are also shrunk toward zero by LASSO.

LASSO is now being frequently used in macroeconomic forecasting as well as in big scanner data for supermarkets and data in neuroeconomics. For example, Kock, et al. (2012) use a Stock and Watson type data set which has 131 macroeconomic time series for macroeconomic forecasting. LASSO throws away many of these variables in prediction problems and retains a small subset which it also shrinks toward zero, favouring sparsity of model specification.

MULTI-ARMED BANDITS

The second method that I will discuss is the multi-armed bandit problem, including contextual bandits. Traditionally, experiments were designed by assigning a predetermined number of units to each of several treatments. After outcomes are measured the average effect of the treatment would be estimated using the difference in average outcomes by treatment. This is inefficient since we waste units by assigning them to treatments that are known, albeit with a high degree of uncertainty to be inferior to some of the other treatments. Modern methods for experimentation focus on balancing *exploration* of new treatments[19] with *exploitation* of returns from treatments that are currently known to work well though these may not be the best ones.

In multi-armed bandits, treatment assignment is *adaptive* and *Bayesian*, updated over time as one keeps on assigning a sequence of incoming units to various treatments. Over time, we essentially estimate the probability of each treatment being the optimal one. We re-evaluate the assignment probabilities after a batch of new observations has arrived in a Bayesian fashion. Figure 3 below depicts an octopus, which has six arms, which correspond to six treatments. Corresponding to each treatment there is a Beta distribution[20] for payoffs, which is updated over time as the octopus learns about the payoff distribution of all the treatments. As our understanding of payoff distributions improves, we allocate upcoming units to treatments with higher expected returns more often.

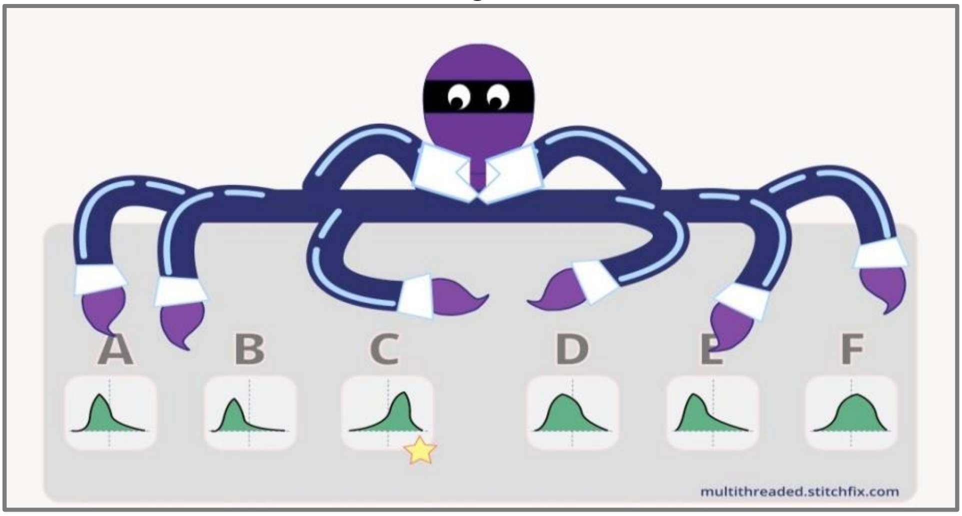
[18]There are also other methods such as elastic nets and ridge regressions.

[19]This can only be done if we assign units to diverse range of treatments and explore their returns. Obviously, this involves a risk as many of the treatments may have low payoffs.

[20]The Beta distribution is used because of its flexibility and it naturally arises in the binomial case when each arm can return either success or failure.

If all the successive units that arrive are treated as identical, then we have the standard multi-armed bandit problem. However, in experimental settings with humans, there is significant heterogeneity in units, which matters since outcome probabilities vary by unit characteristics. For instance, age, sex and genetic profile is relevant for outcome of drug trials and the probability of finding a job in response to the same labour market intervention will vary across people. When multi-armed bandit problems account for these contextual effects of treatments, they are called *contextual bandits*.

Fig. 3.



For instance, Caria, et al. (2021) use a version of Thompson Sampling algorithm[21] and contextual bandits for adaptive, targeted treatment assignment in a field experiment for improving job finding rate for Syrian refugees in Jordan. The algorithm balances the goal of maximising participant welfare and precision of treatment effect estimates. Caria, et al. (2021) found that after four months, cash provision has a sizable effect on employment and earnings of Syrians, while some of the other treatments such as information provision and psychological nudge were less effective.

APPLICATION OF CONTEXTUAL BANDITS IN EHSAAS PROGRAM

I have currently started work on a project which aims to apply contextual, multi-armed bandit problem to improve design of treatments in the *Ehsaas* program, Pakistan. This program includes the BISP[22] initiative and many other health, economic and education interventions some of which include *Ehsaas Kifaalat, Nashonuma, Tahafuz, Ehsaas* undergraduate scholarship programs, emergency cash transfer program and many others (see https://www.pass.gov.pk/home for details).

[21] Thompson Sampling is a popular algorithm to computationally solve a multi-armed bandit problem. Upper Confidence Bound (UCB) algorithm is another option.

[22] Benazir Income Support Program.

I propose that rather than having a priori criteria for assigning a particular *treatment* or mix of treatments/interventions to people with certain demographic and socio-economic characteristics, one could use machine learning to learn how to optimally assign these treatments to maximise human welfare. In order to adaptively update the probability of assigning the various treatments to beneficiaries of *Ehsaas*, one can use algorithms which learn the mapping between individual characteristics and outcomes over time. For instance, consider that there are four possible treatments that are assigned with *a priori* probability of 25 percent each to a certain group of people. A contextual multi-armed bandit can adaptively learn over time which mix of treatments works best for which group of people. Once we have learned from this algorithm, we may be assigning treatment A with probability 60 percent and treatment B with probability 30 percent and the remaining two with only 5 percent probability each to a demographic group with certain features. These optimal treatment assignment probabilities which will vary by individual characteristics cannot be learned without a data driven and machine learning approach.

COMPUTATIONAL LINGUISTICS

One big contribution of ML to econometrics is that it makes new forms of data amenable to quantitative analysis: text, images, satellite data, cellphone use data etc. This brings me to my third class of methods, which include algorithms for analysing text data. One method within this class that is extremely influential and has inspired some of the best, recent work in economics on text data is topical modeling of text corpora using Latent Dirichlet Allocation. For a comprehensive survey of literature using text as data in economics see Gentzkow, et al. (2019).

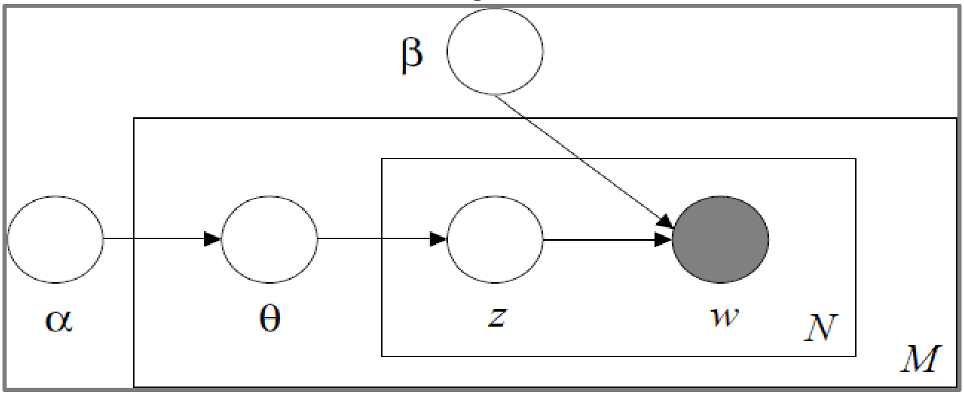
Latent Dirichlet allocation is a three-level hierarchical Bayesian model, also known as a generative probabilistic model (for technical details see Blei, et al. (2003)) for modeling collection of discrete data such as text corpora. In this literature, a document is simply a string of words and a corpus is collection of documents. A topic (z) is a probability distribution over the underlying topics. A word (w) is a probability distribution over topics. For instance, if the topic is about positive sentiment, then words which correlate with positive affect will have higher probability of being associated with this topic as opposed to other topics. LDA allows for topic probabilities to vary across documents, so that we can allow for the fact that some documents such as news articles are more optimistic than others, for instance. We can also allow for multiple topics to co-exist within the same document which allows a richer representation of the diverse information within a document.[23]

LDA first draws a parameter θ for each document in the corpus from the Dirichlet distribution with hyper parameter α, which always returns values from a $K-1$ dimensional simplex when there are K topics. Subsequently, it draws topics for each word in the document from a multinomial distribution with parameter θ. Then, it draws words from the distribution, conditional on topics. Finally, the probability of a document, which is ultimately a distribution over words can also be determined. This hierarchical Bayesian

[23]This is unlike previous methods for text analysis such as unigrams and mixture of unigram models Blei, et al. (2003).

process is illustrated in the following “plate diagram” in Figure 4. The parameters in LDA are estimated using Bayesian methods.[24]

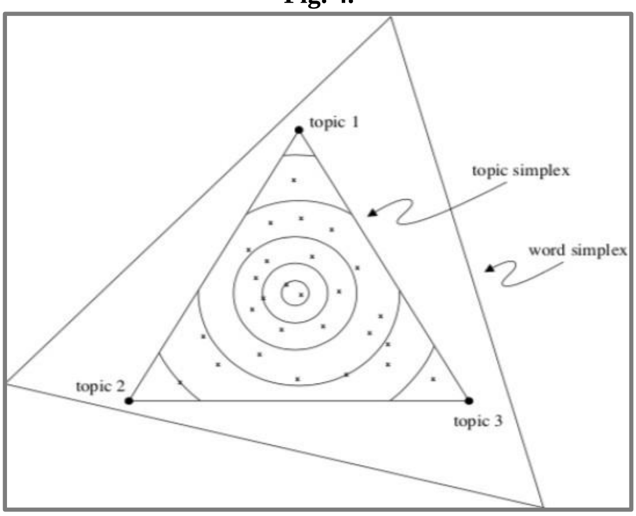
Fig. 4.



Source: Blei, et al. (2003).

Each item or word of a document is modeled as a probability distribution over an underlying set of *topics*. Each topic is in turn a distribution over the underlying set of topic probabilities. This gives rise to a word simplex,[25] where each word is a probability distribution over topics and a topic simplex, which is embedded within the word simplex as shown in Figure 5 below.

Fig. 4.



Source: Blei, et al. (2003).

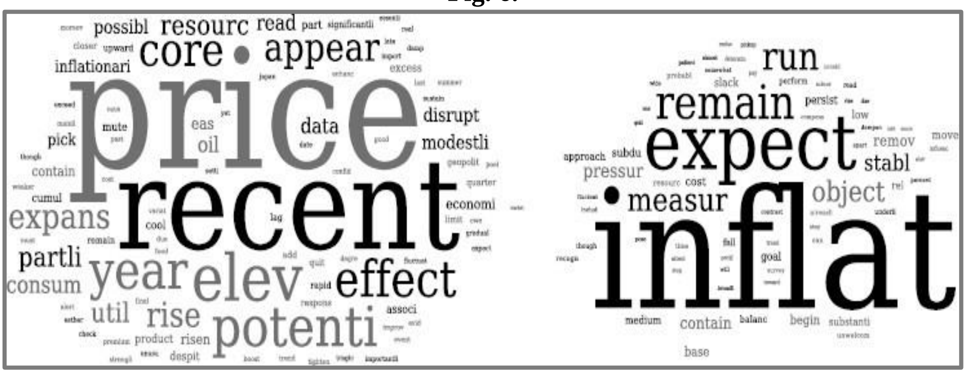
[24]Markov Chain Monte Carlo (MCMC) methods, especially Gibbs Sampling methods are used to estimate these models. The original Blei, et al. (2003) paper also proposed an expectation maximisation algorithm which is based on variational inference.

[25] Note that a simplex is defined by the set of vectors for which it is true that the components sum to one.

In the context of text modeling, the topic probabilities provide a compact representation of a document. For instance, if we choose to estimate 5 topics based on a collection of documents, LDA will identify these topics based on associations of words in the data without any supervision on what those topics are about. This can help us extract a sparse and meaningful representation from an otherwise very high dimensional text, which can be used to perform linguistic analysis and measure various tendencies in the communication and sentiment, latent in the text.

Economists have used LDA to analyse the effects of the content of central bank communication such as forward guidance and signals about the current state of the economy on market and real variables Hansen and McMahon (2016). Figure 6 shows two-word *clouds*, where each of the two represents the topics estimated by LDA. Words which are represented using larger fonts in these clouds have higher estimated probability of occurrence in that topic. Another shining example from cutting edge research Larsen, et al. (2021) is the use of 5 million news article archives to estimate several topics using LDA, relevant for inflation and examine the impact of these news on household inflation expectations. Larsen, et al. (2021) concluded that the topics about inflation discussed in media reporting significantly drive and predict household inflation expectations.

Fig. 6.



Source: Hansen and McMahon (2016).

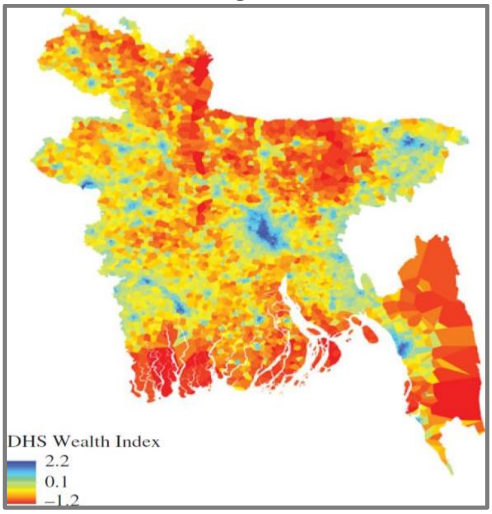
ML FOR DEVELOPMENT

There are many applications of machine learning in development economics, which can prove fruitful for policy-makers in Pakistan. For instance in Delhi, India, ML algorithms on tax data were used to more systematically identify "suspicious" firms to target for physical audits, which can improve tax compliance Mahajan and Mittal (2017). Existing data on firm characteristics for firms that were physically inspected and found to be suspicious was used to train ML algorithms, which can identify firms that should be audited, translating into improvements worth millions of dollars in tax collection for Delhi alone Mahajan and Mittal (2017).

A combination of mobile CDR data (e.g. data on SMS traffic, top up patters, call durations, social network of mobile user), satellite data (e.g. vegetation indices, water bodies' identification and urban or built area classification) and geographically referenced survey data was used by Steele, et al. (2017) to create granular poverty maps for Bangladesh. Figure 7 illustrates such a map, where the unit of analysis was based on

Voronoi polygons, corresponding to cell phone tower coverage. This methodology enables prediction of poverty levels based on mobile CDR and satellite data throughout Bangladesh at fine spatial scales.

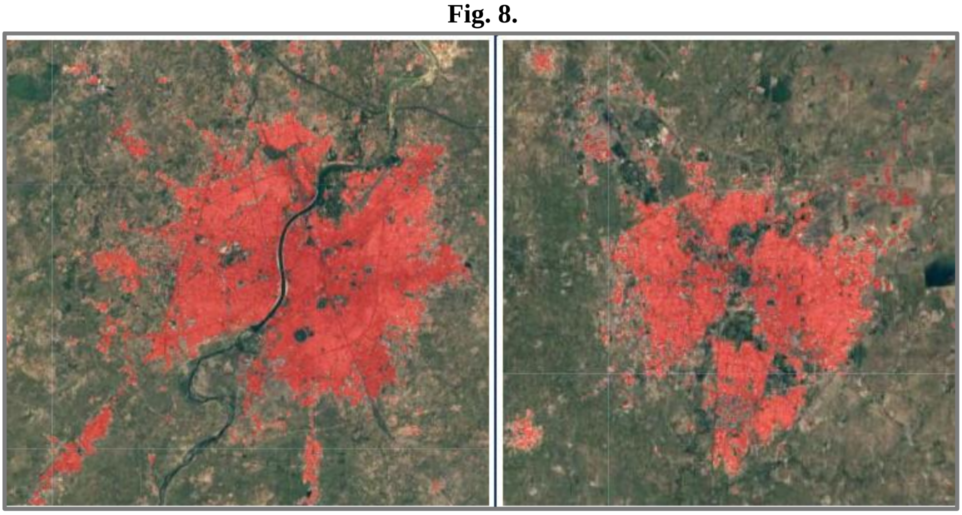
Fig. 7.



Source: Steele, et al. (2017).

Goldblatt, et al. (2018) used nighttime lights data to "train" for better classification of urban areas in daytime satellite images (Landsat) in the form of built versus non-built areas. They used nigh time luminosity data as inputs to predict the probability that a given spatial unit is a built area such as for residential or industrial or commercial purpose. Figure 8 shows a map, which identifies built urban areas in red for a region in India at a highly granular level. Non-built areas may include water bodies and vegetation. This analysis can produce more accurate data on the pace and extent of urbanisation, improving infrastructure development, industrial policy, environmental planning, and land management.

Fig. 8.



Source: Goldblatt, et al. (2018).

Such methodologies enable us to conduct novel and highly granular analysis, which can be updated at low cost and high frequency, addressing the challenges inherent in data scarce environments of developing countries. While it is true that ML systems for the most part and on their own cannot help us make causal inferences, but with big data, they can enhance predictions, which can automate policy decisions, identify vulnerable populations and regions as well as provide valuable inputs to causal analyses.

CONCLUSION

ML has created plethora of new opportunities for economic researchers. It is about time that we should begin to deploy big data and machine learning tools more commonly in academic research and public policy design in Pakistan. These algorithms can improve prediction, enhance the scope of causal inferences, partially compensate for deficiency of rich data by making new data sources exploitable and improve design and efficiency of various public sector programs in Pakistan. ML can help improve tax compliance, targeting of social protection, make education and health interventions in the *Ehsaas* program more effective, facilitate in building rich urban profiles and create rich development and security indicators across space more comprehensively among many other payoffs.

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ELECTORAL POLITICS IN PAKISTAN: LAW, PARTIES, AND THE NEED FOR INNOVATION

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With three long dictatorial regimes, frequent allegations of electoral rigging, dynastic parties, and an ever-expanding state with limited class mobility, Pakistan's political landscape has consistently failed to meet the desires of ordinary people. This paper intends to outline the pitfalls of the electoral system through a three-tiered analysis of law, party behaviour, and potential technical interventions that may reshape the incentive structures guiding contestations for political power—thus leading to enhanced levels of political representation for citizens.[26]

1. LOW TURNOUT AND MISTRUST DUE TO FLAWED LAW

As things stand, Pakistanis' legal system regarding electoral processes leaves significant room for political parties to manoeuvre it through various loopholes. This has historically led to the domination of two parties, the PMLN and PPP—with one more, the PTI, entering the fray in recent times.

> **Box 1. Pakistan's Status on Democracy**
>
> According to the University of Wurzburg's annual global rankings for the 'quality of democracy', Pakistan ranked 123rd place among a total of 176 countries that were assessed in 2020. This is below Nepal (73rd), India (85th), Sri Lanka (93rd), and Nigeria (100th) – a dismal performance.

Table 1

Electoral Performance of Political Parties in Pakistan

2002			*2008*			*2013*			*2018*		
Party	*Vote share*	*Number of seats*	*Party*	*Vote share*	*Number of seats*	*Party*	*Vote share*	*Number of seats*	*Party*	*Vote share*	*Number of seats*
PPP	26.05%	63	PPP	30.87%	89	PML-N	32.53%	127	PTI	31.89%	116
PML-Q	25.66%	79	PML-Q	23.18%	42	PTI	16.92%	28	PML-N	24.41%	64
PML-N	11.66%	15	PML-N	19.64%	68	PPP	15.42%	34	PPP	13.07%	43
MMA	11.41%	44	IND	10.95%	29	IND	13.08%	28	IND	11.41%	13
IND	9.31%	28	MQM	7.45%	19	MQM	5.39%	18	MMA	4.85%	12
NA	4.77%	13	MMA	2.22%	6	JUI-F	3.25%	11	GDA	2.38%	2
MQM	3.19%	13	PML-F	2.04%	4	PML-Q	3.08%	2	ANP	1.54%	1
ANP	1.03%	0	ANP	2.04%	10	PML-F	2.34%	5	MQM	1.38%	6
PML-F	1.00%	4	NPP	0.43%	1	JI	2.11%	3	PML-Q	0.98%	4
PML-J	0.97%	3	PPP-S	0.41%	1	ANP	1.03%	1	BAP	0.51%	4
PTI	0.83%	1	BNP-A	0.21%	1	PKMAP	0.47%	3	BNP	0.41%	3
PAT	0.69%	1	Other (32)	0.57%	0	NPP	0.43%	2	AMLP	0.23%	1
PPP-S	0.34%	2	Total	100.00%	270	PML-Z	0.28%	1	JWP	0.04%	1
PKMAP	0.33%	1				AMLP	0.20%	1	Other (73)	6.90%	0
JWP	0.33%	1				AJIP	0.16%	1	Total	100.00%	270
PML-Z	0.27%	1				BNP	0.16%	1			
BNP	0.27%	1				NP	0.13%	1			
MQMP	0.18%	1				All PML	0.12%	1			
PSPP	0.15%	1				QWP	0.10%	1			
Other (41)	1.56%	0				Other (91)	0.60%	0			
Total	100.00%	272				Total	100.00%	269			

Source: Siddiqui, et al. 283.

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[26] I would like to pay gratitude to Mr. Ahmed Bilal Mehboob and Mr. Sarwar Bari for their valuable insights on the topic of political contestation through the electoral system in order to make this work possible.

It is also one reason for low turnouts, with no more than 55 percent of voters turning in their ballots on election day in any given cycle (a figure that declined in the 2018 election cycle)—indicating a dismal level of trust in the system to generate any substantive change.

Table 2

Statistics on Voter Turnout

Region	GE-2002		GE-2008		GE-2013		GE-2018 For only 270 NA Constituencies	
	Registered Voters	Polled Votes	Registered Voters	Polled Votes	Registered Voters	Polled Votes	Registered Voters	Polled Votes
Balochistan	3,926,843	1,164,970	4,365,274	1,367,001	3,336,662	1,300,628	4,300,042	1,940,982
ICT	384,070	196,719	482,801	241,531	625,969	389,976	765,445	445,827
KP including FATA	10,207,513	3,434,364	11,941,577	3,974,116	14,004,478	5,984,014	17,828,653	7,797,877
Punjab	41,253,858	18,996,880	44,500,257	21,442,088	49,259,342	28,760,265	59,880,956	33,937,762
Sindh	16,141,566	6,179,416	19,506,473	8,612,336	18,963,377	9,782,599	22,393,002	10,554,017
Total	71,913,850	29,972,349	80,796,382	35,637,072	86,189,828	46,217,482	105,168,098	54,676,465
Turnout (Percentage)	41.68%		44.11%		53.62%		51.99%	

Source: Free and Fair Elections Network.

1.1. Procedural Loopholes in the Law

One of the main reasons for the low turnout is the failure of the legal system to break down the election process into its various constituent elements and stipulate laws specific to them. The absence of these procedural laws has led to frequent malpractice in multiple areas, including the secrecy of the vote, equality of suffrage, candidacy requirements, periodicity of elections, definitions of electoral systems/provisions, right of association, voting rights, and the remedies for their violations, and campaign conduct.

The Elections Act, in Chapter III, Section 14, does state that the Commission is responsible for preparing an action plan four months prior to the election—"specifying all legal and administrative measures that have

Box 2. Procedural Law for Elections

A comprehensive legal framework for political contestation must cover each of the electoral stages adequately. (Mirbahar, 6-7) This means detailed legal provisions for 11 areas, which are absent/ underdeveloped in Pakistan's current legal system:

1. Electoral administration.
2. Election system.
3. Rights of candidates.
4. Right to vote.
5. Voting procedures.
6. Boundary delimitation.
7. Transparency requirements.
8. Campaign regulations.
9. Counting and compilation of results.
10. Women's participation.
11. Participation of persons with disabilities.

been taken or are required to be taken"—but this stipulation is far too generic and ill-defined. (Consolidating Democracy for Pakistan, 9) The current law treats elections as one homogenous event rather than a series of procedures—leaving too much room for meddling at the micro-level: see Box 2.

A study by Mirbahar (2019) on local government elections revealed, for instance, that executive positions for district council level in Sindh (for mayor) and Balochistan (for chairman) are frequently decided by a show of hands—thus compromising the secrecy of the vote. Furthermore, electoral units—i.e., the number of people designated to vote at a particular polling station—are rarely ever equal in their sizes (especially in Sindh and Punjab) within a constituency. This leads to inefficient use of election personnel and congestion in densely populated regions—making the voting process cumbersome for citizens and violating the principle of equality of suffrage. Also, the imposition of arbitrary cut-off dates to register for voting in these elections is not uncommon. The option to appeal for remedies of these rights violations is not formally included in the law (Mirbahar, 2019). Legal stipulations for all these loopholes must be introduced to standardise the process, making it fair and predictable.

Finally, a lack of transparency from the Election Commission of Pakistan seemed to prevail in the 2018 cycle—whereby it remained unclear how decisions were taken by key personnel during polling periods. This is because no formal publications from the EC were released for public scrutiny and clarification. These decisions had to do with the processes through which constituencies were delimited, the disqualification of certain candidates, court decisions on the scrutiny of candidates, the nomination of candidates for reserved seats (women and minorities), among others. Worse still is that no formal/legal provisions for publishing information relating to key decisions is to be found, meaning that the EC was technically within its rights not to share the information. This indicates a lack of accountability mechanisms and a conducive legal environment for poor levels of transparency. (European Union, 2018).

1.2. Ambiguities and Unintended Consequences in Law

The Election Bill of 2017, the legal document widely seen as the dominant source for all things relating to contestations for political office in Pakistan, leaves much to be desired. The Free and Fair Elections Network (FAFEN) released a review of the bill shortly after its release, documenting its shortcomings and proposing changes (see Box 3 and Table 3).

Box 3. FAFEN Recommendations on Elections Act 2017

- Increase the percentage of tickets that political parties are mandated to reserve for women and minority groups, currently at just 5 percent.
- Allocate election staff to polling stations that they themselves do not belong to in order to minimise bias.
- Raise the minimum turnout requirement for women, currently at just 10 percent.

Table 3

FAFEN Critique of Elections Act, 2017

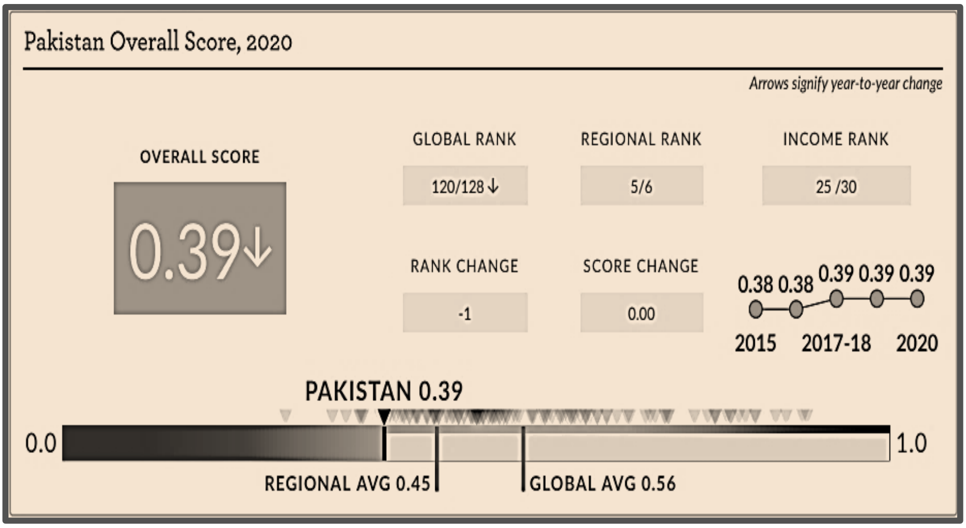
Law	Description of Loophole
Article 19	Delimitation rules for women and minorities are treated as a whole rather than being regionally distributed.
Section 41	Secrecy of voters is compromised by allowing for election staff to obtain voters' data, with photographs.
Section 54	No legal requirements for Returning Officers to have supervisors, giving them a semi-autonomous role.
Section 55	No formal provisions are made for initiating disciplinary action against public servants for offenses.
Section 84	A one-size-fits-all approach to people with disabilities, failing to recognise its various types.
Section 104	No formal procedure for scrutinising candidates that have been chosen by parties for reserved seats.
Section 137	Absence of formal disqualification procedures for candidates failing to meet election finance requirements.
Section 240	EC is required to consult the provincial government in case of any trouble, thus compromising its independence.

Democracy necessitates basic freedoms without any discrimination—including the "freedom of speech, information, movement, association, and assembly, as well as the right to vote and to stand." (European Union, 2018) In Pakistan, however, this is not possible under current legal stipulations. For instance, the constitution allows for rights to be suspended based on 'any reasonable restriction imposed by law' (Chapter 1, Article 16), which can easily lead to the arbitrary imposition by those in power whenever necessary/useful. Another issue is blasphemy laws, which undermine the concept of free speech through explicit intimidation (threat of accusation), and a culture of self-censorship, which is a by-product of the fear surrounding the topic. Finally, arbitrary conditions relating to ethics, morals, mental fitness, etc. (Articles 62/63 of the Constitution) that have no relationship to the ability to govern are part of the law, thus restricting candidacy for political office and violating the principle of the right to stand. (European Union, 2018).

1.3. Failure to Administer the Law4

Of course, this is not to say that merely passing bills in parliament is the surest route towards participatory democracy. Pakistan was ranked 120 out of 128 countries in the World Justice Project's—2020 index for rule of law—suggesting that the implementation of law is a significant hurdle. Therefore, legal interventions are unlikely to create substantive change unless administrative procedures executing the election process are radically rethought, modernised, and executed—failure of which is equivalent to not meeting constitutional stipulations.

Fig. 1. Pakistan's Rule of Law Status



Source: World Justice Project, Rule of Law Index.

The Election Commission of Pakistan's internal report on the 2013 cycle, which outlined the various bottlenecks in the process, is a source of several insights into administrative failings during elections. Problems included an excessively large election staff (>650,000) that was inadequately trained; Returning Officers not being reimbursed for their operational costs, and no transport services provided to polling staff—all leading to frustration and low morale levels. This was exacerbated by the fact that the military had not made its security plan known to polling station personnel, leading to confusion and disarray on election day. Perhaps most concerning of all was a lack of senior officers: "One Secretary, one Additional Secretary, two Directors-General, one Joint Secretary, and six Additional Directors-General, plus the four provincial election commissioners" was the core team in charge of administering the elections. (Niaz, 2020) To make matters worse, this small group of individuals was picked from other services of the civil bureaucracy—thus having no technical expertise in the planning, management, or execution of elections. Other concerns were resource constraints, coordination mechanisms between monitoring teams and central bodies, and delays with the Results Management System (RMS) due to incompetent operators.

In the 2018 election cycle, things seemed to improve a little regarding upholding the principles of secrecy of the vote, reductions in campaign material, and mitigating instances of violence—partly due to the Elections Act of 2017 and its stipulations. However, even these contestations were ultimately mired by allegations of rigging—and a series of pitfalls were faced on election day. Firstly, a lack of cooling facilities in polling offices led to excessive levels of fatigue for polling officers who found it difficult to conduct their jobs seamlessly. Furthermore, some hurdles with Forms—45 and 46 (relating to tallying votes and presenting them to candidates) were faced—and a series of political parties claimed that they did not receive these at the time of counting. Next, in the transmission stage—where results are transferred from polling stations to their returning officers—a host of hurdles were faced with the smartphonebased technology used for this purpose eventually collapsing. Finally, it took almost two full days for results to be officially transmitted to the ECP in their entirety—which is far too long and leaves excessive room for meddling (Mehboob, ???) A list of election irregularities on a minor scale were also observed (more so than the previous cycle), of which a breakdown is presented in Table 4.

An election process that contains this many flaws cannot possibly be considered a 'free and fair' one—and it is only inevitable that losing parties invariably make the accusation of rigging rather than accepting defeat. The implementation of the law, therefore, failed—and has been failing.

Table 4

Statistics on Electoral Irregularities

Electoral Irregularities	Percentage of Observed PSs where Irregularity Occurred in GE 2013	Percentage of Observed PSs where Irregularity Occurred in GE 2018
Guiding signs were not prominently displayed outside polling stations	3.3%	27.2%
Electoral rolls were missing at polling booths	0.5%	4.3%
Polling staff did not obtain polling agents' statements after showing them empty ballot boxes	4.8%	15.9%
PO did not call out the name of each voter loudly	18.7%	38.0%
PO did not strike off voters' name on electoral rolls	1.6%	5.8%
PO did not check indelible marks on voters' hands	2.2%	6.2%
APOs did not obtain voters' thumbprints on counterfoils	1.8%	5.3%
APOs did not write voters' NIC numbers on counterfoils	1.1%	5.2%
APOs did not stamp and sign on counterfoils	1.8%	5.0%
APOs did not stamp and sign on the backs of ballot papers	0.8%	4.4%
Polling officials marked ballot papers on behalf of voters	0.8%	1.2%
Polling agents/candidates marked ballot papers on behalf of voters	1.0%	1.5%
Government officials tried to influence voters to favour a certain candidate/party	0.6%	0.7%
Polling station result (Form-XIV/Form-45) was not provided to candidates/agents present at the polling stations	7.5%	11%
Polling station result (Form-XIV/Form-45) was not displayed outside the polling station	15.3%	18.8%

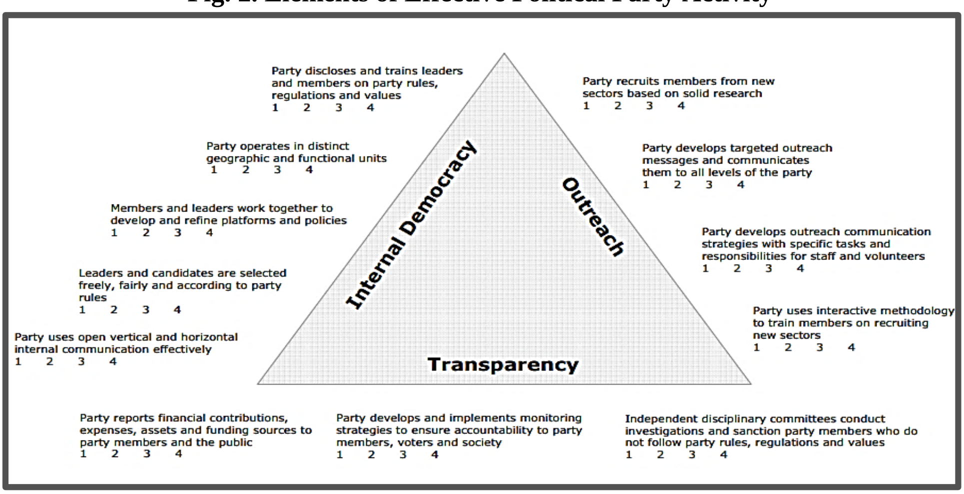
Source: Free and Fair Elections Network.

2. POLITICAL PARTIES AND INCENTIVE STRUCTURES

As per the Elections Act-2017, parties in Pakistan can be formed by 'anybody of individuals or association of citizens'—and indeed, over 200 parties contested in the election cycle of 2018. This results in scattered seats and problems forming government—with various parties holding a small number of seats and imposing a set of conditions upon prospective ruling parties for coalition agreements. Naturally, these conditions, which are frequently motivated by the personal interests of the members rather than the wishes of their constituencies, function to dilute the ideological base of a government—resulting in the wastage of resources and deadlocks in parliament.

One way to overcome this can be by imposing more prerequisites, ratified by law, for parties to appear on the ballet, which could be in the form of demonstrating a minimum support base beforehand—for instance through signatures from guaranteed voters or a certain number of individual donations (exceeding a minimum amount) from alleged supporters. This can be extended further, and conditions geared to promote political competition at a local level may be introduced, for instance, by mandating parties to demonstrate a certain minimum number of supporters in each district of a province before being allowed to compete for its assembly—thus prompting all parties to expand their networks in remote, rural regions, leading to a more egalitarian basis of politics across the country over the long run. Historical strongholds, e.g., PPP in Sindh, may be forced to up the ante in terms of their performance as they begin to face competition in areas they took for granted—and it would also encourage smaller parties, that have closer ties with local communities, to enter the foray and attain greater levels of success.

Fig. 2. Elements of Effective Political Party Activity



Source: National Democratic Institute.

Furthermore, political parties—before being allowed to compete for the government—should be mandated to have internal party elections regularly (minimum of once per year) in a public capacity which is conducted by an independent third party (such as the Election Commission) that can ensure its transparency, fairness, and legitimacy. Records of all these contestations, along with detailed documentation of the party's past performance—in terms of the proportion of promises they have delivered on—ought to become a regular part of the functioning of democracy in Pakistan in the form of a barometer that is regularly updated and assesses the extent of internal democracy in each political party. These measures will lead to an enhanced level of accountability and work against the domineering role of family politics, in which one specific lineage is constantly occupying the top positions regardless of performance or technical competence.

Another point for political parties is the need for financial transparency. Every political grouping, in order to compete in elections, must have their accounts audited by independent organisations and compiled into reports that are freely accessible to the public. This will act as a disincentive for parties to accept massive sums from corporate entities and foreign sources motivated by certain agendas that have to do with self-interest and/or geopolitical considerations. According to Ahmed Bilal Mehboob, one of the country's foremost experts on electoral politics, the legal framework around which campaign financing takes place is a robust one—the bottlenecks largely having to do with its proper enforcement. For this, the Election Commission's Political Finance wing will have to be invested in: its capacity enhanced, its political will strengthened, and the technical competencies of its members expanded. This will allow for close monitoring and swift action if/when a situation arises. So far, the PF wing has proven to be ineffective—having had over 70 hearings in the past 6.5 years and only passing around 24 orders: a large proportion of which were not even complied with. This casts a shadow over the electoral process and constrains the process of democracy in Pakistan. (Mehboob, Year ???)

Finally, the size of cabinets is excessively large as things currently stand. The law currently places a limit on this, which is 11 percent of the size of parliament—but this amounts to almost 50 members, leading to bureaucratic hurdles in the decision-making process within the executive branch of government. (Mehboob, ????) These laws need to be revised to incentivise the merger of similar ministries and instill a broad hierarchical organisation of departments (rather than a narrow one) to streamline the process and mitigate against rigidity and staleness—replacing them with dynamism, creativity, teamwork, and technical competence.

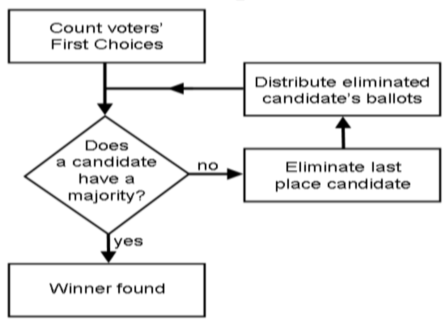
A set of recommendations has been put forth in a proposed amendment to the Elections Act in May 2021, entitled the 'Election (Amendment) Bill, 2020'. These include requirements for political parties to demonstrate a minimum of 10,000 members (rather than 2,000)—including a minimum of 20 percent women—before being allowed to enlist for elections. Furthermore, overseas Pakistanis are to be granted voting rights, electronic voting machines are to be used for transparency, and specific timelines for various election procedures are to be established (Dawn, date). These are positive steps, but they were rushed out before being fully thought through—with a clear failure to take procedural/practical considerations into account—leading to strong opposition from the Election Commission, which refused to accept 28 of the 62 amendments due to excessive loopholes in their administrative aspects. Besides these, the ECP also felt certain proposals were discriminatory and would inadvertently preserve the status quo—such as the requirement of 10,000 members: working against smaller parties in regions with a smaller population. Rather than the number of members, requirements to enlist ought to be based on the size of support bases to avoid incentivising parties to induct members purely for the sake of it—which would naturally lead to excessive internal dormancy (Dawn, date).

3. MODERNISING THE SYSTEM VIA DYNAMISM, INNOVATION, AND ENHANCED REPRESENTATION

There is a need to rethink the incentive structures that guide the political process in Pakistan. Merely amending legal stipulations to eliminate present loopholes, although necessary, will only create a difference if/when their proper execution is all but guaranteed: a task that Pakistan seems a long way away from ensuring, as this paper has illustrated. This calls for the introduction of a new set of interventions that have shown promise around the world and which developed nations have begun to incorporate into their systems to enhance the level of legitimate representation.

Ranked Choice Voting. This is a system based on proportional representation whereby candidates are ranked by voters in order of preference, and a winner is decided through an elimination process. An outline of the system is presented in Figure 3.

Fig. 3. Ranked Choice Voting



This system is such that elimination and redistribution of votes continues until a majority is achieved—thus ensuring that the wishes of the electorate are successfully represented, and avoiding the pitfalls of the 'First Past the Post' system, which awards candidates with governing privileges when they do not have the backing of a majority. In other words, it ensures no 'wasted' votes. Further, it enhances the level of competition for political power—acting against pressures for polarisation and concentration of authority within a few hands by removing the need to 'vote for the lesser evil', a common idea peddled by the supporters of mainstream ethnic and fiefdom-like parties that have long occupied the corridors of power. Ergo, it incentivises all contestants to appeal to as wide an audience as possible—thereby bringing the most pressing societal needs to the fore and creating pressures on politicians to think pragmatically rather than just appealing to a set, predetermined demographic/support base. Furthermore, the likelihood of women/minorities winning seats has shown to drastically increase under proportional representation systems as compared to FPTP ones, in some cases almost doubling—as was the case in 1995, documented by the Inter-Parliamentary Union in a study of several countries that had transitioned to the new system (ACE). In summation, ranked choice voting resolves several pitfalls of conventional electoral systems by "creating and protecting a more civil commons, where more perspectives are included, respect is encouraged, coercion and distortion are minimised, and intersubjective bridging is rewarded." (Anest, 2009).

Staggered and Direct Elections. This is when elections for political office within a certain organ of government, for instance, the senate, do not all take place in one go. Instead, two (or more) groups of seats are created—for which candidacy is borne at different times. If a term is for five years, then elections will take place every 2.5 years: separately for each group. With more frequent election cycles, a spirit of accountability to constituencies is introduced—thus incentivising the governance system to actually meet its stated promises to the people. From a technical standpoint, this will increase the level of activity within the institution in question, now that a minimum of 50 percent of parliamentarians are in 'election mode' at any given point in time. A staggered system also introduces more stability to the political process as a whole, especially if its application is broad, as a full-scale reset of any major institution is never made (Goetz, et al. 2014). It has also been demonstrated that intra-party solidarity generally tends to prevail under this system but in a different manner to conventional politics. Firstly, party members are more likely to offer support to colleagues that take occasional departures from the party's traditional line, as there is now less at stake—leading to more fluid ideologies that are tied more to circumstances than symbols and shibboleths. Furthermore, speeches and public appeals within the institutions would be less cumbersome—as members that are not due for re-election in the upcoming cycle are likely to grant their podiums to party fellows that are, thus freeing up time and allowing for deeper, more nuanced debates on important societal issues (Willumsen, et al. 2018). To extend this further, direct elections for the Senate, as well as the Presidency, may be introduced—thus limiting the powers of parliament and installing more checks and balances to the system (Haque, 2017).

Tax Choice. This is a system that allows voters the choice to decide how tax expenditures are to be allocated—and to count these preferences regardless of whether their chosen candidate ultimately wins. This strategy would ease societal pressures to generate a 'cult of personalities' and introduce a semi-direct form of government—in which the electorate, or taxpayer, gets to decide which areas (education, healthcare, infrastructure, corporate subsidies, etc.) their contributions are being spent on. One benefit of this would be that it could lead to higher turnouts during election cycles, in which people are incentivised to participate due to a personal stake they now have in the outcome. This is likely to expand the tax net as well, with increasing numbers of citizens (particularly those leaning conservative or libertarian) willing to pay due to the knowledge that they are in control of where their money is going—and that they now have the freedom to empower the causes that they believe in rather than what powerful interests prefer (Lamberton, 2016).

Deciding the Dominant Political Player. Voters could also be granted the option to empower certain institutions or organs of government for the upcoming term through elections—whether that be the cabinet, judiciary, legislature, military, etc.—thus involving them further in the political process and granting them the power to decide, based on their perceptions of the emergent sociopolitical landscape, who gets priority in a conflict of interest. At a constitutional level, this would also introduce a sense of dynamism through built-in flexibility to the legal structure by introducing conditional (if-then) laws—thus allowing for more context-specific rule of law, rather than one based on outdated principles and traditions carrying forward from colonial times.

Finally, no discussion about democratic processes is complete without discussing factors exogenous to the elections cycle—including the role of media, student unions, feudalism, clientelism, devolution, education, civil service, foreign aid, civil society, and rule of law. These important facets will be explored in another paper that analyses the political economy of democratisation in Pakistan.

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WHY PAKISTAN NEEDS A CAR POLICY?

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"Cities have the capability of providing something for everybody, only because, and only when, they are created by everybody."

— Jane Jacobs

Cities are the people, their activities, and the mobility people exercise. These cities, in themselves, provide the engines of growth for countries. Cities need to allow freedom and facilitate mobility; and not restrict. Equitable service delivery and access to city services ensure a robust economic activity and city growth; and, contrary, clique access to these facilities hinders growth. Mobility in Pakistan is one such exercise that has been usurped by the car-owners in the garb of gentrification, road infrastructure development, and converting public spaces into parking spaces.

During past decades, the rate of car ownership in Pakistan has been on the rise. To facilitate the car owners, cities' administrations often try to provide a robust infrastructure of roads so that the smooth flow of traffic can be ensured, disregarding the non-motorised or public transport mobility. The road infrastructure, therefore, makes the largest part of the development budget in Pakistan. The problem in doing this is the aggravated demand for new cars. When new roads are built, they seamlessly facilitate cars, and travellers find it easy to own a car for traveling to homes, schools, offices, and city centres.

This article looks at the rising car ownership and facilitated road infrastructure by city authorities. We maintain that a large portion of a city or provincial finance is routed to road infrastructure. Further, it looks at how other world cities have created a balance between car ownership, road infrastructure, parking provision and charges, and public transport; and are increasingly making walkable streets. Lastly, it prescribes how Islamabad - Rawalpindi - Lahore - Karachi and other cities can employ parking charges, amongst other measures, as a tool for revenue generation and move old fleets of cars out of the cities— and increase the use of public transport.

The world cities are fast realising their 'planning mistakes' of expanding the spaces for cars while shrinking public spaces; and are now on reversing the phenomenon by realising streets and roads as public spaces.

–Toderian, 20208

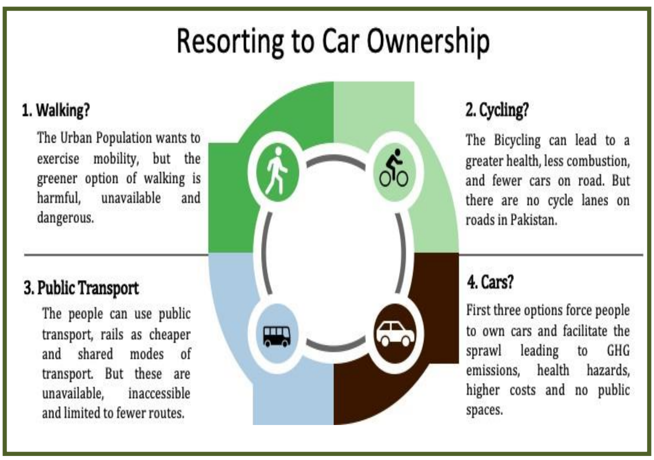
URBAN MOBILITY AND CAR OWNERSHIP

People move to urban areas in pursuit of employability, better lifestyle choices, health facilities, improved service delivery, proximity to amenities, and much more. Urban spaces are built on the single principle of keeping many aspects of life in a finite amount of space—agglomeration. When a small piece of land is used for multiple types of land utility, it results in people living and working together. In an agglomerated city, if the city is unable to manage crowding then it results in congestion—that chokes the service delivery mechanism. This also results when interest groups start benefiting from skewed and stunted policymaking processes of city- planning.

Haque (2015, 2019 and 2020) has raised the important issue of car ownership, blatant increase in poorly planned road-infrastructure as part of urban mobility. Sadly, the lack of forum of discussion for such topics has led to invading view that 'cities are brick and mortar.' City authorities develop more roads to facilitate the smooth flow of traffic but it creates induced demand which results in more cars on roads. Then city authorities build more roads and then more cars and this circle continues.

The secret for any city to thrive is to achieving maximum utilisation of space by fine service delivery of functions of a city from transportation, sewerage, cleaning services, utilities, etc. The battle to create a balance keeps the city authorities on their toes because of high rural to urban migration.

Pakistan has one of the fastest rural to urban migration and, resultantly, Pakistan now has some of the largest cities in the world. While the world is adjusting to high-rise buildings and constructing residential towers, Pakistan chose to horizontally expand cities resulting in huge urban sprawl. As these cities have become populated, the usual urban problems—traffic congestion, poor city liveability, and health issues—have arisen.

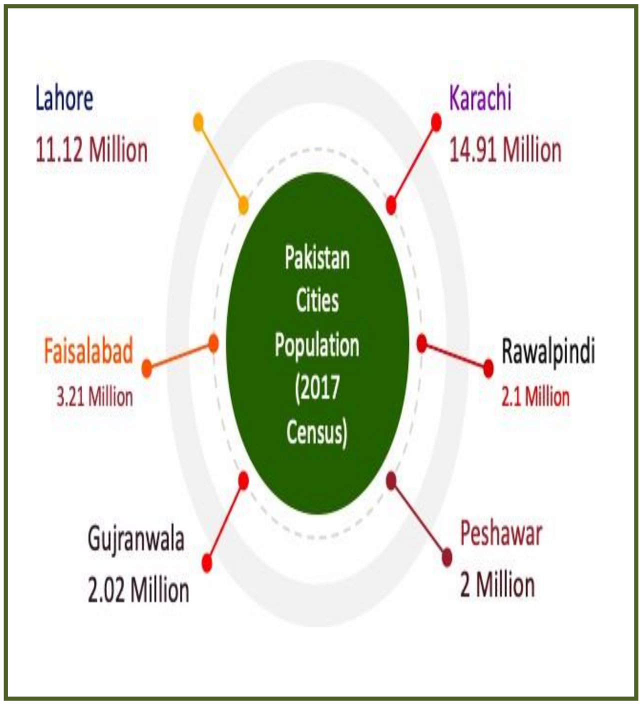


People need mobility and cities must facilitate it with infrastructure that is inclusive and accessible for its residents. City authorities of Pakistan have limited capacity to cope up with the growing metropolises and their urban issues. However, cities in Pakistan have chosen to make mobility an eased experience for car-owners and a daunting task for those who do not own cars.

1. HIGH COSTS OF MOBILITY

As cities grow, the cost of moving around them increases with distance, therefore people need affordable and accessible transportation modes. As cities in Pakistan lack public transportation, the facilitation to pedestrians and cyclists is not only poor but dangerous, hence people resort to cars. Historically, this lack became a stimulus for owning cars that in return facilitated urban sprawl.

Therefore, we assert the need of having a car policy for urban mobility with mobility options, lower environmental and human stress. The rising number of car-ownership, its contribution to traffic and pollution calls for a policy that outlines the effective usage of cars. A forward-looking car policy must be devised toaddress the issues of urban planning and cities' governance. In this regard, the Pakistan Institute of Development Economics is proposing the car policy to make ailing cities liveable.



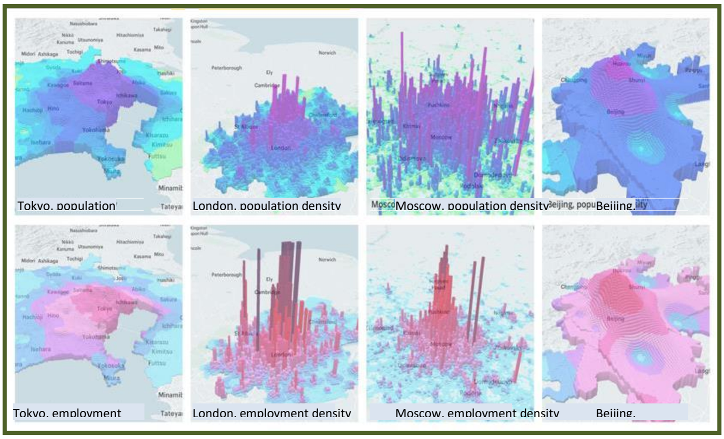
Since ride-hailing services are fast becoming the default mode of transportation from the middle-class jobholders, there is a rising portion of income that is spent on mobility within the city. The average monthly cost of a job holder in Pakistan using the ride-hailing services reaches 12,000 to 15,000 without any freedom since these are demand-based rides and do not offer stops in-between.

2. CARS AND CITIES

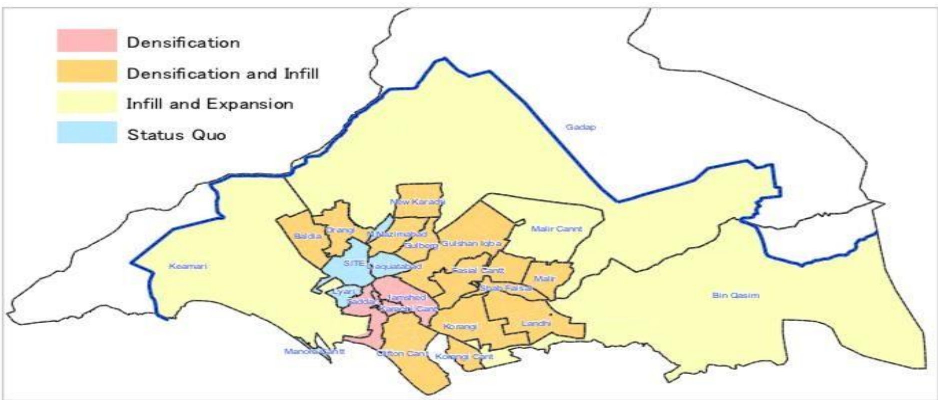
People agglomerate in cities to find jobs and seek economic and social mobility, similarly, firms tend to be officed in the city centres to be close to the market or amenities. The increased car ownership excused with urban spread-out has discouraged the development of public transport systems, fewer bicycle, and car lanes.

While the developing countries are facing an exponential increase in car ownership in face of bad public transport, the developed countries are programming to make the cars 'things-of-past' by providing better alternatives—public transportation with better connectivity, bicycle lanes, and street space for pedestrians. In the face of congestion adversity and high environmental costs; cities are rethinking the usage of streets, cars, and cities themselves.

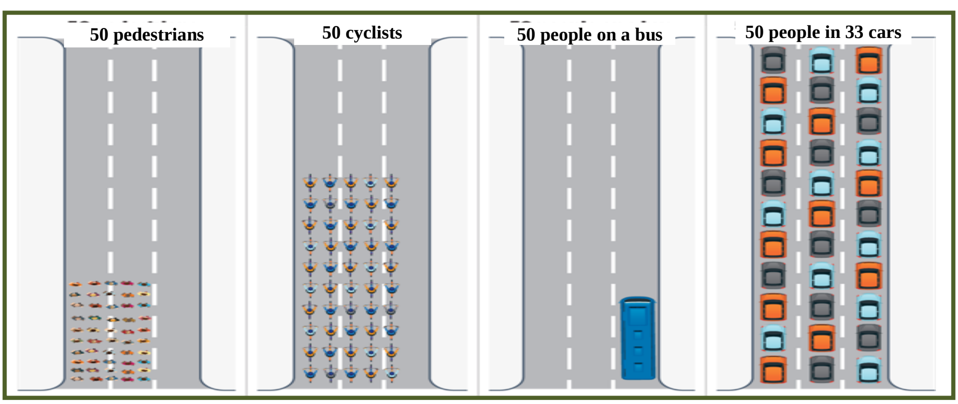
3. CONGESTION COSTS VS. AGGLOMERATION BENEFITS



There is abundant evidence that agglomeration benefits outdo the congestion costs. The evidence exceedingly suggests that countries with poor urban governance have far more congestion costs than the countries with better urban governance and higher agglomeration. Cities have developed mechanisms that not only avert the congestion in cities through speed-lanes, higher parking fees, congestion taxes, restricted cars in city centres; but also, have made them long-term sources of their revenues, as discussed later part. The cities of London, Stockholm, and Singapore among others generate positive cash-flows through their car policies within the city.



Source: Proposed in KTIP



These congestion costs can further be minimised by exercising due pricing. Baert and Raynaert estimated that for a 1 percent increase in the agglomeration benefits, the positive effect is 0.073 percent in productivity— and varying increase in economic activity. And losses incurred through 1 percent increase in congestion are 0.01 percent, suggesting the huge comparable advantage of agglomeration.

		Congestion	Agglomeration
1	**Pricing**	Reduced by Congestion Pricing	Low Transportation Costs
2	**Environment**	High Costs; but Can be reduced by redesigning Public Spaces and Roads	Net Low Emissions Overall Low Environment Degradation
3	**City Life**	The vibrancy, City Experience	Confined to City Centres
4	**Cars**	Caused by Cars. Cars can be reduced by 80% with alternative available	Public Transportation with Low Costs
5	**Transportation**	Low Walkability and Cycling, Poor Public Transport	Closely Knitted—low-cost infrastructure
6	**Opportunity Cost**	2/10 of the Agglomeration Benefits	5 Times higher Benefits and Can be improved
7	**Crowdedness**	Efficient Use of Transportation	Evenly Crowded-High Density
8	**Streets**	Covered with Cars and Parking Spaces	High Economic Activity, Innovation,
		Need to discourage car ownership for Low Traffic, More Space	Entrepreneurship, High Social Mobility
9	**Parking**	Due Pricing as per Driving Costs	Cars only for luxury—comes with a price
		-same revenue with lesser cars	
10	**Examples**	Beijing is increasing Car Ownership and often chokes with Traffic. Countries with poor public transport are paying high congestion costs.	London, Stockholm, Oslo, Copenhagen

4. STREETS ARE SHARED PUBLIC SPACES

The street experience is fast becoming the focus of urban governance; from city centres to off-street parking requirements. Cities are realising the foregone value of land utilised by cars. Ben Toderian, Donald Shoup, Nadeem Ul Haque and many others have been asserting that streets must be at the centre of city experience. Streets are shared public spaces and part of city land that must be priced commercially and indiscriminate. Therefore, streets must be used to generate social and economic activity rather than perishing to parking and car-traffic.

Ben Toderian and Janette Sadik Khan have extensively worked on designing streets for public and advocated accessible streets for all. These car-free areas generate more economic activity. A recent study in Barcelona suggested a 9.7 percent increase in retail activity in streets with public spaces and walkability rather than car-owned roads. In terms of space, 10 percent of car owners occupy more than 80 percent of streets and roads. Higher car ownership causes low city experience. It is established that social activity by redesigning streets for public use increases the vibrance.

Cars are luxuries and desired worldwide, but good cities reduce their demands by rightly pricing the car-experience.

-Brent Toderian, PIDE Webinar

What Are Cars For?

Since cars are so central to our urban planning, therefore one must ask the basic underlying question: *What are cars for?* The cars provide freedom of movement, and beyond necessity; car ownership is a luxury.

This leads to the following question: *Does paying to own a car provides the owner with exclusive rights of freedom and luxury in society?* Cities must realise the real costs of luxury and freedom are not of cars but also road depreciation, pollution, usage of space for parking and opportunity cost of that land usage, etc.

Therefore, the literature on car ownership has started posing an essential question in the urban planning of a tradeoff between individual prosperity collective betterment.

1. THE ASSOCIATED PROBLEMS

Car ownership in Pakistan has several associated issues and challenges including traffic congestion, high pollution costs, health deterioration, and higher costs of mobility. Intuitively, urban sprawl should decrease traffic congestion because of the spread of urban communities and societies. However, since this urban sprawl simultaneously encourages car-ownership; this leads to higher congestion costs without agglomeration benefits.

(I) Traffic Congestion in Cities—Example of Lahore

In Lahore, (the largest city in the Punjab) car ownership in some sectors of DHA, Askari, Bahria Town exceeds 2.1 cars per household, as per our study. This high number of solo-driver cars in the city and country at large are a source of congestion in city spaces. The traffic in peak hours is so congested that on Noor Jahan Road—Liberty Roundabout to Hussain Chowk—a car can take up to half an hour for what is an average 1- minute drive on the empty road. This congestion further leads to more accidents and health injuries, not disregarding the fact that noise pollution and excessive fuel costs are other externalities. During the daytime, the Zahoor Elahi Road and many other roads with schools are choked with traffic because there is no transportation system by the schools or government to pick-and-drop students from their homes. Lack of such facilities should lie at the core of the city's mission to facilitate students, but are rather absent in the case of Lahore and other cities. The kids must be the last recipient of the pollution, yet they suffer in the congestion equally.

(II) High Contribution to Pollution

According to Dawar Hameed Butt, an environment activist, the AQI index, before the COVID-19 hit the cities, had reached the dangerous levels of 500 points. During the COVID-19 lockdown, the lack of traffic had brought the AQI to 70 points. This staggering difference shows that the high contribution of cars in air pollution and smog that is fast becoming the routine problem in the city.

2. MULTIPLE CARS OWNERSHIP

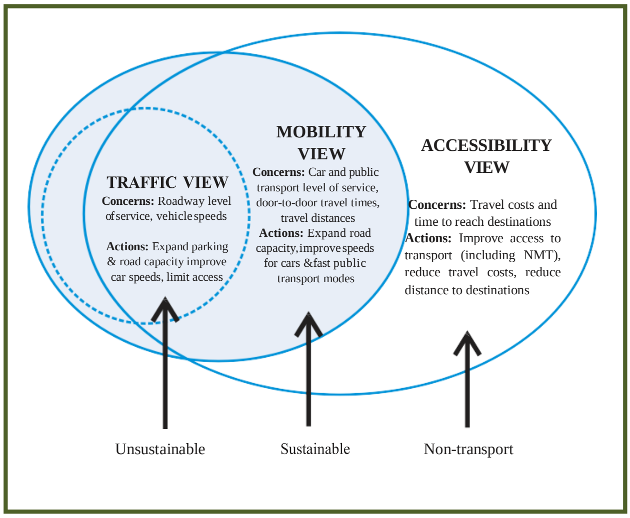
Cars in Pakistan are expensive, however, owning and maintaining cars is fairly cheap and evasive. The process of registration in Pakistan is highly rigged, therefore even in larger cities, there are higher numbers of non-Customs registered cars. Unlike many developed countries, there is no compulsion of having insurance or maintenance standards, therefore, the households keep on owning multiple cars.

3. THE CAR REGISTRATION PROCESS

The car registration process in Pakistan is highly rigged. The vehicles can undergo overhaul changes to get registered under different chassis numbers. The car owners can delay paying the tokens of cars for decades without the fine. At times of sales, car ownership is often not transferred, hence giving people a chance to not show the cars as assets. The ease of ownership has decreased the dependence on public transport within cities and trains, rail, buses for inter-city transport. This independence has assisted the city-elites to evade the responsibility of demanding inclusive public transport.

4. THE COST OF DRIVING

The true price of car driving is not what the driver pays while purchasing a car or paying for the gas he uses. It goes beyond in terms of roadwork, emergency services, damage to the environment, and the use of land in terms of parking and otherwise used by car. The associated costs can be categorised in Foregone Revenue by using land for parking rather than economic activity, pollution costs—inadvertently borne by society. According to Shoup, it takes 1-2 percent of maintaining roads for pedestrians and bicycle lanes than building roads and parking for cars. Similarly, the incremented economic activity revenue generated from the increased economic activity exceeds the parking costs in cities with streets as public spaces more walkability. Similarly, the researchers associate higher risks of a medical emergency; deaths, and costs attached to these emergencies with the indirect costs of car ownership in cities. The policies are needed to distinguish the use of a modern car from need to luxury, and charge a price on that luxury like other commodities. The lack of walkable spaces in cities supports car ownership. Several studies suggest that the provision of good public transport and walkable spaces deter car owner ship. In a city in the United States, if due to installed public transportation, the city gives up 15,000 cars, the city has $127,275,000 saved in terms of purchases, gas uses, parking, etc.



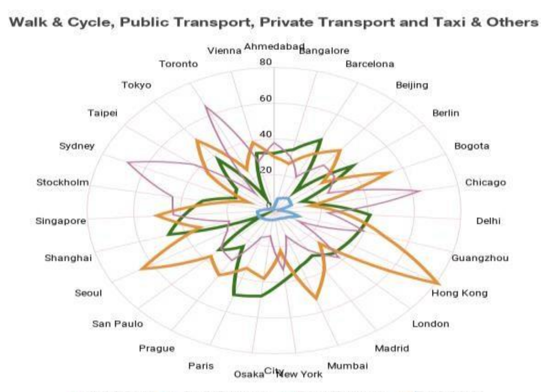
How Does The World View Cars?

Cities worldwide have emphasised working on shared modes of transportation that are inclusive, cater to the agglomerated urban experience, and with the least congestion can mobilise millions of passengers daily. The transportation structure of London, Seoul, Beijing, Tokyo, New York are testaments to these priorities. Rather than owning a car, the residents of developed cities are relying more on public and shared modes of transportation.

5. THE CAR-FREE AREAS

The City of London has started exercising the car-free areas in the restricted zones of London on several days in a week to reduce GHG emissions, increase walkability, and making cities conducive for the public.

These car-free days are making considerable improvement in the environment, city experience, and encourage the use of public transportation. The revenues are collected by the city governments and can be allocated to the same areas, thus contributing to the local welfare.



(I) Parking Rules

Donald Shoup highlighted *The High Cost of Free Parking* and suggested that city governments must remove the off-street parking with high on-street parking. The associated costs with on-street parking shall deter the drivers to be part of congestion, and the fee shall discourage car-ownership. Many of the cities worldwide have taken his advice and are working on charging parking costs and eliminating off-street parking. The staggering facts of high costs of land dedicated to parking and the maintenance costs outnumber the rationality of efficient usage of land or resources.

(II) The Free Lunch

In developing countries, ownership of a car is a luxury, but it also evades the associated costs. The road services, land that cars use, and pollution are paid by the general public. A car normally occupies a space of 330 square feet, which is attributed freely for a car. This forgone cost is paid by society. In Islamabad every day around 280,000 cars enter through the vast road infrastructure present, if half of the traffic is charged for parking of paltry Rs. 10 then the city government can daily generate a revenue of Rs. 2.8 million.

(III) Repurposing Roads—Congestion Pricing

Cities are using their roads to streamline the traffic. In the United States, highways have congestion pricing strategies to make people avoid traffic. To take the *express lane*, the driver shall be priced. This pricing of car-ownership and using the express lane assists in maintaining the services of highways.

IV. Streets and Public Spaces

Cities are realising the importance of public spaces, and therefore the outdoor public spaces are being created. Cars in certain streets are banned or charged highly to provide city-experience to visitors. In the attempt to choose between the Individual prosperity vs collective betterment, cities are tagging a high price on individual prosperity.

2. CAR POLICIES IN GLOBAL CITIES

Globally, cities are fast becoming cognizant of the costs attached to increased car-owning and therefore are planning to reduce the car presence in cities. Oslo, Copenhagen, Stockholm, New York, and London are few of many cities levying price over cars in city centres and are using various ways to discourage cars. We took 15 cities and studied their recent actions to contain car presence, and enlist why these cities are reducing the car numbers. Pollution is the single most significant concern of these cities to cut down the number of cars within cities.

These cities are heeding to the concerns of new urbanism as they underscore the need for accessible cities with centres of maximum social interaction indiscriminately.

By reducing the number of cars, these cities are expected to turn 30-75 percent of roads into public spaces within 25 years to enhance physical and social mobility within the city.

Public transport is the most rewarding incentive to reduce the number of car owners. Cities like Seoul, London, New York and Copenhagen are heavily investing in their public transport infrastructures to complement their goals. The citizens in these cities are increasingly opting for bicycle and walking as healthy measures and the burden on health services delivery has decreased.

As per WHO estimates, around 40,000 people die in crashes on US roads, and out of which the owners of vehicles make the largest proportion. The responsible public transportation and less traffic make the cities less vulnerable to such high losses. Therefore, these cities are using alternative measures to reduce the risk of deaths because of traffic and road accidents.

Traffic policies are central to regulate car ownership. City governments can coordinate with provincial and federal governments to come up with comprehensive plans that ensure the autonomy for cities to implement the car policies along with the coherent national policy suitable for the cities.

The Mobility in Pakistan

The urban and transportation planners in Pakistan have long seen mobility and urban development as a means to facilitate car mobility—Traffic View of Urban Planning. Their planning has barred the accessibility and mobility view for urban citizens. The construction of no-signal corridors, brick-and-mortared bus stations, sparsely constructed overhead bridges, lack of zebra crossings, no provision of cycling lanes or walking paths have led to the inaccessibility of amenities for citizens.

In Pakistan, transportation planning has been dominated by the ‘Traffic-View’, and that too has resulted in the chaotic traffic jams and poor access to urban amenities. The cities worldwide are opting for multiple mobility options simultaneously to facilitate the agile movement to- and-from inter- and intra-city.

According to the Transport Manager at Faizabad Bus Station in Islamabad, Mr. Shahid, the government has ‘strangled’ the independent transport- owners by not allowing the private transport in Islamabad and very restricted movement of wagons. This is aggravated by non-issuance of route-permits, safety licenses to public transport vehicles, and frequent ticketing of wagons as fines. Despite the interest of transport owners to operate in Islamabad, the city administration has orchestrated ways to reduce public transport within the city. Therefore, the average time for a citizen to access public transport has increased from 8 minutes to 31 minutes in Islamabad City.

The developing cities, like in Pakistan, have a double-edged sword of planning on its citizens: the city planners are very fond of planning and regulating hence the regulations are excessively passed; and then there is a poor implementation of those laws. This leads to the stunted growth of cities, and mafias benefit.

Pakistani Cities and Funding

The world cities are using the service delivery and provision of accommodating citizens as a source of generating revenues. The collection of council taxes, utility charges, parking fees, and other sources of revenue make cities largely self-sufficient in terms of planning urban mobility options among other things. However, in Pakistan, the lack of experts in district administrations has resulted in poor management of cities, non-existent sources of revenue, sub-optimal utilisation of land, benefiting the car-owners.

Cars or Substandard Transportation: The Transport Extremes

Since the cities in Pakistan are unable to provide safe, sustainable transport options, the ownership of cars is considered a necessity beyond luxury. However, the citizens unable to afford resort to other options—in case of mobility: sub-standard wagons, rickshaws, Qing Qi, and bikes without proper safety measures.

In such instances, any incidence of public transport provision becomes a source of political propagation rather than the provision of 'public good'. The BRTs system developed in Pakistan has become such a nuanced idea where large infrastructures are developed to manifest the tangible notions of 'development' with approximate costs of as large as 10 times than the provision of public transport through alternative options of wagons, buses, and railways. Due to the lack of public transport, female citizens feel apprehensive of using any public transport limiting female mobility within the city without private vehicles nearly impossible.

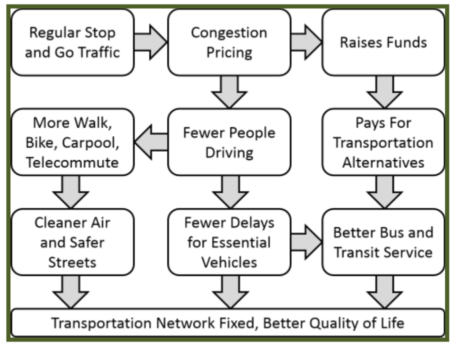
The Case of Faisalabad

The city government of Faisalabad, formerly Lyallpur, has recently planned to restrict the movement of cars and vehicles in its City Centre (Clock Tower and 8 Bazaars). Although, the policy seems to have accorded accessibility, walkability, and mobility to people without cars, the Traders Union have readily started violating the plan.

A traffic police officer, Adnan, suggested that cars have taken over the historic bazaars around clock-tower. This has not only restricted the mobility of customers and tourists but also provide a greater problem in managing transport in the city. As per plans, if the traffic police officers challenge the parking and movement of cars on streets of bazaars, the trader's union asserts pressure to corner the traffic police officers. A City-Centre where the mobility should be at its highest, traffic-jams, and extra deployment of traffic personnel makes it the least desirable spots for the traffic officers

The Options—Pakistan's Way Forward

Pakistan's government has divested from its responsibilities and city government have long been managed by the generalists rather than the urban planners. This has led to a narrower view of urban planning and not governance. The plethora of legislation, regulation, and laws have halted the natural growth of cities. This, consequently, led to urban sprawl and increased car-ownership among other problems. PIDE has argued that the country needs the framework for growth that transcends the brick -and-mortar model and integrates the nuances of the locality.



3. SHARED MODES OF TRANSPORTATION

Cities eventually run out of car spaces, the available options include the cities to grow—increasing the cost of travel, increasing the value of land, and de-cultivating the city lands. This results in widening roads—the less space for the open space cafes and public entertainment and walking, or lessen the use of cars. To avert such losses and poor urban catastrophe, the citizens need to move towards walking, cycling, and more shared mode of transportation that includes public transport, ride-hailing services, rails, and buses. The ride-hailing and ride-sharing services—can increase per car use from 9 percent to 55 percent of the time.

In the last decade, the ride-hailing services Uber, Careem, Bykea, etc. have captured a large market but remain an elite solution. In shared modes of transportation, public transportation remains a failure, while in the last one year, ride-sharing Airlift and Swvl have stirred the transportation sector and must be encouraged.

4. PARKING BYE-LAWS

Local Governments Act - 2013 of Punjab suggests that the local government has the provision to develop

their parking bye-laws. However, there are no comprehensive parking laws followed by any local government throughout Punjab as per 2020.

Lahore Parking Company (LePark) is a subsidiary of Lahore Metropolitan Corporation, and despite generating revenue doesn’t contain any parking rules, rather focuses on developing the parking spaces for its revenue-generation purposes.

These parking prices can be a regular source of local governments and can assist in a) documenting the cars, b) data generation of cars’ transport, c) revenue generation for localities that could be spent on local welfare and service delivery.

5. PARKING RULES

Administrations of cities provide services to residents and visitors and in return collect revenues for these

services. There are no standing rules for parking in Pakistan.

(1) As per Donald Shoup, the parking rules must be based on discouraging car ownership and encouraging public welfare, and not the other way around. Therefore, the regressive parking charges can be used based on car usage of amenities, roads, and parking spaces.
(2) Cars must be insured at the registration process.
(3) A comprehensive parking cost must be evaluated by cities, and levied upon the car parkers.
(4) Encouraging and normalising ride-hailing services can discourage car ownership.
(5) The local governments need to heavily invest in walking, bicycle lanes, and public transport.
(6) The provision of the pedestrian-only zone, public transport, and bicycle lanes shall greatly discourage car ownership and traffic congestion.
(7) Solo Driver cars must be taxed in cities.
(8) Schools should be encouraged to operate school buses to discourage traffic congestions on roads.

6. TRAFFIC RULES

Within cities, the traffic rules can greatly change the proportion of car-ownership. By introducing car-free

days, car-free areas, parking charges, congestion pricing, and by introducing speed lanes can lessen the traffic while also encouraging social activity. Pakistan must revise its Provincial Motor Vehicle Ordinances dated back to 1965 to regulate with the modern-day needs and regulations of safety and health.

7. PUBLIC TRANSPORT—NAY TO BRT AND BRICK AND MORTAR

The development model in Pakistan is based on the project approach where the implementers are supposed to construct, built brick and mortar to project the efficiency. This has also been translated into the transportation sector where large public funds were invested in the construction of infrastructure for t he Bus Rapid Transits (BRT) in Lahore, Multan, Islamabad, and Peshawar. The discouragement in owning cars shall lead to pressing demand of having public transport thus having more refined experiments in introducing modes of public transportation, but simultaneously the government must provide more accessible public transport rather than constructing high-cost bus-transit stations.

If you can change a street, you can change the world.

-Janette Sadik Khan

8. STREETS

Streets are engines of public activity, and the streets in city centres are critical in estimating the capital of cities. Cities worldwide are using streets as a critical starting point to regenerate themselves. Pakistan can use the city streets as public spaces by doing away with free parking at roads and charging the parking fee minimum to the marginal social cost of having cars on these streets.

These streets can be furthered for public use through open space cafes, restaurants, and organising social activities. Making these streets car-free shall make cycling and walkability easier and the public can reclaim streets as accessible city points developed for themselves.

Policy Implications

Roads infrastructure is very costly to maintain and cities are made for economic activity rather than to

provide unpaid space luxuries to the rich stratum of the population. To create a balance, cities need to start charging the car owners the due price.

(1) We need to alter our city development policies which facilitate urban lifestyle in a distant rural setting and necessitates the use of cars for mobility.

(2) Enrique Penelosa, Mayor of Bogota, suggested that cities cannot thrive without mobility and public transport is an integral part of that mobility. Cities around the world have learned that walking and bicycling are less costly for the government, environment friendly, and provide more chance of social cohesion.

(3) Subsidising cars has resulted in having little space for bicycling and walking. Roads are widened to facilitate more and more cars.

(4) Designated spaces for parking have to be announced with parking charges, Islamabad can generate a sum of around Rs. 2.8 million per day if it only charges Rs. 10 per car as parking.

(5) Congestion charges need to be allocated in busy hours to demotivate the movement of cars which will free up the road space for most important things.

(6) Projects like Metrobuses and Orange lanes are very costly for the cities as well for the provinces. All across the world public transport is given a priority lane. It can be done in Pakistan as well.

If our city governments become successful in rethinking how they develop a city, our most important city problems would vanish automatically. As discussed widely in earlier publications of PIDE, the city-centre needs to be established with mixed-use high-rise development.

TRAVEL AND TRANSPORT

TRACK ACCESS REGIME: THE INTERNATIONAL PRACTICES AND PAKISTAN RAILWAYS[27]

SABA ANWAR, *Pakistan Institute of Development Economics, Islamabad.*

WHAT IS TRACK ACCESS REGIME—GLOBAL PERSPECTIVE[28]

The "Track Access" or "Right of Access" agreements allow multiple train operators to provide rail services on a shared infrastructure. These agreements are called 'Network Statement' in Europe and an 'Access Undertaking' in Australia. These "information packages" establish the 'rules of the game' between the two parties. Most of these agreements have a similar structure, dealing in turn with:

- Prerequisites to grant access to an operator. These include a license for the operator, the rolling stock to conform to standards, and the suitably qualified staff.
- Characteristics of the infrastructure over which access is available, e.g., axle-load, line-speed, signaling systems, etc.
- Procedures for capacity allocation; in some cases, network management when there are traffic conflicts and incidents.
- Services supplied by the access provider, including access to yards, terminals, maintenance, and fueling facilities.
- Charges levied.

Box 1: Historical Context

Access to rail infrastructure by operators who are not the infrastructure owners has a long history starting from the beginning of the 19th century. Such arrangements have existed since the earliest days of railways. The 18th-century wagonways and canals operated on this basis. The Liverpool and Manchester railway had such an arrangement with Grand Junction railway in 1837. It is still common in countries with several rail companies. These arrangements, in general, managed by regulatory bodies or governments.

This arrangement has led to two separate organisations for infrastructure (track authorities) and operations (train operators). In some cases, these are fully independent and in some two distinct companies under a holding company. It varies from country to country and tends to reflect the political strength of the railway and its unions.

[27] Special thanks to Dr Nadeem Ul Haque and Dr Amer Zafar Durrani for motivation, mentoring and thorough support.

[28] The discussion rests heavily on the PIDE-RE 8 webinar series on Pakistan Railways, jointly organised by Pakistan Institute of Development Economics and Reenergia, 2020-21 (https://www.youtube.com/watch?v=Y5EqU21Q4Q0&t=4691s)

The infrastructure manager provides a set train path and a working timetable to the private operators. The operators are responsible for capital cost, operating cost, and other relevant costs of train operations. From a commercial perspective, train operators, in general, are independent of infrastructure managers. This liberty provides ease of doing business to the private operator with the trade and industry.

Now, these arrangements have transformed into the "Right of Access" arrangements. The main change is that third parties have the right to obtain access provided they satisfy licensing requirements, i.e., financial capacity and technical capacity.

TRACK ACCESS CHARGES—SHARING THE COST

These are the Payments from the Operators to the Track Owner.

Track Access Charges (TAC) is a significant and widely discussed component of these arrangements. In principle, the objective of these arrangements is to share the total cost of the track between the train operator and the infrastructure owner. In 1837, the Liver pool & Manchester charged the Grand Junction one-third of the total freight rate as its track using fee. Since then, many such railway-to-railway agreements have been made to share costs. The total cost of infrastructure operation and maintenance is divided based on gross tons. Wagons have a similar effect to gross tons, are easier to record and calculate. There are examples where the recovery of infrastructure maintenance is on a gross tons-km basis, and signaling maintenance and operation is on a train-km basis.

Box 2: With No Fixed Rules, the Challenge Remains

- ***How much of the infrastructure costs have to be recovered?***
- ***How much from passenger? How much from freight?***
- ***How should charges be levied? How to charge for scarcity?***

TAC—Europe

The first railway package introduced in 2001 (as per the directive 91/440/EEC) called for the access charges to be the direct cost of running the train. In this, markups could be differentiated based on the type of passenger trains and freight commodities; this package allowed for scarcity and environmental costs. However, Europe adopted a wide range of approaches. These included marginal cost pricing, marginal cost-plus pricing, full-cost minus discounts pricing, and full-cost pricing. Sweden and Britain followed marginal cost pricing, while Germany and France followed full-cost pricing.[29]

The diversity in charges levied indicates the complexity underlying the open-access regime and the conflicting efficiency and cost recovery objective. The infrastructure costs recovered through the track access charges ranged from zero percent or near zero percent in Norway and Sweden to 100 percent in Estonia, Latvia, and Lithuania. This reflects the rail traffic they support and the government policy towards supporting the railway. Eastern

[29] Nash, C. (2018), Track Access Charges, Reconciling Conflicting Objectives. Centre of Regulation in Europe.

Europe is freight–oriented, so cost is recovered from freight railway traffic. Western Europe is passenger-oriented and encourages rail use.

The complexity of the charges reflects that there is no fixed relativity between freight and passenger. The basis of the pricing also varies colossally. In fact, the cost charging regime has become more complex with additional fees and other expenses, detailed in Figure 1.

Fig. 1. Charges, Fee, and Facilities Included in Track Access Charges

Charges

What is Charged

- Time of Day Pricing
- Train Frequency
- Train Speed
- Train Type
- Axil Load
- Loco/Traction Type
- Service Type
- Train Path Quality
- Line Type
- Capacity Maximisation Charges
- Scarcity Surcharge
- Low Speed Penalty

How is it Charged

- Flat Fee
- Fee per Train-km
- Fee per tons-km
- Fee per min
- Node Fee
- Fee per axle-km
- Axle load

Fee

- Reservation Fee
- Cancellation Fee
- Running Charge
- Admin Fee
- Access Fee
- Security Fee
- Accident insurance Charges
- Environmental Charges
- Special Infrastructure Fee
- Dangerous Goods Transport
- Low noise fee/Discount
- Freight Subsidy Discount/Fee
- Performance Scheme

Facilities

- Parking at Stations
- Parking at Sidings
- Parking Time
- Shunting Services
- Train Washing
- Provision of Water
- Brake Test Facility
- Loading Areas

TAC – Asia

In 1897, the Japanese National Railways was restructured and divided into six vertically integrated and regionally separated passenger rail companies and one freight company; most of these are fully privatised. Japan adopted marginal cost pricing for TAC. In China, the historical focus of intercompany payments has been to balance the revenue between state-owned companies and their subsidiaries. However, to move towards open-access, track access charges would become considerably imperative. For China, Kang, et al. (2021)[30] suggest marginal cost plus a markup according to the ability to pay.

[30] Kang, et al. (2021), "Railways Access in China: A comparison with Europe and Japan". Transport Policy, 108, 11-20.

Open Access Policy – Pakistan

Box 3: Pakistan's Track Access Plan – Unique Features

- Limited to specific traffics, selected by PR or the government.
- Limited and specific routes.
- Provision for expansion by mutual agreement.
- Access governed by contract and operating agreement.
- No regulatory authority is required other than PR/Ministry of Railways and Pakistan's legal system.
- No fixed track access fee – each service will pay what the market determines; PR is not required to accept any bid.
- PR free to provide service while competing with any concessionaire but could not sell another concession for the same route and traffics.

In 2011, the Infrastructure Project Development Facility (IPDF) and Pakistan Railways (PR) published preliminary information on a new Open Access Policy (OAP) for railways. The purpose of the policy was to attract private investment in locomotives, rolling stock, and new facilities for freight services. The OAP did not provide for overall open access for freight operators. Instead, it allows concession only for specific commodities and between specified origins and destinations (Box 3).

Table 1

Auctioned Freight Services

Commodity	Route	Distance	Cycle Time
Oil	Karachi-Lal Pir	953 kms	5 days
General Cargo	Karachi-Badami Bagh	1,220 kms	6 days
GITA	Karachi-Peshawar	1,600 kms	10 days
Phosphate	Karachi-Piranghaib	939 kms	5 days
Containers	Karachi-Lahore	1,225 kms	6 days
Coal/Cement	Karachi-Daud Khel	1,265 kms	8 days

The government and railways decided what freight services they would allow to be operated by private parties. After a series of consultations between the government and PR, tenders were invited. The 20-year private concessions, with TAC based on gross tons-km, were awarded to the highest bidders. These TAC were higher than Spain and Europe at that time. PR was supposed to provide station facilities and access to its infrastructure.

The concessions resulted in operating contracts that guided access rights and priority. Investors prepared operation plans, invested in terminals, and called for expressions of interest from the international locomotive and wagon manufacturers. Total investments by private entities in rail-related services, including terminals, locomotives, and rolling stock, were estimated to be nearly $1 billion. Unfortunately, PR/MOR did not activate the concessions they had signed.

In Pakistan, the rail traffic is diversified. Some routes have more traffic and hence can be more profitable than others. The private operator would be willing to pay more for that route. The 20-year of concession agreement is long enough for the private investor to work out a reasonable return on its rolling stock. Investment in the 20 years begins when the track access rights are activated. The adoption of OAP in 2011 could have evolved into something like the complexed EU, with multiple operators. However, PR missed the opportunity to increase its revenues associated with the above rail competition (Jensen, 1998).[31]

[31] Jensen, A. (1998) Competition in Railway Monopolies. Transportation Research. Part E, 34(4), 267-287.

There is no doubt that a competitive market can potentially provide more choices to the consumers, which creates pressure for the stakeholders in their spending. Stakeholders are also under pressure to develop innovative plans and services to exploit new markets and maintain profits (Tsang, 2007).[32] PR lost the welfare gain of 24 percent that could have been materialised by decreasing the dead weight loss stemming from the monopoly situations (Broman, 2019).[33]

The freight market analysis reveals that PR has the potential of 58 daily freight trains, which it is not managing. It is equivalent to the loss of PKR 5 million per day.[34] Reverting to OAP and unleashing the economic activity can have a ripple effect on the PR and economy.

ESTIMATING THE MARKET POTENTIAL OF FREIGHT[35]

(1) Domestic Cargo

Pakistan's freight and logistics sector has enormous potential, given its' domestic market of around 226 million and strategic geographic location. Within the country, containers of almost 1.8 million TEUs are being transported from South to North in a year. Only 4 percent of this freight is carried by railway sector and remaining 96 percent is transported through the road operators. In terms of rolling stock, only 74,000 containers are transported by PR. For the domestic cargo of 1.8 million TEUs, a total of 24 trains per day are required. Under the Track Access regime, only 6 percent of the market share will be offered to the private sector via two trains per day, leaving 22 trains per day of untapped potential on the tracks of PR for container traffic.

(2) Coal Market

Taking the coal market into account, currently, Pakistan is handling almost 15 million tons of coal freight. Again, PRs transport hardly 750,000 tons of coal through daily service on this corridor while the market size is 15 million tons per annum. Only for coal, there is an unapprehended market potential of 20 trains daily from the South to North corridor.

(3) Oil Market

In the 1990s, oil traffic fell due to its shifting to pipelines.[36] This shift from rail towards pipelines was the outcome of the illogical incentives provided by the regulatory authority. With hardly any oil train running in Pakistan, more than 400 oil tanker wagons are sitting idle. One oil train can carry almost 1800 tons. There is a consumption of 8 million tons of furnace oil in power plants. This translates into the potential freight of 14

[32] Tsang, T.W. and Tin K. H. (2007) Conflict resolution through negotiation in a railway open access market: A multi agent system approach. *Transportation Planning and Technology, 29*(3), 157–182.

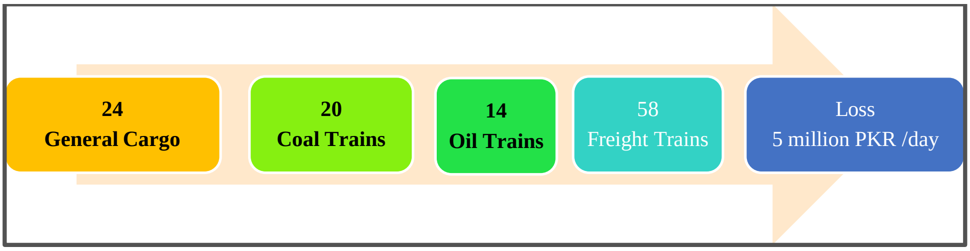
[33] Broman E. Jonas E (2019) Welfare Effects of Open Access Competition on Railways Markets. Transportation Research part A. 129, 72-91.

[34] Authors calculations.

[35] Based on Javaid A. Siddiqui's presentation.

[36] Anwar and Afrasiyab (2020)," Pakistan Railways: Why not on Rails?", PIDE Blog. https://pide.org.pk/blog/pakistan-railways-why-not-on-rails/

trains per day from South to North. That potential is still not materialised, despite the Federal Government directing Pakistan State Oil and Pakistan Railways to run oil trains on this corridor in 2019.



Overall, there is a freight potential of 58 freight trains per day on the corridors of Pakistan Railways. The revenue loss from these 58 freight trains amounts to PKR 5 million per day. It does not include other commodities which PR has been carrying and can carry. That will further increase PR potential to run more freight trains, in addition to the above trains. This potential, once tapped, would help in overcoming the losses in PR and stimulate growth.

CONCLUSION

- The incapability of the PR to adopt a simple model/ policy decision of an open-access regime that has been practiced globally for over 183 years indicates the sheer lack of motivation to transform this 18th-century colonial asset into a vibrant commercial organisation of the 21st century.
- The inability to completely implement the open-access plan and faltering the process at the last minute indicates the gravity of political interference, the resistance within the PR to any change, the incompetence and non-existence of business ethics or model.
- There is an enormous freight potential that can help the PR to turn the balance sheets in its favour and exit from the list of top ten lossmaking State-Owned Enterprises through open-access policy and unleash the economic activity via the private sector.
- The open-access regime can still be a good starting point for a comprehensive business model of PR.

The Obsession with Flyovers in Pakistan—Roundabouts are Cheaper

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Keywords: Public Investment, Foreign Direct Investment, Saving

INTRODUCTION

We are on a flyover-building binge! Almost everywhere there is some flyover construction project under way. The world over, roundabouts are more efficient at regulating traffic. We used to have them but now are killing them to make flyovers. Why? What are the advantages and disadvantages of flyovers relative to roundabouts?

FLYOVERS IN PAKISTAN

As of 20 May 2011, there were three operational flyovers in Multan, with another 9 planned (*The Express Tribune*, 2011). In Karachi, by 1 December 2013, a total of 44 flyovers were either operational or planned to be constructed (Maher, 2013). In 2021 alone, the construction of three new flyovers was planned in Lahore (Hasnain, 2021). In Karachi five flyovers were completed in 2007, another five in 2008 and another six in 2009 (Maher, 2013).

The boom in flyovers in Pakistan is attributed to politics as development projects that are visible to the public in city centres improve the approval ratings of politicians (Shah, 2016). However, by doing so, investment in other development projects that could have a greater social benefit is neglected.

ADVANTAGES OF FLYOVERS

(1) Time saving: An advantage of flyovers is the potential increase in labour output resulting from the reduction in time wasted due to traffic congestion. This also leads to fuel-related cost being reduced for motorists. However, Pakistan's GDP per capita is US$1,194 whereas the GDP per capita of the UK and the USA is US$40,285 and US$63,544, respectively (The World Bank, 2021). Therefore, the value of increase in output in Pakistan due to time saved from flyovers may be negligible.

(2) Another benefit of flyovers is the reduction of pollution from motorists if the flyover allows for traffic jams to be reduced. In addition to this positive environmental impact, as air pollution contributes to 'one third of deaths from

stroke, lung cancer and heart disease', a reduction in air pollution can improve the health as well as productivity of citizens of the city, diminishing the need for sick leave (WHO, 2018).

(3) Although not feasible at every flyover, toll plazas can be set up to gain a source of revenue to fund the project partly or fully. A toll plaza set up at Habibabad flyover is expected to raise PKR 5.51 billion in revenue which is more than six times the cost of the project (Public Private Partnership Authority, n.d.).

(4) Also, the boom in construction of flyovers facilitates the growth of the construction industry which in turn improves the GDP per capita, and broadly, the standard of living of the nation.

DISADVANTAGES OF FLYOVERS

(1) The private cost of flyovers depends on factors such as the length and number of lanes of the flyover, geographical constraints, quality of materials used as well as the delivery time of the project. For context, Habibabad flyover cost PKR 831 million in 2015 (Public Private Partnership Authority, n.d.), Bhara Kahu flyover in Islamabad had an anticipated cost PKR 500 million in 2020 (Abbasi, 2020) and Sheranwala Gate flyover in Lahore had an anticipated cost of PKR 4.9 billion in 2021 (Hasnain, 2021).

(2) On the other hand, the opportunity cost of constructing flyovers includes time wastage resulting from diversion of traffic to allow for the construction of the flyover. This also results in an increase in crime rates due to slow-moving traffic (World Road Association, 2019).

(3) Furthermore, flyovers may not resolve traffic congestion once they become operational. An example would be higher-than-anticipated cars on the roads due to improper planning of the concerned development authority. Idling cars stuck in traffic would lead to greater air pollution and have a negative impact on the environment and on health of the residents of the city.

Fig. 1. Disruption Caused by the Construction of a Flyover in Peshawar

(4) In the event of a collapse of a flyover either due to haste, use of substandard materials, heavy vehicles or not being adequately maintained, damage to private and public property as well as life could occur (Reuters, 2007). Examples of this include Habibabad Flyover collapsing seven months after its inauguration and Drigh Road Flyover being closed four times in six months for repairs (Ansari, 2016; *The Express Tribune*, 2017).

(5) In addition to the financial cost of repairing these flyovers, time wastage occurs due to traffic being diverted to allow for these flyovers to be repaired.

Fig. 2. Drigh Road Flyover Being Repaired

(6) Flyover construction is prone to time delays which in turn leads to cost overruns. An example of this was the cost increase of Sariab Phatak Flyover in Quetta in 2013 from PKR 1.3 billion to 1.6 billion due to delays in gaining site clearances (*Business Recorder*, 2013).

FLYOVERS VS ROUNDABOUTS—A COMPARISON

Like flyovers, roundabouts are efficient in terms of dealing with heavy traffic as they are signal-free. This improves traffic flow, saves time and fuel of motorists, and negates the adverse impact on the environment due to fewer emissions. Unlike flyovers, roundabouts promote a slow and consistent speed which helps reduce the incidence of fatal collisions (Washington State Department of Transportation, n.d.). They can also accommodate pedestrians and cyclists unlike most flyovers. Although overhead pedestrian bridges can be built over roads (and flyovers) to safely allow for pedestrians to cross the road, this would result in an additional cost being incurred, making flyovers even less feasible relative to roundabouts.

Fig. 3. Overhead Pedestrian Bridge in Karachi

Roundabouts are comparable in costs to traffic signals, not flyovers. However, unlike traffic signals, they do not incur any maintenance and electrical costs that range from US$5,000 – 10,000 annually for traffic signals (Washington State Department of Transportation, n.d.). Therefore, in the long-run, they prove to be cheaper than traffic signals, let alone flyovers. Although they require more space than a traffic signal to construct, roundabouts require less space than flyovers and are quicker to construct (Insurance Institute for Highway Safety, 2021).

Due to these benefits of roundabouts, other cities in the world have steered away from flyovers; Paris has no flyovers and Seoul has replaced a flyover at Cheonggyecheon with a river (Maher, 2013).

A reason behind Pakistan's, and in particular, Karachi's obsession with flyovers is the success of the first flyover constructed in the city at Nazimabad which helped deal with traffic congestion efficiently. Over the years however, flyovers in Karachi have been constructed primarily for the purpose of creating a 'signal-free corridor' (Maher, 2013). Had Karachi relied on roundabouts instead of flyovers, not only would it have been able to free-up resources for other projects, it would have also had a more efficient, environment-friendly, cheaper and safer method of dealing with traffic congestion. A study conducted five months after the first signal-free corridor was inaugurated in Karachi in 2007 established that vehicle-related accidents more than doubled from 206 to 438 and traffic congestion remain unchanged (Maher, 2013). Despite Karachi's apparent obsession with speed and flyovers, the average speed in the city is 11.2 miles per hour, the second worst in the world (Gorzelany, 2017).

Pakistan's latest Automobile Development Policy has subsidised cars to boost their ownership levels by making entry level cars more affordable. In 2018, there were 23.6 million registered cars in the country (APP, 2019). Given Pakistan's population in 2018 (212 million), this subsidy would benefit only 11 percent of the total population, assuming every car owner did not own multiple cars. Moreover, to accommodate this subsidy-resultant increase in cars, Pakistani cities will become more car-dependent given Pakistan's preference for flyovers over roundabouts.

CONCLUSION

Pakistan has experienced a boom in flyovers in recent years. This can be partly attributed to a political ploy which diverts investment away from development-related projects to tangible infrastructure-related projects such as flyovers which often experience delays and cost overruns. Constructing these flyovers also results in temporary traffic congestion and upon completion, some flyovers do not alleviate the issue of traffic congestion due to poor planning on behalf of development authorities. Although flyovers have their benefits, their private and social cost deems them unfeasible for Pakistan, a country with strained financial resources. It would be more advisable to build cheaper roundabouts instead of flyovers. They are cheaper and faster to construct, safer and just as efficient as flyovers, if not more.

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THE NUISANCE OF OWN MONEY IN AUTOMOBILE PURCHASES

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Own Money: In A Nutshell

Own Money: A premium charge for immediate ownership of an automobile being sold.
The supply side of passenger car manufacturing as we know it, is not functioning at full capacity. Artificial shortage is created - giving rise to the "own money" culture.
The demand side has gotten habitual of this.
Demand side is guilty of encouraging "own money" culture, but it is not the primary culprit.

INTRODUCTION TO OWN MONEY

The constant gap in demand and supply of vehicles in Pakistan gave birth to a phenomenon unique even today to the Pakistani automobile market known as the 'own money' for brand new vehicles. For immediate possession of an automobile that has been purchased, the buyer must pay a premium charge: own money. The question is, what is this own money, and why must one pay this to possess something one has already paid for?

In the early 2000s, when car sales in Pakistan rose sharply, aided by the banks' introduction of car financing services, the demand and supply gap widened. The number of buyers increased rapidly, while vehicle production capacities did not significantly increase to match this rise in demand, resulting in an increased waiting period for the delivery after booking the vehicle. An opportunity to earn commission was created for those in the middle of the supply chain, i.e., the 3S[37] dealerships.

At the time of vehicle shortages and production delays, the car dealers started charging own money for quick delivery of brand- new vehicles. Own money is a premium charged over and above the quoted price of a vehicle for immediate delivery. For instance, the company ABC sets the market price of its vehicle X at PKR 2 million inclusive of all taxes, but the tentative delivery date is six months from the booking date. The buyer is forced to pay a considerable amount and wait for an extended period. This allowed the car dealers to develop the process of own money, where they offer the buyers a way out at the time of booking. As a result, the buyer is given the option to pay an 'm' amount of money,

Authors' Note: This analysis has been motivated by discussions with Dr. Nadeem Ul Haque, Vice Chancellor, PIDE. We are also grateful to Mr. Nabeel Anwar for gathering data and invaluable contribution in understanding the culture of own money. The author is grateful to Dr Nadeem Ul Haque, Vice Chancellor, PIDE for ideas/ comments on the earlier draft of this brief.

[37]3S dealerships are car dealers associated with a certain automobile manufacturer providing **Sales, Service and Spare Parts Management** services to the costumers. They act as the middleman or as bridge between the car manufacturers and buyers for sales and after-sale services.

over and above the price quoted by the company, and get the car within a week, even the same day in some cases. By paying this own money, the buyer is then relieved of the waiting time for vehicle delivery and obtains ownership of the car immediately.

The question that arises is when the company is taking a much more extended period to produce and deliver vehicles, how can the dealers offer express delivery? Does that mean the companies are directly involved in encouraging the culture of own money on the sale of cars or indirectly seeking the benefits of this culture? This knowledge brief sheds light on the industry's current structure and highlights the slim margins between production and sales in virtually all sub-sectors of the industry. The own mechanism is discussed, followed by the implications for consumers and a possible way to reign in the nuisance of own money.

FOSTERING THE OWN CULTURE

The automobile industry of Pakistan was set up with the assistance of foreign firms by forming joint venture agreements to facilitating the transfer of technology and know-how for manufacturing automotive vehicles of all types. Income levels in the country have influenced the growth of the industry sectors; the motorcycle and small automobiles have become the workhorses of the low and lower-middle-income groups of the economy, while high powered luxury sedans are the preferred choice for the higher-income bracket in the economy. In the motorcycle industry, the established Original Equipment Manufacturer (OEMs) are facing stiff competition from the new incumbents from China, but recent trends indicate they are managing to hold their own, no doubt capitalising on a brand name, quality, and after-sale service while the Chinese brands are focusing on undercutting the price (Qadir, 2016).

The domestic automobile industry in Pakistan is comprised of several OEM firms that are manufacturing a variety of products in the industry, ranging from two and three-wheelers to passenger cars, commercial vehicles, and even buses, trucks, and tractors. The distribution of these manufacturers is skewed in favour of two and three-wheelers (motorcycles and autorickshaws), and there is a high degree of concentration in the remaining segments of the industry.

The own money culture is not hidden from anyone, and while the regulators (i.e., Auto Industry Development Committee on the supply side, and Competition Commission of Pakistan on the demand or market side) and companies might not be actively involved in this, but they have not taken any steps to curb the practice. Instead, their inactions have ended up aiding the own culture.

Table 1

Distribution of OEMs Registered with PAMA

Passenger Cars	5
Trucks	3
Buses	3
Jeeps	4
Pick-ups	5
Farm Tractors	3
Two and Three Wheelers	10

Source: PAMA Website.

When a company opens bookings for a new vehicle, the 3S dealers themselves book several vehicles. Not only does this create artificial demand at the time of booking, but it also creates hypes about the vehicle in the market. As a result, more people are pushed to book their vehicle as soon as possible due to rising bookings. This creates a fear among potential buyers that waiting a while before booking could result in a much longer waiting period; thus better to book immediately. This overbooking causes severe issues for the companies who are unable to meet the demand, leaving the field open for 3S dealers to exploit buyers. As a result, when the vehicles booked by the 3S dealers are delivered to them, they start offering the car to buyers with an immediate delivery under the condition they pay some premium over and above the car's actual price. This premium, as mentioned above, is known as the own money.[38]

Time Cost of Money and Pakistan's Own Culture

We work under the assumption that the buyer has *two options:*
A: To pay a large sum of money to book their vehicle and wait for a long period of time for the car delivery. For the time that the car has been booked but not yet delivered, the money can be referred to as a dead investment as there is no return or utility being gained by the consumer.
B: To pay a premium, referred in local automobile market as own money, and get the vehicle immediately.
Analysing the opportunity costs attached to the above situations, many buyers tend to prefer option B, as for them the social cost of waiting a long period of time for the vehicle delivery with dead capital paid to the company is greater than the total cost of getting the vehicle immediately by paying a premium or own money.
Summing, the deep rootedness of **own culture** in Pakistan's automobile sector can be explained through basic economics concepts. Artificial shortage is created by intentional overbookings and under manufacturing, thus nurturing supply-demand distortions and then through 3S dealerships primarily, and elsewhere as well, customers are made to choose between options A and B as described above based on their individual opportunity and time costs of money.

While regulators and companies are rightly criticised for harbouring the own money culture in Pakistan, and the 3S dealers held the most responsible for being at helm of the affairs in this, a lot of responsibility lies upon the buyers as w ell who are willing to pay the premium amount thus giving the dealers the message that not only they willing to pay extra for an immediate delivery. In economic theory, this can be described as the "*Time Cost of Money*." Situational Analysis of this is explained in the Table 2.

[38]This discussion is based on information collected from interviews with various stakeholders in the industry, including those from several dealerships.

Table 2

Own Money, Final Price, Production and Sale Comparison (July 2021)

(PKR)

				Price				Automobile	
Manufacturer	Vehicle Model	Own-Money over Price	Ex-Factory	Ex-Dealership	Final*	Ratio: Own Money to Final Price (%)	Production	Sales	Gap (Production-Sales)
MG	ZS	165,000	4,099,000	4,149,000	4,239,768	3.89			
	HS	465,000	5,749,000	5,799,000	5,922,768	7.85			
Hyundai	Tucson	863,000	4,979,000	5,098,500	5,211,845	16.56	3,821	3,748	73
Kia	Sportage	396,000	5,270,000	5,370,000	5,488,775	7.21			
Toyota	Yaris	70,000	2,669,000	2,753,000	2,815,848	2.49	29,127	28,295	832
	Corolla Altis	370,000	3,249,000	3,333,000	3,412,035	10.84	18,552	18,355	197
	Corolla Grande	400,000	3,869,000	3,978,000	4,069,435	9.83			
Changan	Alsvin	250,000	2,519,000	2,569,000	2,628,168	9.51			
Honda	Civic	300,000	3,864,000	3,952,500	4,043,425	7.42	25,081	25,276	-195
Suzuki	Alto VXL	110,000	1,521,000	1,528,500	1,564,710	7.03	35,994	37,720	-1,726
	WagonR VXL	100,000	1,610,000	1,625,000	1,662,100	6.02	12,280	12,659	-379
	Cultus VXL	120,000	1,830,000	1,845,000	1,884,300	6.37	18,714	17,510	1,204

Source: PAMA Website.

Interviews with various dealerships.

Pak Wheels (2021), Get Instant on Road Price of New Cars webpage.

Note: * Final price includes: Federal Capital Charges (Token Tax, Income Tax, Registration Fee, Professional Tax, Number Plate Charges) + Ex-Dealership Price.

The own money culture has become so common and successful in Pakistan's automobile market that only the 3S dealerships are not profiteering from this mechanism. Instead, many private dealers have developed their entire business model on the own money concept. These private dealers now do not deal in secondhand cars but rather deal in brand new vehicles only (a snapshot of own money, the final price of the vehicle, and supply-side trends are given in Table 2 to highlight these distortions). They book new cars from multiple companies and then sell them to consumers who are willing to pay extra for buying the car immediately instead of waiting for months. These dealers' edge over 3S dealerships is that 3S dealers can deal in only one company's vehicles whereas the private dealers have no such restriction.

As own money at any given time is impacted by the market forces of demand and supply, there is a fluctuation in the own- money demanded on every car. So, if the demand and supply gap for a certain vehicle is lower, with a minimal waiting period, then the own money demanded will either be relatively low or none. On the other hand, as the demand-supply gap widens and the waiting period increases, the own-money rate also increases. Consequently, the private dealers, due to diversification, can cater to such risks. In contrast, for the 3S dealers, the risk levels are higher as they might not be able to earn the profits as they planned by twisting the consumer's hands if the automobile company is adequately managing its supply.

A look at own money, prices, and automobile production and sales data reveal key insights into the working of the automobile market. For one, the ratio of own money to final price of the automobile does not vary according to price, but the perceived popularity in the market. MG is offering luxury vehicles aimed at the upper segmen t of the market, so the own money being charged is higher. Similarly, Toyota Yaris is an entry-level Sedan, so it commands lower own money as compared to the company's Corolla variants. The *Altis* and *Grande* models are highly popular due to their brand recognition and relatively more rugged build, with the model being the go-to option for many rent-a-car services. Hyundai Tucson commands the highest ratio of own money to price, at 16.56.

CONCLUSION

Pakistan appears to have a unique automotive industry, with variety at the higher end of the spectrum in terms of different models being offered, and many variants being offered by a dominant player at the lower end of the spectrum. The culture of charging own money has been credited to production shortfalls that result in demand exceeding supply. On the flip side, consumers are willing to pay whatever premium they are charged to take ownership of a product they have paid for in advance. In the US, dealers charge premiums for their services, but consumers are free to shop around and choose the premium they are willing to pay. The manufacturer identifies a minimum price to the dealers there, below which they cannot sell. The premium above that is negotiable between the dealer and consumer so allowing them to reach a mutually beneficial price and not letting one twist the arm of the other party.

Moreover, given that the production of automobiles in Pakistan is being done on-demand, rather than mass manufacturing, just in time or even lean production, the justification for charging own money does not make sense. This feature of the Pakistan automotive industry bears further analysis, but the current culture of own money in the industry results from the actions of all stakeholders involved. The regulators must fulfil their duty to protect the rights of consumers by crippling the unregulated power at the hands of auto manufacturers. Instead, regulations must focus on creating a market structure facilitating all market players and not tilting to one side only.

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MEDIA

UNPACKING PAKISTAN'S FILM POLICY

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1. INTRODUCTION: UNDERSTANDING CULTURAL POLICY AND SITUATING FILMS

While explaining what Cultural Policy of a country is concerned with, Clive Gray, an expert in Cultural Policy Studies, details:

Community cultural development, cultural diversity, cultural sustainability, cultural heritage, the cultural and creative industries, lifestyle culture and eco-culture, planning for the intercultural city, cultural planning per se, support for national languages, 'currently controversial issues in the wider society', the 'culture wars' in the USA, 'the production of cultural citizens' as well as being concerned with 'representation, meaning and interpretation' and being a 'transhistorical political function'.

(Gray 2010: 218)

A wide array of what cultural policy can encapsulate and as detailed in the verbatim above, there are critical roles to be fulfilled by various stakeholders such as cultural ministries, policymakers, broadcasting media houses, filmmakers, and civil societies. Hence, a sectoral approach impinging upon 'what choices have to be made, structures imposed, boundaries drawn' (Bell and Oakley, 2015:8) is necessary for the survival of Creative and Cultural Industries (CCIs) and for effective framing as well as implementation of country's cultural policy.

Approaching a Cultural Policy entails taking important decisions: Which culture to choose (popular or peripheral)? Which form or representation of culture to focus upon (visual or performing arts)? What should be the geographic spread (rural or urban)? Which institutions to start from (State, governmental or non-governmental)? McCann and Ward (2011: xv) provide an easier starting point by articulating that:

Policy-making must be understood as both relational and territorial, as both in motion and simultaneously fixed, or embedded in place. The contradictory nature of policy should not, however, be seen as detrimental to its operation. Rather, the tension between policy as relational and dynamic, on the one hand, and fixed and territorial, on the other, is a productive one. It is a necessary tension that produces policy and places.

Defining scope of a cultural policy in terms of space and time is as important as it is necessary to articulate its scale and magnitude. Speaking strictly of scale and magnitude in the context of Pakistani films as Creative and Cultural Industry (CCI), the situation is depressing due to compromised filmmaking which in turn is the result of; ***economic factors*** (entertainment duty and stringent import tariffs on filmmaking equipment), ***structural factors*** (policy vacuum, and lack of governmental support), ***instructional factors*** (lack of critical cultural debates, no specialised school in film-making and performing arts), and ***discursive factors*** (thought control, censoring, over-regulating and surveillance by the State). Driven by the critique for the policy vacuum concerning with cultural policy, especially Film and Broadcasting, Pakistan's first Film and Broadcasting Policy was developed in 2018. Before explaining policy's themes, a few terms are explained in the following text to explain the articulation of economic growth and CCIs.

2. ECONOMY AND FILMS AS CCIs

Towse (2019) asserts that economic growth is (or has been) one of the most vital aims of societies and governments. Governments aim to stimulate economic growth through conducive policies. Governments also aim to increase growth through investment in some industries from public finance. UNESCO, UNCTAD and WIPO have realised post-2000 that policies and investment for CCIs are an unfailing means of stimulating economic growth. This stance needs clarity and further probing because not every sub-sector of the CCI is equally successful or yield economic growth, though it may be very important for cultural reasons. For instance, opera and ballet may not be very viable options for economic growth in the West or elsewhere. It is therefore necessary to dig deeper into the details of 'CCIs and Economy' argument so as better to understand how CCIs may contribute to economic growth and development.

CCI has been widely adopted and there is an international standard list of applicable industries set by UNESCO, ranging from the performed arts to IT software and games (Towse, 2019). That said, each country's profile will vary in terms of its own cultural and economic profile and in accordance with what is viewed as culturally and economically important. According to DCMS (2001: 4), cultural industries are:

Those industries which have their origin in individual creativity, skill and talent and which have a potential for wealth and job creation through the generation and exploitation of intellectual property.

A British Council report (2014) titled 'Cultural and Creative Industries in Pakistan' provides following profiling of Pakistan's CCIs.

- Performance (theatre, film, and broadcasting).
- Visuals Arts and Crafts.
- Books and Press.
- Audio-visual and Interactive Media (digital economy).
- Design and Creative Services.

Films as CCIs in Pakistan can only be conceptualised in post-2000s when liberalisation and rise of satellite television companies such as GEO, ARY, and HUM TV resulted in the opening up of new avenues for funding for films (Ali and Zulfiqar, 2020). In order to match up to the sophistry of technology using which films were produced and shot, Pakistan's first multiplexes were established which catered to the 'upwardly mobile and propertied classes' of Lahore. For instance, the Defence Housing Authority (DHA) cinema caters to the class accustomed and gated environments. Ahmad (2016) argues that digitalisation of exhibition has been accelerated by the sharp increase in urban land, property prices, expansion of corporate sector, consumer culture, and television advertisement. Funding through State patronage, acceptance for layered screenplay and post-modernist style of storytelling, and scope for earning through overseas Pakistanis, many independent filmmakers have (and are) invested (investing) in filmmaking. Moreover, it is also popular that the State's and films' narratives are purposively aligned; for instance intersectionality of Musharraf's enlightened moderation and contemporary interpretations and representations of religious texts as depicted in Khuda Kay Liye or later in Bilal Lashari's blockbuster Waar (released in 2013) in which State's rampant narrative of fighting against terrorism was eulogised in the film through prime focus on counterterrorism and Indian conspiracy. Furthermore, as part of new digital wave, state of the art modern technology and equipment, and a few films shot on Arri Alexa cameras (used to shoot Hollywood films such as Skyfall and Iron Man), Ahmad (2016) not only calls this as the revival of Pakistani cinema but also the industrial revival in cultural industry of Pakistan.

3. PAKISTAN'S FILM POLICY: WHAT IT ENTAILS FOR FILMMAKING IN PAKISTAN?

In 2018 Pakistan's first film and broadcasting policy was framed by the Ministry of Information, Broadcasting, National History & Literary Heritage. The policy proposes fiscal incentives, regulatory framework, and production designs of cinema and TV to facilitate cinema and drama production in Pakistan.

Key policy related points of the document are postulated as follows:

- **Film Directorate**: The policy proposes to frame a Film Directorate whose director will be a Grade 21 officer along with formation of an independent Board of Governors for the effective implement of policy framework for rejuvenating film and TV industry in the country.
- **Facilities for Filmmaking**: Provision of facilities of Studio Complex, Post-production, and Film Academy. Policy chalks out to opt for public-private partnerships to provide facilities of water tank, sound stages, animation studios, special effects, modelling and set construction shops.
- **Economic Policies**: In order to facilitate post-production process within the country, policy instruments such as tax exemptions, import tariff relaxations, and soft-loan schemes are proposed in the document. The intent is to mobilise financial and human resources to create competitive indigenous film-production market.
- **Film Academy**: For boosting creativity and enhancing quality of filmmaking, a National Film Academy is also proposed in the policy. This academy will provide latest knowledge about acting, writing and screenplay, pre- and post-production of films, and film technology.
- **Fiscal Incentives**: Among the first fiscal incentives facilitating film and drama production in Pakistan is that the import of cinema, film and drama production equipment should be exempted from custom duty and tariffs for 10 years through amendment in the Custom Act 1969 in the Finance Bill 2018.
- **Amendment in the Sales Tax Act**: High sales tax on cinema and drama equipment impedes the process of filmmaking in Pakistan. Hence, the policy recommends to amend the Sales Tax Act 1990 in the Finance Bill 2018, so that Sales Tax gets to the lowest.

- **Formalisation of Filmmaking Fund**: Proposal to institutionalise film and drama finance fund will enable tax payers/SECP listed company to access for the establishment of film academy, cultural museums, studios, cinema buildings, production houses and post-production facilities. This fund will be governed by an independent board with corporate sector contributing to it and availing tax incentives.
- **Income Tax**: All the investments by tax payers/SECP listed company in cultural economy covering areas such as cultural heritage and film museums, cinema houses, academies, and pre- and post-production activities will be exempted from income tax for a period of 5 years. Such ventures will also be given the status of corporate social responsibility under which company will be eligible for tax deduction from their tax liability.
    - In order to ensure sustainability of cinema houses, policy proposes that cinema houses with ticket of PKR. 350 will be exempted from income tax for 9 years with permission of increase of 15 percent in ticket price after every 3 years (adjusted for inflation rate).
    - The entertainment tax duty should be waived off for 5 years which will incentivise cinema owners who sell cheaper and affordable tickets.

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THE ELECTRONIC MEDIA ECONOMY IN PAKISTAN: ISSUES AND CHALLENGES

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The influence of media on society is unquestioned. Its reach penetrates nearly every corner of the world and every aspect of life. But it has also been a contested realm, embodying class politics and the interests of monopoly capital. The paper aims to study certain aspects of the media, focusing primarily on: the political economy of media; size, growth, concentration and content of electronic media; the television rating system; financing model and business operations; the way that these practices are shaped by governments' laws, regulations, and other policies; and the impacts of these business/regulatory interrelationships not only on media content and media audiences but also on societies' politics and culture more broadly.

1. THE POLITICAL ECONOMY OF ELECTRONIC MEDIA IN PAKISTAN

Historically, the media in Pakistan has been used both to advance the agenda of military and civilian governments and in support of pro-democracy movements. The state used it for a unified national position on domestic and foreign policy issues. In the words of Raza Rumi, *"There were more than 50 years of unstoppable, concerted, well-funded propaganda by the state and the state construction of a [national] identity that is completely fictitious."*[39] Since 2002, the liberalisation of media led to an explosion of local, privately-owned satellite television channels distributed via cable networks.

Since then, it has earned a reputation as vibrant and critical of the state. Private news channels are hugely influential today; many evening news anchors are celebrities, and their shows play a vital role in public opinion-making.[40] However, some outlets have developed a reputation as sensationalist and irresponsible, and are viewed as the ones that spur political instability, hijack foreign relations and promote extremism. Sadiq, *et al.* (2021) has found that Pakistan's electronic media is creating stress, fear, and negative reporting and have low awareness campaigns related to Covid-19.[41] Similarly, Hassan (2014) has shown that the private electronic media continued to be a contributing factor in glorifying and encouraging many of the terrorists' causes.[42]

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[39] Yusuf and Schoemaker 2013.

[40] In a survey (from April-January 2015), the majority of the respondents were found to use private news channels and finds some time to watch talk shows daily. It suggests that prime time private TV talk shows guide the people to understand political issues. Khan and Shahzad 2020.

[41] Sadiq *et al.* 2021.

[42] Hassan 2014.

The media remains vulnerable amid excessive regulatory constraints, content control, threats to journalists and an unsustainable revenue generation model. The government, military, intelligence agencies, judiciary and non-state actors such as militant groups exploit this vulnerability as part of their competition for political power. But, the media still confronts and largely respects a series of red lines: No criticism of the military or intelligence services and no criticism of religion. Those outlets or journalists that cross these lines often suffer bans, beatings or worse. They face threats not only from the state and regulatory institutions but also from extremist elements. State intimidation tactics, from withholding advertising revenue to waging hate campaigns on social media, have driven many journalists and their employers to self-censorship. The excessive role of government plays a large role in determining what knowledge will be produced and who will obtain it. Their control over information and knowledge is manipulating the thinking of the common public.

The regulation by PEMRA towards cross-ownership and its inefficiency has resulted in the concentration of wealth and power in the hands of a few elites of the country.[43] This concentration makes it for the state easy to control the media.

2. THE ELECTRONIC MEDIA MARKET IN PAKISTAN

2.1. The Size and Growth of the Electronic Media Market

Since 2002, deregulation of the media has resulted in a proliferation of private cable and satellite TV outlets. Today, Pakistan boasts 112 Satellite TV Channels, 4,060 cable operators, and 43 landing TV Channels from abroad like BBC, CNN etc. Total TV viewership is 144 million, out of which 44 million are terrestrial while 96 million are cable and satellite viewership (see Table 1). At least 30 private TV channels exclusively broadcast news and current affairs programmes. The number of journalists in the same period ballooned from about 2,000 to over 20,000. Overall, the number of people associated with the media industry reached around 300,000.[44] There had been a cumulative investment of US$4-5 billion in the electronic media industry in Pakistan between 2002 and 2018. Moreover, new licenses issued by the Pakistan Electronic Media Regulatory Authority(PEMRA) would inject investment of approximately US$2-US$3 billion.[45] In Pakistan, 70 percent of the population own TV, with 100 million young and adult people watching 120 minutes every day, a move from 240 minutes per day in one decade. Among watched content, 70 percent of the content is entertainment, while 19 percent is news. This expansion in the media industry is attributed to improved economic fundamentals, increased per capita income, a rise in the consumer economy and an expanding advertising sector.

Many print media outlets operating before 2002 expanded to include TV news platforms. Almost all TV news channels maintain their websites, which contain news coverage from their platforms.[46] The media viewership in Pakistan is concentrated to four percent in newspaper, TV media, radio and news websites, and few owners control the

[43] Rasul and McDowell 2012.
[44] GOP 2021.
[45] **GOP 2020b.**
[46] Din 2020.

market. Eighty percent of the market players who do not have viewership are surviving despite the market conditions.

However, the second half of 2018 brought bad news. The media industry started to decline. According to the Pakistan Federal Union of Journalists, at least 7,500 journalists and associated media employees have lost their jobs over the last two years. While almost every outlet has scaled back operations, more than two dozen publications and two TV channels have closed.[47] Partly affected by the outcome of the July 2018 elections and by an ailing economy coupled with the withdrawal of government subsidies and dwindling advertising revenue, even large and stable media groups were forced to shutter their publications and sack journalists.

Table 1
Electronic Media in Pakistan

PTV Stations	7
TV Transmitters	110
Cable T.V. Licenses	4,060
Total TV viewership (Terrestrial, Cable & Satellite)	144 million
Total Cable & Satellite viewership	96 million
Total Terrestrial viewership	48 million
Satellite Channels (Local)	112
Landing Rights Permissions (LRP)	43

Sources: GOP 2020a and b and 2021.

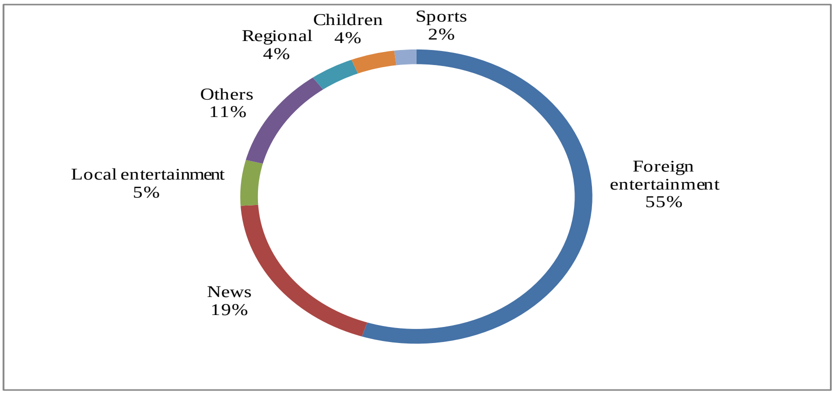
2.2. The Concentration of Media Ownership and Audience

Media concentration in Pakistan, in terms of both ownership and audience share, is very high. It restricts sources of information available to the public, thereby limiting news and opinion diversity and pluralism. In terms of genre, foreign entertainment accounts for over half of the audience followed by News (19 percent) (see Figure 1). The top 8 owners (Jang Group, ARY Group, Express Group, the Government Group, Nawa-i-Waqt Group, Samaa Group, Dawn Group and Dunya Group) reach 68 percent of audience share across television, radio, print and online. All of them have a significant presence in more than one media sector.[48]

The *Jang Group,* the largest cross-media owner, controls over a third of the market among the top 40 media entities. The government is among the top three cross-media owners (*Pakistan Television Corporation PTV, Pakistan Broadcasting Corporation PBC* and the *FM 101* stations).[49]
In the case of electronic media, the audience share for the top 4 TV channels in Pakistan (Geo News 24 percent, ARY News 12 percent, PTV News 11 percent and Samaa TV 7 percent) at the end of 2018 was 68.3 percent (see Figure 2). However, the situation varies considerably by genre for electronic media (see Table 2).

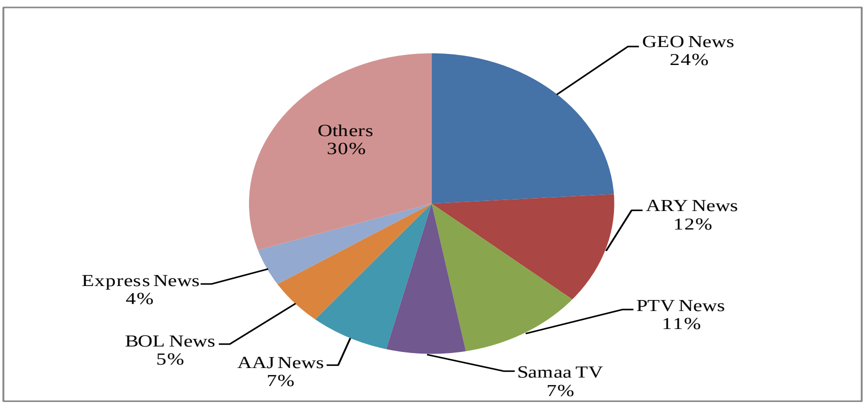
[47] **Tariq 2021.**
[48] Reporters without Borders 2019.
[49] *Ibid*.

Fig. 1. Television Viewership: Audience Share by Genre, FY 2017-18



Source: Aurora. 2019. Television Viewership in Pakistan. https://aurora.dawn.com/news/1143363.
Note: Others include but are not limited to: movies (0.9 percent), music (0.8 percent), religious (0.7 percent) and cooking channels (0.2 percent).

Fig. 2. Television Audience Concentration in Pakistan, FY2018



Source: Gallup Survey 2018: Media Consumption Data in Pakistan for Freedom Network. https://pakistan.mom-rsf.org/en/ findings/findings/

Table 2

Viewership Share of Television Channels According to the Genre, FY 2018

Local Entertainment Channels			News Channels			Regional Channels		
Channel	Ranking	Share	Channel	Ranking	Share	Channel	Ranking	Share
ARY Digital	#1	19	Geo News	#1	24	KTN	#1	36
PTV Home	#2	18	ARY News	#2	13	Sindh TV	#2	16
GEO Entertainment	#3	16	PTV News	#3	11	Kashish TV	#3	12
Hum TV	#4	12	Samaa	#4	9	Awaz	#4	10
Urdu 1	#5	7	Aaj News	#5	7	Mehran TV	#5	5
Sports channels			Music Channels					
Channel	Ranking	Share	Channel	Ranking	Share			
Ten Sports	#1	54	ARY Musik	#1	50			
PTV Sports	#2	32	Jalwa	#2	31			
Geo Super	#3	14	8XM	#3	19			

Source: Aurora. 2019. Television Viewership in Pakistan. https://aurora.dawn.com/news/1143363.

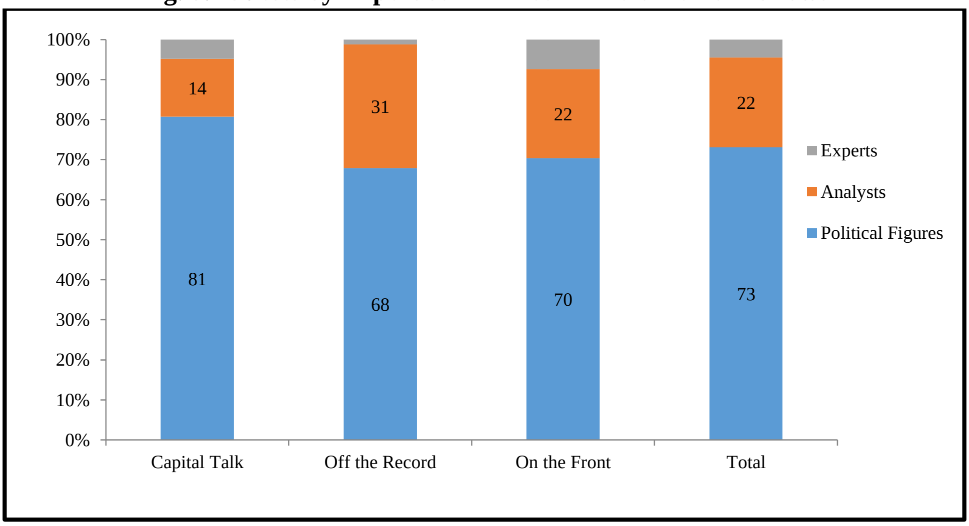
2.3. Media Content

The debates and contents play an important role in how things are perceived, how people, policies, happenings, events, and changes are described, and whether they should be accepted or rejected by those who matter.

In the ten analysed talk shows during January 2021, PTI had the highest representation (42 percent), followed by PML (34 percent), PPP (20 percent) and JUF (3 percent). The topic most discussed was 'Politics' (72 percent), followed by 'Health' (4 percent), 'Terrorism' (3 percent), 'Economy' (2 percent), 'Education (2 percent)' and 'Sports' (2 percent). The dominance of politics at the cost of issues such as Health, Economy and Society, in general, is the source of concern. Of the 10 analysed talk shows, the percentage share of host speaking average time was 42 percent. It paints a bleak picture for giving time to guest speakers and anchors, hijacking the contents rather than being a regulator of the programme content.[50]

Subject specialists lack in TV debates. It should be 80 percent analysts and 20 percent politicians or spokesmen of political parties, which is the rule followed by well-reputed news channels like BBC and CNN.[51] In an analysis of selected prime talk shows, it was found that 73 percent of guests were political figures, 22 percent were analysts and only 5 percent were experts (see Figure 3).

Fig. 3. Guests by Expertise in Three Prime-time Talk Shows



Source: Nabeel, *et al.* 2021.

2.4. Television Rating Points (TRP) System

Five companies are licensed to conduct the electronic media rating business in the country. At the centre of the rating system is MediaLogic, which calculates overall TRPs daily using people-meters. It transfers information to PEMRA (after Supreme Court's decision in 2018). The PEMRA then reassesses and releases results. Meters are fixed in

[50] Gallup, Pakistan 2021.
[51] Qureshi 2020.

2,000 households (in over 30 cities) to assess the viewership patterns by age, gender and time. The sample size is just 2,000 households to represent the whole population, and hence an absurd system/ method is adopted for media ratings. The rating observed is used to award advertisements to the channels. The rating system is complex and lacks a proper and transparent mechanism. First, PEMRA's control of rating marks a question on the independence of rating agencies.

Second, rating systems operate just like a mafia in which big players set the stage, lacking reasoning. The business model of rating companies is dependent on media houses that depend on the advertisers. The model has resulted in the monopoly of advertisers under the name Pakistan advertiser society. This society bounds the members to buy ratings from the approved rating company.

Third, ratings are just representations of urban Pakistan while it excludes rural areas, resulting in a disproportionate coverage of rural issues. Wahab (2011) highlighted that television talk shows maintain social order, exhibit only safe opinions and promote elite ideology.[52]

Fourth, cable operators can also exploit by placing a channel far below so that it gets watched less frequently.

Fifth, in 2015, a back and forth spat of MediaLogic with the Express Media Group involved accusations of bribery, extortion and unethical behaviours. A report in Aurora magazine says that there is *"a serious trust deficit in people-meters and MediaLogic. The bulk of the controversy is related to two issues: erratic spikes and drops in ratings which have led people to believe that certain channels may be 'buying' the ratings; and the delay in the delivery of data (Medialogic delivers the data with a one-day time lag) leading to the conclusion that it might be doctored."*[53] Despite all this, the company continues to hold a virtual monopoly on the rating services business, something it claims is a good thing that encourages a uniform 'data currency'.

3. THE MEDIA AND THE ADVERTISING MARKET

The media industry advertisement has seen double-digit growth since the early 2000s in Pakistan. However, in FY2018 it went through an 11 percent decline in revenue (see Figure 4). While such a trend was as expected after around two decades of steady growth, the main trigger appears to be a decline in the public sector advertising budget. Pakistan's electronic media is reliant on the public sector and commercial advertisement revenues for sustenance, while it gets nothing from distributors. Cable operators collect around Rs. 60 billion annually as a 'subscription' without a penny paying to the TV broadcasters (see Figure 5).[54] *"The government uses the public sector advertisement (contributing 22-23 percent to the total media revenue) to impose its agenda on the media"*, asserts Adnan Rehmat, an Islamabad-based media analyst.[55] As a result, many media outlets avoid negating politicians due to fear of losing advertising revenue.

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[52] Wahab 2011.
[53] Niazi 2019.
[54] Baig 2020.
[55] Jamal 2018.

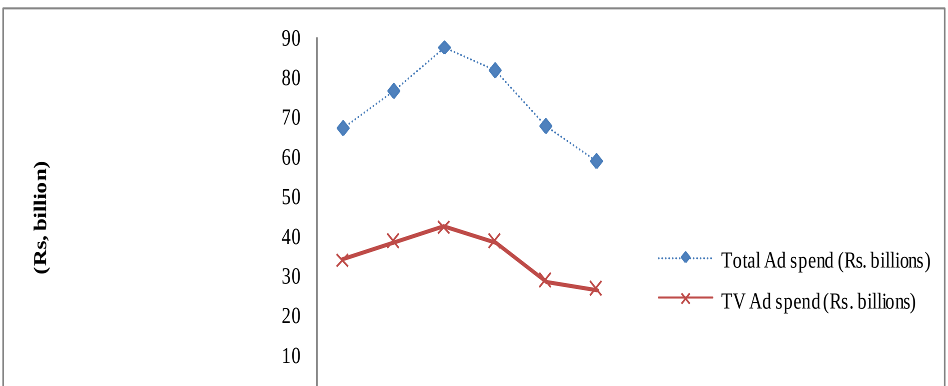
Advertising expenditure in the country's media industry increased at an annual rate of 23 percent between FY2002 and FY2011.[56] From Rs. 32 billion in FY2011, it reached a peak of Rs. 87.7 billion in FY2017 and then declined continuously to Rs. 58.6 billion in FY2020. The share of TV channels in total media advertisement revenues also decreased from 58 percent (Rs. 18.6 billion) in FY2011 to 44.4 percent (Rs. 26 billion) in FY2020. The rest goes to the digital formats, print, radio, Out of Home (OOH), etc (see Figures 6 and 7).

Based on their popularity among viewers, the top six channels grabbed 55 percent of the total television advertising spend in FY2020. *ARY Digital*, *Geo News*, *Geo Entertainment* and *Hum TV* topped the industry, each having over 10 percent share followed by *ARY News* and *PTV News* with over 5.5 percent share each, and *Dunya News* and *PTV Sports* with around four percent each.[57] The state television network, PTV, is directly subsidised through a 'television fee' addendum to every electricity bill in the country.

According to Aurora figures, of the top 10 advertisers (as product category) of TV media in FY 2018, the private sector, particularly the consumer goods and telecom industries, dominated both the news channels and the non-news channels.[58]

A slowing economy and declining money flow *alone* do not explain the media's financial crisis. *"The crisis is closely entwined with politics. The collapsing media economy is in a key part also the result of the overall shrinking space for media being engineered as part of the censorship of political dissent"*, says Adnan Rahman.[59]

Fig. 4. Trends in Media Ad Spending in Pakistan, FY2015–FY2020

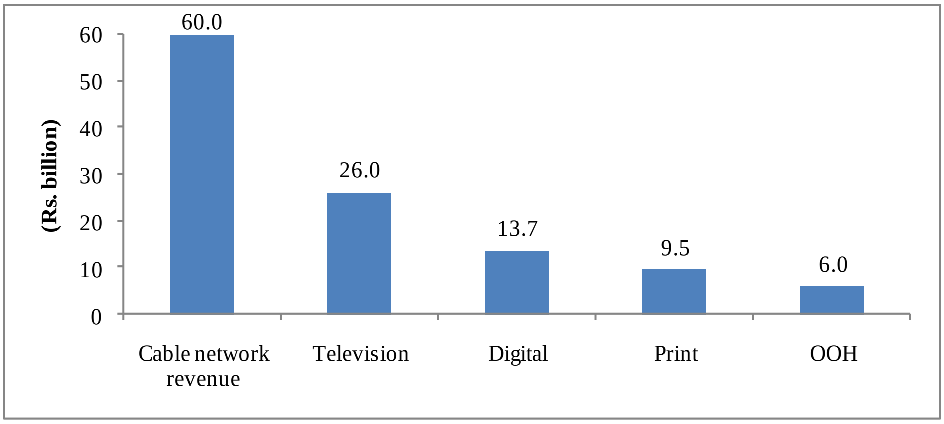


	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
Total Ad spend (Rs. billions)	67.0	76.2	87.7	81.6	67.5	58.6
TV Ad spend (Rs. billions)	33.6	38.0	42.0	38.0	28.0	26.0

Source: Aurora, Magazine 2020.

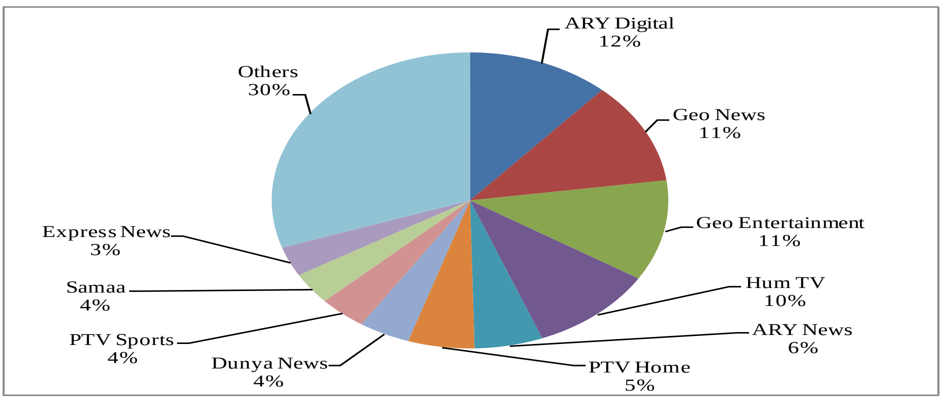
[56] Alam 2012.
[57] *Aurora, Magazine* 2020.
[58] *Ibid*.
[59] Rehman 2019.

Fig. 5. A Comparison of Media Ad Revenue with Cable Network Revenue, FY 2020



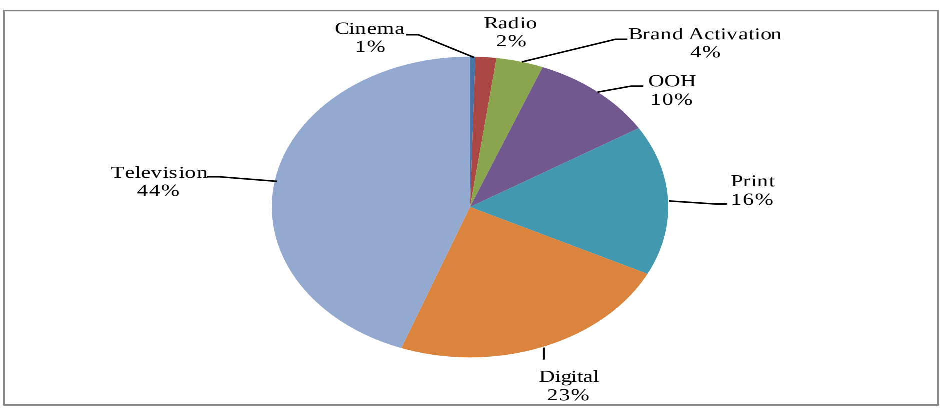
Source: Baig 2020 and *Aurora*, *Magazine* 2020.

Fig. 6. Share of Electronic Media Spending by Television Channels in Pakistan, FY2020



Source: Aurora, *Magazine* 2020.

Fig. 7. Advertising Spending in Pakistan by Medium, FY2020



Source: *Aurora*, *Magazine* 2020.

4. THE REGULATORY AND LEGAL FRAMEWORK OF THE MEDIA ECONOMY

Besides a slash in government ad expenditures, the country's regulatory system is also responsible for the media's recent crisis. There is an absence of a modern regulatory framework that adequately covers audience share, circulation, revenue, distribution of share capital or voting rights, etc. It restricts diversity in ownership and opens it to political vulnerabilities and potential manipulation of the media market.

PEMRA is primarily a market regulatory authority. However, it is focused on content regulation and management and has become a censor board. The regulation infrastructure by default has resulted in the concentration of the media market. Until 2007, print media owners could not own electronic media due to a ban on cross-ownership. However, the removal of this ban in 2007 (PEMRA Amendment Act 2007) resulted in an undue concentration of audience and ad revenue in the media.

The structure of PEMRA also does not let the media industry generate revenue. Almost all of the electronic media revenue is generated through on-air advertising. Cable networks do not pay anything to the channels for transmitting their content. The TV channels do not charge any subscription fee from the end consumer either. Direct to home (DTH) is absent. As a result, a parallel economy has emerged that acts as an intermediary to distribute the media, like cable operators who earn 200 percent of the Pakistan TV advertisement economy instead of the content producers.

The authority has long been the enforcer of the government's campaign of media censorship and repression. According to Rasul and Proffitt (2013), PEMRA has failed to promote local and diverse media and the government uses media regulation to hostile, pressurize and target media.[60] PEMRA has ordered television channels to shut down for airing criticism of the government, terminated live interviews of opposition leaders, blocked cable operators from broadcasting networks that aired critical programmes, and controlled advertisements for news channels in an attempt to silence them. The most recent example is the *Dawn* TV channel, whose advertisements were banned. Other curbs on media freedoms include the Prevention of Electronic Crimes Act passed in 2016, which provides strict online content regulations designed to tighten censorship. The federal cabinet approved the formation of the Pakistan Media Regulatory Authority, a single body to regulate all the media in 2019. The Pakistan Federal Union of Journalists released a statement afterwards calling the move in violation of the constitution.

5. IMPACT ON POLITICS

The growth of electronic media has helped build an active civil society and an informed citizenry in Pakistan. For instance, the media helped in spreading the anti-government wave, following Musharraf's firing of the Chief Justice in 2007, resulting in his restoration. According to a survey conducted across Pakistan in 2018, nearly 68 percent of Pakistanis closely follow the local news while 51 percent believe the media is doing well in reporting the most important news. Similarly, 60 percent of Pakistanis believe the news organisations are doing well in reporting news accurately. While 58 percent agree that the

[60] Rasul and Proffitt 2013.

media organisations are doing well at reporting about government leaders and officials.[61] Sarwar and Ali (2019) found that electronic media was the second most powerful tool (after interpersonal contact) to impact voters' decisions during the 2013 General Elections in Punjab.[62]

With online news sources, news delivery is expected to be instantaneous. It has caused tension in journalism between being first and being right. With this pressure, standards of accuracy and fairness become more difficult to uphold. The TV debate shows lack quality analysis and good discussions. Politicians fighting every day end up giving no sense to the viewers. For instance, a popular TV personality bullied the late Punjab Province Governor Salman Taseer in a 2010 interview who was assassinated soon after. A senior leader from the ruling party once hurled a glass at a fellow guest during a TV talk show. Eijaz, *et al.* (2014)[63] found that in Pakistani media, we see cutthroat competition for TRP, sensationalism, yellow journalism, immature and unprofessional workers, unethical content, substandard infotainment, more statements.

Journalism has become a hostage to corporate culture and ratings. As a result, they cater more to market requirements rather than ethics. *"In Pakistan, we have a very unusual situation—a flawed rating system"*, *"you have 40-odd news channels competing with each other. The minute one channel does something different or reports something, it gives them ratings"*, says Kamal Siddiqi, director of the Centre of Excellence in Journalism[64] *"An unpaid journalist would care more about his financial problems instead of concentrating on quality and doing efforts for freedom of the press"*, says Mazhar Abbas. While the economic situation may silence some voices, few journalists will continue to assess and censure the government and its policies.

6. THE WAY FORWARD

"A free media is not only the backbone of a civilised society but also serves as the lungs of society that allow it to breathe freely", says late I. A. Rehman.[65] Pakistan needs to take several steps to make its media industry competitive and vibrant.

- PEMRA should be made an autonomous organisation with a truly representative management board with the vision to work for a fair and competitive media market. The objective would be to ensure that media truly reflects the diversity of opinion and informs people with accuracy based on facts and not fiction.
- PEMRA needs to revisit its regulatory policy by actively discouraging cross-media ownership of media resources in a few hands. Diversity of content, sources, and organisations is essential for the smooth functioning of a healthy media sphere in Pakistan, which would subsequently encourage pluralism, deliberative democracy, and freedom of expression in the country.
- The government must adopt a cautious and inclusive approach while revising/formulating media regulatory laws to ensure smooth and efficient

[61] Gilani Research Foundation 2018.
[62] Sarwar and Ali 2019.
[63] Eijaz, *et al.* 2014.
[64] Ghani 2016.
[65] *The News* 2020.

working of the media as the pillar of the democratic state. For this, the government must consult media houses, independent journalist bodies, civil rights groups, and opposition parties to ensure that the revised regulation mechanisms do not threaten freedom of media and expression.

- There is a need to make the financing of media entities sustainable by reducing dependence on government funding and increasing revenues from subscriptions like in India.
- The government (in collaboration with the Pakistan Advertisers Society and the Pakistan Broadcasters Association) ought to improve the TRP system by breaking the monopoly of the Media Logic by allowing other commercial entities to set up parallel rating structures across the country based on a more representative sample and for cross verification.
- The country needs to have a set of minimum standards of professionalism. It will include journalistic ethics and an enforcement mechanism to preempt extremist positions. The common ground for such values should be built based on comprehensive consultations involving all stakeholders. The role of media organisations will be crucial to develop a code of conduct based on internal accountability mechanisms.
- Indigenous evidence-based evaluation and research on issues such as media regulation, media market, media politics and global best practices should be encouraged and promoted.

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STREET VENDING-
INFORMAL SECTOR

STREET VENDING: AN INTRODUCTION AND OVERVIEW

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1. INTRODUCTION/ABSTRACT

The widespread phenomenon of street vending, particularly in the developing world, is a fascinating one. With gradual industrialisation, countries in the Global South have experienced significant levels of urban migration—people moving out of their rural settings in the search for better economic opportunities in closer proximity to commercial hubs (Recchi, 2020). Lacking formal education, these working-class individuals gravitate towards the informal economy, characterised by spontaneity, low (and in some cases non-existent) levels of regulation, long work hours, and perpetual improvisation. Defined as "the production and selling of goods and services in urban public spaces, which is not officially regulated by the law and is carried out in non-permanent built structures," street vending has risen to prominence in both positive and negative ways—on the one hand, functioning to fill important gaps in the market at affordable rates, and on the other contributing to congestion, pollution, and general 'disorderliness' (Recchi, 2020, p. 4).

The objective of this brief is to outline and explore the street vending trade in terms of its occupants, governance structures, operational dynamics, and determinants of success—proposing policy recommendations and prospects of the informal sector.

2. TYPOLOGIES, DEMOGRAPHICS, AND PREVALENCE

The majority of street vendors come from poor or lower-middle-class backgrounds, adopting the trade as either a means of survival or to complement their earnings from another, more central occupation. However, a substantial amount of internal inequality may be observed within street vendors—with some earning a considerable amount via petty capitalism and collaboration with established businesses as distributors and marketers (Bromley, 2000).

Despite the commonalities in backgrounds, this group is far from a homogenous one—and can be divided into four different categories. First, the 'sideline' class: these are traders focusing their activities around select events and occasions such as independence days and food festivals. They are characterised by their casual, stop-and-start approach to street vending as a way to earn some extra money. Second is the 'nomadic' class: similar to the sideline class, except that they see street selling as their primary source of income and follow temporary markets all around the year. The third is the 'opportunistic' class: responders to momentary spikes in demand for specific goods or services, such as particular fruits during harvest season or facemasks outside a mall during a pandemic. Finally, there is the 'traditional' class: relatively stationary enterprises that focus on a select few items that they specialise in and can be relied upon to deliver on an ongoing basis (Wongtada, 2014).

A further distinction may be drawn between small-scale, on-the-go vendors and relatively larger-scale, fixed-in-place ones: indeed, there is a hierarchical dynamic between these two groups, with the former occasionally transitioning into the latter with the accumulation of success and expansion—indicating graduation into a group that has more social capital. In India, for instance, it was discovered that over 250 street vendors were millionaires—having saved, reinvested, and expanded over the years and became formidable players in big supply chains of the country through the formal economy (Joshi, 2021).

Gender dynamics within street vending varies quite a bit, with some countries—such as China, Thailand, and Ghana—experiencing a concentration of women as the enterprise owners, whereas in the Islamic world—it is predominantly men that are involved due to religio-cultural factors that render it taboo for women to operate in a public capacity. Lastly, street vending is a lot more likely to be dominated by relatively older individuals than young ones, who are generally more educated and thus tend to opt for the formal sector. According to Wongtada (2014) the context of the Global North, race, and ethnicity also come into play—with the majority of street vendors being immigrants operating within the trade as they work to build their networks and establish themselves in the formal sector.

Fig. 1. Global Differences in Street Vending

Differences	Global South	Global North
The informal street vending size	Many street vendors work informally	A small segment of street vendors works informally
Street vendors' profile	Internal rural migrants and poor/ less educated people	Immigrants
Role of street vending sector	Stable and culturally rooted working activity	Temporary occupation or the first immigrants working activity
Formal economy and informal street vending relation	(1) The system of licenses (2) The link between informal workers and the global value chains system	Conflict between regular and informal street vendors
The different aspects dealt with by the literature	(1) Urban policies and the street vendors' strategies of resistance (2) Both individual and collective strategies of resistance	(1) Migrants street vendors' activities and the exclusion mechanisms they experience (2) Individual strategies of resistance

Source: Recchi, 2020, p. 16.

3. ARGUMENTS FOR AND AGAINST STREET VENDING

Outlined below are the salient benefits and drawbacks of street vending, and more generally, informal trade practices that have been proposed in the literature.

Table 1

Pros and Cons of Street Vending

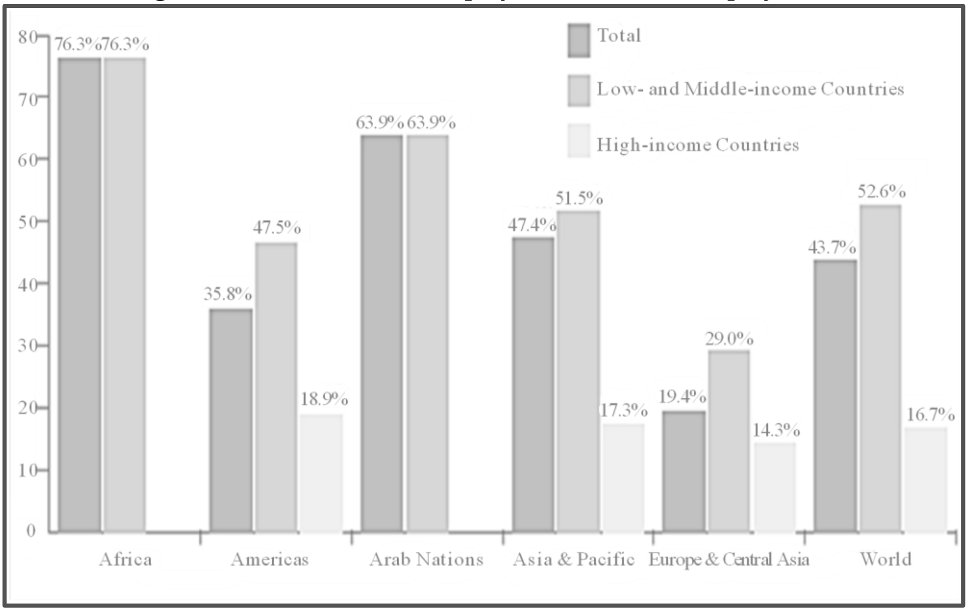
Favour	Against
Serves a crucial role in catering to demand for specific commodities at inexpensive rates, thus contributing to economic activity—and that too in flexible ways which are able to rapidly adapt to shifting market conditions.	Contributes to pollution, congestion, disorderliness, and a poor aesthetic—rendering tourist spots less appealing to visitors and leading to traffic accidents and blockages of important junctions and congregation points.
Offer crucial opportunities to struggling working class communities, usually migrants from rural settings that cannot afford setting up formal businesses, allowing them a means to provide for their families.	Transactions are generally not recorded in any official capacity, due to the absence of receipts and documentation—leading to trouble gaining refunds or exchanges if/when unsatisfactory quality is discovered.
Their generally mobile nature allows for goods and services to be purchased at more locations and times, thus expanding consumer choice.	Addition of middlemen into marketing and supply chains that can be seen as promoting unnecessary consumption and/or being exploited by suppliers.
They contribute to the formation of a lively, vibrant atmosphere in urban settings through their commercial activities—serving as occasional guides, entertainers, crimes witnesses, etc.	Frequent public health issues, especially with food items that have been exposed to various contaminants in the atmosphere during the course of the day—a problem that is made worse by the lack of access to basic facilities like water and sanitation.
Street vending is a trade just like any other, and anyone wishing to get involved should be able to as a general principle and fundamental right (to commerce).	Involvement in activities that are technically illegal and would not be allowed if formal regulations were in place—such as the sale of banned items and involvement of child labour.
Means of tax revenues for the government: either through explicit means (e.g. licensing) or implicit ones (when serving as distributors for formal businesses, expanding their revenues).	Virtually impossible to tax certain aspects of this trade, including income tax and sales tax—a general problem with the informal sector.
A significant facilitator of the development of participatory democracy and class consciousness, when vendors unite under unions/associations to represent their interests and fight for their rights.	Due to the tendency for agglomeration, street vendor ‘markets’ tend to generate significant amounts of trash that no one in particular takes responsibility for.

Source: Bromley, 2000, pp. 5-11.

4. POLICY, LAW, AND GOVERNANCE

Considering the fact that street vendors occupy such a large segment of the informal market, it is curious that little to no comprehensive initiatives have been taken to streamline their operations and establish formal pathways for their integration into society. Indeed, this is particularly true for developing nations: "in sub-Saharan Africa, street vendors account from 12 to 14 percent of the total urban informal employment, in India 14 percent and in Lima and Peru, street vendors represent 9 percent of the total informal urban workers" (Recchi, 2020). In Karachi, Pakistan, the informal economy employs a whopping 72 percent of the total labor force (Hasan, 2021). There are several reasons for the lack of foresight, including but not limited to a lack of data gathering mechanisms, deeply entrenched colonial-era approaches to city management, the generally fluid nature of the trade, and bureaucratic complexities within lower tiers of government.

Fig. 2. Share of Informal Employment in Urban Employment



Source: Qtd. in WIEGO, 2018.

Police officers that occupy the street-level positions, for instance, face a dilemma: they execute ambiguous policies from above with regards to street vendors or turn a blind eye to and establish covert agreements with the tradesmen in exchange for bribes that they can use to supplement their meagre incomes. A considerable number of these officials do opt for the latter in these instances due to the sheer number of interactions that are necessary—at the street level—to effectively ensure compliance. In Karachi's Saddar market, for instance, it was documented that a total of Rs. 10.5 million was paid in 'bhatta' (protection money) in 1995-96 to individuals who claimed to have the backing of local authorities, particularly the police. It was a sum of money collected from street vendors to allow them to operate (Hasan, 2021). These factors render trade regulation hard to monitor, leaving ample opportunity for street vendors to create wiggle room in collaboration with officials, political figures, and even street thugs for protection and oversight. On the other hand, this is largely an unreliable strategy for the street vendors, who cannot count on any of these groups to remain loyal due to the plethora of external factors involved. For instance, officials are constantly under pressure from stakeholders such as residents and realtors of gated communities and, more generally, elite members of society that perceive street vendors as contributing to congestion, pollution, nuisances, and an 'unaesthetic' environment.

These powerful interests will often create pressure on government to initiate anti-encroachment drives, which involve cracking down on street vendors, confiscating their equipment/property, and even harassing and abusing them as a means of clearing the space they occupy. It serves the interests of a class that wishes to privatise the public realm by creating private beaches, commercial arcades, and territories behind a paywall. The same happened in Empress Market, Karachi, during the anti-encroachment drives of 2018—with the government claiming that the cleared land would be used for luxurious restaurants and high-end museums and art galleries—thus capitulating to the demands of propertied classes and gentrifying the Saddar area (Hasan, 2021). The emergence and expansion of Defense Housing Authority and Bahria Housing Society etc., was also a paradigm shift across Pakistan's major cities, beginning in the 1980s and slowly but surely segregating urban spaces on the basis of class (Haque, 2020). What's more is that these propertied interests, especially when it comes to formal enterprises that vendors are operating in the vicinity of, will frequently take the law into their own hands—leveraging its ambiguous nature to fabricate laws and gaslight the traders into thinking they are committing a crime even when they are not.

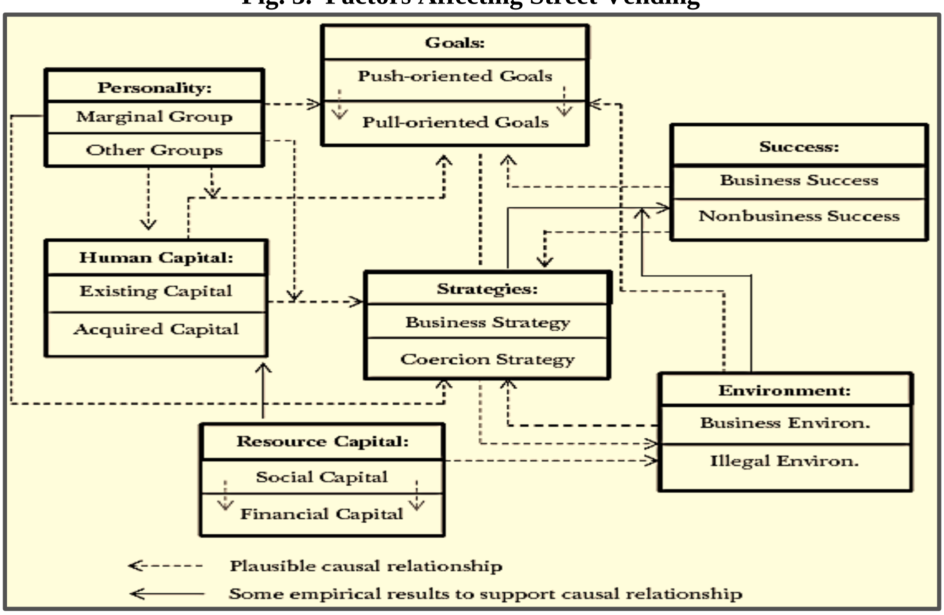
The strategy generally tends to work, too, since most vendors are migrants from rural areas without formal education, unaware of their rights and so end up capitulating to the intimidation tactics. In this way, it may be observed "how decentralised, privatised and informalised vending management leads to a variegated landscape of street vending… that correlates more to the power, resources and influence of… private property interests than to formal laws" (Devlin, 2011, p. 60). Even where it is virtually impossible to exclude street vendors, such as tourism spots, elite interests apply pressure on authorities to impose certain conditions, including requirements to dress a certain way, sell certain commodities, and/or customise stalls in a specific theme—thus increasing costs of operation and distorting the market (Bromley, 2000). One of the most glaring examples of this in Pakistan was in October 2018, when the government ordered a ban on all kinds of street activity that was disrupting traffic and pedestrian movement—leading to the "demolition of 3,495 shops and the removal of approximately 9,000 hawkers, including 82 women hawkers, from Empress Market" (Hasan, 2021).

Some governance-related initiatives that have been taken to tackle the complexities associated with street vendors are as follows. The most straightforward of these is to get vendors to move elsewhere so that they are not occupying main streets. This has not had much success, however, as customers will generally be reluctant to go out of their ways to seek out goods and services from street vendors—thus leading to dwindling levels of demand and pressures on the latter to eventually return to their original positions. Another intervention has been in the realm of education and training, whereby programmes are set up with the intention of building awareness about health safety, entrepreneurial strategy, and access to credit facilities. However, these programmes are rarely sought out by street vendors, who do not trust government officials enough to believe they have their best interests at heart—leading to low attendance levels. Such schemes' failure has led analysts and policy officials to take a step back and rethink their strategies to focus more on general commercial activity within urban contexts (in which street vendors are a significant stakeholder) rather than exclusively focusing on the informal market (Bromley, 2000).

In Pakistan, a draft bill on the protection of street vendors titled the Street Vending Bill has been prepared by the Pakistan Institute of Development Economics, Centre of Street Economy, and the Social Protection and Poverty Alleviation Division. Although long overdue, this is a step in the right direction—and broadly covers the following facets:

- Discretionary powers of various authorities in relation to street vendors.
- Introduction of the concept of town vending committees, with 50 percent representation from vendors.
    - These committees will include trader associations, NGOs, community-based organisations, local government representatives, and vendor associations.
    - They are to conduct a comprehensive survey on the street vendor community and chart out a framework for identifying vending zones.
    - Awareness building of the rights of street vendors, along with assistance in case of any violations, is a core responsibility of committees.
- Designated areas for street vendors, authorised through vending certificates costing Rs. 500/month.
- Arbitrary intimidation and confiscation of equipment from vendors to be punished with a term of one month, along with a maximum penalty of Rs. 20,000.
- With the assistance of vending committees, local government authorities formulate a policy dedicated to microcredit facilities targeted at street vendors to facilitate their operations.

Fig. 3. Factors Affecting Street Vending



Source: Wongtada, 2014, p. 69.

5. DETERMINANTS OF SUCCESS AND RESISTANCE

Despite the various pressures on street vendors to exit their trade, they have demonstrated an incredible ability to adapt to the situations imposed on them. They have thus come up with flexible individual-level and collective-level strategies to work around the constraints, a laudable feat considering they are compelled to generate plans for the safeguarding of their enterprises while simultaneously ensuring that they are turning profits. Bribing, as already discussed, is one of these strategies. Some others include structuring work shifts around locations and timings that are relatively less monitored—and reducing the quantities of goods carried at any given time in order to minimise loss/damage in worst case scenarios. They may also temporarily move to different locations and form networks with other vendors to "support each other, for example by sending messages or adopting communication signals to prevent eviction from city authorities" (Recchi, 2020, p. 15). This sort of collaboration is common in Karachi, Pakistan—where vendors pool resources to purchase certain kinds of services—such as private security and sweepers—that benefit them all and streamline their operations (Hasan, 2021). These collectives may sometimes become formal associations that can engage in the political sphere to demonstrate and protest—raising their voices to demand the right to operate more freely. With agglomerations, these vendors can establish relationships with influential figures such as politicians and non-government organisations for support and legal backing (Recchi, 2020).

Furthermore, it has been documented that the most successful of street vendors possess certain personality traits—such as "the need for achievement, risk taking, innovativeness, autonomy, locus of control, and self-efficacy" (Wongtada, 2014, p. 64). A fair number of them also rely on their social networks—including established friends and family members from the formal sector—for social leverage and even financial support. The latter is crucial, as banks and other formal means of attaining loans are invariably closed to most street vendors due to their lack of education (which prevents them from procuring formal documentation) and inability to offer collateral. Moreover, an ability to overcome adversity has also been consistently observed in the more successful street vendors—these have to do with long working hours, coercion from authority, risk of being mugged, health concerns relating to poor hygiene, competition from other vendors as well as formal businesses, and hostile/derogatory citizens. Therefore, a combination of factors needs to be taken into account by street vendors at any given point in time—constantly adjusting, maneuvering, and innovating as per the demands of the situation. A summary of these factors is illustrated in Figure 3.

POLICY RECOMMENDATIONS

This paper has attempted to offer a broad overview of the street vending trade around the globe, particularly in the developing world—where it is only in recent years that governing authorities have begun to grant it appropriate attention from a policy point of view. In order to take these nascent initiatives to a higher level, it is crucial to understand the fundamental building blocks of street vending, the informal sector, and urban management more generally. The following is a proposed set of recommendations that may serve as a launching pad for that purpose.

Any discussions about policy perspectives on street vending and urban informality are futile unless the *don'ts* aren't laid bare—these are initiatives and approaches that governments around the world seem to be pursuing but to no avail.

Firstly, anti-encroachment drives. These efforts to coerce vendors, through intimidation tactics, into clearing the streets have never been practical, and only prompt them to move temporarily—to return a day or two later. The reason for this is that a complex set of supply and demand factors are at play at any given time, with vendors serving as the go-to provider of essential commodities—particularly for working-class communities that rely on the budget options they offer. For instance, it has been documented that the vendors of Empress Market in Karachi are intimately tied to the import and distribution channels of several important commodities, including dried fruit, tea, clothing, and pet birds. Further, customers and other stakeholders that were interviewed on the matter claimed to have lost access to important sources of goods and services for their daily use (Hasan, 2021). Merely getting rid of vendors and confiscating their assets, without considering how the demand for their products is going to be met, invariably leads to frustration on the part of consumers and violence and harassment in public spaces. This disturbing sight only fosters a fearful environment in the city rather than resolving any problems.

Secondly, top-down approaches to 'tackling' street vending. The nature of the informal sector is such that there is a plethora of information, activity, incentives, and stakeholders involved in its ecosystem—which officials are generally unaware of. Arbitrarily deciding upon a 'policy', without involving the actual players in this complex trade will always be a recipe for disaster. For instance, the 2018 anti-encroachment drives at Empress Market, Karachi, triggered a wave of crises—with jobs lost, vendors unable to pay rents for their homes, becoming deeply indebted, falling into depression and misery, and having to resort to begging on the streets to survive. It is estimated that this one initiative alone led to the elimination of approximately Rs. 5.5 billion (Hasan, 2021). These kinds of rigid, illiberal, and one-dimensional approaches ought to be abandoned.

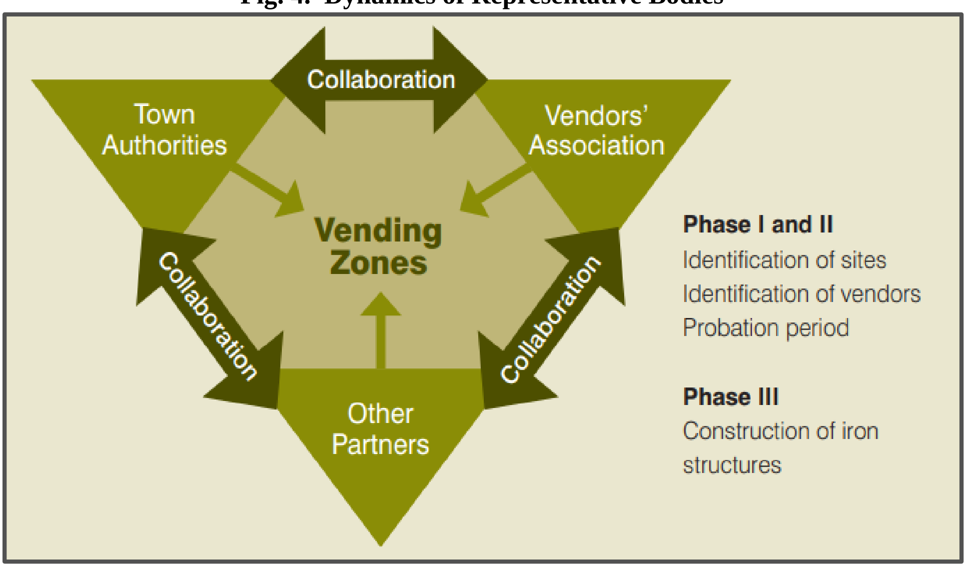
What, then, is to be done?

Cultural Change: All good policy begins with an acknowledgment of empirical reality, in all its complexity. Common perceptions of street vendors, particularly in the developing world, are negative in their nature—whereby traders are seen as dirty, lousy, rowdy, clumsy, suspicious, threatening, etc. This must end, and street vending should be seen for what it is: a crucial peg in the economic system of poor countries and a valuable service to countless people, as well as a driver of culture and tradition. Indeed, many areas in Karachi (and urban areas in Pakistan more generally) are known for the food, products, festivities, etc., that take place there—all of which are intimately connected to the contributions of the flourishing street vending trade (Hasan, 2021). Rather than focused around how to deal with the 'nuisance' of street vending, policy ought to be based on how to foster inclusive spaces that work for all urban stakeholders. On a broader level, urban planning must be rethought to disincentivise excessive car use, replacing it with walking/cycling friendly cities in which people travel via public transport services. This, along with rethinking social taboos such as women engaging in street vending is crucial—as it is a means for families to drastically increase their earnings in the developing world, as mothers begin to operate stalls from home alongside attending to their children.

Infrastructure: One of the primary bottlenecks to street vending is a lack of infrastructure, fuelled by the tendency for non-inclusive public spaces—particularly for the poor. Vendors lack access to basic infrastructure, in the form of water, hygiene, and sanitation amenities. These lead to time wastage, rising operational costs, and health hazards—especially for those dealing in food items. City authorities ought to invest in high quality, well equipped public bathrooms for the vulnerable. Furthermore, the provision of trade infrastructure, in the form of carts, stalls, tables, shelter, paved surfaces, etc. ought to be made available for budding street vendors. A fee may be levied for purchasing/renting these, thus helping raise revenue for city authorities and streamlining the procurement process for vendors. This has historically even been pursued, albeit unsustainably, as policy in Pakistan—with the Ayub Khan government making available kiosks for vendors and small enterprises to rent out and mayors Naimatullah Khan and Mustafa Kamal demarcating zones for vending and facilitating traders by constructing cabins and shops for their convenience (Hasan, 2021). In more recent times, the Ehsaas Rehribaan initiative of the Pakistan Tehreek e Insaaf government has made inroads into street vending, offering traders carts and even enrolling them in training programmes to upskill them and facilitate the market through the fostering of an enabling environment. (PASS)

Microfinance: Another commonly experienced hurdle for street vendors is a lack of financial resources. Since most of these individuals lack formal education and come from poor backgrounds, they are unable to procure documentation and offer collateral for formal loans from banks. Therefore, they rely on their social networks to kick-start and preserve their enterprises, which is invariably limited in its scope. Government loan schemes that are tailored for street vendors, therefore, ought to be thought up and advanced—an initiative that may assist in documenting the informal market better by allowing for more rigorous data collection, thus adding an element of formality to it and designing context specific policy objectives.

Fig. 4. Dynamics of Representative Bodies



Source: Kumar, 2012.

Committees and Associations: There is a crucial need to approach policy in a collaborative way, involving vendors and their customers: as well as other stakeholders like formal businesses and civil society organisations—reason being that information is always diffuse, multifaceted, and incredibly complex. One way to deal with this is to establish intermediaries, in the form of town vending committees and street vendor associations, between the government and the traders in question. NGOs may step in at this juncture and take on the role of data collection and vendor mapping, identifying hotspots and forming network linkages between the various stakeholders. This approach has shown promise in places like India, where these collectives serve crucial functions such as representing the needs of their members and customers, negotiating terms of operation (establishing timings/locations for trade, adhering to cleanliness standards, etc.), developing networks and relationships with key stakeholders such as the police and local political figures, and fostering a disciplined, organised structure of management for their collectives which allow for a better ability to adapt to changing circumstances and reduce the likelihood of evictions and harassment. As mentioned earlier, Pakistan is also pursuing legal measures (through the Pakistan Street Vending Bill) to facilitate the creation and maintenance of these kinds of committees to educate vendors about their rights, protect them from harassment, and bring various stakeholders together in order to facilitate trade.

Legal Protection: There is a dire need to draw up broad sets of overarching rules and procedures for street vending, which can function in an official capacity to orient the informal market in a manner that is efficient, inclusive, and productive. This need not be in the form of a long laundry list of regulations that are hard to keep track of and can be leveraged by powerful interests to intimidate vendors, but rather a low-resolution set of guiding principles that seek to integrate and harmonise the informal economy with other urban activities (Ehrenfeucht, 2016). India's bill, entitled 'Street Vendors Act 2014' can serve as a general yardstick in this regard. The law makes provisions for town vending committees (outlining their roles/responsibilities and minimum presence per zone), allocates specific zones for street vending, procedures for attaining licenses/certificates along with conditions for their cancellation, penalties for failing to meet the bill's stipulations, and the establishment of a formal authority dedicated to dispute resolution. Although implementation of laws such as these is a challenge, it is important to establish standard operating procedures that are backed by law so that those involved in this trade can seek out this information and attain clarity on their rights. The proposed Pakistan Street Vending Bill mentioned earlier is a much needed start in that direction, but it is certainly true that much more attention needs to be paid in further charting out the complexities and nuances of the trade in a manner that is inclusive of all stakeholders and attempts to integrate rather than dictate from above.

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DEVELOPING A POLICY SOLUTION FOR *KHOKHAS* IN ISLAMABAD

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1. INTRODUCTION

The process of development leads to large scale rural-urban migration as the poor seek opportunities in cities. We have seen Pakistan has now become the most urbanized society in South Asia.[66] Yet, Pakistani city planning remained clueless about this important fact about development.[67] To date both courts and city planning want to keep Pakistan as a rural pastureland made up of suburbs without city centres (Haque 2015[68], Haque and Nayab 2020[69]).[70] The poor who make the city work have never received recognition from the city planners.

Islamabad as capital of Pakistan was designed in 1959 by a Greek architect-planner, Constantinis A. Doxiadis. Islamabad provides a very interesting locale as the city's master-plan illustrates a template against which informal practices can be articulated (Tauhidi and Chohan, 2020).[71] In addition to illegal squatting and temporary housing, commercial activities are also the reason for various forms of encroachments. Informal trading includes street vending such as hawking of goods carried out on sidewalks, roads, and commercial buildings.

Street vending in Islamabad dates back to the 1960s when the city was barely modernized as per modernist master-plan and when there were only a few shops set up in the remote villages of Bari Imam and Saidpur. Islamabad's municipal authority, Capital Development Authority (CDA) asked people to set up food stalls for labour class and construction workers. Such stalls, called kiosks or *khokhas* in Urdu language, continued to

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[66] Using satellite images, Reza Ali (2013) showed that Pakistan may be as much as 70% urban.

[67] Master-planning of cities is pursued even though most cities in Pakistan are fragmented under many different administrations such as municipal authorities, development authorities, cantonments and other areas. Local government is such a contentious issue making the drive to consolidate city administrations very weak.

[68] Haque, Nadeem. (2015). *Flawed Urban Development Policies in Pakistan*. PIDE Working Papers. PIDE.

[69] Haque, Nadeem. and Nayab, Durre. (2020). Cities: The Engines of Growth. PIDE

[70] The Supreme Court has outlawed all city establishments that were not in masterplans that are decades old and had no room for accommodation for city growth.

[71] Tauhidi, Amna. and W. Chohan, Usman. (2020). *Encroachment & the mystery of capital: A Pakistani context*. Center for aerospace and security studies. CASS Working papers on Economics & National Affairs.

meet basic needs of the poor even before the construction of the country's capital as per Doxiadis' vision. With the construction of planned commercial markets in Islamabad, CDA attempted to relocate *khokhas* in smaller spaces such as a Class-III shopping centre (ground-floor shops). Very few *khokha* owners were allotted such spaces in mid-1970s. In 1980s, first comprehensive policy to formalize *khokhas* by CDA was planned for which CDA conducted surveys to prepare a list of *khokhas* to allot temporary licenses. It was also planned that eventually *khokhas* will be granted permanent allotments. This thinking received criticism because according to city's master-plan and municipal by-laws, allowing licences for commercial activities in spaces which are strictly designed for non-commercial activities was considered 'unlawful'.

Carrying out businesses in such spaces are called encroachments in streets and green belts. The process of issuing temporary licenses and permanent allotments has also received criticism for practical and processual reasons. For instance, influential and well-connected businessmen who are entering *khokha* business, are able to secure licenses and allotments in prime locations whereas those who had spent long in the business still await for allotment letters. In 2012 a case filed against a functional *khokha* in F-7 *markaz* of the city, sparked a debate on the fraudulent ways licenses and allotments are done. It also highlighted involvement of rich businessmen who by using their social and political capital are able to secure licences and allotment of land. This debate has also triggered the issue of existence of *khokhas*, their pros and cons, the advantages of their existence and the need to safeguard their rights. Given the complex interplay of law, land, and informal businesses in Islamabad, understanding encroachment in the light of by-laws is critical. Box 1. helps in detailing the concept of encroachment as per CDA's documents.

2. THE QUESTION OF ENCROACHMENT

BOX 1: EVOLVING ENCROACHMENT IN ISLAMABAD

No person shall encroach on the land under the charge of the authority or put up an immovable structure, hut or khokha or overhanging structure under any circumstances. Free flow of pedestrian traffic in circulation verandahs of all the markets of Islamabad shall not be obstructed by stacking articles or in any other manner. Articles so stacked shall be liable to be ***removed*** *and* ***confiscated*** *at the cost and risk of the defaulter. Monthly licence for roofless movable stalls can be* ***issued*** *but also* ***revocable*** *by 12 hours-notice.*[72]

Similar document also says:

- The licence as granted will not be transferrable.
- In case of revoked license, the articles (such as sale and furniture, to name a few) will be removed by the licensee within 12 hours. In case of non-compliance, the articles shall be removed by the authorized officials at the cost and risk of the licensee with no compensation granted.

[72] http://www.cda.gov.pk/documents/docs/islamabadLaws.pdf

- The area of movable encroachment should not exceed 16 sq. ft. for which rent at the rate of PKR. 1 sq. ft. per month shall be paid.
- A person will be liable to punishment of fine which may exceed to hundred rupees in case of violation of any of the bye-laws stated in the chapter on encroachment. The amount may extend to twenty rupees per day in case of continuing contravention.

ENCROACHMENT AS DEFINED BY MODEL BYE-LAWS, 2018

- ***Encroachment*** means and includes movable or immovable encroachment on public place, public property, Public Park, open space, public road, Public Street, public way, right of way, market, graveyards or drain.
- ***Encroacher or wrongful occupier*** means and includes a person who has made movable or immovable encroachment on an open space, land vested in or managed, maintained or controlled by the local government, public place, public property, public road, public street, public way, right of way, market, graveyard or drain and owns the material or articles used in such encroachment existing at the time of removal of encroachment or ejectment and also any person(s) in possession thereof on his behalf or with his permission or connivance.

'Encroachment' has become a big issue because of mechanical city planning devoid of needs of a growing urban centres in a developing globalizing economy. City planning in Pakistan has no zoning for the poor both for their housing as well as their commerce and work. There is a large demand for labour in cities and planners feel that this labour will come from outside the city. Islamabad was the first city planned by bureaucrats who run cities, and it set the paradigm for city planning in the rest of Pakistan. This city was planned on the American suburban model with no space for the poor and mobility on wide avenues for speeding cars. The poor were to live in a neighbouring town Rawalpindi and come daily to serve Islamabad. The bureaucracy who runs Pakistani cities since local government has never been allowed to run, tried to use this model in all cities and planned for suburbs with poor labour coming from an area outside cities. In addition, cities like Islamabad were master-planned on assumptions of in-migration. Islamabad was expected to be no more than few thousand people; instead it grew to now 2.5 million people. By the master plan Islamabad has only 60,000 structured households. Needless to say the others have lived in encroachments which include informal settlements and other arrangements that CDA and the courts do not like.

City administrations are always playing rear-guard against the effects of their bad planning. Box 1 also shows how the city administration is struggling with the issue of encroachments with periodic reshaping of definitions and rules. Because of city administrations' insistence on master-plans that are based on no population movements as well as huge emphasis on suburban housing, there are huge shortfalls in the supply of many important facilities.[73] Especially hit are the forgotten poor who cannot rent or buy

[73] See PIDE policy viewpoint 12 for shortages in Lahore, Pakistan's second largest city. https://pide.org.pk/pdf/Policy-Viewpoint-12.pdf

expensive suburban housing for their needs. They have to defy urban planning that refuse to recognize them. For housing they are left to crowd into older parts of town and find informal slum areas. In both cases as you will see below, they risk the wrath of both the various city administrations and the courts who side with them. State power refuses to recognize or empower the poor. As city space becomes more congested with population increase and city development, the number of anti-encroachment drives (evictions with destruction of private property) has increased in recent years. City administrators also rationalize anti-encroachment drives by bringing in legal perspective. City municipality has legal right to reclaim the land which is illegally occupied. The attempt is also to reduce the resources and informal channels which facilitate in expanding informal economy arguing that this economy poses major threats to the city's sprawling and security.

Sara (2013) in Tauhidi and Chohan (2020) lists following procedural requirements abided by domestic and international law, before carrying out anti-encroachment drives.

- The local government must provide resettlement alternatives for the evacuees which will also help avoiding the use of force, in addition to providing feasible resettlements.
- It is the responsibility of the governments to ensure that the operation does not leave people vulnerable and poor. In this regard, governments must provide housing and compensation as market value.
- Since most of the countries are signatories of international humanitarian law, it is mandatory to maintain the following:
    - Notification to be dispatched prior to the scheduled date of anti-encroachment drive.
    - Information regarding how the operation will be carried out and purpose due to which the land or housing will be used must be communicated prior to the scheduled date.
    - A clear mechanism ensuring transparency in compensations for the poor evacuees must be articulated.
    - Provision of legal aid to people in need to seek redress from courts is also mandatory.

These requirements are sparsely fulfilled when viewed with respect to the number and outcome of the anti-encroachment drives carried out in the country. 2922 incidents of such operations have been identified in all provinces in 2019. Following table identifies number of anti-encroachment drives carried out in 2019 in Pakistan.

Sr. No.	Geographic Area	No. of anti-encroachment drive
1	D.I. Khan	310
2	Hyderabad	40
3	Multan	70
4	Bahawalpur	150
5	Rahim Yar Khan	983
6	Batkhela	100
7	Wazirabad	24
8	Lahore	45
9	Rawalpindi	950
10	Swat	200
11	Islamabad	50
Total		**2922**

Source: Compiled from Tauhidi and Chohan (2020).

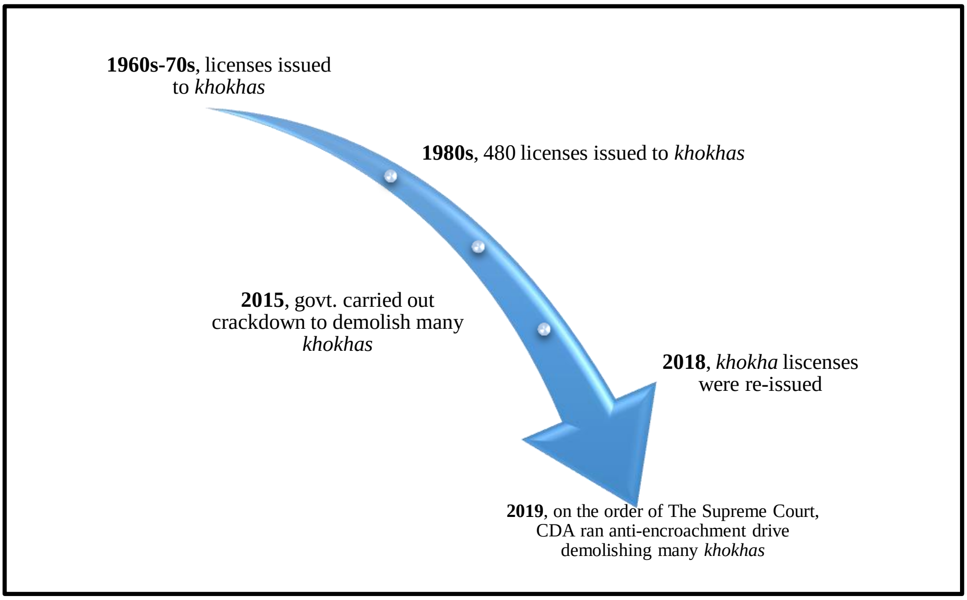
Despite different operations carried out in various parts of the country, 4108 acres of Railways' land is still under encroachment (worth PKR 90 billion), with Punjab at the top (2076 acres of land), followed by Sindh (1159 acres of land), Baluchistan (618 acres of land) and KP (250.9 acres of land) (Tauhidi and Chohan, 2020). In 2019, CDA removed around 6399 illegal buildings and structures; CDA's enforcement wing in collaboration with local administration has conducted operations in around 13, 879 encroached lands by conducting 1207 operations in 2019 (Tauhidi and Chohan, 2020).

3. Contextualizing *Khokhas* for Islamabad

In cities *khokhas* provide earning for the poor. *Khokhas* are also an important way to protect right to business of the poor. There are 485 licensed *khokhas* selling grocery and food items in Islamabad which are located in F4, F6, F7 and G3 sectors of the city. The *khokhas* used to be a profitable business in the past. The land rent has increased from PKR 3000 to 6000 since 2008. The areas specified for *khokhas* have also been reduced by CDA despite the fact that as per one estimate PKR 3 crore goes in the government account through *khokhas*. In 1978 the Secretary of Housing and Works, Islamabad issued licenses to the *khokha* owners of Islamabad who provided food for the labor class. By 1986 a government policy titled 'Policy regarding Location of Cabin Shops, Kiosks, Tea Salts and Temporary Structures in Islamabad' was issued in which CDA's responsibility to streamline the process for the issuance of licenses to *khokhas* was declared. The three types of *khokhas* as classified in the policy are detailed in these circles:

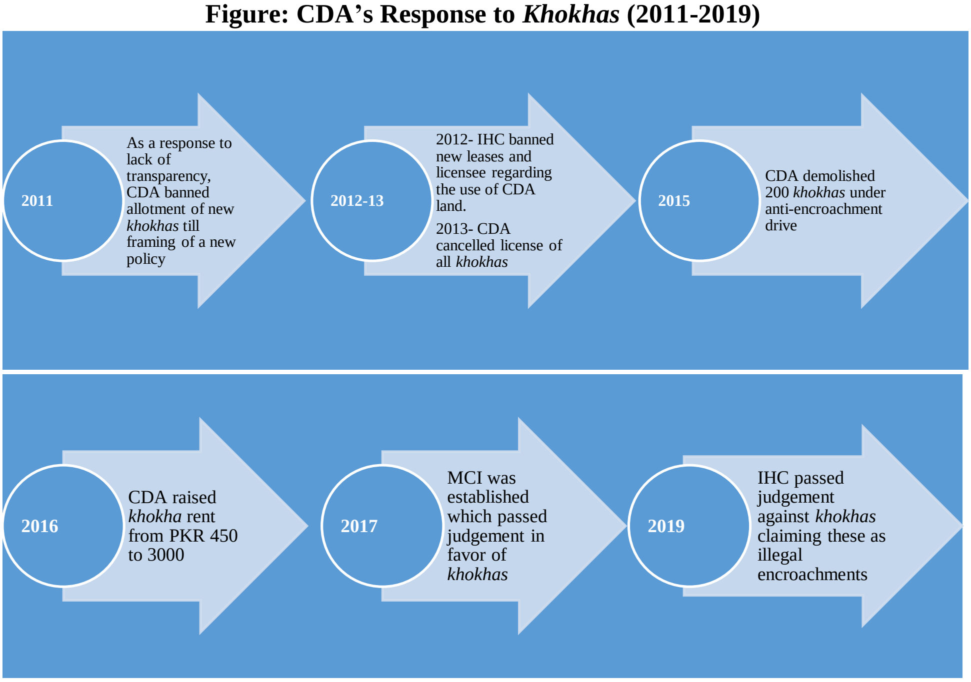
There are 485 licensed *khokhas* in the capital city. The representatives of *khokha* association revealed that currently there are 785 functional *khokhas* in Islamabad, including both licensed and unlicensed. Number of *khokha* could not be increased in Islamabad due to the issue of land which is believed to be an illegal encroachment by the *khokha* owners. Hence the state response to licensing or de-licensing land to *khokha* owners has remained consistently inconsistent (see following figure).

Figure: Anti-encroachment Drive against *Khokhas* in Islamabad



The CDA's response to the issue of licensing and de-licensing land for *khokhas* has been guided by the land laws and strict regulatory framework which needs to be deregulated for self-employment of more people in *khokhas*. (See following figure for pictorial representation of CDA's response to *khokhas*-2011 till 2019).

Figure: CDA's Response to *Khokhas* (2011-2019)



4. DESCRIPTIVE ANALYSIS

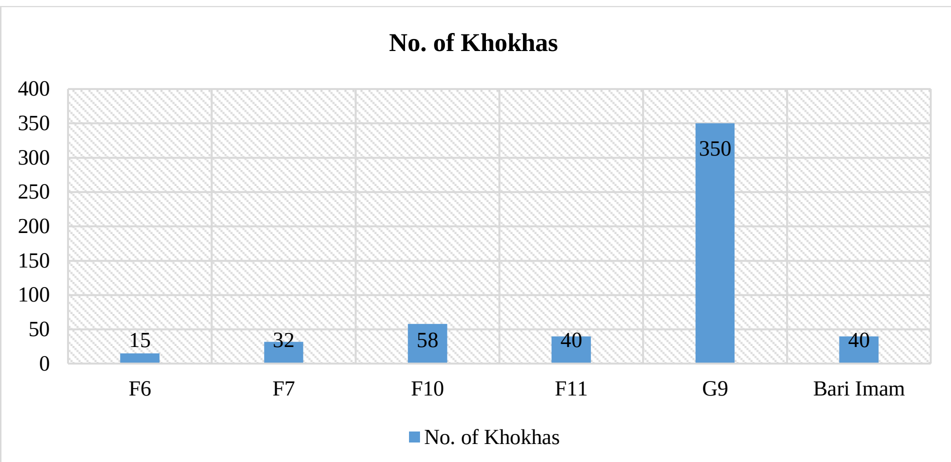
For the purpose of current policy viewpoint, we conducted a survey in 6 sub-locales of Islamabad. We also conducted semi-structured interviews with street vendors from all the sub-locales. Descriptive analysis of findings are detailed in the following text.

4.1. No of *Khokhas*

The number of *khokhas* in the selected locales are depicted in the table and chart below;

Sector	No. of *Khokhas*
F6	15
F7	32
F10	58
F11	40
G9	350
Bari Imam	40
Total	**535**

Source: Field Data.



Source: Field data.

There are more than 500 *khokhas* in six locales of the city which can help infer the number of *khokhas* in the city itself must be somewhere around 3000. These 3000 *khokhas* mean 3000 families and dependency of those families on these businesses. The chart shows the maximum number of *khokhas* being set up at G9 Markaz which is also knows as Karachi Company and a major economic hub of the city where people from all kinds of backgrounds shop.

4.2. Gender of Street Vendors

The majority of the street vendors were men whereas we found two women street vendors in F7 one was selling fruits and other was selling toys. The percentage of female street vendors is less than 0.1% because in the particular class, men are still considered to be earning outside and women in the rarest scenario opt for street vending due to the extreme family pressure and conditions. As claimed by ladies, most of the ladies prefer working as house helps rather going out with a cart.

Male	**Female**
533	2

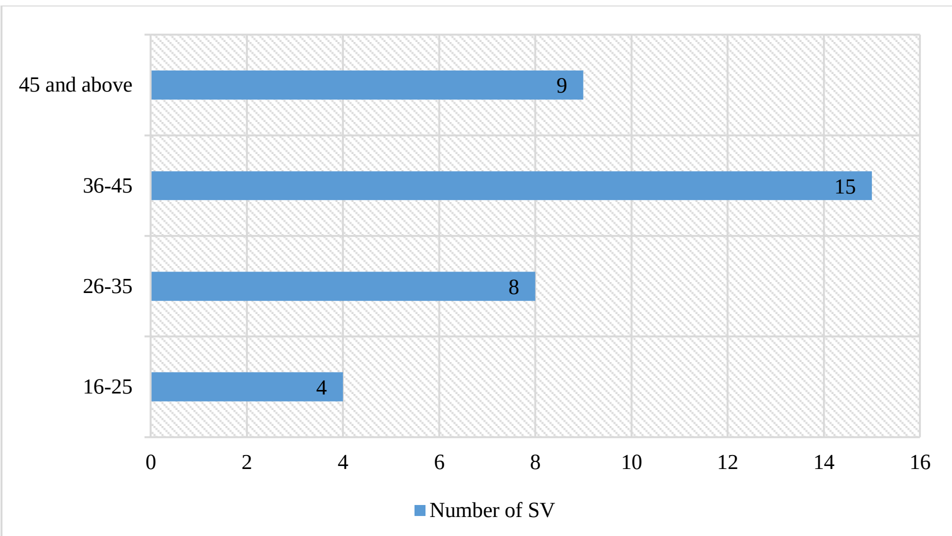
Source: Field data.

4.3. Age of Street Vendors

We interviewed 36 street vendors and their ages lie in the following segment, also the interviewees were chosen to be major representative of the overall population of the street vendors in the city.

Age Range	**Number of SV**
16-25	4
26-35	8
36-45	15
45 and above	9
Total	**36**

Source: Field data.



Source: Field Data.

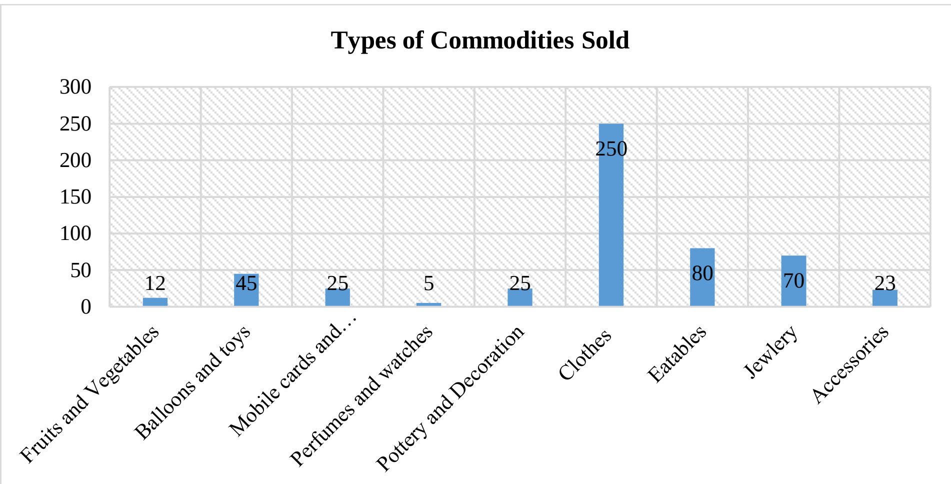
Most of the street vendors fall in the age range of 35 to 45, when the responsibilities of earning a livelihood are at peak, in most of the cases they were the soul bread winners for big families including numerous children. In most of the cases they have started bringing their male children with them so they can also learn the art of selling and be able to do something of their own in the future. The rare cases where the street vendors are younger than 25 are those where they've been asked by their aging fathers to work for them in customer dealing in most hours of the day and the major supply related work is being done by the fathers.

4.5. Classification of Items being Sold

We have classified the items being sold by the *khokha* vendors in the following table and chart.

Item Category	**No. of *Khokhas***
Fruits and Vegetables	12
Balloons and toys	45
Mobile cards and accessories	25
Perfumes and watches	5
Pottery and Decoration	25
Clothes	250
Eatables	80
Jewelry	70
Accessories	23

Source: Field Data.



Source: Field Data.

Street vending isn't limited to the moveable carts that rove around in the streets of the city to sell and supply fruits and vegetables but they cater almost all the item categories require to live. The street vendors target the middle class at the large level.

5. DISCUSSION

The anti-encroachment activities of CDA are on rise, the number of these operations are increasing each day, and one day they're demolishing the *katchi abadis* and the other day running after the *khokha* owners. Street vending is one of major contributors in the informal economy and is providing livelihood to number of people. There are almost 44 sectors and sub-sectors in Islamabad and the locale for this study was 6 of them and in 6 locales, we roughly found 535 *khokhas* (immovable and moveable). Considering the tradition of man being the bread winner, most of the *khokhas* are run by the men whereas the CDA representative believed the *khokhas* designed by CDA were planned for the widows basically where they can sell the home made food to the labor and lower working classes. Looking at the considerable size of *khokhas* in the major economic hubs of the city, it can be inferred that these *khokhas* don't operate in isolation but in a community while competing with each other and supporting each other simultaneously, creating a small economic hub for themselves.

During the course of the field work, coincidently an operation by CDA was observed in F7 *markaz* where it was observed that *khokha* owners were running with their belongings including a big hot *tawa* (round platter to cook *rotis*) in order to save their equipment from CDA. The *khokha* owners themselves know that they have illegally occupied the public land but they have no other opportunity, they say they have to earn and fulfill the needs of their family, they have to risk it in order to earn living for themselves. They claim they don't have enough money in order to buy or rent proper shops in the market and meet their expenses. This also leads the idea of the need of these *khokha* vendors, shoppers roaming around in the markets mentioned that they need to eat or munch while shopping and look for these street vendors, they often have to buy some stuff they believe is too pricey in the shops so they look for street vendors in order to buy that and get upset if the street vendors aren't available in the premises. It is important to note that it's not only street vendors that are there to fulfil their needs but also the customers that need them. Given the mutual need of both the provider and buyer, why there haven't been any efforts to preserve the rights of these vendors.

Illegal encroachment on anyone's land be it public or private is an unlawful activity and requires proper action, considering this the state narrative is veracious but on the other hand this is also state's responsibility to take care of its citizens, and to listen to the hues and cries of the under privileged, CDA has been observed to be working for the elite, as most of the operations are planned on the underprivileged rather the mafias around. It is state's responsibility to provide for such trade zones where the street vendors can set up their stalls and earn in peace. If the reform are in the planning, they process needs to be speed up in order to save the poor street vendors from the misery.

6. POLICY RECOMMENDATIONS

Based on the survey and its analysis, we would like to recommend that

- In the *khokha* reforms, the *khokhas* shouldn't only be provided to the people whose licensed *khokhas* were demolished but to the other street vendors too. There can be a licensing procedure through which *khokhas* can be assigned to the people on a nominal fee. The fee can also help them to get rid of the exploitative rent that they're paying to the shop owners in different markets.
- There needs to be *khokha* trade unions too in order to safeguard the rights of the street vendors. Politics should be kept away from the economic activity of the poor.
- The role of CDA is to secure human needs irrespective of the differences. It also explicitly claims to ensure public service delivery on cleanliness, health, education, opportunities, and supply of goods in the city. The functioning and role of State and government in the indiscriminate provision of afore-said services seems to be incongruent in the light of the State-institutionalized anti-encroachment drive in Islamabad. Unless this dichotomy of the role of State and government is addressed, the poor will continue to be systematically excluded.

- Consideration for tying social service support to street vendors together by technology (ICT facilitated cell-phone use) where their economic activities and license are also bound to services they can receive for their families (education, healthcare, etc.). This brings them more into the fold of formalized social services.
- Technology should be introduced to administer and sustain the system. Adoption of GIS based strategies for comparing and monitoring support for informal sector entrepreneurs across cities and settings can be helpful. Also imperative will be to explore ICT and cell phone-based communications to bind entrepreneurs to zones of operation and the needed administrative licenses. Also important in this context is the role of ICT to give entrepreneurs the needed social support and access for their families.
- Ehsaas program in collaboration with PIDE has institutionalized a formal system and allotted spaces for *khokha* owners in G-11 sector of Islamabad. Such a formal institutionalization of allotted spaces for street vending activities can be applied to other sectors of the city and all cities of Pakistan.

TRADE, COMMERCE AND INVESTMENTS

WHAT DO WE KNOW OF TRADE ELASTICITIES?

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Keywords: Real Exchange Rate, Trade Balance, Elasticities

Devaluation[75] is necessitated only when policy weakness leads to a loss of reserves. It takes on a harsher form when central banks refuse to recognize the will of the market and spends reserves to preserve an artificial value of the exchange rate.

Ill-informed popular debate appears to hold to the notion that the purpose of a devaluation is to devalue to improve the trade balance and as they say "improve competitiveness."

There is an old debate on whether exchange rate depreciation impacts the trade balance positively or not. We will summarize that here.

The impact of an exchange rate depreciation on trade balance has not been widely endorsed. The studies in the area of depreciation can be divided into two groups. The first group of studies supports the view that depreciation is successful in improving the trade balance and demand for exports and imports are responsive to exchange rate. Whereas, the second group that do not lend support to the effectiveness of depreciation in resolving the trade deficit problem (see Table 1).

Here we will review the evidence from Pakistan to inform policymaking and local research about

1. The elasticities of imports and exports with respect to income, relative prices and exchange rate;
2. Examine the short-term effect and long term effect of the real depreciation of PKR on the real imports and real exports of Pakistan; and
3. Investigate the existence of J-curve Phenomena.

Box 1: J-curve/ Marshall-Lerner Condition

The J-curve suggests the impact of depreciation on trade volume over time. In short run, prices are sticky and don't respond initially, which make imports expensive for domestic country and consequently deteriorates her trade balance. Whereas, in the long run the prices would adjust to new level and exports of home country would become cheaper for the rest of the world and imports would be expensive. This brings the improvement in the balance of trade (Magee, 1973).

Marshall-Lerner (ML) enables us to explore whether the depreciation is going to correct the balance of trade deficit or further deteriorate it. The ML condition suggests that the sum of total export (η_X) and import elasticities (η_M) must be greater than one if depreciation is to have a favourable impact on the trade balance. Mathematically it may be written as:

$|-\eta_M| + \eta_X > 1$

[74] The author's thanks goes to Nadeem Ul Haque, Abdul Jalil and Usman Qadir, their suggestions prompted to revise the document and to make it valuable. The *author remain responsible* for any *errors and weaknesses.*

[75] In this study devaluation and depreciation will be used interchangeably and market based flexible exchange rate system followed by SBP from July 2000.

Table 1

The Impact of Exchange Rate Depreciation on Different Economies

<table>
<tr><td colspan="4">1. Studies that Support Depreciation</td></tr>
<tr><td>Author (s), Years</td><td>Country</td><td>Data Period</td><td>Findings</td></tr>
<tr><td>Goldstein and Khan (1978)
Goldstein and Khan (1976)</td><td>Eight industrial countries</td><td>1955–1970</td><td>
<table>
<tr><td colspan="3">Marshall-Lerner condition is satisfied</td></tr>
<tr><td></td><td>Export demand price elasticities (PX/PXW)</td><td>Import demand price elasticities (PM/PD)</td></tr>
<tr><td>Belgium</td><td>–1.57</td><td>–0.62</td></tr>
<tr><td>France</td><td>–1.33</td><td>–1.09</td></tr>
<tr><td>Germany</td><td>–0.83</td><td>–0.70</td></tr>
<tr><td>Italy</td><td>–3.29</td><td>–0.16</td></tr>
<tr><td>Japan</td><td>2.47</td><td>0.01</td></tr>
<tr><td>Netherlands</td><td>–2.73</td><td>0.33</td></tr>
<tr><td>UK</td><td>–1.32</td><td>0.18</td></tr>
<tr><td>United States</td><td>–2.32</td><td>–0.45</td></tr>
</table>
</td></tr>
<tr><td>Balassa, et al. (1989)</td><td>Greece and Korea</td><td>1960–1978</td><td>
<table>
<tr><td></td><td>Export demand elasticity (NEER)</td></tr>
<tr><td>Greece</td><td>–1.01</td></tr>
<tr><td>Korea</td><td>–1.07</td></tr>
</table>
</td></tr>
<tr><td>Gupta-Kapoor and Ramakrishnan (1999)</td><td>Japan</td><td>1975:l–1996:4</td><td>4.6 % appreciation in NEER initially deteriorates the import to export ratio by 1.1 % but after six quarter this ratio improves.</td></tr>
<tr><td>Narayan (2004)</td><td>New Zealand</td><td>1970–2000</td><td>A depreciation of REER deteriorate the import to export ratio for the first three years but after that it improves.</td></tr>
<tr><td>Gomes and Paz (2005)</td><td>Brazil</td><td>1990–1998</td><td>Depreciation of real exchange rate improves the trade balance by 0.86 %.</td></tr>
<tr><td>Soleymani and Saboori (2012)</td><td>Malaysia→China</td><td>1993:1–2009:4</td><td>Out of 53 industries, 1 % depreciation of RER improve the trade balance of 11 durable goods industries ranging 3.33% to 37.41%.</td></tr>
<tr><td>Bahmani-Oskooee and Zhang (2013)</td><td>UK→China</td><td>1978–2010</td><td>Out of the 47 industries depreciation has favourable short-run effects in most of industries trade surplus ranging from 0.36% to 3.50%. However, the short-run effects last into the long run only in seven cases and get the trade surplus from 0.19% to 7.88%.</td></tr>
<tr><td>Musawa (2014))</td><td>Zambia</td><td>2000–2010</td><td>1% depreciation of REER causes the trade balance to change by 0.045%.</td></tr>
<tr><td colspan="4">2. Studies that do not Support Depreciation</td></tr>
<tr><td>Miles (1979)</td><td>1956–1972</td><td>14 countries</td><td>
<table>
<tr><td colspan="4">No evidence is found to support the hypothesis that depreciation improves the trade balance</td></tr>
<tr><td></td><td colspan="3">Trade Balance elasticity w.r.t Exchange rate</td></tr>
<tr><td>UK</td><td>–32.3***</td><td>New Zealand</td><td>36.47***</td></tr>
<tr><td>Denmark</td><td>0.34</td><td>Costa Rica</td><td>1.60</td></tr>
<tr><td>France</td><td>2.56***</td><td>Ecuador</td><td>0.22</td></tr>
<tr><td>Finland</td><td>2.55***</td><td>Guyana</td><td>–26.2**</td></tr>
<tr><td>Iceland</td><td>–0.10</td><td>Israel</td><td>–0.86</td></tr>
<tr><td>Ireland</td><td>45.47</td><td>Sri Lanka</td><td>–1.77</td></tr>
<tr><td>Spain</td><td>–0.07</td><td>Philippines</td><td>0.28</td></tr>
</table>
</td></tr>
</table>

Continued—

Table 1—(*Continued)*

Rose (1991)	1974–1986	5 major OECD countries	Exchange rate is not a significant determinant of the trade balance: Trade Balance elasticity w.r.t Exchange rate UK: 2.27 Canada: 0.48 Germany: 0.49 Japan: 0.79 US: 1.26
Yazici (2006)	1986: 1–1998:3	Turkey	Depreciation of real exchange rate deteriorates the trade balance by 4.46 %.
Bahmani-Oskooee and Kutan (2009)	1990:1–2005:6	11 east European emerging economies	J-curve hypothesis does not hold Trade Balance elasticity w.r.t Real Effective Exchange rate Bulgaria: 1.64; Romania: –2.69** Croatia: –8.46***; Russia: –43.03 Cyprus: –12.35***; Slovakia: –2.51 CzechR.: 3.91; Turkey: 5.02 Hungary: 23.27**; Ukraine: 7.84*** Poland: –1.85
Galebotswe and Andrias (2011)	1993:3 – 2010:4	Botswana	depreciation of the exchange rate is associated with output contraction by 0.53%
Bahmani-Oskooee and Gelan (2012)	1971Q1–2008Q4	9 African countries	J-curve hypothesis does not hold Trade Balance elasticity w.r.t Real Effective Exchange rate Burundi: 16.72***; Nigeria: –4.17 Egypt: –4.08; Sierra Leone: 26.18 Kenya: –4.94***; South Africa: –5.03*** Mauritius: 10.73; Tanzania: 4.58 Morocco: 1.83
Ayen (2014)	1998:1–2010:4	Ethiopia	REER has country effect in long run and lead to decrease the output by 0.29%.

Note: PX= price of exports; PXW= weighted average of the export prices of the country's trading partners; PM is import prices, PD is domestic price. ***, ** indicates significance at 1% and 5%.

Survey of Empirical Studies on the Demand for Imports and Exports in Pakistan

In the field of international economics, income and price elasticities are useful in determining the trade flows. Income elasticities measures how the trade flows respond to change in GDP and price elasticities access the impact of changes in relative prices, tariffs and/or exchange rates on trade flows (see Box 2).

Box 2: Measurement of Trade Elasticities

Demand for Imports

The estimation of the demand for imports usually relates changes in the quantity of imports to changes in domestic income (Y_d) and real exchange rate (RER = (NER* P_f / $P_{d)}$), it can be expressed in equation as *import* = $f(RER, Y_d)$.

It is common to estimate import demand equation by decomposing RER into price ratio (P_f / P_d) and nominal exchange rate (NER) i.e., *import* = $f(NER, P_f / P_d, Y_d)$.

These elasticities are especially critical to the Pakistan economy because of rising trade deficit. In case of Pakistan, there is a vast amount of the literature focuses on the role of exchange rates in affecting the trade balance or, more specifically the demand for exports and imports both at aggregated and disaggregated (commodity wise, industry wise and country wise) level. Here we are reviewing the studies that measures the elasticities at aggregated level.

The equation can also be specified with split prices i.e., *import* = $f(NER, P_f / P_d, Y_f$.

Demand for Export

The estimation of the demand for exports usually relates changes in the quantity of exports to changes in foreign income (Y_f) and real exchange rate ($PER = (NER{*}P_f / P_d)$, it can be expressed in equation as $Export = f(RER, Y_f)$. It is common to estimate export demand equation by decomposing RER into price ratio (P_f/P_d) and nominal exchange rate (*NER*) i.e., $Export = f(NER, P_f / P_d, Y_f)$. The equation can also be specified with split prices i.e., $Export = f(NER, P_f / P_d, Y_f)$.

Trade Balance

The impact of real exchange rate on balance of trade is usually estimate by regressing the trade balance on real exchange rate, foreign country's real income and real income of domestic country i.e.,

$Trade\ Balance = f(RER, Y_f, Y_d)$

These equations are estimated by double log model in which the coefficients are direct estimates of elasticities.

The Tables 2, 3 and 4 provide the elasticities of import, export and balance of trade with respect to exchange rate, prices and income. Instead, they vary depending on their sample period, data frequency, empirical methods and modelled macroeconomic variables.

Table 2

Pakistan Import Demand Elasticities

Author (s), Years	Data Period	Y_d	*RER or REER*	*NER*	P_M/P_d	P_M
Khan (1994)	1983Q1 – 1993Q3	2.13	0.78			
Aftab and Aurangzeb (2002)	1980Q1 – 2000Q4	0.91			–0.87	
Afzal and Ahmad (2004)	1960–2003	3.19		–2.27	–5.26	
Kemal and Qadir (2005)	1981–2003		–0.52			
Felipe et al. (2009)	1980–2007	0.91	–0.24			
Baluch and Bukhari (2012)	1971–2009	1.22			–0.53	
Bano et al. (2014)	1980–2010	0.69		–0.53	0.710	
Khan et al. (2016)	1981–2010	1.40	–0.34			
Ishtiaq et al. (2016)	1970Q1–2012Q4	1.22	–0.78			
Khan and Majeed (2018)	1978–2016	2.16			–1.57	
Yasmeen et al. (2018)	1980–2016	1.13	0.23			–0.37

Note: Bold figure represent the insignificant coefficient.

Y_f is foreign country income, *RER is real exchange rate*, *REER* is real effective exchange rate, *NER* is nominal exchange rate, P_M is import price, P_d is price in home country.

Table 3

Pakistan Export Demand Elasticities

Author (s), Years	Data Period	Y_f	*RER or REER*	*NER*	P_X/P_f	P_X
Khan (1994)	1983Q1 – 1993Q3	1.63	–0.32			
Aftab and Aurangzeb (2002)	1980Q1 – 2000Q4	2.11			–0.62	
Atique and Ahmad (2003)	1972–2000	2.93	–0.39			
Afzal and Ahmad (2004)	1960–2003	–3.78		0.04	2.92	
Kemal and Qadir (2005)	1981–2003		–0.66			
Felipe et al. (2009)	1980–2007	1.41	–0.34			
Khan et al. (2013)	1981–2010	1.28	–0.86			
Bano et al. (2014)	1980–2010	0.96	–0.30		0.10	
Khan et al. (2016)	1982–2015	1.11	–0.42		–0.06	
Ishtiaq et al. (2016)	1970Q1–2012Q4	1.73	0.31			
Yasmeen et al. (2018)	1980–2016	2.23	–0.80			–0.44

Note: Bold figure represent the insignificant coefficient. Y_f is foreign country income, P_X is export price, P_f is price in foreign country.

Table 4

Pakistan Balance of Trade Elasticities

Author (s), Years	Data Period	Y_f	Y_d	*RER or REER*
Rehman and Afzal (2003)	1972Q1–2002Q4	2.86	–1.82	–0.89
Aslam and Amin (2012)	1980–2008	3.03		–0.31
Shahbaz et al. (2012)	1980Q1–2006Q4			–1.02
Saeed and Hussain (2013)	1985–2010	3.45	–2.42	–0.02
Shah and Majeed (2014)	1980–2011		–2.34	–1.51
Faridi and Kausar (2016)	1972–2014			–0.09
Khan (2016)	2005Q1–2014Q4	–0.01	–0.97	0.024
Ishtiaq et al. (2016)	1970Q1–2012Q4	1.68		0.92

Conclusions of these studies exhibit no common pattern regarding the role of exchange rates in determining trade flows.

- In case of export demand, the range of real exchange rate elasticity lies between –0.80 to –0.30 (except Ishtiaq *et al.*, 2016). It means that Pakistan's export demands do not increase in a significant way with the depreciation of exchange rate.
- Increase in world income has positive impact on export demand.
- For import demand, the range of real exchange rate elasticity lies between –0.24 to –0.78 (except Khan (1994) and Yasmeen et al. (2018)). It means that depreciation of real exchange rate decreases the import's demand at low rate.
- Increase in domestic income boosts the demands of foreign product.
- Real exchange rate depreciation will not lead to improve the balance of trade its ranges between –1.51 to –0.02.

Beside the exchange rate there are other factors behind the persistent trade balance and limits the role of exchange rate policies to correct the trade balance. Such as:

(1) Most of Pakistan's imports consist of capital and intermediate goods. This dependence makes import demand relatively inelastic and unresponsive to exchange rate policies.
(2) Agricultural goods have inelastic supply and most of Pakistan's exports are consisting of agricultural goods. Therefore, export demand may be less sensitive, in term to its prices and the world income and depreciation policy did not have much effect on the export volume.
(3) Low Value addition in Pakistan's exports due to low development of industrial sector, Pakistan has not yet expanded her product range in favour of technology-intensive products.

Does currency depreciation necessarily result in positive exports and negative imports? Evidence from the updated data

The exchange rate policies of Pakistan and their relationship to trade flow is presented in Box 3.

The visualization of nominal and real exchange rate of PKR against US $ is depicted in Figure 1. Rise in NER and RER shows the depreciation of nominal and real exchange rate respectively. From 1980 to 2001 both lines follow the same direction but after that NER and RER have been moving in opposite directions as the SBP started pursuing a policy of intermittently fixing the exchange rate even as crises happened. It indicates that domestic prices are increasing relative to foreign prices and offsetting the impacts of NER depreciation. In the past few years, despite of significant amount of nominal depreciation, real depreciation has not occurred, in fact RER has moved in opposite direction. Clearly SBP exchange rate policy was standing against the market. SBP should not try to use reserves to fix the value of the exchange rate except to deal with very short-term disorderly conditions. Otherwise, currency crises or attacks happen if the SBP attempts to use reserves to hold the exchange rate against the market.[76]

Box 3: Exchange Rate Policies and Trade Flow of Pakistan

Pakistan followed a policy of export-led growth in order to bring the sustainability in her balance of payments. To achieve this objective, Pakistan had adopt various exchange rate regimes from fixed exchange rates to a policy of managed float.

- In January 1982 Pakistan rupee was delinked from the US $. Previously the rupee/dollar exchange rate was fixed and appreciation of the US $ in 1980-81 had reduced the competitiveness of Pakistan's export in the international market. The floating exchange rate policy helped the import liberalization process by allowing the government to eliminate restrictions without running into balance of payment problems because the exchange rate was set by the market force. Under the new system, State Bank of Pakistan used to set an exchange rate of PKR based on trade weighted currency basket.
- PKR has been devalued by 39 percent, for the period of 1982–87. During this period, export earnings boosted by 65 percent and balance of trade improved by 27.3 percent. It should be keep in mind that beside devaluation, incentives were given to industrialist to increase manufactured exports and the Economic Co-operation Organization (ECO) and the South Asian were found in 1980s to increase trade with in South Asian region. These improvements could not be sustained over a long period because of political instability in the country and rapid increases in oil prices.
- Managed float was abolished by the State Bank of Pakistan in July 2000 and flexible exchange rate system was finally achieved. Trade policies are highly liberalized after 2000, average tariff rate was reduced from 47% in 1990s to 18% in 2000s (FBR, year book 2018-2019). During this period both export and import sector showed improvement. Regardless of, the average annual growth rate of imports is 14% greater than the annual growth rate of exports i.e., 10%.

[76] PIDE's Knowledge Brief No. 7:2020, Pakistan's five currency crisis by Nadeem Ul Haque and Hafsa Hina.

As Figure 2 shows this flawed exchange rate policy has also showed up in the trade balance. While Pakistan as a developing country had a trade balance but in as exchange rate policy took on an increasing anti market stance, imports started to grow and exports more or less stagnated to lead to a widening trade balance. The imports grew faster than the exports and have almost been always higher than the exports.

Fig. 1. Nominal and Real Exchange Rates in Pakistan

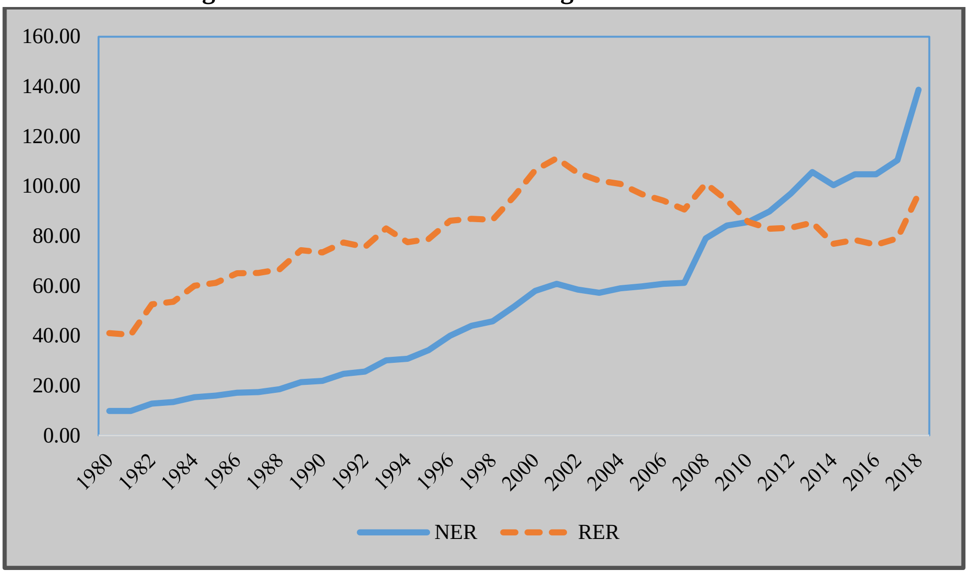
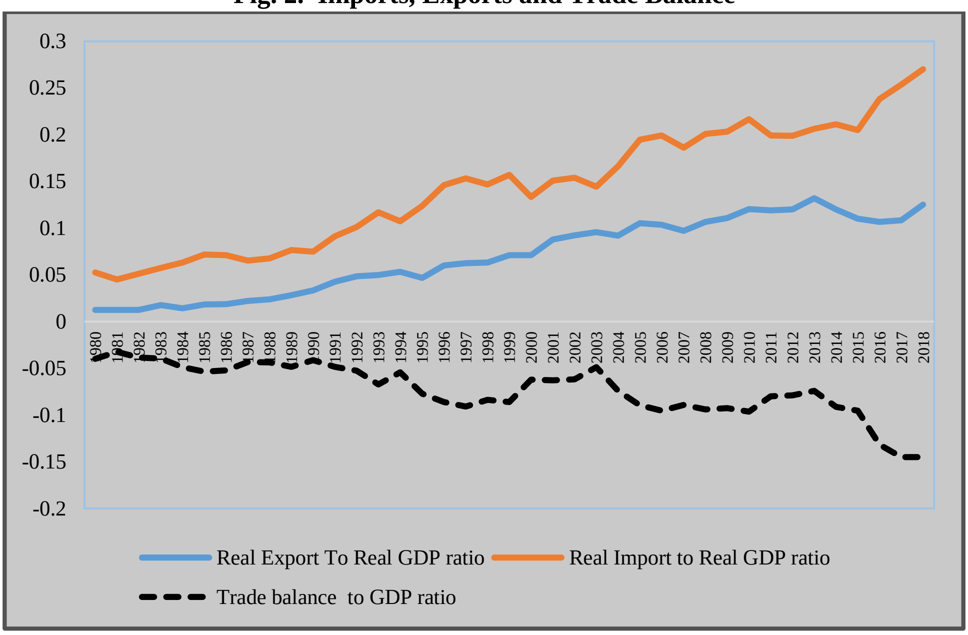


Fig. 2. Imports, Exports and Trade Balance



Box 3: Estimation Mythology of the Present Study

This study uses Johansen and Juselius (1992) cointegration technique for estimating short run and long run elasticities. The econometric regression for import demand, export demand and trade balance are specified as

$$IM = \alpha_o + \alpha_1 Y_d + \eta_M RER + \varepsilon_1$$
$$EX = \beta_o + \beta_1 Y_f + \eta_X RER + \varepsilon_2$$
$$TB = \gamma_o + \gamma_1 Y_d + \gamma_2 Y_f + \eta_{TB} RER + \varepsilon_3$$

Where *IM* is real imports, *EX* is real exports, TB is trade balance (It is the difference between real export and real imports, and divided by real GDP in order to control for scale effects), *Yd* is real GDP of Pakistan, *Yf* is real GDP of USA (use as proxy for foreign income) RER is real exchange and ε is Guassian error.

All variables are log transformed, TB transformed by adding 1 minus the minimum value in order to avoid logs with null values.

All data series are taken from International financial Statistics from 1980 to 2019.

Table 4

Import , Export and Trade balance Elasticities[77]

	Y_d	Y_f	RER
Import	2.03***		0.65***
Export		3.69***	0.45*
Trade balance	–0.73***	1.37***	–0.48***

Note: ***, * indicates significance at 1% and 10%.

Table 4, shows that:

(1) 1% depreciation of real exchange rate of PKR will increase the demand for exports by only 0.45% and increase the demand for imports by 0.65%. Therefore, trade balance deteriorate by 0.48%.

(2) Marshall Lerner condition does hold for Pakistan because as export elasticity is according to theory and depreciation would increase the demand for export. But, import elasticity is opposite to theory and deprecation would not reduce the demand for imports. Therefore, at aggregate level, Pakistan will remain a net importer and depreciation policy will not improve its trade balance.

CONCLUSION

Depreciation is an outcome as a country loses reserves rather than a policy option to improve trade. Elasticities reflect the structure of the economy. Export elasticity reveals that export demand is less responsive to change in real exchange rate. It shows that we are still exporting commodities with no Pakistan brand. For example, most of our primary goods such as basmati rice are exported to the name of other country brands. Brand loyalty protects the goods in the international market and it is necessary to educate exporters about

[77] The cointegration results are highly sensitive to the choice of the lag length, structural break and the coefficients may vary with trade regimes. The issue of structural break and trade elasticities for different trade regimes are addressed in the working paper 24:2020 of PIDE.

the branding of their products. Import demand is also inelastic to change in real exchange rate. Our major imports are based on machinery and petroleum products, which serve as necessity input in production. Inelastic import demand reveals that we have made no progress on developing energy saving and remain dependent on imported energy. Therefore, exchange rate policy can do nothing on the structure. In fact, the need for a devaluation is the inefficiencies in the structure of the economy. Thus the choice is clear reform to fix the structure or let the exchange rate to depreciate.

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SPECIAL ECONOMIC ZONES AND THE STATE OF PAKISTAN'S ECONOMY

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1. INTRODUCTION

Pakistan has initiated various economic reforms aimed at enhancing growth of the economy under China-Pakistan Economic Corridor (CPEC). One of the major components under this collaboration is industrial cooperation under which Special Economic Zones (SEZs) have been planned along the CPEC routes across the country. Over the years, SEZs have been successfully implemented by many countries around the world which include Republic of Korea, Taiwan, China, Vietnam, Bangladesh, Mauritius, the Dominican Republic and El Salvador. These SEZs have paved their way towards industrialisation, economic development and growth. SEZs have also brought Foreign Direct Investment (FDI) to the host country resulting in foreign exchange earnings, enhancing exports and government revenues for the country. Moreover, SEZs have also helped in technology transfers, adoption of modern management practices along with skills up-gradation in most of the emerging economies. While in many countries SEZs have succeeded in transforming their economies, however, it costs the governments in terms of fiscal incentives which are provided to attract investors at the zones. Thus, success does not come without a cost. Also, it is important to draw on the experiences of Pakistan's neighbouring countries with SEZs and discuss best practices for Pakistan.

2. REVIEW OF PREVIOUS STUDIES

Global experience suggests that SEZs are an important source of economic diversification, transfer of knowledge and technology, skill development, employment opportunities and promotion of industrial activities in the country (Ali and Faisal, 2016). Numerous studies have shown mix result of SEZs across different countries. In their studies Chen (1993) and Jayanthakumaran (2003) have observed that SEZs are strategic tools which have helped in generating exports and employment yet, many others are susceptive of SEZs being the first-best solutions to ensure competitiveness in an economy, as they argue that the success of such venture is restricted to specific conditions over a limited time frame (Tang 2015). However, a number of other studies still emphasis on the important role of these zones which they play in the economic growth and adjustment processes in many developing countries. According to these studies, SEZs have played a significant role in facilitating industrial development and upgrading processes in the East Asia's "Tiger

Economies." This model was later adopted by China whosesuccess was unprecedented in history as far as SEZs are concerned. Through this model, China was able to attract huge FDI in the country, which helped in the development of China's export-oriented manufacturing sector and served as a catalyst for sweeping economic reforms that later were extended throughout the country.

In Pakistan, few studies have been carried out to analyse the potential benefits of SEZs in the context of CPEC. The study by Khan and Anwar (2016) has carried out comparative analysis of Pakistan and China in terms of SEZs. They identify political rent seeking, information and incentives problems as the reasons for the failure of SEZs. Similarly, Hussain and Mehmood (2018) assess the opportunities and challenges that Pakistan faces for effective implementation of SEZs. Zia, et al. (2018) show that the successful experience of African countries with SEZs can be replicated in the developing countries like Pakistan to improve the socio-economic benefits of it for the country.

Similarly, Naeem, et al. (2020), while studying the factors for successful implementation of SEZs conclude that in order to succeed with the planned SEZs under CPEC, it is important to remove political influence and the government must ensure the development of each zone according to its locational advantage. While the above studies have discussed the potentials and challenges of SEZs for Pakistan, they missed to link it with the overall economic state of the country before recommending it as a successful growth model. Moreover, few others which have studied the global experiences have done so in a more general way.

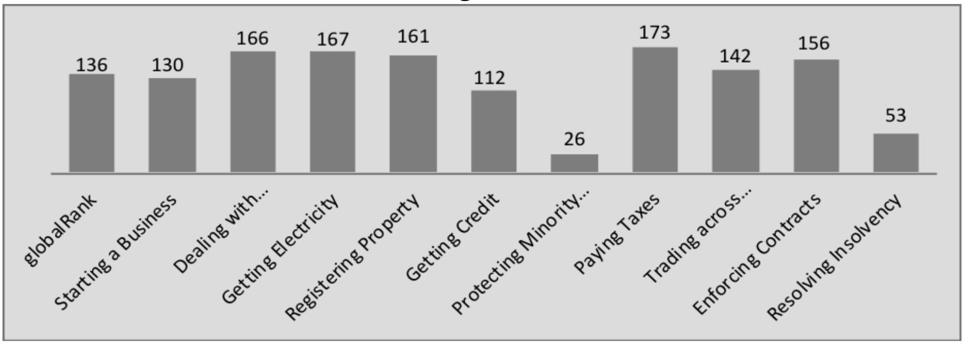
3. STATE OF PAKISTAN'S ECONOMY

Pakistan is a developing country which ranks at 115 out of 137 countries in the global competitive index 2019. While its ranking is still below that of its neighbouring countries, however, it has improved considerably in its global ranking. At present, the size of the economy (GDP, PPP-adjusted) is US$284 billion with a population of 221 million people (Naeem, et al. 2020). Since beginning, its economy has experienced a weak growth path due to inconsistent economic policies along with weak governance structure which has led to low productivity and weak export base over the years. Agriculture sector's contribution has reduced to half currently standing at 22 percent, while the industrial sector, which comprises of textile, pharmaceuticals, automobiles, minerals, iron and steel, fertiliser and other electronics, accounts for just 17 percent of its GDP.

3.1. Ease of Doing Business

Low growth in the industrial sector is linked to various factors. One of the factors which has stagnated the overall performance of this sector is the poor business climate with weak institutional mechanism in Pakistan. While it is important to note that with concerted efforts, an improvement is found in the overall business regulation in the country; Pakistan ranks at 108 in the global ease of 'Doing Business' rankings in 2019. However, on World Bank's Logistic Performance Index, Pakistan still performs abysmally low. According to World Economic Bank's 2019 report, Pakistan scored 2.42 out of 5 in the World Bank's assessment of country's logistics, showing weak custom clearance process and low quality of logistic services both within and outside the country. These constraints have resulted into low exports to GDP ratio in Pakistan: at 8.2 percent of GDP. It is significantly lower than the average 19.2 percent in the region.

Figure 1



Source: Global Competitiveness Report, 2019.

3.2. Productivity

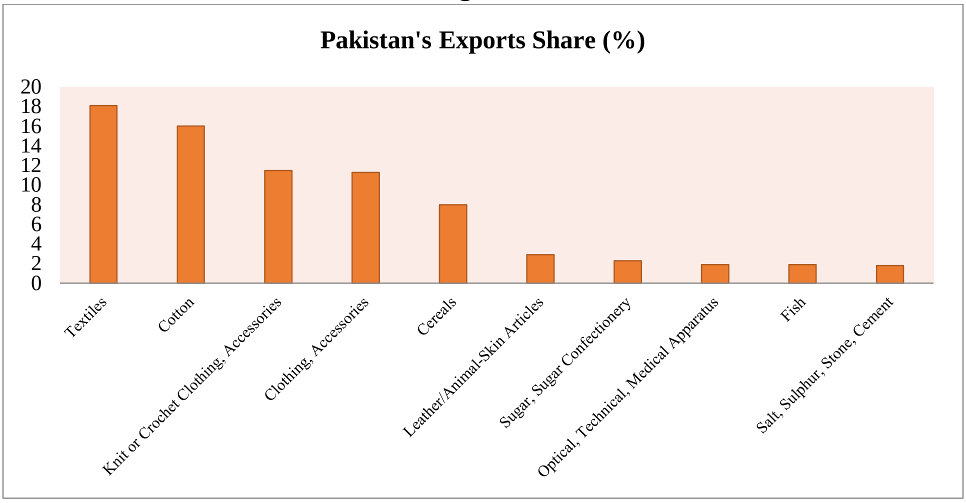
While examining the productivity level in the economy, it is observed that Pakistan's productivity level is very low and its ranking on the Global Competitiveness Index (GCI) fell from 83 in 2007 to 110 in 2019. Primarily, the principal source of Pakistan's lack of competitiveness comes from low productivity. The factors which lead to low performance in productivity growth include weak infrastructure including worsening power shortages and extremely low investment in fixed and human capital resources. Moreover, Pakistan ranks among the world's lowest investors with an investment rate of barely 15 percent of GDP.

3.3. International Trade

Historically, Pakistan has remained an import intensive country with weak exportable surplus especially in value added variety. The official statistics show that annual global exports from Pakistan are only about US$20 billion which is much lower than its actual potential. The basket of Pakistan's exports is highly concentrated within a small set of products (Qayyum and Nigar, 2020; Qayyum and Mahmood, 2013). Figure 2 represent the share of each product to Pakistan's global shipment in 2019. It is significant to note that Pakistan's export earning is highly dependent on few products only, with ten largest export products contributing 75.6 percent to the total export earnings. In the region, Bangladesh and Myanmar are comparable to Pakistan, with their exports more concentrated in the top ten products, except that the export basket of Bangladesh comprises mainly of manufactured goods, particularly textile products. However, in Pakistan, majority of the export earnings is derived from semi-finished goods. In contrast, the richer countries like China and India have far less concentrated export basket.

The statistics reveal several features of Pakistan's exports presence in global market. Its exports show a high degree of concentration in a narrow set of products, mainly comprising of primary and intermediate goods. The trend, over the time, reveals less dynamism in its export base. While these factors are common in most of the developing countries, in Pakistan, it is more pronounced with a narrow base of valued goods in its exports basket. Based on David Ricardo's Comparative Advantage Theory, Pakistan has a comparative advantage in textile industry: contributing 60 percent to total exports. However, with low production base, high cost of doing business along with tough competition from regional competitors like Vietnam, Bangladesh, India and China, Pakistan has failed to earn much from this industry. It is, thus, important to devise right policies to enhance the capacity of Pakistan's manufacturing sector by removing the existing barriers which are being faced by the economic sector of the country.

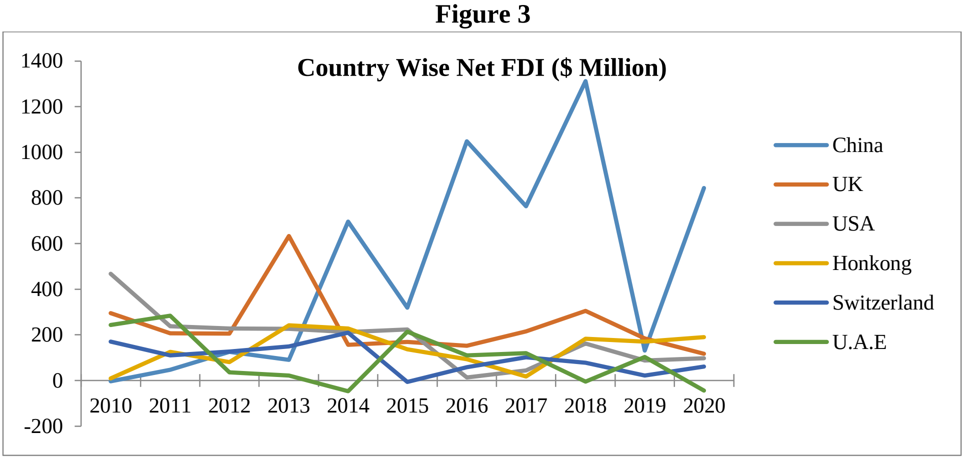
Figure 2



3.4. Foreign Direct Investment

Considering FDI an important component of GDP, World Bank's statistics has been used to report the FDI inflows for Pakistan along with the comparator countries from year 2010 to 2020. For Pakistan, FDI flows show an upward trend, averaged at US$1908 million per year, or about 0.76 percent of its GDP. However, it is still far below than its neighbouring countries: India with 1.6 percent of its GDP, China 1.5 percent; Bangladesh with 0.9 percent and Myanmar with 3.8 percent. The statistics show that China is the main source of FDI into Pakistan which has risen because of higher investments coming under CPEC.

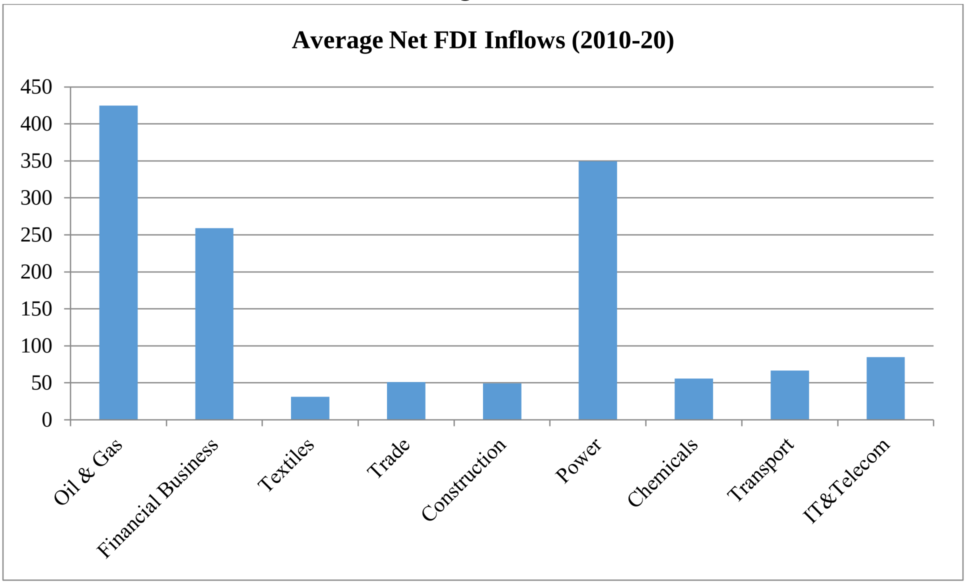
Figure 3



Source: Board of Investment Pakistan.

The sectoral decomposition of FDI's inflows shows that Pakistan has attracted foreign investment in few industries like oil and gas, constructions, and in the financial sector. According to the official statistics, investment in its gas sector has increased to 15 percent of FDI while financial business and textile account for 9 and 10 per cent of FDI, respectively.

Figure 4



Source: Board of Investment Pakistan.

The trends in flow of FDI can also be evaluated by looking into the foreign companies' decision in out-sourcing their production base to other countries. This provides growth opportunity to the host country through integration into the supply chains of these firms. For example: A US-based footwear company, Nike offshores most of its footwear production to the world market. Initially, Nike was more reliant on the Chinese producers but, with rising wages in China, it has shifted its production centres to the developing countries like Vietnam, Bangladesh and Cambodia. It is pertinent to note that Nike's annual report shows that 40 percent of the company's global footwear production is currently produced in Vietnam. This case study suggests that Pakistan could also attract large multinational firms like Nike if it brings reforms in the industrial sector while addressing the constraints which have hampered the growth of Pakistan's manufacturing sector. This will help in getting integrated to the global supply chains, by supplying low-cost, labour-intensive manufacturing especially in garment, footwear and food product sectors while competing with the other South Asian countries for its fair share of FDI in the given sectors.

3.5. The Way Forward

To summarise, Pakistan must enhance the productivity levels of its industrial firms while formulating and implementing an effective industrial policy. It is important to reduce the trade cost and other barriers to trade, this includes, lowering tariffs, reducing quotas along with providing the right business environment to attract investments from foreign firms in the country. This could be done by tools like SEZs which comprehensively reduces all trade cost for operating firms in particular geographical areas in the country.

4. SPECIAL ECONOMIC ZONES IN PAKISTAN

4.1. Industrial Clusters

Pakistan has been focusing on developing SEZs to facilitate industrialisation in the country. Initially, the focus was directed towards cluster-based industrial development in which the clusters like industrial estates were formed (Kemal, 2006). In 1973, small industrial units were established around various locations in Pakistan but, unfortunately, the pace of industrialisation was lost due to poor management, weak infrastructure development and inability to provide attractive incentives to private entrepreneurs (Hameed, et al. 2015). Similarly, the industrial clusters were formed to encourage the social and economic development of related community. The few successful industrial clusters include: Sialkot Surgical Goods Cluster, Gujarat Ceramic/pottery Industrial Cluster, Faisalabad Readymade Garments Manufacturing Cluster, KPK Marble Cluster, Tannery/Leather Industrial Cluster and Gujranwala Cluster.

4.2. Initialisation of Special Economic Zones

Khairpur Special Economic Zone (KSEZ) was the first designated SEZ which was developed by the Government of Sindh in Tando Nazar Ali. It was designated as a hub of agro-processing and other related industries spreading over 140 acres. Unfortunately, this SEZ is still non-functional as electricity and gas approvals are pending partly because the Sindh Building Control Authority has not yet approved rezoning agricultural land to industrial land. Without such approvals, the responsible bodies are unable to lay the transmission lines within required legalities, thus, stagnating development of this zone.

4.3. Special Economic Zone Act

Considering the prospective opportunities under CPEC, Pakistan's Board of Investment (BOI) proposed amendments to the Special Economic Zone Act, 2012 which was later promulgated as Special Economic (amendment) Ordinance 2015. The board has given fiscal benefits to the prospective investors and developers at the zones. This includes one-time exemption from custom duties and taxes for all capital goods imported into Pakistan for the development, operations and maintenance of a SEZ and exemption from all taxes on income for a period of ten years. At present, for early execution of SEZs, the government has chosen four SEZs for immediate ground-breaking, these include Allama Iqbal Industrial City (M3) in Faisalabad, Rashakai Economic Zone on M-1 in Khyber Pakhtunkhwa (KP), China Special Economic Zone at Dhabeji (Thatta, Sindh) and model ICT zone in Islamabad.

4.4. CPEC and SEZs

In Pakistan, SEZs have once again acquired prominence in the policy circles since the inception of CPEC. Under this framework, the Chinese and Pakistani governments have agreed to enhance trade and industrial cooperation while developing infrastructures and establishing SEZs along CPEC route. During the first phase of CPEC projects, SEZs were proposed by the Ministry of Planning, Development and Reforms, nine SEZs were approved for all four provinces, Gilgit-Baltistan (GB), Azad Jammu and Kashmir and two at federal level. While the identified SEZs are currently at preliminary stage, however, during the 8th meeting of the CPEC Joint Cooperation Committee (JCC) held in December, 2018 in Beijing, both sides agreed to work jointly to develop these zones in a speedy manner.

As these SEZs are entering in the development phase, it is important to discuss both ideas and practices experimented in other countries in order to make SEZs successful tool to spur industrialisation in the country. This section mainly focuses on these practices in the light of the experiences of other developing countries and lessons learned from China, India, Bangladesh and Myanmar.

5. LEARNING FROM GLOBAL EXPERIENCES

As discussed in the previous section, many developing countries have established SEZs to foster economic development which was proved successful in achieving their objectives. Initially, majority of the zones were in industrial countries with first industrial zone established in Ireland in 1959 which were later adopted in developing countries, particularly, in Asia. According to the World Investment Report 2019, there exist more than 4,000 formally registered zones around the world. Most of the zones are concentrated in South-East Asia and the rest of them are present in Eastern Europe and the regions of Sub-Saharan Africa. There are some practices, positive and negative that has emerged from international experiences with SEZs. This study discusses them in the section below with the aim of seeking the best practices for Pakistan.

5.1. Business Environment

Under SEZs, the host countries provide fiscal incentives to attract domestic and foreign firms into the zones which include tax incentives, tax holidays and exemptions. Although the financial incentives are important factors for investors, they are not sufficient conditions for the firms to relocate them at the zones. This has empirically tested in Farole's study in which the author, while using data from 77 countries, shows that enhanced infrastructure and trade facilitation contribute significantly to the success of a SEZ while financial incentives (like tax breaks) have no measurable impact in absence of the required business climate for investors (Lu and Yuan, 2010). It is, therefore, important that SEZ policy must go beyond these financial incentives while the focus should be to ensure better business climate for the prospective investors at the zones. This includes building the required infrastructures like gas and electricity supply at the zones along with providing 'one-stops' clearance service for the firms to operate at the zones.

China: China offered a 15 per cent corporate tax rate to the investors which were half than what the rate was outside the zones. Also, the firms operating at the zones were exempted from local income taxes (Farole, 2011).

India: India formulated a comprehensive SEZ policy in 2005 which was established by the SEZ Act. It is worth mentioning that India had experimented with SEZs prior to 2005 but, through 2005 Act, it formally expanded the uses of zones across the country.[78] Under this Act,

[78] "The Special Economic Zones Act, 2005," The Government of India.

India had offered 100 per cent tax exemptions for the first five years and 50 per cent for the next five years, but many analysts believe that despite these benefits, the zones have underperformed. Recent statistics show that investment and exports from the zones are 41 per cent and 25 per cent respectively which are far below than the projected rates.[79]

Bangladesh: The case of Bangladesh exhibits significant improvement in its business climate which is demonstrated by more foreign investors entering the country. The zones have attracted investment in labour-intensive sector like garment and textile as it has capitalised on its labour abundance. So far, Bangladesh's zones have attracted more than US$12 billion in investments by more than 400 enterprises and annual exports from the zones average US$5 billion. This accounts for about 16 percent of Bangladesh's aggregate exports.[80]

Myanmar: Myanmar has one zone—Japan-backed Thilawa SEZ—which is at the advanced stage of development and is considered as a success story. According to the official statistics, the total investment in Thilawa has reached more than US$1 billion with 78 firms from 16 countries investing in the area.[81] The details show that enhanced infrastructure and trade facilitation has got the attention of foreign investors to operate from this zone.

5.2. Lessons for Pakistan

Pakistan needs to create supporting business climate for foreign and domestic firms to invest at the specified zone. The state of Khairpur SEZ, as discussed in the previous section, is an example of non-functional zone due to poor business climate. While looking at the work structures of zones in other countries, it is observed that the governments have given authority to local governments to pass laws at the SEZs. However, in Pakistan, higher bureaucratic interventions with multiple interests of different stakeholders have made the existing (i.e., the Khairpur SEZ) zones redundant. This can be the case with the other SEZs prioritised under CPEC, if Pakistan fails to enhance the required infrastructure and ease the trade facilitation at the zone. It is also important to note that Pakistan has a weak legal regime, which is also a major hurdle to attract foreign investment in the country. Thus, Pakistan needs to offer strong arbitration rules in case of contract disputes. In this case, Pakistan could look at China's experience which has drawn the arbitration rules from the West and currently experimenting them at the Shanghai Free Trade Zone.

6. POLICY EXPERIMENTATION

In order to strengthen the business climate, SEZs should promote policy experimentation. Pakistan can learn from the countries like China which had experimented with certain policies at the SEZs when it started its transition towards a more market-oriented economy. According to Acemoglu and North, strong institutions are necessary for economic growth. As per this perspective, strengthened property rights, reliable infrastructure and transparent regulatory framework are important factors for the firms to locate their business to certain zones. Yet, it is observed that the policy-makers face

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[79] "Performance of Special Economic Zones," An Optional Note, Comptroller and Auditor General of India (2014).

[80] Bangladesh Export Processing Zones Authority, (BEPZA).

[81] " Success Story," Thilawa SEZ Set to Launch its Second Phase as Announced by Set Aung, Deputy Governor of the Central Bank and Chairman of the Thilawa SEZ Management Committee.

political economy constraints, making it difficult to bring reforms and implement better policies. Thus, through SEZs, the governments can experiment with new rules which can later be implemented in the rest of the country if the regulatory framework is effective. Pakistan can use its planned SEZs as laboratories for bringing the required economic reforms along with ensuring political and economic autonomy to the local management. With CPEC already entering in industrial cooperation phase, Pakistan can learn from best practices and experiences of China while experimenting with different framework to help grow Pakistan's industrial sector. Once these SEZs are operational fully, it is important to assess the effects of policies being tested in the SEZs. This can be done through surveys of the firms and workers over time to track the performance metrics of employment, output and exports being generated at the zones.

7. SEZs AND SPILL-OVER EFFECTS

It is generally observed that SEZs are accompanied by technology and knowledge transfers for the host country. These create positive and negative externalities or productivity spill-overs for the firms operating outside the zone. However, it is important to keep in mind that these spill-overs need the right policies to have positive impact on the economy. Societal gains must exceed these costs. SEZs cannot solve the issue of unemployment unless the governments formulate better labour policies to be implemented at the zones. Taking the case of China and Bangladesh, it is observed that with right policies along with better business climate, these zones have generated employment opportunities in their respective countries; China's four historical economic zones accounted for 2 percent of national employment, while in Bangladesh, the zones have generated more than 400,000 jobs, 0.5 per cent of national employment (Zeng 2015) In the long-run, SEZs generate externalities for the firms located outside the zones, by encouraging the firms to adopt better practices from firms operating inside the zones. As discussed in previous section, productivity levels of Pakistani manufacturing firms are low, therefore, it is important that the planned SEZs are able to generate positive spillovers for domestic firms from the zones. Here, it is pertinent to note that Myanmar's SEZ law makes it mandatory for the firms operating in the zones, to shift their skilled labour force towards Myanmar's citizen: 75 percent of the skilled workforce must be Burmese citizens after four years of operations (Amit, 2016). To further encourage skills development, the Thilawa SEZ has created a vocational institute to train workers and the institute should work closely with firms to learn what skills are in demand. For Pakistan, it is important to understand the overall dynamics of SEZs and its impacts on the broader domestic economy. The policy-makers need to have the knowledge of positive and negative externalities of SEZs and must formulate policies based on best practices of other countries. Successful SEZs are those that generate spill-overs and foster institutional reforms in the broader economy.

8. CONCLUSION

Pakistan's recent focus on SEZs, under CPEC, has the potential to enhance firms' productivity, integrate Pakistan with global value chains and revive its manufacturing industry in the long run. While studying the state of Pakistan's economy, this study finds that relative to its neighbouring countries like India and Bangladesh, Pakistan's exports basket is comprised of intermediate and primary goods.

The manufacturing sector is characterised by low levels of productivity and attracts low foreign investment into the country. Pakistan's firms are less globally engaged than its neighbouring countries. Based on the global experiences with SEZs, this study emphasises that the development of SEZs must be aimed at improving the overall business climate in the country. This can be done through improved infrastructure and trade facilitation to attract investment by foreign and domestic firms in the zones. It further asserts that SEZs should be used as test-case tools in order to foster economic development in the country based on the experiences of other emerging economies. These would help in experimenting with different policies within the zones which could later be implemented in the rest of the country. To conclude, it is important that the planned SEZs, through spill-over effects, benefit the whole economy, workers and firms outside the zone. This is important in order to manifest that these zones are not isolated islands within the economy, but laboratories for experimenting with policies which foster economic development.

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AUSTERITY: WHICH WAY NOW?

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Austerity, during the global financial crisis, was the rubric used to define the highly contractionary policies at the cost of domestic social and infrastructural needs (see Varoufakis, 2017). Economies with high fiscal deficits and high debt to GDP ratios are often pushed to adopt austerity IMF programmes (see Box 1 and 2, Alesina, et al. (2019).

Box 1: Austerity and Stabilisations

Austerity: The austerity is a policy of reducing government deficits and stabilising government debt by cutting government expenditure or increasing taxes or both. Alesina et al (2019a) discuss the expenditure-based austerity and tax-based austerity in greater details.

Stabilisation: It is an imposed stringent monetary and fiscal discipline, as a condition, on the highly indebted economies which approach for the fund to correct their balance of payment problems.

Does austerity help or hurt the stabilising country?

- *Proponents*, such as the IMF regard that as a moral responsibility to reduce the excessive debt accumulated due to policy mistakes and political distortions.
- *Opponents*, consider austerity as inappropriate, troublesome and disruptive. They also that increased taxes, reduced expenditures, or both could adversely affect productivity, growth employment and welfare.

Alesina, et al. (2019) and Ramey (2016) have done comprehensive work to demarcate which type of austerity is less distortionary. **Expenditure-based austerity is less costly as compared to tax-based austerity.** They note that tax-based austerity negatively hit private capital investment. Therefore, it has a longer negative effect in terms of size and span of time.

Box 2: Policy Mistakes and Political Distortions

The standard economic theory and the practice suggest that the economies run fiscal deficits in the period of economic down turn and then these deficits are balanced in boom period. Besides this, the forward looking and rational government also accumulate some extra funds for the difficult times. Therefore, theoretically, there is no need of austerity. On the contrary, the austerity policy is common in due to *inadequate policy*. That is, the country don't save in boom period. They even run deficit in the boom period as well. The other important reason is that the countries need exceptional high spending due to war and other disasters mainly because of political distortions (Alesina, et al 2019a).

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Can austerity be expansionary? Alesina, et al. (2019) claim that it is possible when accompanied by compensatory growth in private consumption, private investment and net exports. Few notable examples of the expansionary austerity are Ireland, Austria and Denmark, Canada, Spain and Sweden in 1980s and 1990s. More recently, the United Kingdom and Ireland did a better job in economic growth despite cutting back on the banking sector's spending and issues. Apparently, countries with strong institutions and credible policy-making can generate required expansionary responses.

In this backdrop, the present knowledge brief is divided into two main parts. First, we shall review the existing literature on the fiscal multipliers: the government spending multipliers and the tax multipliers to draw some important conclusions. Second, we shall attempt to calculate the fiscal multipliers to invite the policy discussion in Pakistan.

Box 3: Measurement and Methodology of Multipliers

Measurement:

It is the ratio in change in GDP to a change in government expenditure or Tax revenues. That is the multiplier measures the effect of 1 rupee change in the government spending or tax revenue on the level of output.

Methodology:

Impact Multipliers : $\left(\Delta Y_{(t)}\right) / \left(\Delta G_{(t)}\right)$

Where *y* is the GDP and *G* is government expenditure

***Empirical Methods*:**

There are number of methodologies and techniques are used to estimate the fiscal multipliers by using econometrics. But the Vector Autoregressive model (VAR) and Structural Vector Autoregressive Model (SVAR) are commonly used. The proponents of these methodologies advocates that the there are several variables of interest which are interrelated in a backdrop of a specific economy. Therefore, these linkages should be taken properly in calculating the size of horizon of fiscal multipliers (see Batini et al. 2014 for details). The second stream of empirical models are based on the cointegrations and error correction models.

Model Based Multipliers:

Dynamic Stochastic General Equilibrium (DSGE) models are also commonly used to estimate the impact of fiscal policy on the output. The DSGE modelling incorporate the many micro informations in the modelling which is a great edge on the VAR modelling and Static measures of the Multipliers. However, the DSGE modelling is itself a challenging job.

Empirical Evidence Around the World To begin with, let us review fiscal multipliers (See Table 1). The key takeaways are:

(1) The calculation of fiscal multipliers is not a straightforward task. Different studies provide different estimates even for the same economy depending on the focus, objective, assumptions and methodology (see Box 3).

(2) There is a considerable difference between the expenditure-based austerity plan and tax-based austerity plan.

   (a) The expenditure multipliers range from 0.00 to 2.5, i.e., the growth impact could be positive if done well. In any case, the negative impact is low.

   (b) Tax multipliers are –0.5 to –5.5, i.e., tax-based austerity always slows down economic growth.

(3) Alesina, et al. (2019a) document that;

   (a) A 1 percent reduction in deficit through cuts on government expenditure is associated with the 0.5 percentage point reduction in GDP, and the recession will last a couple of years.

(b) On the other hand, a 1 percent reduction in deficit through the tax-based austerity is associated with a 2 to 3 percent loss of GDP growth and recession will last for several years.

(4) Furthermore, Alesina, et al. (2019b) note that the expenditure-based austerity may reduce the growth rate of debt to GDP ratio. On the other hand, the tax-based austerity plan may increase the growth rate of debt to GDP ratio.

(5) Alesina, et al. (2019a) document that private investment in expenditure-based austerity plan differs from a tax-based austerity plan.

(a) The expenditure-based austerity plans boost the investors' confidence and may help in the increase of private investment.

(b) However, the other aggregate demand components are that private consumption and net export do not differ during both austerity plans.

(6) The impact of austerity policy plan is asymmetric in the recession and boom periods. It may hurt severely in the period of recession and the downturn compared to the boom period.

Table 1

Summary of Expenditure Multiplier Estimates

Study	Sample Period	Value of Multiplier
Barro (1981)	1898-1972	0.51 to 0.98
Rotemberg and Woodford (1992)	1947-89	1.25
Ramey and Shapiro (1998)	1947-96	0.60 to 1.00
Blanchard and Perotti (2002)	960-97	0.90 to 1.29
Mountford and Uhlig (2009)	1955-2000	0.65
Hall (2009)	1930-2008 and subsamples	0.70 to 1.00
Cogan, et al. (2010)	1966-2004	0.64 at peak
Fisher and Peters (2010)	1960-2007	1.50
Barro and Redlick (2011)	1917-2006 and subsamples	0.60 to 0.70
Ramey (2011)	1939-2008 and subsamples	0.60 to 1.20
Auerbach and Gorodnichenko (2013)	1947-2008	–0.30 to 2.20
Zeev and Pappa (2015)	1947-2007	2.0
Serrato and Wingender (2016)	1970 – 2009	1.70 to 2.00
De Cos and Moral-Benito (2016)	1986 to 2012	0.60 to 1.40
Ramey (2016)	Various Samples for Various Countries	0.56-1.97
Dupor and Guerrero (2017)	1951-2014	0.00 to 0.50
Hagedorn et al. (2019)	An experimental study with microdata	1.34
Alesina, et al. (2019a)	Various Samples for various Countries	0.00 to 2.5
Alesina, et al. (2019b)	Various Samples for various Countries	0.00 to 2.5
Berge, et al. (2020)	1889-2015	0.74 to 1.93
Metelli and Pallara (2020)	1929 -2015	0.20 to 2.50
	Summary of Tax Multiplier Estimates	
Evans (1969)	1966–74	–0.5 to 1.70
Blanchard and Perotti (2002)	1960–97	–0.78 to –1.33
Mountford and Uhlig (2009)	1955–2000	–5.25
Romer and Romer (2010)	1947–2007	–3.00
Barro and Redlick (2011)	1917–2006 and subsamples	–1.10
Favero, et al. (2011)	1980-2009	–0.50
Mertens and Ravn (2014)	1950–2006	–2.00 to –3.00
Caldara and Kamps (2017)	1947–2006	–0.65
Alesina, et al. (2019a)	Various Samples for various Countries	–1.7 to –5.5
Alesina, et al. (2019b)	Various Samples for various Countries	–1.8 to –5.3

The Case of Pakistan

Few studies have estimated the fiscal multipliers for Pakistan (see Table 2).[82]

The present brief calculates the numerical values of the overall government expenditure, development expenditure, current expenditure, direct taxes and indirect taxes (see Table 2). Our calculations are in line with Haque and Montiel (1993), Alesina, et al. (2019) and Ramey (2016). Highlights are:

- As expected, pending multipliers are positive, and tax multipliers are negative.
- The size of spending multiplier is smaller than the value of tax multipliers. That is, the tax-based austerity plan will hurt more as compared to the expenditure-based austerity plan.
- Further, the multipliers' development expenditures are much higher than the current expenditure multiplier (see Box 4). This implies that cutting development expenditures is a fatal mistake even in the recessions.

Table 2

The Fiscal Multiplier in Pakistan

Study	Sample	Methodology	Spending Multiplier/Shocks	Tax Multiplier/Shocks	
Khan et al. (2016)		SVAR and DSGE	Positive	--	
Ilzetzki and Lagakos (2017)	2005-06	Simulations	--	-0.5 to -1.50	
Munir and Riaz (2020)	1976-2018	VAR	Positive	Negative after 2nd Quarter	
Ahmed et al. (2018)	1974-2018	DSGE	--	-1.68	
Khalid and Satti (2016)	1971-2010	SVAR	Positive	Positive	
Hayat and Qadeer (2016)	1974-2013	VAR	Positive	Negative	
Raashid et al. (2020)	2002-2019	DSGE and SVAR	0.18 to 0.78	--	
Author's Calculation	1990-2018	ARDL	Overall Expenditure Multiplier	Tax Multiplier	
				Direct Tax	**Indirect Tax**
			0.80	**-1.73**	**-4.13**

In a nutshell, expenditure-based stabilisation is preferable. is preferable, if inevitable, as compared to tax based austerity. Unfortunately, all our stabilisation programmes and donor-funded programmes that have guided our policy have been based on tax increases. As suggested in this analysis, the payoff is in expenditure reduction, especially reducing targeted and making expenditure efficiency and growth orientation.

Alesina, et al. (2019a) suggest that the tax-based austerity hurt some essential components of

Box 4: Haque and Montiel (1993) Macroeconomic Model on Fiscal Adjustments

Haque and Montiel (1991, 1993) are some pioneer studies that made an empirical case for the fiscal adjustments for Pakistan based on the macroeconomic model. They simulate the fiscal adjustments in several different scenarios. The empirical findings suggest that the reducing the public consumption is the most favourable scenario for the medium term economic growth of Pakistan. The least favourable scenario is the reducing public investment. The revenue increase scenario is paced in the intermediate position.

[82]Most of the work has been done in term of shock and response. That is, what will be the response of output when shocks are given to government expenditures and taxes.

aggregate demand: private consumption, private investment and net exports. Therefore, we estimate the impact of taxes through the channels of private consumptions and private investment.

Note earlier PIDE studies have supported our findings that our policy orientation for the last three decades seeking stabilisation through increased taxation has negative growth consequences.

- Nasir, et al. (2020) have shown higher taxes, and excessive documentation reduce transactions in the economy leading to lower economic growth, Nizamani (2020) overwhelming empirical evidence across countries that tax increases reduce economic growth.

CONCLUSION

Three important messages can be drawn:

(1) The tax-based austerity is more costly and long-lasting than expenditure-based austerity irrespective of the nation, methodology, sample and focus.
(2) The current expenditure multiplier is lower than the development expenditure. Therefore, the cut in current expenditure will have an insignificant impact on economic growth.
(3) The indirect taxes are more distortionary as compared to direct taxes in an austerity policy plan. It hurt private consumptions and private investment.

Clearly, we and the IMF need to rethink our stabilisation approach. Tax increases for the last three decades have been arbitrary and distortionary and too frequent (Nasir 2020, Haque 2015). Perhaps, for this reason, long-run growth and productivity have been showing a declining trend over this period.

Expenditures are hard to rationalise and restrain. Salary increases and PSDP losses have piled up while political will or sagacity appears to be lacking. Private investment too remains low and declining wary of arbitrary and undertone tax increases and mindful of the lack of expenditure control. The business community continues to complain about the "cost of doing business" arising from this stabilisation approach based on uncertain and costly tax policy and lack of expenditure control.

This and other PIDE research shows the need to change our macro policy approach and focus on expenditures. It will require painstaking work and serious reform. But the payoffs could be large.

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LSM - PAKISTAN STEEL INDUSTRY OUTLOOK

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The steel industry delivers essential inputs for the country's industrial economic growth and development. Steel's importance in other sectors, such as construction, transportation, machinery, metal products, energy & electrical equipment, and domestic appliances, cannot be overstated.

Steel comprises two main components: (1) iron ore and (2) recyclable steel. The steel industry is factor intensive; the production of iron and steel requires large factories, iron ore, energy, and labour. The high cost and low return make it difficult for new investors to enter the market.

DEVELOPMENT AND OVERVIEW OF THE STEEL INDUSTRY IN PAKISTAN

The importance of the steel industry cannot be ignored in the economic development of Pakistan through construction projects, infrastructure building, and industrial development.

Proposal of Steel Mill	The Development of the steel industry was first proposed in the first five years (1955 to 1960) plan.
Establishment of Karachi Steel Mill	Steel mill was established in 1968, and the government decided to sponsor a state-owned Karachi steel mill. It was separate corporation according to the Act of 1913.
Pakistan Steel Industry	In 1973, Mr. Zulfiqar Ali Bhutto laid the foundation of the Pakistan steel industry.
Role of Soviet Union	In January 1971, the Soviet Union signed a letter and ensured to deliver technology and financial assistance for the construction of the steel mill. The construction activities of the

[*] The author is grateful to Dr Nadeem Ul Haque, Vice Chancellor, PIDE for ideas/comments on the earlier draft of this brief.

	integrated steel industry began under the direction of Soviet experts. The Price Control and Prevention of Profiteering and Hoarding Act, 1977 was introduced, and the Office of the Controller General of Prices (CGP) was established in the Ministry of Industries[83]. The steel mill included over twenty components, each of which was made up of a large unit that had been commissioned in its own right. All of the work was completed between April 1981 and August 1985.
Entry in the Club of Steel and Iron	The commission of the Blast and Furnace in August 1981 represented Pakistan's admission into the club of steel and iron producing economies. This project had a capital cost of 24700 million dollars.
Steel Mill	In 1985, the steel mill was formally inaugurated by General Zia-ul-Haq.
Production Capacity	Over time, several private investments lead to the installation of new steel production units. Now the steel industry is a big production unit with 600 smaller and bigger mills and a production capacity of 3.3 million tons in 2019[84], which is 0.18 percent of the world production [World steel association report 2020].
Major Players	Pakistan steel has 20 major players in the organised sector; Amreli, Agha, Mughal, Frontier Foundry Steel, Razaque, Bilal, and Aitamad Steels are well known with sizable market share. They make up 80 percent of the total market. Combined revenue of PKR 150bln was generated by these entities in FY 2020 (Steel Sector an Overview 2020, PACRA).
Companies Listed on PSX	The industry has 11 entities listed on the PSX having a significant contribution to local steel production capacity.

[83]According to the Act, the government was allowed to fix maximum prices of essential products. This system acted as an impediment in the way of investment, but at present that office has been closed.

[84]This includes: raw products (iron ore and scrap); flat products (sheets and plates, used in the automotive sector); and long products (steel bars, wire rods, rails and structures used in infrastructure development and tubes and pipes).

S.No.	Company Name	Market Capitalisation (Million Rs.)
1	Quality Steel Works Limited	17.72
2	Aisha Steel Mills Ltd	28.70
3	Metropolitan Steel Corporation Limited	309.78
4	Aisha Steel Mills Limited (Preference Shares)	443.57
5	Crescent Steel & Allied Products Limited	776.32
6	Mughal Iron and Steel Industries Limited	2918.56
7	Amreli Steels Ltd.	2970.11
8	Dost Steels Limited	3157.34
9	International Steels Limited	4350.00
10	Agha Steel Industries Limited	5760.75
11	Aisha Steel Mills Limited	7655.29
Source: Pakistan Stock Exchange.		

CURRENT WORLDWIDE STANDING

World steel production has increased significantly from 1,149 million tons in 2005 to 1,625 million tons in 2015, and currently, it is 1875 million tons. According to World Steel Association the top 10 steel-producing countries in 2019 are China, India, Japan, the United States, Russia, South Korea, Germany, Turkey, Brazil, and Iran. Whereas Pakistan produces 0.18 percent of the world production and stands at the 39th position out of 50 countries.

Fig. 1. Share of Global Crude Steel Production (2019)

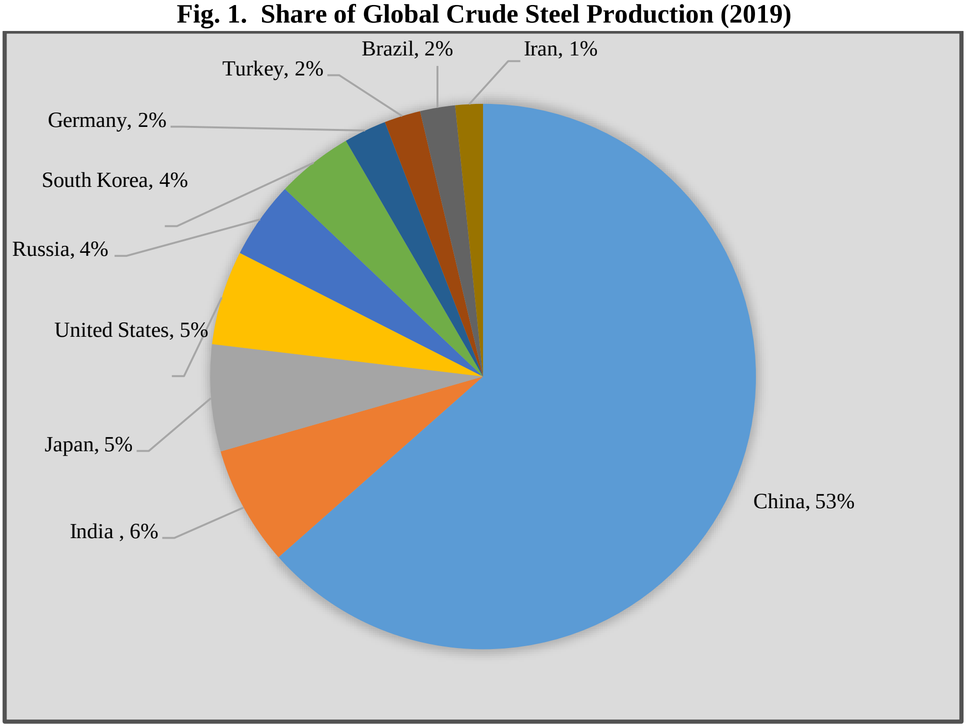
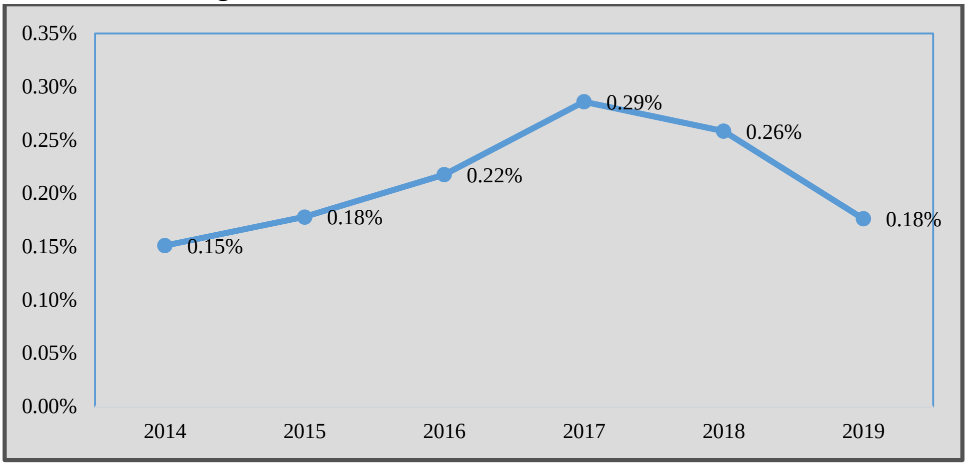


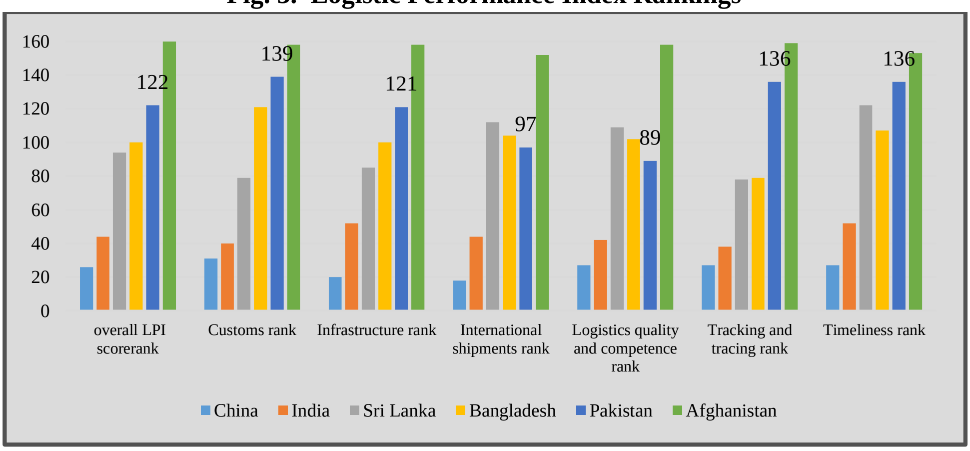
Fig. 2. Pakistan Contribution in World Production



Source: World Steel Association.

The World Bank designed the Logistics Performance Index (LPI)[85] as an interactive benchmarking tool to help nations identify the issues and opportunities they face in trade logistics and what they can do to improve their performance. In 2018, Pakistan was ranked at 122 among 160 countries on the aggregated Logistic Performance Index (LPI), trailing behind many Asian countries due to lack of spending on infrastructure projects, including airports and highways. India is at 44th position (top performer in the region) while Bangladesh and Sri Lanka stand at 100th and 94th place in the list.

Fig. 3. Logistic Performance Index Rankings



Source: World Bank.

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[85]The Logistics Performance Index is a benchmarking tool to help countries identify the challenges they face in their performance on trade logistics and what they can do to improve their performance. It is the weighted average of the country scores on six key dimensions: customs performance, infrastructure quality, ease of arranging shipments, logistics services quality, consignments tracking and tracing and timeliness of shipments. As we are focusing on steel industry in Pakistan, steel is heavily used in construction, transport, machinery, metal equipment etc. Import and Export of steel is also a concern so analysing LPI is relevant.

PAKISTAN STEEL PRODUCTION, IMPORTS, AND EXPORTS

Figure 4 depicts the trend in crude steel production in Pakistan from 2008 to 2019, whereas Figure 5 depicts the import and export trends of completed and semi-finished steel products.

The domestic production and import of steel have expanded significantly due to an increase in domestic demand. The main reason behind the rise in steel production from 2008 to 2018 was an increasing demand for steel commodities in transportation, defense, automotive, and appliances sectors, industrialisation and expansions, increase in housing projects and infrastructure projects under CPEC (The State of Pakistan's Economy, Annual Report 2018).

However, the production and imports of steel declined from 2017 to onward, due to a slowdown in housing demand, and contraction in the automobile industry. Production of long steel products, used mainly in construction sector activities, also dipped sharply. Moreover, the contraction in the automobile sector adversely affected flat steel producers throughout the year, as demand remained low (The State of Pakistan's Economy, Annual Report 2018 and 2020).

Fig. 4. Steel Import and Export

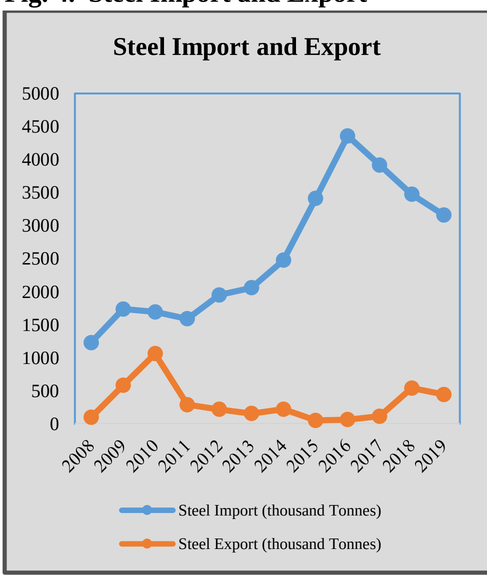
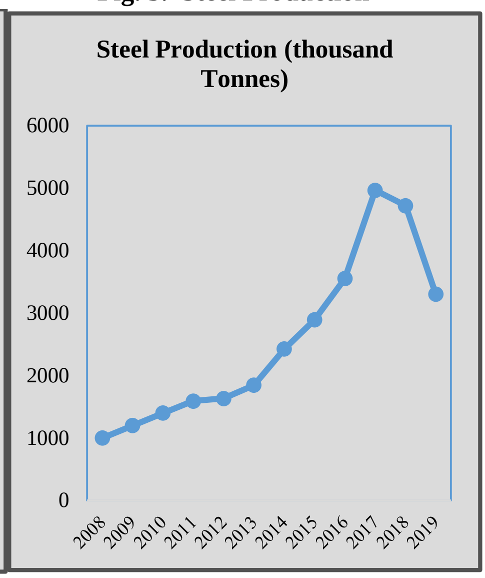


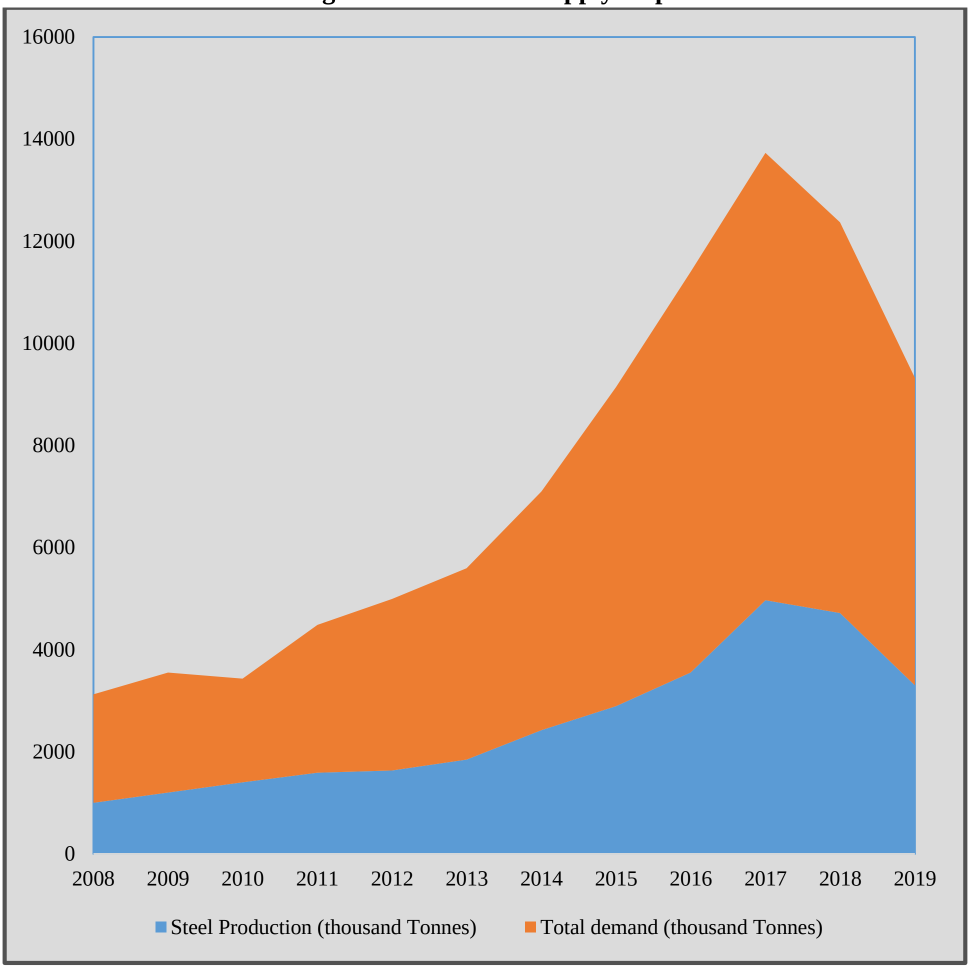
Fig. 5. Steel Production



Source: Steel Statistical Yearbook, 2020 and World Steel Association.

Over the last five years, the average domestic demand for steel and iron has been 7.3 million tons per year, and domestic production only covers 3.8 million tons (see Figure 6). To meet this demand-supply gap, Pakistan has been importing from different countries and incurring too much cost on steel imports. Higher imports also indicate that the industry lagged behind the desired progress and could not fulfil the market need. Therefore, it is necessary to figure out the causes for understanding the under-utilisation of the steel industry.

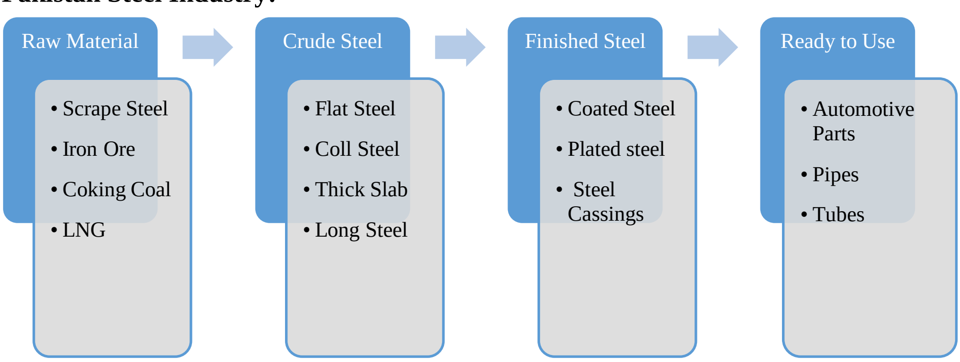
Fig. 6. Demand and Supply Gap



Source: World Steel Association.

VALUE CHAIN & OVERALL PRODUCTS IN STEEL INDUSTRY

Pakistan Steel Industry:



Product Line Wise Total Domestic Capacity & Total Demand

Long Products	Flat Products	Tubes & Pipes	Alloy & Engineering Steels
• Billets • Rebar • Wire-Rod • Angles • Shapes • Structural Sections • Beams • Griders	• Hot Rolled Coil • Cold Rolled Coil • Galvanised Coil • Color Coated Coils	• Spiral Welded Pipes • Polymer Coated Pipes • Longitudinally Welded Tubes & Pipes • Galvanising • Seamless Pipes	• Bars • Plates • Forgings
• *Total Domestic Capacity 5,000,000 (MT)* • *Total Demand 5,000,000 (MT)*	• *Total Domestic Capacity 550,000 (MT)* • *Total Demand 2,700,000 (MT)*		• *Total Domestic Capacity 75,000(MT)* • *Total Domestic Demand 75,000 (MT)*

Source: National Steel Advisory Committee Report.

REGULATION OF THE PAKISTAN STEEL INDUSTRY

Currently, there exist various regulatory bodies to regulate the steel industry, including the Ministry of Industries & Production, National Steel Advisory Council (NSAC)[86], World Steel Association, Pakistan steel mills corporation, Pakistan Industrial development cooperation, Pakistan Association of Large Steel Producers (PALSP), Pakistan Standards and Quality control (PSQC), Pakistan Steel Melter Association, and Steelbis. Similarly, relevant *laws* regarding substandard *steel* products and their raw material are also in place. Moreover, Pakistan Credit Rating Agency (PACRA) and Credit Rating Companies Regulation, 2016 are also in the picture. Its broad support is in achieving licensing requirements, addressing restrictions, duties, and obligations of credit rating companies, accounting, and maintaining financial records.

Government interventions have taken three forms in the manufacturing steel industry setup: Price, investment and import controls; protection against imports, export subsidies, and fiscal incentives; and direct government intervention. The government has been encouraging the manufacturing sector through import policy, tariffs, and subsidies. High effective protection rates, levying export duties on inputs used in various industries, fiscal incentives (tax holidays, tax credits, accelerated depreciation allowances, an export subsidy, and preferential export financing) resulted in sharp growth of the industries. Over

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[86] NSAC has recommended steel industry should have a separate policy which is not formulated till date.

the decade imports have been liberalised, tariffs have been rationalised, and the system to provide favours to the industries and firms through SROs has been discontinued. In the past, some associated regulatory bodies existed, but due to the lack of a formal national steel policy, there was a lack of a modern, efficient industrial base (Kemal, 2002).

CHALLENGES AND ISSUES OF THE STEEL INDUSTRY

Stakeholders[87] shared the following shortcomings:

(1) The steel industry's capacity was sufficient to meet local demand. Many mills were only operating at 40-60 percent capacity because imported products were being dumped in the market before applying regulatory duty on steel goods. As the country has enough capacity, the regulatory responsibility will encourage an investment-friendly environment.

(2) The Pakistan steel industry is unable to operate at full capacity due to several issues, including the rising cost of utilities, gas shortages, power outages, financial difficulties, and a lack of raw materials. The Pakistan steel factory is in this predicament due to corruption, government inefficiencies, political interference, production losses, bureaucratic management, and over employment.

(3) Time to time, energy shortages have an impact on the operational efficiency of Steel mills. Due to a lack of electricity, the manufacturing process is also not smooth.

(4) Higher interest rate and the existing law and order situation in Pakistan is the major impediment to investments in the steel business.

(5) The government should lower the GST on steel products to boost domestic steel production.

(6) The Pakistan steel industry lacks R&D initiatives to take advantage of new technology and unexplored innovation opportunities and to ensure full capacity production. This R&D provides fresh insights into processing steel production at a cheap cost and about international standards.

(7) Over-staffing is a significant problem in Pakistani steel mills, which reduces employee productivity. Besides that, a slowdown in economic activity also worsens the situation.

(8) Bureaucratic management is also one of the significant variables affecting employee attitudes about their jobs.

(9) Currently, the Pakistan steel mill is using outdated plants which need to be upgraded or replaced.

(10) The steel industry is very capital intensive. As millions of dollars are being spent on capacity building and replacing old plants, the industry needs to ensure their profitability by removing impediments (multiple taxes, energy shortages).

(11) Imported raw materials from Australia and Canada travel a long distance and incur high freight costs, raising the overall cost of production. Some Chinese completed goods are less expensive than the raw materials used to make similar things in Pakistan.

[87] Steel mills owners, members of regulatory bodies.

(12) Increasing trend of importing semi-finished auto components badly impacts the capacity utilisation of the steel industry. In addition to this, there is no implementation of cascading principles on imports of finished and semi-finished components.

(13) Concessionary SRO's are sometimes applied for specific projects at the time of import. Sometimes under-invoicing of steel products and importing substandard products are risky.

(14) The global trend of rising raw material prices, combined with the depreciation of rupee, has put pressure on profit margins.

(15) Small plants characterised Pakistan's steel industry, with the majority of them employing outdated technology. Most melting, re-rolling, and fabricating firms, in particular, have small factories compared to their competitors in steel-exporting countries. Similarly, the usage of obsolete (and energy inefficient) technology raises the cost of production for these businesses, resulting in low-quality output with varied standards.

CONCLUSION & RECOMMENDATIONS

The steel industry's importance cannot be neglected due to its importance in the economy largely in construction projects, infrastructure building, and industrial development. Pakistan steel has 20 major players in the organised sector, making up 80 percent of the total market share. Despite having a significant contribution to local steel production capacity, the industry still lags behind the desired progress. Pakistan's steel industry is not developed on a modern efficient industrial base and has not reached the level to compete internationally. With time it has encountered political setbacks, the rising cost of utilities and shortage of utilities, import impediments, the lack of policy adoption and regulatory structure. There is no formal policy structure in spite of the recommendation of the National Steel Advisory Council. The current government recently gave incentives to the construction sector, and as a result of the housing and CPEC projects' increased demand, new steel plants are expected to be built.

Consequently, there will be more job opportunities, and the government will be able to collect more taxes. Therefore, it is necessary to address the existing shortcomings to enhance the local production capacity and boost productivity. To provide the steel industry a timely support, formal policy formulation is recommended along with energy & technological boost, low GST, and low-interest rate.

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OCEAN FREIGHT HIKE AND PAKISTAN

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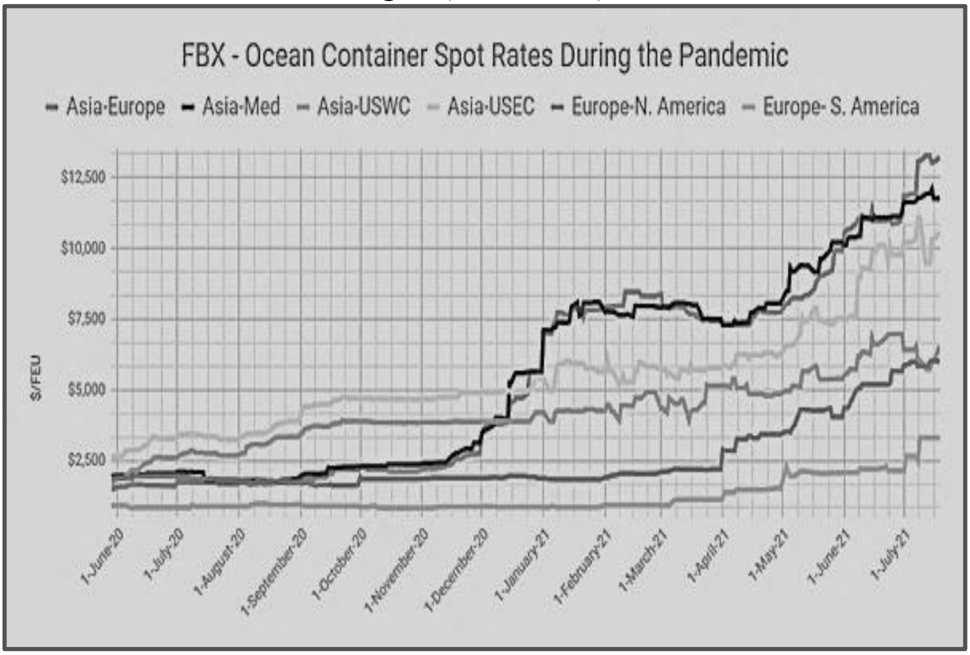
The Covid-19 pandemic has affected the global life very seriously. The impact of the disease on society and economy can be witnessed from the lockdown of cities all over the world, labour mobility restrictions, travel bans, airline suspensions, and most importantly slowdown of the economy. This has also badly affected the global supply chain. We can say that a chain is only as strong as its weakest link. Thus, while examining the global supply chain, certain weaknesses such as massive dislocation in the container market, closure of shipping routes, lockdowns at ports, barriers to international flights resulting in blockage of air cargo, trucking lines, railways and even in warehouses. This resulted in creating a shortages of key manufacturing components, order backlogs, delivery delays and skyrocketing hike in the transportation cost affecting the consumer prices.

Presently, the rising transportation cost has emerged as a burning issue hitting a number of sectors and businesses all over the world. It was expected due to lock down/closure of various ports; the ocean freight cost will be climbing up at a rapid pace in 2021. It is imperative to see that what factors will trigger this rise? And how it will be controlled.

The ocean freights are soaring at a high rate at almost all the trading routes since September 2020. The data from FBX Freightos as of July 2021 showed that the transpacific and transatlantic rates continued to rise at high level on most trading lanes such as:

- Asia-US West Coast rates jumped up to $18,346/FEU, which is more than 6 times of its level in 2020 which was $3060/FEU.
- Asia-US East Coast costs climbed to $19,620/FEU, this is 487 percent higher than July 2020 i.e. $4030/FEU.
- Asia-North Europe prices from $5480/FEU reached to $13,706/FEU, this is almost a 250 percent increase compared to July 2020.
- Europe-North America East Coast showed a 6 percent increase in the prices reaching up to $6,013/FEU, compared to $5650/FEU as of July 2020.
- Europe-South America East Coast rates increased 56 percent to $3,311/FEU, which is nearly more than double their level i.e. $1450/FEU in July 2020.

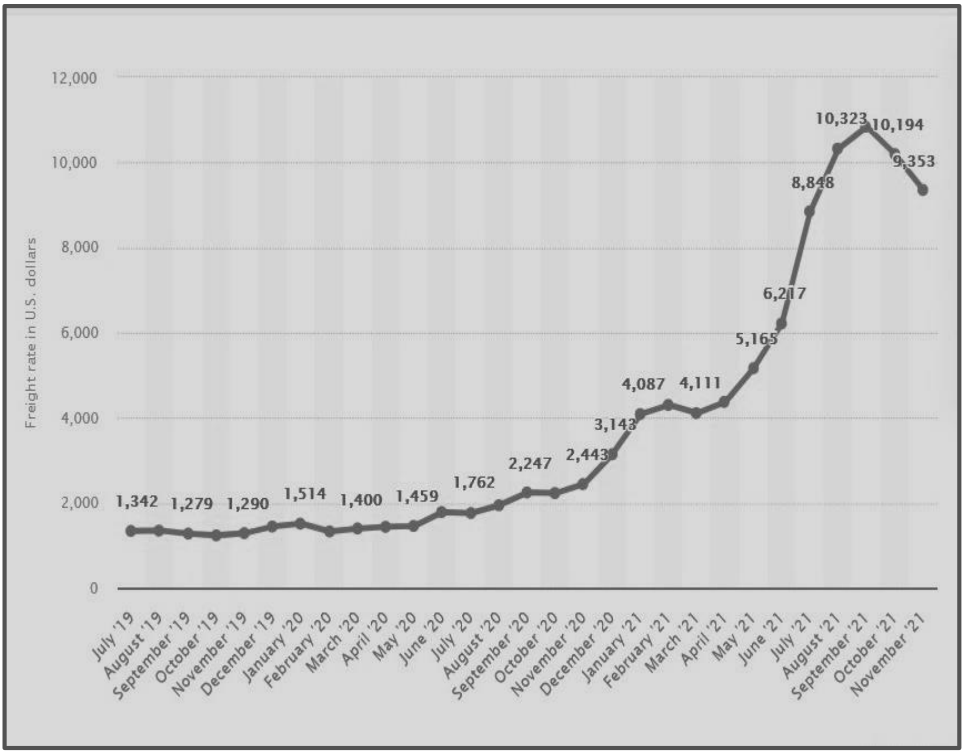
Fig. 1. (*Source:* FBX)



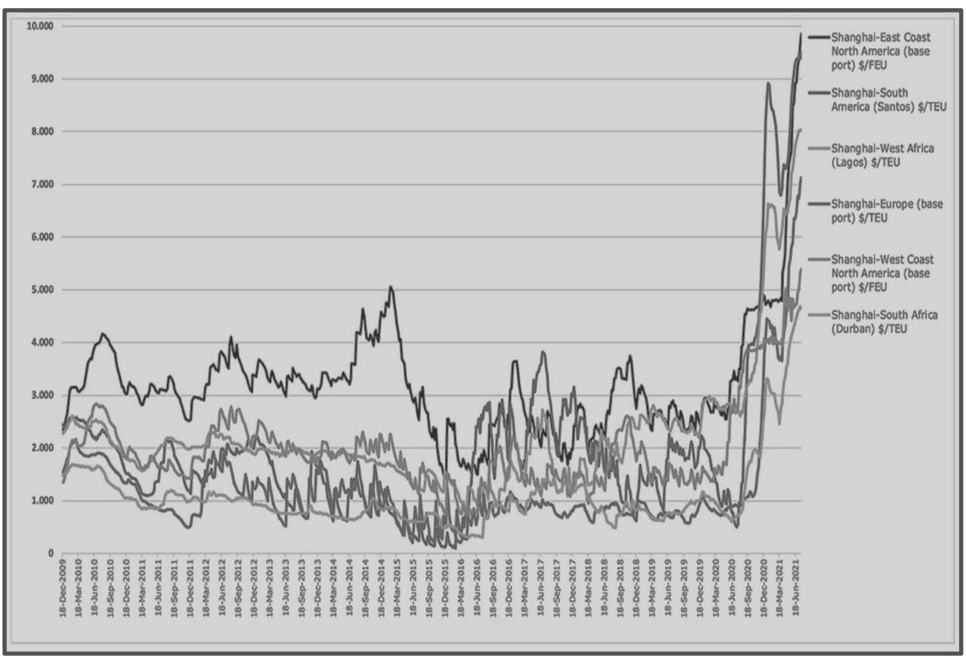
The ocean freight rates increased dramatically until Q4 2021 due to two peak seasons. There are two busiest periods for the international freight business which are called as the PEAK SEASONS. The first lasts from mid-August to mid-October of every year as a peak holiday retail season. The second is the lunar new year lasting from January to February, when the global demand remains strong resulting in high demand for the containers and raising of ocean shipping cost.

The year 2021 remained a challenging year for both importers and exporters due to consistent increase in the freight charges. It is important to highlight that the 80 percent of all the goods around the world are transported through sea routes. The random lockdowns due to Covid-19 has disturbed the global trade balance by halting the production processes pushing the ocean freight rates up significantly. This has further disrupted the demand and supply for goods pushing the shipping companies to decrease their capacity on the major routes. Furthermore, port delays and closures have also created a shortage of return cargo from destination ports and availability of empty containers for exports.

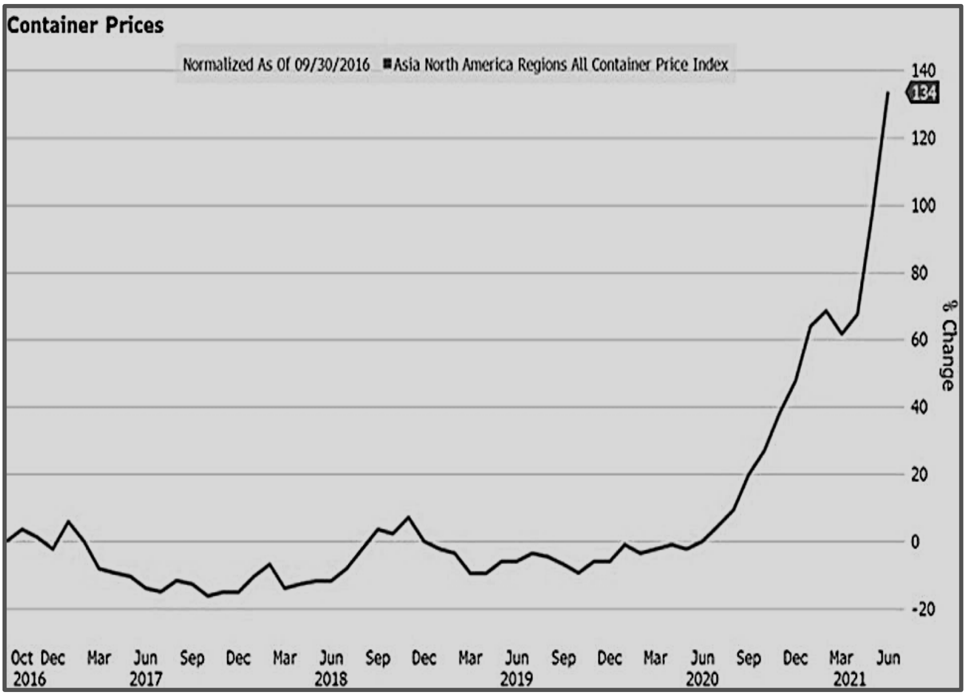
Meanwhile, since the recovery of global trade is slowly picking up the pace created an unprecedented increase in the demand, thus creating a strong competition among companies in their ocean freight capacity. This is also one of the reason that the ocean freight charges have been on an increasing scale compared to 2020. Another problem that cracked in the disruption of the global supply chain is the shortage of containers. The shipping containers are the backbone of the global trade. The average price for a Chinese made 40 feet container has reached to $6000 which is more than double compared to the prices in 2016. Post lockdown jump in the demand with lower container turnover caused the prices to increase rapidly. At the same time, thousands of the containers are still struck in the wrong places/ports due to congestion at various ports across the trading routes.



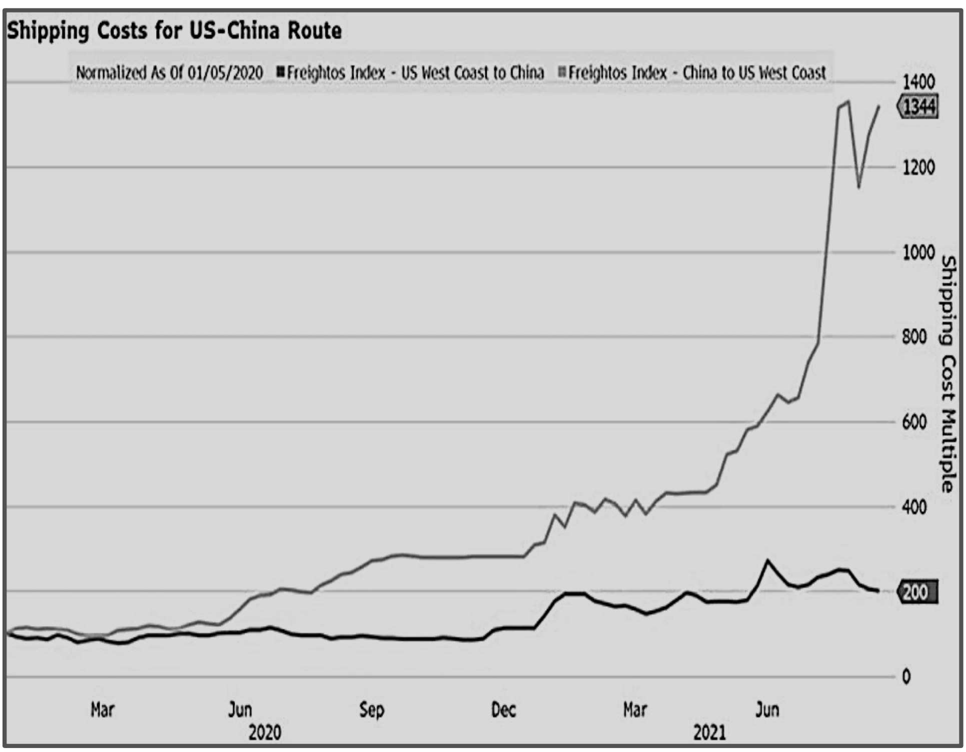
Global Container Freight Rate Index (July 2019- November 2021) (*Source:* Statista.com).



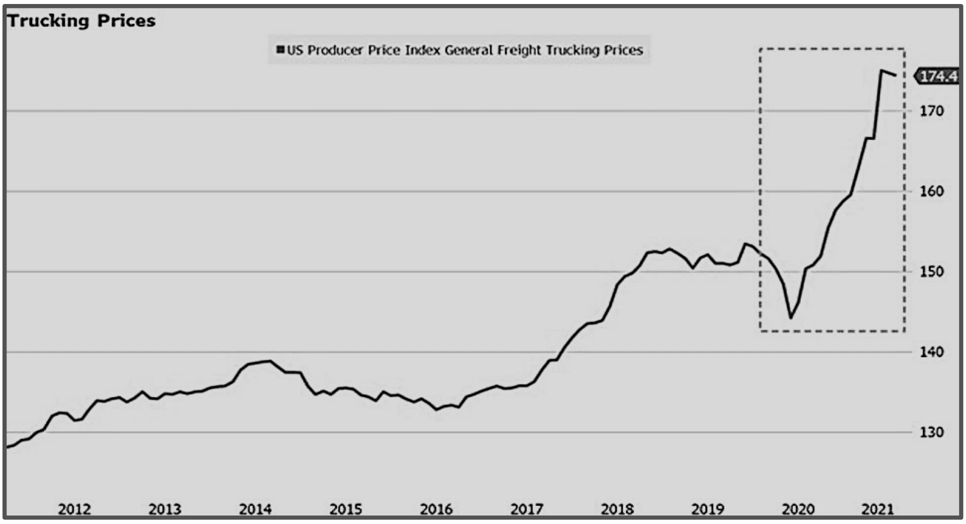
Shanghai Containerised Freight Index (SCFI), weekly spot rates. 18 December 2009 to 23 July 2021 (*Source:* SCFI).



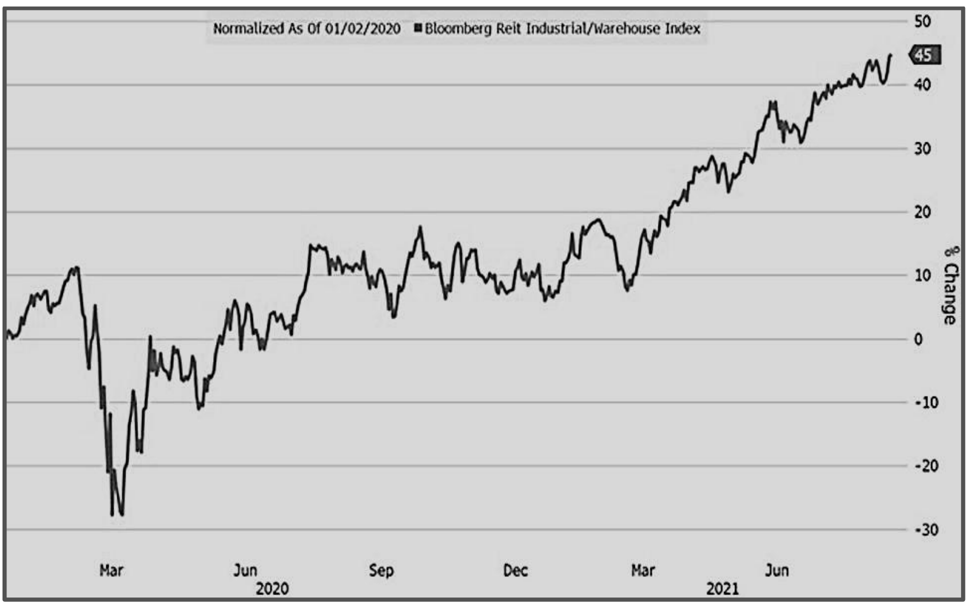
Container prices have more than doubled since COVID began (*Source: Bloomberg-III Capital Management*).



(*Source: Bloomberg-III Capital Management*).



Rising trucking costs have helped fuel inflation (*Source: Bloomberg-III Capital Management*).



Warehouse REITS (Real Estate Investment Trusts) are hitting new highs (*Source: Bloomberg-III Capital Management*).

Shipping containers are considered as the life line for the global trade means that almost all of the items traded around the world are transported through the containers via sea, railroads and highways. But among the aftermaths of Covid-19 the biggest of them all that affected the global good transportation is the shortage of shipping containers. This resulted in increasing the freight rates and eventually raising the prices of the transported goods and directly impacting the inflation all around the world. This is not an issue that there are not enough containers in the market rather the problem is the availability of enough containers; means that the containers are at the wrong spot creating an imbalance in the container market. It has been observed that there has been a massive buildup of containers in those ports where are not supposed to be. The lockdown of industry by the China and many other neighbouring countries in response to COVID outbreak made the cargo ships that were already on their way had dropped off hundreds of thousands of containers full of goods in ports across the Americas. Due to the pandemic restrictions imposed, these containers remained struck at those ports and were not sent back with the new items. Now with the revival of economic activities around the globe the companies are struggling to load and unload containers fast enough to keep up with the demand because of congestion at the ports. Resultantly, containers continued to pile up at major import centres badly decreasing the major exports.

Presently, almost 80 percent of the shipping containers are manufactured by Chinese companies. Although, these Chinese container producers have made a record production but still they are unable to meet the shortage. There has been an expectation that the situation will improve gradually but not in 2021 with additional vessels and containers entering the market in 2022.

CASE OF PAKISTAN

Pakistan is no exception to the disruption of global supply chain due to increase in the freight rates and shortage of containers. This has diluted the positive fruits of the actions/measures taken by the Pakistani Government to keep the economy on a track of progress during pandemic. Along with the mentioned problems the Pak rupee depreciation has drastically affected the prices of imported raw material hurting the industrial production and making finished goods more expensive.

The soaring freight charges, port congestion, shortage of ships and containers have resulted in long delays in the arrival of shipments. Thus, the increased production cost negatively affecting the supply chain and the manufacturers-cum-exporters are left with no option just to pass this burden on to the consumers.

While looking at the delivery time and freight rates, it has been observed that there has been on average 400-600 percent increase in the global freight charges alongside with considerable delays.

Table 1

Ocean Freight Charges

		Rates ($)		Delivery Time (Days)	
Destination From	Destination To	**2019-20**	**2021**	**2019-20**	**2021**
China	Pakistan	2000	9000	25	60
Thailand		800	4500	25	35
Indonesia		3200	11000	35	50

According to Pakistan International Freight Forwarding Association, the freight rates for 20 feet containers for China, USA and UK are as under:

Table 2

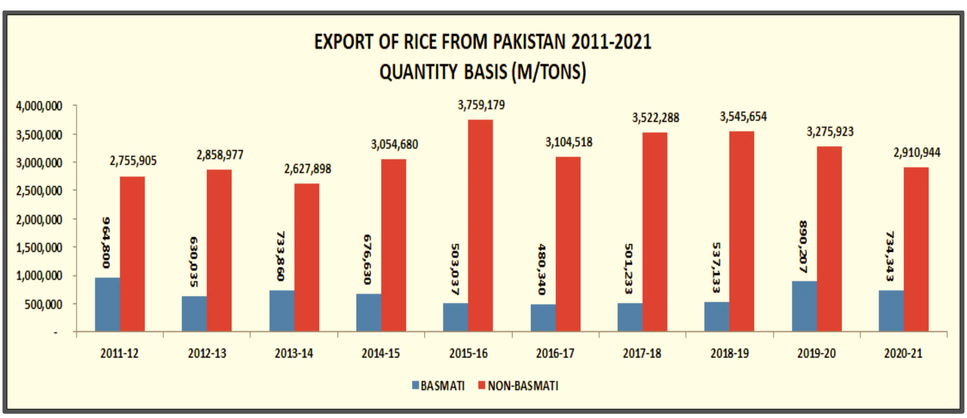
Container Prices

Country	Rates ($) 20 feet container Old Rates (2019-20)	New Rates (2021)
China	700	4000
USA	2000	8000
UK	1000	6500

The revival of the Pakistani export sector has been under serious pressure. Pakistani hosiery and textile sector has been flooded with the international orders due to shifting international partners towards Pakistan as situation of Covid in India and Bangladesh has put these countries in a state of lockdown. But the problem of Pakistan is also serious, there are shortage of shipping containers and soaring freight rates are making Pakistani textile export less competitive. At the same time, the situation gives no apparent signal of any solution in the near future due to ever increasing prices of steel, that is also affecting the prices of new containers.

On the other hand, presently, China is the only country showing progressive growth. Therefore, their demand for containers is also on the higher side. On top of that Chinese exporters are willing to pay higher freight and container rates. In response, majority of the shipping companies are deploying their maximum resources for China in order to earn more profits. It is important to understand that the freight rates in Asia-Pacific region are directly linked with China and if China is willing to pay higher rates, so then the overall global market has to suffer both on freight rates and container supply.

At the same time, it has been noticed that the Pakistani importers and exporters on average pay around $5-6 billion every year in terms of freight charges and there seems no immediate decline in the current hike of freight rates. Thus, this situation is affecting the Pakistan's economy badly with decrease in the export of Pakistani rice fruits, readymade garments and knitwear etc. Moreover, the manufacturers of cables, cutlery, steel and marble industry have informed the Govt. that they have left with only one-month stock of raw material and intermediate goods and has requested to take necessary measures to streamline the import of these items.



Source: Rice Exporter Association of Pakistan (REAP).

Table 3

Pakistan's Commodity Export

S. No.	Commodities	% Change for Value in Million Rupees in August, 2021 Over July, 2021	August, 2020
1.	Knitwear	–4.65	43.31
2.	Readymade Garments	–3.12	36.79
3.	Bed Wear	3.37	43.14
4.	Cotton Cloth	7.83	26.69
5.	Cotton Yarn	18.43	85.47
6.	Rice Others	14.45	34.10
7.	Towels	9.39	46.55
8.	Madeup Articles (Excl. Towels & Bed Wear)	1.26	31.87
9.	Basmati Rice	–11.93	47.35
10.	Fruits	–18.19	31.60

Source: Pakistan Bureau of Statistics.

Table 4

Pakistan's Commodity Import

S. No.	Commodities	% Change for Value in Million Rupees in August, 2021 Over July, 2021	August, 2020
1.	Petroleum Products	41.64	140.66
2.	Medicinal Products	99.97	443.36
3.	Petroleum Crude	20.86	80.03
4.	Natural Gas, Liquified	43.72	156.33
5.	Palm Oil	30.74	115.31
6.	Plastic Materials	15.76	68.17
7.	Iron and Steel	3.44	189.11
8.	Electrical Machinery & Apparatus	32.20	134.69
9.	Power Generating Machinery	9.61	51.89
10.	Iron and Steel Scrap	34.86	19.82

Source: Pakistan Bureau of Statistics.

The question arises here is why there is limited supply of empty containers? The answer to this problem is that the majority of the goods exports are not so far been consumed at that pace as it was before the COVID situation. Since Europe and Oceania countries are almost closed for the last the last six months and the containers which were sent there are not coming back. Thus, created a serious shortage of empty containers.

What should the Govt. of Pakistan do to ease the situation? This is a pertinent question and the answer to this is very simple i.e. Govt. could do a very little. It is important to understand that the international shipping companies have formed a cartel (apparently) to bid high freight charges in the post Covid situation. However, the Govt. of Pakistan may enhance the capacity of Pakistan National Shipping Corporation (PNSC) by enabling it to acquire containerised ships on rent and operate the ships on China, Middle East and European routes. PNSC must be instructed to prioritise the export items for delivery and PNSC ships must be given preference on the ports and terminals. PNSC must also be instructed to charge the freight on the pre Covid rates as it is expected that the due to increase in the prices of the containers the PNSC will charge higher freights from the Pakistani exporters.

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WHY DO WE HAVE LESS INVESTMENT THAN CHINA AND INDIA?

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Keywords: Public Investment, Public Investment, Foreign Direct Investment, Saving

1. INTRODUCTION

Pakistan has experienced macroeconomic instability since the early seventies. Because of the country's persistent macroeconomic uncertainty, savings and private investment have been discouraged, resulting in low aggregate investment and volatile output levels. It has one of the lowest investment-to-GDP ratios that is 15 percent, about half of the South Asian average of 30 percent.

Here we will review the evidence from Pakistan to inform policymaking and local research about

(1) The investment trends and patterns in the economy and comparison with its regional counterparts.
(2) The factors which can stimulate the investment.

2. INVESTMENT TRENDS AND PATTERNS

The investment trends and patterns in the economy provide information to understand the abrupt shifts in economic policies implemented by various governments and their effect on the economy. This overview of the economy highlights the problems due to which investment in Pakistan is still uncertain.

Figure 1, shows the trends and patterns of investment (private, public, and FDI), saving, and gross domestic product. Foreign investment is missing that is around 0.6 percent of GDP, It means that foreign investors are not taking any interest in Pakistan. Pakistan trapped in a low-saving, low-investment trap, which limiting its economic potential and long run growth of Pakistan, which is volatile and declining. Private and public invest follow a mixed trends that why, Figure 1, is further divided into five sub periods contingent upon the trends of private and public investment. So that we know the internal and external factors that cause low investment rate in Pakistan (see Table 1).

Fig. 1. Investment, Saving and GDP Trends

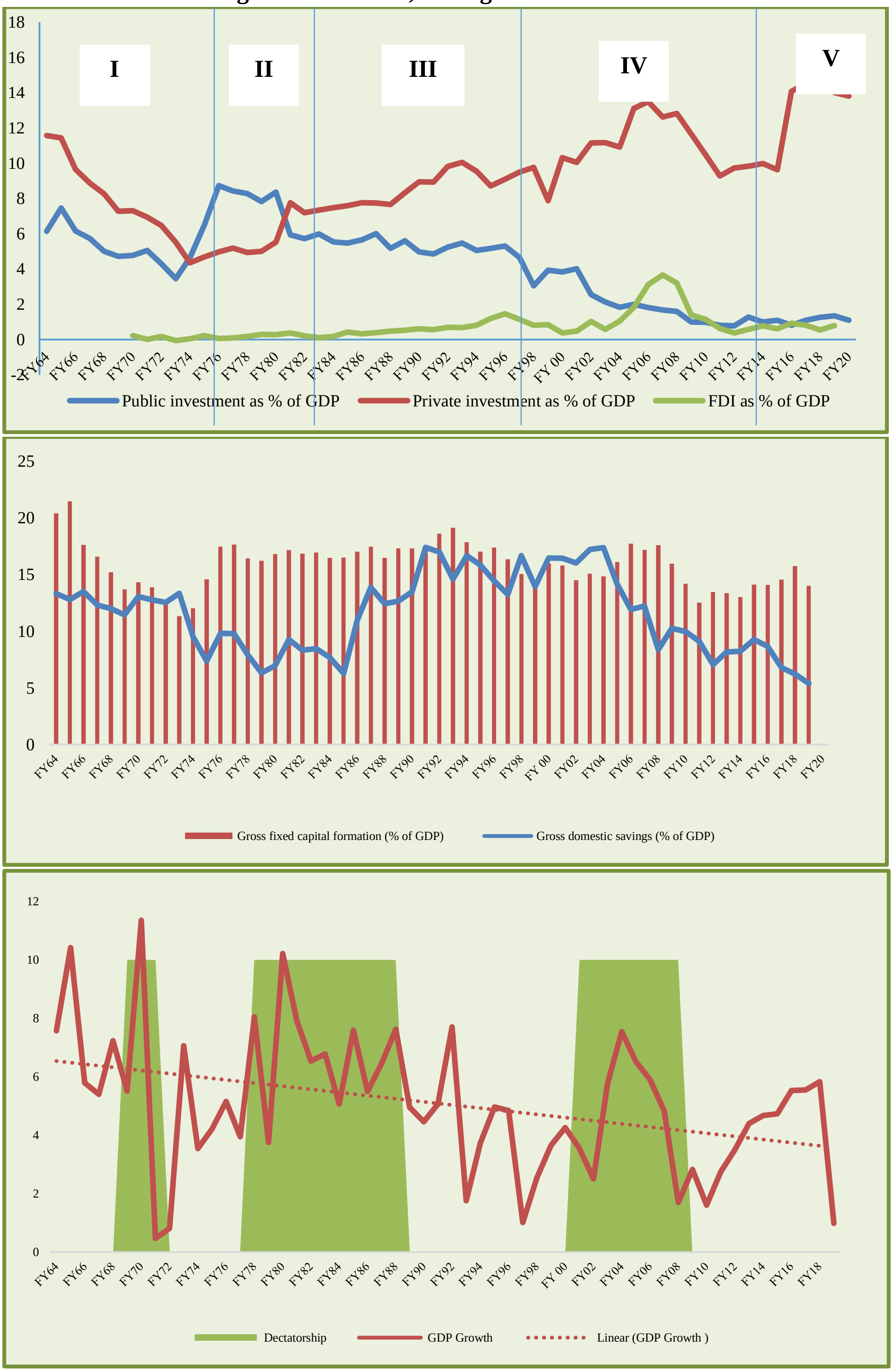


Table 1

Private and Public Investments Trends in five Sub Periods

Sub Periods	Trends	Average *(% of GDP)*	
1964-1974	• Private and public investment are declining • Private investment is higher than Public Invest	Public invest	5.2
		Private invest	8.0
		FDI	0.1
		Saving	12.4
		Total Investment	15.4
		GDP growth	5.9
1975-1980	• Private and public investments are rising • Public investment dominates the private investment	GDP growth	5.9
		Public invest	8.0
		Private invest	5.1
		FDI	0.2
		Saving	8.0
		Total Investment	6.5
1981-1994	• Private Investment showed raising trend after 1981 • Public investment showed a declining trend after 1981 • 1981-1994 investment has fewer fluctuations	Public invest	5.5
		Private invest	8.3
		FDI	0.5
		Saving	12.1
		Total Investment	17.3
		GDP growth	5.8
1995-2008	• The previous trend continues with huge fluctuations	Public invest	3.1
		Private invest	10.8
		FDI	1.5
		Saving	14.6
		Total Investment	16.0
		GDP growth	4.3
2009-2019	• Seems more volatile period	Public invest	1.0
		Private invest	11.7
		FDI	0.8
		Saving	8.1
		Total Investment	14.1
		GDP growth	3.9

2.1. Internal and External Factors Behind the Private and Public Investment of Pakistan[88]

1964-1974

- During the 1950s and 1960s, the **private sector was a major channel of industrial investment** in main areas such as banking, insurance, certain basic industries, and trade in major commodities.

[88] This information is taken from Khan and Khilji,(1997), Ahmad (2007), Ahmad and Qayyum (2008, 2009), Farooq (2008), Abbas (2011), Hina (2013), and Lavingia (2016).

- Foreign investment was not allowed in the field of banking, insurance, and commerce (Khan & Kim, 1999).
- The main cause behind the declining trend of public investment was the **1965 Pak-India war and the 1971 Pak-India civil war** in East Pakistan.
- Massive non-development expenditure left an insufficient resource for investment and development purposes.
- In the Ayub regime, private investment was encouraged by concentrating on rapid industrialisation with intensive efforts by the government to promote large scale-manufacturing sector through **expansionary/easy macroeconomic policies** including the facility of tax holidays, tax rebates, and availability of credit.
- The high growth rate during the 1960s was also supported by **foreign aid and assistance** along with policies adopted by the government.
- The disastrous civil war with India in 1971 and large-scale nationalisation adversely influenced the economic growth due to loss of competitiveness in the industry, fall in private investment and shift the trade structure by externalising Pakistan's internal trade.

1975-1980

- Private and public investments are rising and Public investment dominates the private investment.
- The prime reason behind this trend is the **nationalisation policy** of Bhutto's government.
- Large-scale nationalisation of private industrial units and financial institutions.
- Public investment accounted for two-thirds (2/3) of total investment.
- Private investors discourage due to government nationalisation and the abolition of tax holidays policies.
- In 1977, Zia's military rule came and nationalisation policy was revised gradually and a **mixed economy policy framework** was implemented by the government.
- The 'macroeconomic turmoil' from 1978-80 caused a fall in total investment in many developing economies including Pakistan.

1981-1994

- Private investment showed raising trend after 1981 and public investment showed a declining trend after 1981.
- The government had announced the **industrial policy** in 1984.
- The confidence of private investors grew gradually through the denationalisation of many industrial units and shifting policy towards the pre-1970 policies of investment incentives including five-year tax holidays, import duty reduction on raw material, reduction in the interest rate, and denationalisation of agro-based industries.
- Zia's government adopted several policy measures to attract foreign investment such as **exchange rate liberalisation policy, export processing zone (EPZ)** to encourage export-oriented industries.

- **Foreign investment remained at low levels** during the Zia regime.
- This could be attributed to certain factors including strict licensing and price controls policies, underdeveloped and inefficient financial sector, significant public ownership, high tariffs, and non-competitive trade regime, etc.
- Growth trends were not impressive but improved significantly in comparison to the 1970s period.
- After the Zia regime, the new democratic government came into being and faced the problems of the high budget deficit and worsening balance of payments position and resultantly led the government seeking foreign assistance. Government borrowed from International Monetary Fund (IMF) and started the **Structural Adjustment Program (SAP) of IMF** in the country.
- The establishment of the **Pakistan Board of Investment in 1990** helped generate opportunities for FDI within Pakistan and provide investment services to interested foreign investors. These initiatives placed Pakistan on the International Finance Corporation's list of emerging South Asian stock markets in 1992.
- In 1985 the global economic recession hit the world economy, but it did not significantly impact the Pakistan economy because at that time the economy was not widely opened.
- In 1988 The Gulf crisis originated and many migrants working in the Middle East were sent back home and caused a sharp decline in remittances.

1995-2008

- 1990 decade is important for Pakistan's economy; as **financial sector reforms** were started to promote the private sector and encourage foreign investors.
- The condition of government approval for foreign investment was removed both in industrial and non-industrial sectors.
- Tax holidays, reduction/exemption of customs duty, sales tax, and removal of tariffs, easy visa policy, and certain fiscal incentives were granted to local and foreign investors. Privatisation policy was started in the country.
- Because of these measures, private (domestic) and foreign (direct) investments showed progress and a positive trend was witnessed in both, while public investment followed a slowing and downward trend.
- Total investment and growth in Pakistan showed downturn trend in the wave of Asian financial crisis in 1997 quite similar trends observed in many other Asian countries.
- The **worsened political situation** prevailing in the 1990s and economic sanctions imposed in the wake of **nuclear tests in May 1998.**
- In 1999 the government was collapsed, and Dictator General Pervez Musharraf took over the charge.
- In September 2001, the incident of World Trade Centre (9/11) occurred and it changed the entire scenario of the world and the region as well.
- During Musharraf's rule, the exchange rate remained almost stable at Rs. 60 per US dollar. This stability was contributed to high inflows of remittances and foreign capital inflows to Pakistan.

- The majority of investment policies during the 2000s were based on the notion of privatisation and deregulation. The policy aimed to promote investment in sophisticated, high-tech, and export-oriented industries. While almost all economic operation has been thoroughly open to foreign investment in all other sectors, agriculture, services, infrastructure, etc., with all fiscal and other incentives including loan financing from local banks.
- The level of growth experienced during the early years of the 2000s was impressive, it is important to note that the nation's FDI levels lagged behind the rest of the developing world. In 2007 capital inflows to Pakistan were 4 percent of GDP while average capital inflows to other developing countries were 7.5 percent of GDP this difference stem from an unstable political environment, inadequate infrastructure, and high levels of security risk.
- The global financial crisis of 2008 originated in the US had affected the Pakistan economy like other economies of the world, economic growth declined from 8 percent in 2004 to 2 percent in 2008.
- The global financial crash of 2008 induced further stress on the domestic economy as Pakistani exporters struggled to sell their goods to the nation's largest export market, the United States. Deteriorating diplomatic relations and failure by the Pakistani government to service the nation's debt increased uncertainty over future returns, discouraging foreign firms to invest in Pakistan.

2009-2019

- With the new democratic government in 2008 economy moved from rapid rates of growth to a state of crisis. Real GDP growth slowed sharply and foreign exchange reserves plunged.
- The **shortage of energy and rising security concerns** challenged the nation's capacity to attract foreign investors.
- The PPP government focused on short-term crisis management. Despite reluctance to rely on the IMF, the government turned to the organisation for assistance in November 2008. By accepting IMF financing, the Pakistani government lost an extensive degree of autonomy in designing economic policy and was required to eliminate subsidies in sectors like Energy. Investment growth continued to contract, curtailing public expenditure.
- The investment to GDP ratio stood at 12.5 percent in 2011 at the lowest level. Pakistan's decision to participate in the War on Terror, Pakistan has been perceived as a nation with poor national security. These limitations along with poor government efficacy and political instability have resulted in FDI moving away from Pakistan and towards those developing markets that are less risky to foreign investors.
- Osama Bin Laden's arrest by US Special Forces in 2011 refocused negative attention on Pakistan. Security issues arose as a result of questions about the Pakistani government's ability and willingness to fight terrorism, contributing to a further withdrawal of FDI.

- Following the national elections of 2013, PML-N elected government prioritised to control the domestic energy crisis and curb terrorism for political stability. However, due to constant power outages, poor basic infrastructure, and weak security conditions, Pakistan has been unable to take full advantage of international economic stability and opportunity.
- In 2014 the Board of Investment introduced several additional incentives for foreign investors including 100 percent tax credit for five years on new industries established by June 30th, 2016, as well as credit for investment in infrastructure updates, extensions, and replacements.
- The development of the China-Pakistan Economic Corridor (CPEC), has allowed foreign investment within Pakistan to increase again, especially in the telecommunication, energy, and transportation sectors. Such a partnership is likely to help boost the economy and promote foreign investment within the country.
- PTI government had come into power following the 2018 general elections, it had introduced a strict financial discipline to curtail excessive government expenditure, introduce market-driven exchange rate, and remove large tax exemptions.
- The PTI government followed a liberal foreign investment regime and introduced measures to promote Ease of Doing Business (EoDB) in the country.
- Increased SBP policy rate declined private sector borrowing significantly and an increase in our overall debt.
- Business confidence is low because the government has been uncertain about economic policies and results in high inflation with falling per capita GDP.

We Learnt from Section 2,

Investment remained at low levels due to:

- Unfavourable investment incentive, underdeveloped and inefficient financial sector, significant public ownership, high tariffs, and non-competitive trade regime.
- The market is overregulated by the government
- Government instability and political violence: Pakistan doesn't have a good system to run state affairs. Each political party has a different mindset and policies for Pakistan. Not a single party wants to discuss the issues of Pakistan and what Pakistan needed rather protect their self-interests. Therefore, it can be seen from Table 2, that total investment in democracy is highly volatile/uncertain.

Box 2: Stability Ratio

The stability ratio (standard deviation as a percentage of mean) is used to measure the volatility. Standard deviation is not the best measure of volatility, especially when comparing the different eras when the mean of the series is also different. The stability ratio encounters both mean and standard deviation and provides information about which subsample has a higher standard deviation relative to the mean.

Table 2

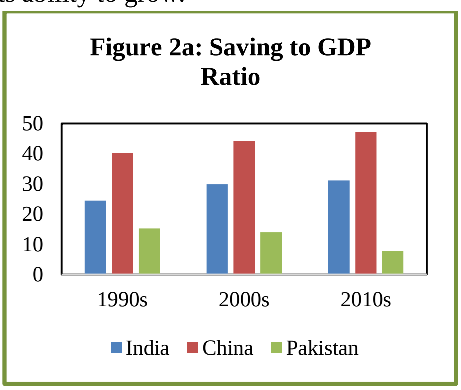
Stability Ratio of Selected Indicators in Military and Democratic Regimes

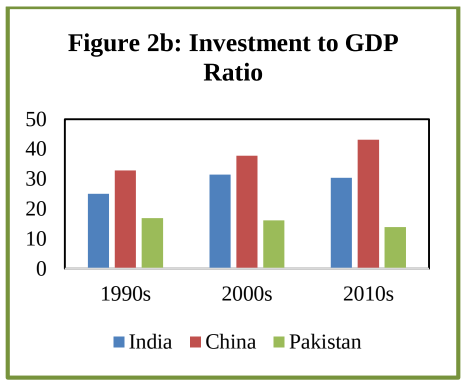
	Pakistan Muslim League (C) 1964-68	Military Dictator-Yahya Khan 1969-71	PPP 1972-77	Military Dictator-Muhammad Zia ul Haq 1978-88	PML(N) PPP 1989-2000	Military Dictator-Pervez Musharraf 2001-08	PML(N) PPP PTI 2009-19
Public invest % of GDP	0.19	0.04	0.37	0.19	0.16	0.36	0.19
Private invest % of GDP	0.17	0.03	0.14	0.17	0.08	0.10	0.20
FDI % of GDP	1.09	0.98	1.12	0.40	0.39	0.69	0.37
Saving % of GDP	0.06	0.07	0.21	0.28	0.11	0.22	0.19
Total Investment % of GDP	0.17	0.02	0.19	0.02	0.09	0.08	0.07
GDP growth	0.31	0.94	0.50	0.25	0.43	0.43	0.43

Source: Author's Calculation.

Low Saving and Investment Rates in Pakistan

In comparison with Indian and China, Pakistan has the lowest level of domestic investment and saving that is 14 percent and 8 percent in the 2010s. Whereas in India investment rate is at 30.3 percent and the saving rate is at 31.2 percent, China has the highest investment rate of 43 percent and saving rate of 47 percent. It seems that Pakistan has zero or no investment and it is trapped in a low-saving, low-investment cycle that limits its ability to grow.



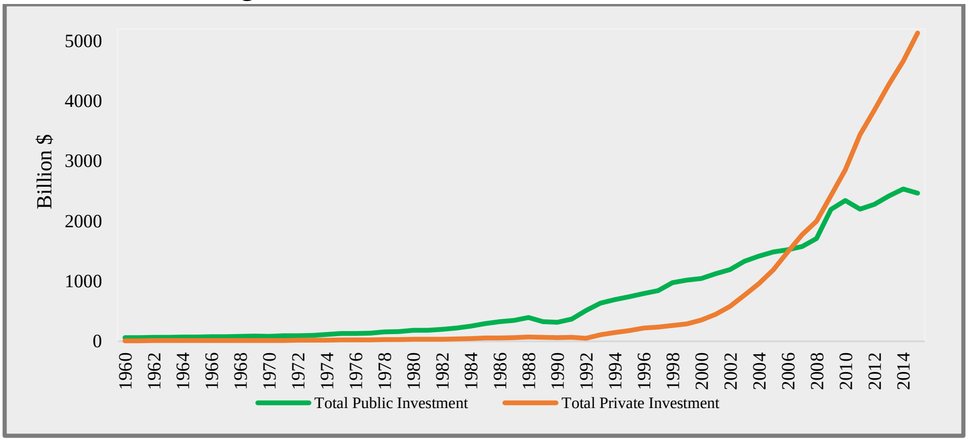


Source: WDI.

Why China is an Investment Champion

- China's started its journey as imitators, not as an innovator.
- After the declaration of the 'Opening-up and Reform' policy in 1978, China has undergone significant transformations.
- After the 1990s, China adopted new policies that opened up the economy to foreign investment and implemented an unprecedented structure that enabled free enterprise and capitalist ideas to flourish within a socialist framework, resulting in rapid economic and social growth (Ari and Koc, 2020).
- After 1992, private investment per capita in China increased dramatically, eventually surpassing public investment per capita in 2006. From 2006 onward, the Chinese government realised to include innovation as a part of the development strategy.

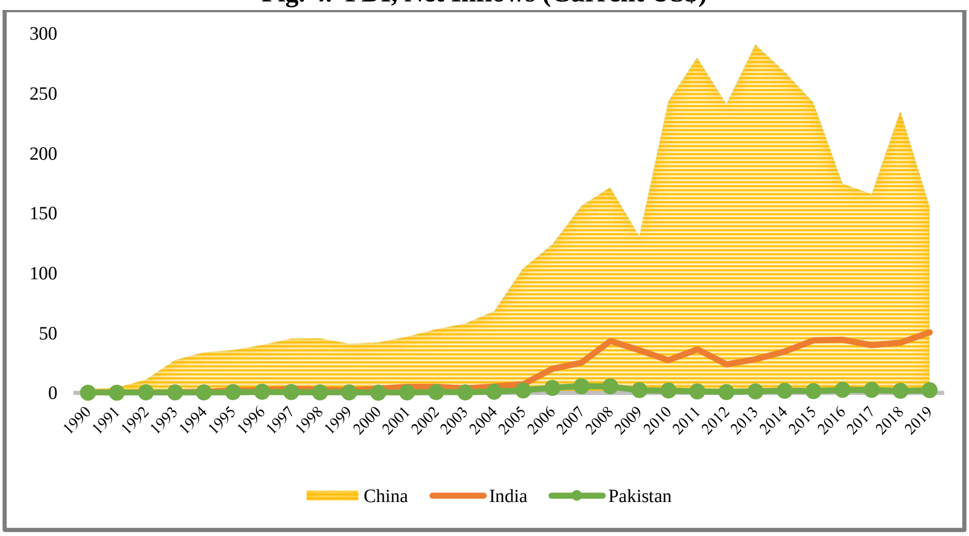
Fig. 3. Public and Private Investment in China



Source: IMF Fiscal Affairs Department.

- China has extraordinary success in attracting FDI over the last 30 years. China's FDI has grown from almost nothing in 1978 to about USD156 billion in 2019. China's great success in attracting FDI under a series of policies since 1978, especially the establishment of a dual capital income tax system (from 1992 to 2008), which provides greater tax concessions to foreign-invested enterprises (Zhang, 2011).

Fig. 4. FDI, Net Inflows (Current US$)



- China is mostly reliant on domestic investment rather than foreign direct investment. However, FDI contributes not only to the growth of capital, especially in exports, but also to the transfer of excess capital to international markets. This will aid in the transfer of knowledge in the development of human resources (Hina, 2021).

- From the late 1990s, the Chinese government started to strengthen its innovation system and in 2020, innovation in China has taken dramatically on public and business levels. The struggle of three decades on three main factors has led China as a technological leader.
    - The strong role of government.
    - Largest domestic market.
    - Scientific research.

How India Stand out in Investment?

- Local industries established in the late 1960s therefore, the Indian government implemented a more preventive attitude towards FDI.
- In 1973, the new Foreign Exchange Regulation Act (FERA) came into effect, requiring all foreign companies operating in India to register under Indian corporate law with equity capital of up to 40 percent (Kumar, 2003).
- The increase in investments in the mid-1970s was the result of an increase in investments in machinery/equipment. In the early 1970s, more was invested in infrastructure than in equipment. Among the different types of investments, it is the equipment investments that matter most for economic growth (DeLong and Lawrence, 1991).
- The high investment rate is also credited to the financial deepening and expansion of the banking sector in the 1970s and 1980s. Because banks had access to household savings, they could lend to households as well as to businesses.
- In the 1980s, India brought historical changes in its FDI policy. FDI was now considered as a source to earn foreign exchange reserves rather than acting as a supplement to local industries.
- In the 1980s, India made historic changes to its FDI policy. FDI was seen as a means of acquiring foreign exchange reserves rather than as a supplement to local industries.
- The low productivity and inefficiency of local industries are considered to be the result of excessive protection provided to Indian industries from the international market. Such protections made local industries inefficient as compared to other developing countries that pursued liberal FDI policies.
- Foreign direct investment policy in India was reformed by introducing liberal measures. In 1991, India implemented a new economic policy. Since then, India’s economy has undergone systematic changes from a highly state-controlled government to a more liberal and outwardly, market-friendly system.
- A series of measures to improve productivity, quality and reduce production costs were gradually introduced (Choudhury, 2018). The lifting of the ban on foreign industries by FERA was a major reform.
- The services sector was opened up to foreign direct investors, especially in the real estate, telecommunications, and banking sectors. In recent years, a series of policy measures have been announced to liberalise the FDI in the country. Gradually, almost all sectors have been opened up to the influx of foreign investment. As a result, India today has one of the most attractive FDI policies in the South Asian region (Sahoo, 2006).

- The informal sector is a big part of the Indian economy. The share of informal employees in the participating labour force is approximately 92 percent. India has taken several steps to address informality, including targeted schemes to promote micro, small, and medium-sized enterprises and legislative measures such as Unorganised Workers Social Security Act, the Contract Labour (Abolition and Regulation) act. And the Workers' Welfare Board. Microfinance has emerged as a means of lending to the informal sector. Since the mid-1980s, the National Bank for Agriculture and Rural Development (NABARD) has been active in a program linking mainstream banks to "self-help groups" (SHGs). Recently, there has been a significant increase in funding for this program in the thirteen priority states that accounts for 70 percent of Indian's poor population. In March 2006, 2.2 million SHGs were connected to regular banks and 33 million poor households had to access to microfinance. NABARD also helps other partner organisations such as NGOs and cooperative banks to promote SHG (Choudhury, 2018).

We Learn from China and India

- Innovation in productivity and management has crucial importance.
- The creation of the linkages between academia and firms for the development of required skills is compulsory which China has created in their innovation process.
- The government should start prioritising technology, science, and innovation as the main pillars for medium and long-term growth as China has done.
- Open the services sector like real estate, telecommunications, and banking sectors to foreign direct investors.
- Overprotection results in low productivity and inefficiency of local industries.
- Equipment investment rather than infrastructure investment matters most for economic growth.

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INVITING FDI: IS PAKISTAN AN ATTRACTIVE DESTINATION?

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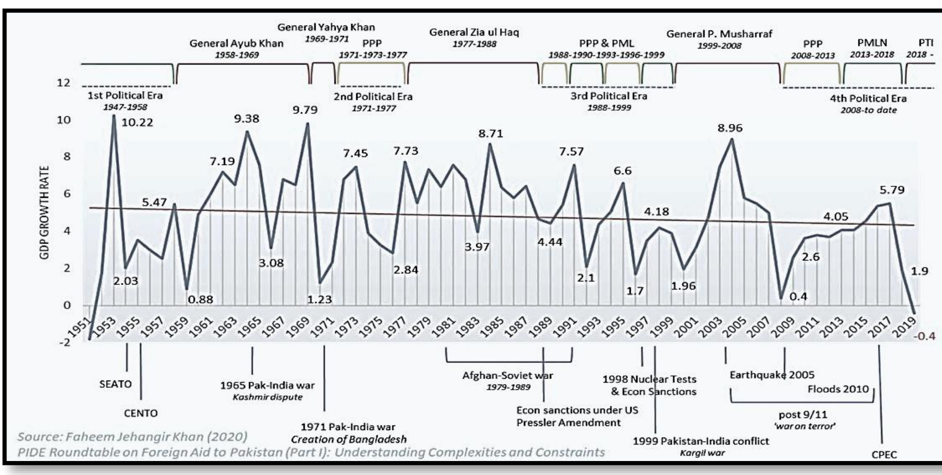
INTRODUCTION

Is Pakistan an attractive destination for foreign investment in the region? To put it bluntly, the answer is, No. The reason why is simple: Pakistan has had volatile and episodic growth since the 1950s, and we: have low rates of local investment, lag in innovation and suffer from low productivity. We need strong efforts to come out of this vicious circle of low investment, low innovation and low productivity.

What can account for this circle of low investment leading to low innovation and low productivity? PIDE's Growth Reform Agenda (PIDE, 2021) has pointed out that the volatile growth (Figure 1) is reflective of policy inconsistency and lack of cohesiveness.

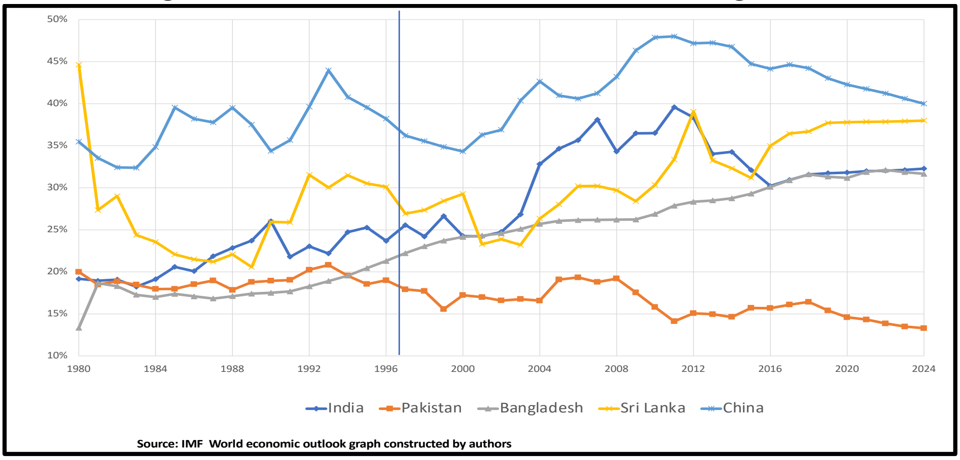
Fig. 1. Volatile and Episodic Growth Trends



Source: Khan (2020); adapted from PIDE (2021) "The PIDE Reform Agenda for Accelerated and Sustained Growth", PIDE, Islamabad, April 2021.

Reversing this trend and making Pakistan a better and more appealing destination for FDI will require concerted and coordinated efforts to develop an enabling environment addressing the vicious circle of low investment (see Figure 2), low innovation and low productivity (Figure 3). As evident, investment levels in Pakistan are well below regional comparator nations, even Bangladesh and Sri Lanka.

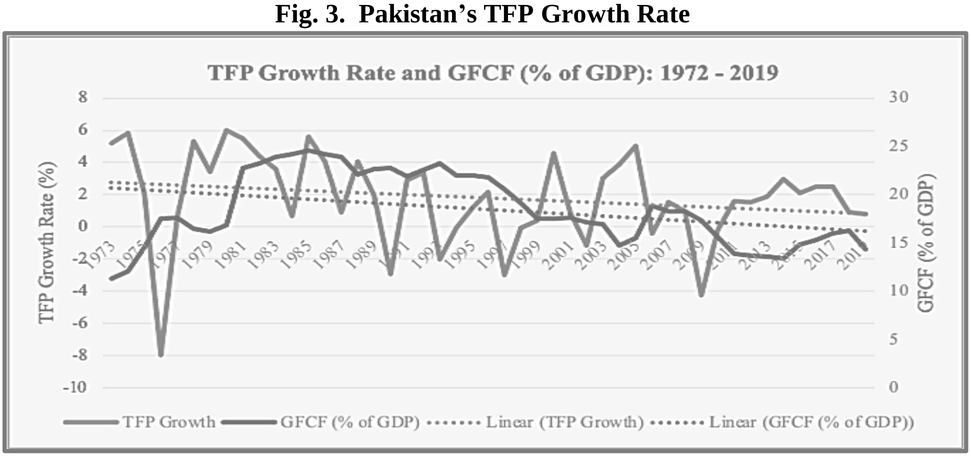
Fig. 2. Pakistan's Investment Trend vis-à-vis Its Neighbours



Source: Khan (2020); adapted from PIDE (2021) "The PIDE Reform Agenda for Accelerated and Sustained Growth", PIDE, Islamabad, April 2021.

Coming to the issue of productivity, according to the PIDE Reform Agenda, the highs of Total Factor Productivity (TFP) have typically been associated with **deregulation, liberalisation, better fundamentals, institutional & structural reforms,** and **private sector dynamism**. Low level of productivity, on the other hand, has been associated with **soaring external debt, adverse policy environment** like Statutory Regulatory Orders (SROs), and **policy instability** reflected in frequent **changes in taxes and tariffs**. The decline in investment and productivity[89] over time is well documented (Figure 3).

Fig. 3. Pakistan's TFP Growth Rate



Source: Siddique (2020), adapted from PIDE (2021).

[89] As measured by Total Factor Productivity (TFP), traditionally calculated by dividing a country's total output by a weighted average of labour and capital inputs.

Constraints to Growth in Pakistan: In a Nutshell

- Poor investment climate.
  - Limited capacity for transactions.
- Policy inconsistencies.
  - Skewed incentive structure.
  - Limited regulatory skills.
  - Long term financing constraints.
- Large government footprint.
  - High documentation costs.
  - High transaction costs.
  - Over-regulation.
- Institutional and legal framework that constrain economic activity.

Source: PIDE (2021).

The solution to this problem can be approached on two fronts i.e., market development and regulations and government policies. On the market side we need to address issues affecting low productivity, investment and R&D. Weak technology adaptability and acquisition and creativity stemming from a nascent knowledge economy. There is also the lack of vibrant cities and internet access affecting market development. On the government policy side, we need strong institutions, consistent policies, reducing the footprint of the government through de-regulation and increasing engagement with the private sector.

PAKISTAN AS A DESTINATION FOR FDI

Engaging in investment is a competitive process with multiple avenues available, so the question is why would an investor choose to invest in a particular place? Global indicators such as competitiveness rankings provide a benchmark and clue regarding the attractiveness of a destination for investment. Here we consider such key rankings in light of Pakistan's attractiveness as an investment destination.

PAKISTAN'S GLOBAL COMPETITIVENESS AND ENABLING ENVIRONMENT

An analysis of Pakistan's competitiveness in global context highlights the areas that need the attention of the government. Improvements on the main fronts (see Table 1) can help in attracting FDI into the country. Pakistan ranked 107 in the Global Competitiveness Index (GCI) in 2018, and this had fallen to 110th in 2020 (see Figure 4)—indicating a worsening of our competitiveness in the global arena, rather than an improvement.

Looking at the pillars of the GCI (Table 1), Pakistan's standing in a regional context is weak, ranking well below India in most cases, and worse than even Bangladesh in some cases. Compared to the regional average, Pakistan fares better (than average) for 2 pillars; one of which is market size, attributable to our high population levels. Pakistan fares worse than the average for 9 pillars; clearly a holistic approach is required to improve the country's ranking and help attract FDI.

Fig. 4. Pakistan's Global Competitiveness Ranking Over Time

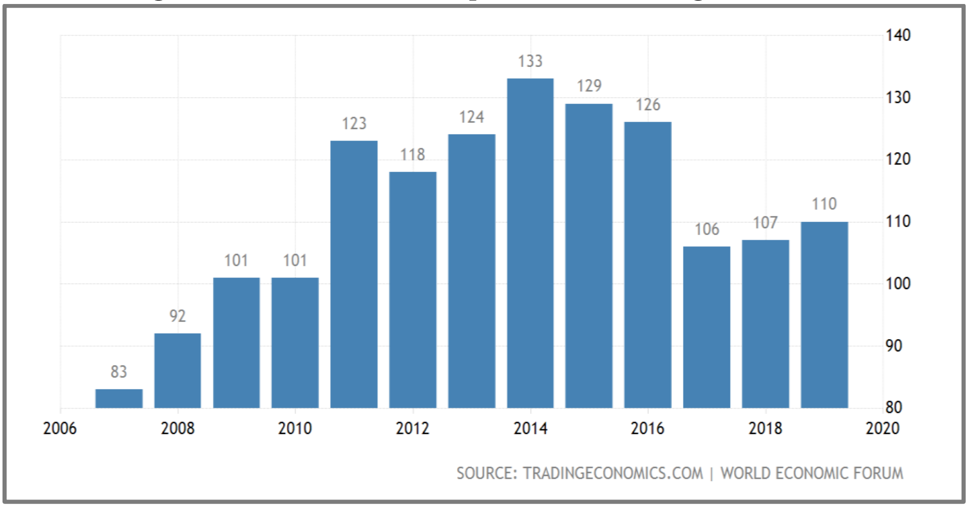


Table 1

Pillars of GCI Ranking: A Regional Comparison

Pillars of GCI	India	Bhutan	Sri Lanka	Nepal	Bangladesh	Pakistan	Region Average
Institutions	39	32	77	89	107	90	72
Infrastructure	66	89	85	119	111	110	97
Macroeconomic Environment	80	78	94	31	56	106	74
Health and Primary Education	91	95	43	77	102	129	90
Higher Education and Training	75	90	78	108	117	120	98
Goods Market Efficiency	56	88	83	108	94	107	89
Labour Market Efficiency	75	24	131	97	118	128	96
Financial Market Development	42	67	83	73	98	96	77
Technological Readiness	107	105	106	119	120	111	111
Market Size	3	132	59	85	38	28	58
Business Sophistication	39	77	59	119	91	81	78
Innovation	29	79	54	121	114	60	76

Source: Global Competitive Index 2018, World Economic Forum, Authors' calculations.
Note: Region average includes Pakistan.
Red indicates ranking below average.
Blue indicates average ranking.
Green indicates ranking better than average.

Compared with last year, Pakistan does appear to have made some improvement in providing an enabling environment for businesses, as seen by a temporal comparison of the indicators used in the World Bank Ease of Doing Business (EODB) Index[90] (Table 2; Figure 5).

[90] The EODB index has been the subject of much controversy and the methodology and rankings can be considered suspect, but the underlying factors can still be used to get a sense of the sort of enabling environment

Table 2

Ease of Doing Business Indicators

	Ranking	
Indicator	2020	2019
Pakistan's Overall DB Rank	108	136
Starting A Business	72	130
Dealing with Construction Permits	112	166
Electricity Connection	123	167
Property Registration	151	161
Access to Credit	119	112
Protecting Minority Capacity	28	26
Paying Taxes	161	173
Trading Across Borders	111	142
Enforcing Contracts	156	156
Resolving Insolvency	58	53

Source: World Bank Doing Business Ranking 2020.
Note: Green indicates a substantial improvement in the ranking
Blue indicates small improvement
Yellow indicates no change, and
Red indicates a deterioration.

Fig. 5. Pakistan's Overtime Ranking as per the World Bank's Ease of Doing Business Indicators

Though progress has been made on reducing hurdles, they remain. The question is what can be done to turn the tide and improve appeal of Pakistan's economy as a destination for FDI.

a specific country has, and what improvements, if any, have been made over time. So, the argument here is not banking on the absolute raking or numbers instead the message is to concentrate on the indicators where improvements can bring actual ease in business activities.

IMPROVING THE APPEAL OF PAKISTAN AS AN FDI DESTINATION

We believe the answer lies in making Special Economic Zones (SEZ) be made fully functional, as mandated in the SEZ Act, in the short run. Doing so in the true spirit of the word will mean that businesses interested in operating in Pakistan will not have to face such hurdles. In the long term, a holistic approach is required to address underlying structural constraints that are resulting in a less favourable business environment, as detailed in PIDE's Reform Agenda. The steps that can be taken in this context are discussed below.

IDENTIFY CHANNELS AND MODALITIES TO DEVELOP SEZS

Coming to SEZs, Pakistan needs to identify the channels and modalities required to develop these zones and populate them on a fast-track basis with productive units. We already have 19 SEZs approved and many more planned; what we need to do is to rationalise these, operationalise the most efficient and encourage businesses to avail the available facilities.

Investor's confidence can be boosted, and regional competitiveness increased if we no longer use selling of industrial plots in the SEZ as a criterion for its success. Instead, the transfer of technology and actual production taking place should be used as the criterion.

Pakistan's SEZ Act 2012 (Amended 2016) was implemented almost 10 years ago, and the generous incentives including 10-year tax exemption, granted under the act, expired in June 2020. On the policy front, it is high time to assess the policy, identify areas that need redressal and what weaknesses are present so a better and more informed policy can be implemented.

In the short-term what Pakistan needs to do is direct investment for securing a place in the global value chain by focusing on the following areas:

(1) Packaging.
(2) Assembling.
(3) Processing.
(4) IT solutions.

In the medium-term, Pakistan needs to facilitate the transfer of Chinese and other, sunset industries to set up in SEZs. This will facilitate the transfer of technology, provide employment, and increase our domestic output and integration into the global economy.

CHINESE FOREIGN INVESTMENT ALONG THE BRI ROUTE

There is limited information available at this time on a number of areas that can offer input on potential areas for Chinese FDI to enter in Pakistan under the Belt and Road Initiative (BRI). Pakistan's Board of Investment (BOI) must engage with think tanks and support detailed analysis on what sectors are being preferred by Chinese investors, what products does China import that Pakistan can provide, what is current level of skills in Pakistan and where is the deficit between the two countries.

What are the areas where Pakistan needs FDI, and what Pakistan can learn from the international experience in SEZs along with the facilities being offered? BOI needs to explore options for incentivising investment in firm-level R&D to enhance productivity and competitiveness of firms in consultation with stakeholders.

CAPITALISING ON POTENTIAL FOR EFFECTIVE REFORM

The potential exists in Pakistan for effective reform, and the key to attracting FDI from China and elsewhere is to capitalise on this potential. We need the right set of skills and knowledge for youth to capitalise on our demographic dividend. We need to align the curricula of universities and technical and vocational training institutions to the skills required by firms in SEZs, for the 4th industrial revolution and for a digital economy.

REDEFINING THE ROLE OF BOARD OF INVESTMENT

The role of BOI needs to be redefined to effectively lead, in collaboration with NDRC (China), industrial cooperation and B2B collaborations. In this regard the role of BOI must be to establish links and cooperation between SEZs in both countries. Special desks to facilitate Chinese investors in Pakistan's Embassies in China and Dubai must be set up. And finally, BOI must take ownership of SEZs under the China-Pakistan Economic Corridor (CPEC) initiative.

FINAL THOUGHTS

While specifically targeting FDI from China in the short term to benefit from CPEC is a commendable goal, Pakistan must make efforts to encourage FDI into the country in general. With Pakistan being in a geo-strategic location and surrounded by contesting power struggles, bringing China specific policies will give such policies strategic importance. Along with greater influence, we anticipate greater interruption as well. If Pakistan provides incentives and facilitates investment in true spirit for all, it will create goodwill with investors and encourage further investment.

By focusing on developing our credibility, competitiveness and capacity, market forces can reveal our comparative advantage. We also need to map our human capital and develop a holistic strategy for incorporating the required skills, expertise and work ethics that are required to compete effectively into our society. A silo approach to develop our human capital will undoubtedly fail, as it has in the past, and create hurdles for potential investors. SEZs should be developed in the true spirit of the SEZ Act and developed as an economic proposition rather than a tool for equity.

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INSTITUTIONAL GOVERNANCE AND PROCESSES

Corporate Governance in the State-Owned Electricity Distribution Companies

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NEPRA has approved the detailed design and implementation plan of Competitive Trading Bilateral Contract Market (CTBCM) of electricity, to be implemented in a year. The model envisages that all future contracts for the sale/purchase of electricity will be bilateral between the parties: sellers (generation companies) and buyers (distribution companies or bulk power consumers). But for a competitive electricity market, we need an efficient and financially viable distribution sector first, where a well-developed corporate governance system could be the solution.

1. INTRODUCTION

In electric power systems, the financial health of the distribution sector is critical. A financially weak distribution company can weaken the flow of funds in the entire supply chain, and their operational limitations can lead to the wastage of energy resources. There is a shortfall between cash inflows and outflows in the power supply chain of Pakistan—circular debt. In FY-2020, more than 50 percent of arrears were due to low bill recoveries and the difference between the allowed and actual distribution losses by NEPRA (Malik, 2020).

Apart from sectoral policy issues, the power distribution sector challenges, including institutional weaknesses, centralized control (under the Ministry of Energy-Power Division), and weak corporate governance, are mainly responsible for the circular debt.

2. STRUCTURE OF ELECTRICITY DISTRIBUTION SECTOR

After the formal bifurcation of WAPDA in November 2007, eight separate distribution companies (DISCOs) (which later increased to ten) were established. KESC (now K-Electric (K-El)) remained vertically integrated; in December 2005, it was privatised—the government sold 73 percent of its shares to a private conglomerate. These companies are distributing electricity to the end-consumers in their respective geographical areas as a monopoly.

The author is grateful to Tahir Basharat Cheema, Former MD, PEPCO for his valuable comments and suggestions on the initial draft of this brief.

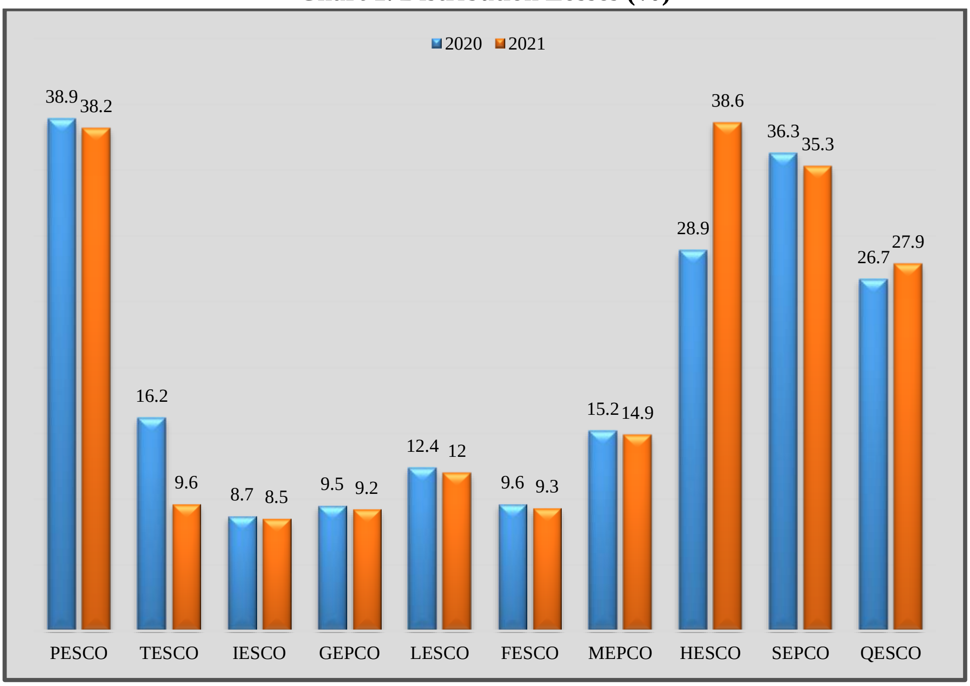
2.1. Issues in the Distribution Sector

Operational Efficiency

During FY 2021, almost a fifth of the electricity generated in the country was lost in the transmission and distribution (T&D) network (including K-Electric losses). There is an enormous variation in performance across state-owned distribution companies (Chart 1).

On the other side, when a certain percentage of these losses are not accounted for in tariffs, it adds to the circular debt as it is not compensated by tariff differential subsidy. NEPRA is using this T&D target as a tool to improve the operational performance of distribution companies. However, this strategy is not working for most of the DISCOs. There is no penalty associated with utility mismanagement which leads to operational inefficiency.

Chart 1. Distribution Losses (%)

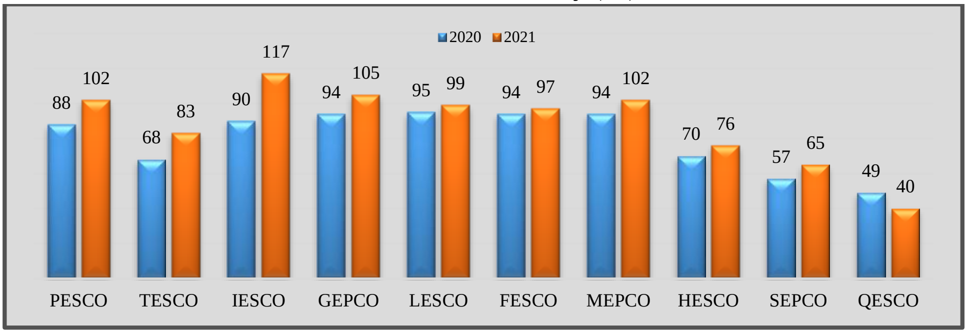


Source: NEPRA State of Industry Report, 2021.

Commercial Efficiency

The revenue collection rates in distribution companies range from 40 percent in QESCO to 117 percent in IESCO in FY 2021 (Chart 2). On average recovery percentage of all DISCOs was around 97 percent in FY 2021, despite more than 100 percent collection in IESCO, PESCO, and GEPCO. With the same collection rate for other DISCOs, the average may not remain the same next year. For instance, bill recovery of 117 percent in IESCO is due to a one-time deposit of AJK arrears by the Government of Pakistan. Otherwise, the actual recovery in IESCO in FY2021 was roughly 89 percent.

Chart 2. Bill Recovery (%)



Source: NEPRA State of Industry Report, 2021.

Generally, the distribution companies with high system losses also suffer from low recoveries of the billed amount. In other words, there are more leakages in geographical areas via fraud (meter tampering), stealing (illegal connections), and billing irregularities; there is also less willingness to pay for the power consumed.

Despite a significant improvement in bill recoveries in FY 2021, the receivables from DISCOs in FY 2021 increased by Rs. 63.7 billion, which accumulated as circular debt (NEPRA, 2021).

Unreliable Supplies

Despite the increase in the installed capacity in the reliability of electricity supply, Pakistan is still ranked 99 out of 141 economies in the Global Competitiveness ranking of 2019. According to Rule 4 (a) of Performance Standards (Distribution) Rules 2005, a distribution company shall ensure that the System Average Interruption Frequency Index (SAIFI) does not exceed 13 and System Average Duration Index (SAIDI) does not exceed 14. Except for IESCO, none of the DISCO satisfies this criterion (Table 1).[91]

Table 1

SAIFI and SAIDI in FY 2020

	PESCO	IESCO	GEPCO	LESCO	FESCO	MEPCO	HESCO	SEPCO	QESCO	K-El.
SAIFI	187.93	0.06	25.64	33.03	35.65	375.98	162.85	478	99.12	27.56
SAIDI	14924.40	1.36	42.40	3593.73	1331.10	31920.87	9751	4095	8375.85	2655

Source: NEPRA Performance Evaluation Report_ Distribution Companies, 2019-20.

Instead of correcting for their failures in minimizing inefficiencies, DISCOs have adopted a policy of revenue-based load-shedding. The low-cost and uninterrupted power supply (solar) is taking compliant consumers away from DISCOs (NEPRA, 2020). If this trend continues, it will be another big challenge for the cash-starved DISCOs.

3. CORPORATE GOVERNANCE

Corporate governance defines the rights and responsibilities of a board, managers, shareholders, and other stakeholders. It outlines rules and procedures for making decisions

[91] SAIFI and SAIDI are the least focussed areas in NEPRA priorities.

(Haque and Hussain, 2021). Corporate governance of the utility—private or state-owned is crucial for its effective operations. Its mechanisms such as monitoring, Board of directors, and executive plans are significant (Gunay, 2016). Developing any state-owned company as a modern corporate entity may help improve its proficiency via regular monitoring and accountability of its managers, transparent information, and decreased political interference in its matters (Vagliasindi, 2008). The autonomy and capability of board members are vital.

Table 2

International Experience

Study	Main Inference
Srivastava and Kathuria (2020)	Even in state-owned utilities in India, improvement in corporate governance was found significant for improving their financial and operational performance.
Sheveleva (2018)	Board membership balance is an objective requirement for corporate governance that affects its positive perception by the investor in the Russian conditions.
Fremeth and Holburn (2018)	Boards of directors play a central role in the governance of local electricity distribution companies (LDCs), monitoring organisational performance and risk, and guiding long-term strategy in Ontario, Canada.
Liu, et al. (2015)	Independent directors have an overall positive effect on firm operating performance in China.
Wei (2007)	State-owned shareholdings have negative impacts on company performance. Even a relatively small shareholding of non-state-owned has a positive effect on company performance.
Dube and Jaiswal (2015)	Independent directors played a significant role in increasing the market size, profitability and sustainability reporting of the companies in India.
Castro, et al. (2010)	The corporate governance practices adopted by electricity sector companies (public and private) in Brazil contributed to improved performance on the stock market and to attract finance for their development needs.
Irwin and Yamamoto (2004)	Improved corporate governance reduces the political capacity to utilities for their political gains. State-owned utilities with company laws, transparency in their operations/ decisions, commercial culture through the appointment of independent directors from successful businesses and listing of shares (even small) may help improve performance.

DISCOs lack technical and managerial skills to operate independently.[92] The structure of these companies based on corporate governance principles has not been established. Poor corporate governance is the main reason behind the poor technical and financial performance of DISCOs. Zhang (2019) finds significant potential to reduce losses through better management in DISCOs in Pakistan.

Weak administrative performance in DISCOs is due to centralized control. All of the ten DISCOs are under the administrative control of the Ministry of Energy (Power Division). There is no incentive to improve performance as there is no penalty associated with weak performance. Not only there is an absence of transparency in investment decisions, but no merit-based staff performance evaluation and promotion. Promotions are based on seniority. All decisions about finance, employment, and pricing are not without government (political) intervention.

3.1. Financial Performance and Business Model

Between FY 2015 to FY 2019, total assets of DISCOs have increased by 7.5 percent. A maximum increase was recorded in LESCO, almost 12 percent. The asset base of these ten state-owned distribution companies was roughly Rs 2 trillion in FY 2019, equivalent to about 5 percent of current GDP in the same year. However, the involvement of these DISCOs in the stock business is zero, as none of them is a listed company. Except for IESCO, in all DISCOs, either Government of Pakistan or WAPDA is a 100 percent shareholder. In IESCO, 12 percent of shares belong to Employee Trust Fund since FY 2014-15 (transferred under Benazir Employees Stock Option Scheme) previously owned by WAPDA (Table 3).

Table 3

Governance Profile of State-Owned DISCOs

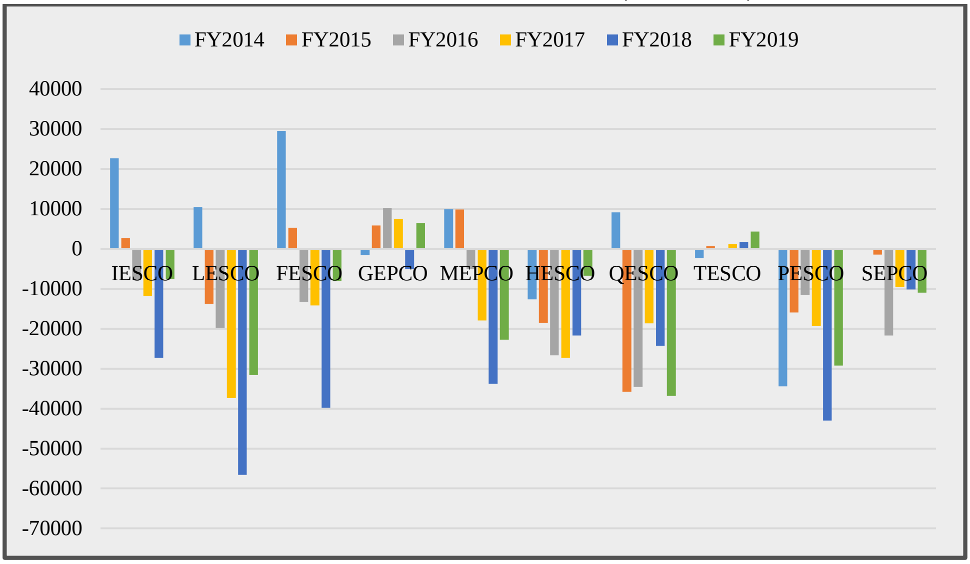
	Independent Directors**	Ex-officio/ Non-executive Directors	Change in CEOs since 2016	Shareholding
FESCO	5	2	4	100%Govt.
HESCO	8	3	5	100%WAPDA
QESCO	5	1	3**	100%WAPDA
TESCO	4	4	4	100%WAPDA
PESCO	4	4	4	100%WAPDA
LESCO	6	3	5	100%Govt
IESCO	7	3	5	88%WAPDA; 12% others
GEPCO	5	5	4	99% Govt; 1%others
MEPCO	7	2	4	100%WAPDA
SEPCO	7	NA	3	100%WAPDA

Source: Financial Footprint: SOE Annual Report 2018-19, Ministry of Finance, Government of Pakistan; and official websites of these companies. * Independent directors excluding chairman and company secretary, ** current information not available, different information in different source.

[92] As reported by Former MD PEPCO, in PIDE webinar on "Reforming Electricity Distribution Companies".

There is no business model followed in these companies. The level of strategic planning and business model is evident in Chart 3. These companies, on average, recorded a net loss of Rs 143 billion in FY 2019. The net loss has increased by 18 percent in the last five years. A corporate governance system guides and operates companies to yield high financial performance (MacMillan and Downing, 1999). Unfortunately, it is missing in DISCOs.

Chart 3. Net Profit/ Loss after Tax (Rs Million)



Source: Federal Footprint, State-owned Entities (SOE) Performance Review, Various Years.

3.2. Board of Directors

According to SECP Public Sector Companies (Corporate Governance) Rules, 2013, it is mandatory for each company to have independent directors—40 percent of its total members. On paper, each of these DISCOs has independent board members but with limited authority to make decisions.[93]

As per the Companies Act 2017, and SECP Public Sector Companies (Corporate Governance) Rules, 2013, it is the prerogative of the government to appoint a Board of Directors (BOD) after satisfying the 'Fit and Proper Criteria'. But in the appointment of DISCO board members, rules are generally not followed. Political interference in board appointments is also common.

For instance, in the last seven months, new boards are appointed in all the ten DISCOs. As reported in newspapers, in the selection process, the Power Division relied on their enlistment as Independent Directors with the Pakistan Institute of Corporate Governance (PICG), their CVs, and an affidavit from each proposed nominee that they fulfill the 'Fit and Proper Criteria' as required under the law and rules. While going through

[93] These companies are under full government control; board and management positions at DISCOs are held either by government employees or political appointees with limited experience. Officials sitting on multiple energy boards aggravate this issue.

the profile[94] of these independent directors, wherever available, we find that the actual practice is different from what was stated in the papers.

Some facts about current boards are below:

- Until the recent past, except for TESCO, each DISCO has its BOD with independent directors. Now it is decided that the PESCO BOD will also function as the TESCO BOD.
- Each DISCO has four or more independent directors.
- Out of the total 40 independent directors, only 3 are PICG certified directors.[95]
- Out of the ten appointed chairmen, none of them is a PICG certified director. At least five of them are ex-employees of a privatized distribution company, K-electric. Others include a professor, a general manager of a manufacturing company, an ex-employee of hydro IPP, and a power sector consultant.[96]
- In the selection of independent directors, the focus seems to be on those with K-electric experience. Including chairpersons, in total, ten independent directors remained affiliated with K-electric in various capacities. In addition, consultants (energy or otherwise) are given preference in the selection.[97]
- In each Board, there is civil society representation (2 to 3 members).
- 11 Directors are on the Board of 2 DISCOs, and one of them is on three boards.
- Board chairman is appointed against the Corporate Governance rules, 2013 which states that the chairman to be elected by the Board to achieve an appropriate balance of power, increasing accountability, and improving the Board's capacity to exercise independent judgment; but in these DISCOs, the chairman is appointed by the government.
- CEO is appointed by the government against the rules, which state, CEO is to be appointed by the Board. Besides, as informed by various utilities, all major decision-making remained with the government. As is evident from the minutes of the board meetings,[98] the meetings only discuss human resource-related issues.

3.3. Transparency

Transparency is one of the basic principles to ensure a sound governance framework in any organization or company, both in the public and the private sector. Transparency is only possible when information on commercial and non-commercial operations and financial results are timely available for evaluation, not only to the government but also to the public.

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[94] As of September 6, 2021, a detailed profile of GEPCO, HESCO, SEPCO, QESCO and MEPCO board members is not available. Only names are posted. As per law, the companies are required to publish these details in their annual reports. But publishing Annual reports is not a practice in the majority of these DISCOs.

[95] Apart from the personal affiliations of selectors, the fee they are paid (meeting attendance fee) could be the reason for not finding truly independent professionals to be on DISCO boards. The director fee is an issue in companies other than the power sector as well (Ameer, 2013).

[96] The identity of the QESCO board chairman is not clear.

[97] As reported in newspapers, the reliance on K-electric employees is to prepare for future privatisation of these companies.

[98] This information is extracted from newspaper clippings, studies, informal discussions with some DISCO officials, etc.

- None of the ten DISCOs publishes its Annual Company Report except for FESCO, MEPCO, and IESCO. Even the latest available for MEPCO and FESCO is for 2019, and for IESCO, it is for 2013.
- The latest financial statement (FY 2020) is publicly available only for IESCO, FESCO, MEPCO and GEPCO. For the rest of the DISCOs, a publicly available financial statement is two to four years old.
- Only MEPCO publishes details of its board meetings in its Annual Report, that is number of meetings, etc. It is the only DISCO, with minutes of meetings posted on its website.
- Each DISCO has a website but with limited information on corporate matters.
- Each DISCO does post names of directors on their websites, but as of September 08, 2021, only IESCO, LESCO, FESCO, PESCO have shared profiles of their board members.

3.4. Monitoring and Accountability

Another principle of good corporate governance is accountability. Accountability can be ensured, when managerial performance and the role of independent boards are evaluated by the parliament, public, and the shareholders. But in the case of DISCOs, none of these is listed on any stock exchange of Pakistan; therefore, no accountability by shareholders. The boards have never been empowered to make decisions. At the same time, they are not held accountable. This trait is common in other Pakistani companies—the Board of directors does not consider them accountable for what they do (Aziz, et al. 2019).

CEOs have been changed quite frequently in these DISCOs (Table 3) and not for the sake of accountability.[99] For instance, the recently appointed CEO at IESCO has previously served at PESCO. PESCO performance is evident in Chart 1 to Chart 3 and Table 1 and Table 2.

Cash injections by the successive government have impeded the efforts of power companies to improve their governance, efficiencies and reduce their losses. Whenever the power companies face problems, the government extended financial help either through subsidies or by increasing tariffs, resulting in more inefficiencies. Lack of expertise in the form of financial and commercial skills is a serious impediment in accountability, quick decision-making, and commercial orientation. Defaults are now a routine matter.

4. WAY FORWARD

- Outright privatization may not be a solution. It might increase the financial burden of the government.
- Mandate listing of DISCOs in the stock exchange and appoint principal shareholders on the Board.
- Sell a certain percentage of shares to DISCO employees and give them representation on the Board.
- Facilitate a corporate culture in DISCOs with a viable business model as also envisaged in the National electricity policy-2021. Each company needs its business model based on its domestic market conditions.

[99] CEOs are normally appointed when they are about to retire.

- An independent/ apolitical board with professional directors (power sector specialists) with sufficient capabilities to develop a business model. It should be mandatory for the power sector professionals to get trained from an institute like PICG to qualify as independent directors. Once these directors are appointed, they must have the power to make decisions. In addition, hold them accountable for their decisions.
- For increasing transparency and accountability, a well-designed website of each authority. Minutes of each board meeting or at least major decisions should be publicly available. Their annual reports, as well as financial statements, should be timely available for public scrutiny.
- There should not be any conflict of interest for the government as owner as well as a policymaker. The government should only be a facilitator and can play its role by improving the business environment by enforcing contracts, improving laws, and simplifying tax administration.
- Professional and competitive management having a clear corporate vision and business plans for organizing the utility on commercial lines. These professionals must have the capacity to develop a comprehensive revenue collection and theft prevention program in their respective companies.

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PAKISTAN'S PUBLIC PROCUREMENT REGIME CRITICAL APPRAISAL

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1. WHY WE NEED A PUBLIC PROCUREMENT REGIME?

Governments across the globe are spending a significant portion of their budgets on procurement. Public procurement spending is estimated to account for 15% of the world's GDP. Procurement is predominantly visible in developing countries with active infrastructure and social programs. Any attempt, therefore, to bring fiscal discipline by efficient allocation of resources and then pragmatically spending must consider procurement to be a fundamental part. Gains of a good public procurement framework make available additional resources for development and lead to better outcomes of expenditure by assigning the tasks to the best possible service provider. This eventually has a positive bearing on service delivery. Empirical evidence supports that procurement reforms improve spending efficiency by 1% of GDP. This means that this saving could be diverted to other pressing sectors like education, health, and municipal services. Thus, effective public procurement systems can help governments see better value for money, reduce pressure on public budgets, and leave agencies better prepared to invite private investments. Public funds are scarce and governments must invest with intention. Improving public procurement systems contributes to a vibrant private sector, helps governments get the most out of their investments, and supports growth. A developing country like Pakistan annually spends around 20% of GDP through this medium. This includes approximately 90% budget of public sector enterprises (PSEs). Therefore, it necessitates, without any doubt, that the associated governance structure should be foolproof and user-friendly.

2. PUBLIC PROCUREMENT REGULATORY AUTHORITY (PPRA)

The Public Procurement Regulatory Authority (PPRA) of Pakistan is an autonomous body endowed with the responsibility of prescribing regulations and procedures for public procurements by Federal Government owned public sector organizations intending to improve governance, management, transparency, accountability, and quality of public procurement of goods, works and services. It is also endowed with the responsibility of monitoring procurement by public sector agencies/organizations.

The Federal Government created Public Procurement Regulatory Authority (PPRA) in 2002 through a Presidential Ordinance. Later, the government notified Public Procurement Rules (PPR) in 2004 followed by the enunciation of first set of public procurement regulations in 2008, and then consultancy services regulations in 2010.

3. HOW PPRA WAS CONCEIVED?

Historically, public procurement in Pakistan was traditionally regulated by three primary instruments as follows:

- The Purchase Manual of the defunct Department of Supplies and Disposal, which generally covered the purchase of commodities
- The West Pakistan Building & Roads Department Code which governs the construction of buildings and roads and the hiring of consultants for this purpose
- The General Financial Rules of the Federal Government and the delegation of financial power rules

In the late 1990s, however, public procurement was now seen as a critical function of the state institutions as public procurement expenditure share continue to grow in the government expenditure. Following the World Bank's assessment of Pakistan's then procurement regime and recommendations put forward by the same on basis of this assessment, the Government of Pakistan worked upon introducing legislative and systemic reforms to the public procurement regime. Basically, the country Procurement Assessment Report (CPAR) of World Bank in 2000 concluded that procurement was characterized by (a) a plethora of different systems and procedures operating simultaneously, (b) lack of institutional capacity, and (c) lack of human resources adequately trained to implement the systems and procedures.

In this context, after the year 2000, Government of Pakistan (GOP) established Public Procurement Regulatory Authority (PPRA) through promulgation of Ordinance No. XXII of 2002 on 15 May 2002; Public Procurement Rules (PPR) in 2004; Public Procurement Regulations in 2008; and Public Procurement Regulations for Procurement of Consultancy Services in 2010. The Rules and Regulations, largely based on international best practices, are applicable to the procurement of goods, works and services by the federal government, state-owned enterprises and semi-autonomous organizations.

Following the federal regime, all provinces i.e. Balochistan, Sindh, Punjab and Khyber Pakhtunkhwa, and regions with special status - Gilgit Baltistan and Azad Jammu Kashmir (AJK), have also established their respective procurement authorities though, with slight variations but majorly all in line with the federal PPRA rules.

If we compare, the Sindh Public Procurement Rules are more exhaustive, they also provide an independent grievance redressal arrangement and a framework for regulating public-private partnership (PPP) procurements. The Punjab PPRA has adopted federal rules while Khyber Pakhtunkhwa has notified the NWFP Procurement of Goods, Works, Services, and Consultancy Services Rules. Punjab PPRA also exercised e-procurement, which is a very interesting case with respect to the future of procurement machinery. As for Balochistan, overall the province has followed the federal pattern. Whereas, in Azad Jammu and Kashmir, and Gilgit-Baltistan, procurement laws have not yet been introduced.

4. CRITICAL EVALUATION OF PUBLIC PROCUREMENT IN PAKISTAN

Pakistan is losing over a trillion rupees in its public procurement, which can be saved through an effective and efficient procurement system. The system is generally stagnant over the years and no substantial development has been observed to enhance its efficacy.

Over the years, PPRA rules have seen few amendments, but no significant changes have been made in the initial ordinance and consequent rules, thus, there remain many shortcomings and flaws despite nearly two decades since the authority was put in place.

The major criticism of the PPRA ordinance and rules is the lack of coherence between the two. While in actuality, the rules must be in line with the and following the spirit of the ordinance, the PPRA ordinance and rules seem like two documents on completely separate wavelengths. The ordinance, in many places, has been formed using vague terminologies with only the basic details including some unnecessary ones and lacks necessary explanations on many fronts.

The ordinance is also missing basic principles of the procurement regime, which instead have been mentioned in the rules. Including the rules of procurement in the ordinance will not only increase the worth of the ordinance, but also provide much needed legal framework and support to these principles. Additionally, no regulatory ideas that the rules shall follow have been discussed in the ordinance. The ordinance just establishes the procurement authority but fails to define the main regime of procurement, which must have been included in the ordinance to strengthen the base for the PPRA rules.

Among things that the ordinance and rules do include, a lot has been left to subjective interpretation which is highly problematic for any legal framework and guiding rules. This adds to the overall inconsistency of the procurement framework by creating a massive gap between the ordinance and consequent rules. The definition for corruption and fraudulent activities has neither been defined nor has it been linked to any specific corruption laws outside the framework of the PPRA ordinance. This creates a massive hurdle and bottleneck in procurement procedures due to a lack of clarity on what may come under the umbrella of corruption.

Basically, the PPRA ordinance and rules and regulation are extracted from the procurement manuals of the World Bank (WB) and Asian Development Bank (ADB). In fact, both the documents are a brief mixture of both the manuals of WB and ADB. Hence, removing many definitions, explanatory notes etc. leaving a space for subjective interpretation. Seems like the work was done in haste, or loopholes deliberately left for vested interests.

Besides, mis-procurement has been equated to corrupt and fraudulent activities. Without a clear definition of corruption otherwise, in addition to unclear approval mechanisms, terming mis-procurement as corrupt or fraudulent activities is not only problematic but also kills the efficiency and effectiveness of the rules. As a result, procurement officers would be most unwilling to approve procurements, and in cases where they would approve such procurements, the time costs attached will increase in a bid to ensure absolute compliance to the rules which though are not well-defined.

In parallel, there is a need to improve the bidding rules and procedures as well, as currently in case of a single bid at the first call of bids cannot be accepted regardless of its merits, but a single bid will automatically be awarded the contract if no other bids appear even during the second call. This causes a severe delay in such cases by not awarding single bidders the tender in the first attempt as the entire process needs to be repeated. The option to negotiate a price with the winner after awarding of tender, while ensuring no exploitation is also lacking from the ordinance despite its possible benefits in reducing costs where possible.

Additionally, while the PPRA was envisioned to bring about robust and efficient reforms in the procurement regimes, the limitation on splitting or regrouping of proposals is a source of inefficiency in the current framework and needs to be looked upon. The lack of flexibility in the PPRA ordinance and rules despite it being aimed at ensuring efficiency and bringing about the greater public good reflects poorly on the performance of PPRA.

Furthermore, the concept of Public Private Partnerships is still in its formative phase at the national level. At the federal level, the regulatory and legal framework for the PPPs is not backed by legislation. The federal PPRA Rules are silent regarding PPP procurements. At the provincial level, however, some progress has been made in Sindh and the Punjab. Line departments at both federal and provincial level suffer from capacity constraints as there is dearth of professionals having expertise of managing PPP transactions. The private market for PPPs is also underdeveloped.

Another significant issue is that PPRA appears to be substantially understaffed vis-a-vis its scope of responsibilities. In the given backdrop, its functioning can be improved with due support and attention. Likewise, PPRA board is supposed to comprise 10 members, but positions of three private members seem to be vacant since long. Moreover, their role gets diluted when the PPRA ordinance says five members can complete the quorum.

Summing up, within public procurement domain of the country, many laws, rules and regulations are either non-existent or poorly implemented and enforced. Capability of the staff is low and accountability and transparency is often on need basis. Public procurement practitioners face challenges from both external and internal environments. The external environment comprises legal framework, political ecosystem, economic and business situation, socio-cultural atmosphere etc. The internal environment of the public procurement regime in Pakistan is related to three key factors: individuals who make procurement decisions; processes which provide guidance to the practitioners; and controls which ensure justice, transparency and accountability. For dealing effectually with the challenges coming from both these environment, it is vital that the public procurement regime of country must have specific institutions to oversee procurements, adequate independent control and audit mechanisms, proper balance between the financial audit and the performance audit and implementation of internal control mechanisms in procuring agencies.

5. THE WAY FORWARD

The public procurement regime, without any doubt, necessities comprehensive reforms. PPRAs should be strengthened through operational independence and financial sustainability. To transform the PPRAs into autonomous, neutral, and independent regulatory bodies, the mechanism for the constitution of PPRA Boards may be reviewed. Inclusion of representatives of private-sector stakeholders (such as trade bodies), civil society, Auditor General, National Accountability Bureau (NAB), Pakistan Engineering Council (PEC), a representative of opposition members in the National Assembly may be considered. The Managing Director may also be selected from the public/private sector through an open competitive process. For financial autonomy, the PPRAs may request the Ministry of Finance/ Finance Departments to prescribe a formula for funding their activities so that there is predictability in the expected resources from the government.

Plus, there is a dire need for amendments and revisions of rules. The legal framework may be reviewed and amended periodically to address the gaps and weaknesses, improve transparency and facilitate efficiency and economy in procurement processes. For instance, to mention a few may include: value for money assessments; prescribing timelines for different steps in procurement processes; enabling provisions for e-procurement; specifying consequences of mis-procurement and specific penalties for bid-rigging or use of corrupt, fraudulent, collusive, or obstructive practices in procurement and so on.

Also, there should be a second-tier grievance redressal forum. PPRAs shall make arrangements to develop a second (independent) tier for the redressal of grievances. This will help the public procurement system in better process management and accountability of public officials which will ultimately lead to efficiency in procurements. PPRA Boards may deliberate and decide on the contours of such a tier. To ensure that the public procurements do not suffer inordinate delays, a timeframe could be given within which these complaints can be filed. The PPRA Board can also consider a standstill period which will mean that if a complaint is filed within this period, the Board could bar the procuring agency from signing the contract till the complaint is resolved. The second-tier office should duly publicize its decisions and keep a record of the complaints about the identification of common issues and persistent aberration from the rules/ norms.

E-Procurement

Shifting of procurement procedures to E-methods has long been under consideration and being tested out primarily in a few departments in Punjab. E-procurement in Pakistan, however, cannot be effectively and efficiently achieved in the current scenarios.

Before shifting to E-Procurement, it is necessary to understand that E-Procurement is not limited to just online submission of paperwork to express interest. Instead, it requires a complete digitization of the procurement procedures. This includes everything from the online availability of bidding documents, which to date remain unstandardized, to allowing changes in already submitted documents as per the provisions within the Procurement Rules.

In order to successfully implement this, it is required that a complete server-based system be developed for storing of data and processing information before the E-procurement practices can be initiated. Besides, the technical staff needs to be adequately trained to work on the system and be capable to resolve any issues faced by the bidders. Additionally, data protection also remains a major cause of concern. Measures to protect data and information shall be put in place before E-procurement methods are adopted.

Summing, E-procurement can lead to increase in efficiency in procurement regime of Pakistan, however, it needs to be done step-by-step. Complete homework must be done on introducing E-procurement before developing the systems, which then should be introduced in phases in procurement processes to avoid any system breakdowns.

Capacity building before implementation shall be the norm for E-Procurement, unlike many other aspects in Pakistan's procurement regime that continue to suffer due to lack of institutional capacities.

Additionally, the PPRAs shall develop procurement regulations, standard bidding documents, and model manuals for goods, works, and services. These regulations and manuals may be developed in consultations with the stakeholders.

In parallel, PPRA should formulate a legal framework for public-private partnerships. Fiscal limitations in countries have led to innovative approaches in the provision of infrastructure. To bridge the growing deficit between the cost of the infrastructure and the resources available, and to achieve efficiency and effectiveness in the delivery of infrastructure services, Public-Private Partnerships have emerged as a growing element of public sector procurement. To provide legal support to PPPs the federal and provincial governments may introduce a comprehensive legal and institutional framework that provides clear guidelines and procedures for the development and implementation of 14 Public-Private Procurement Partnerships in sync with international best practices.

Besides that, the government should consider to develop a cadre of procurement professionals to handle procurement and contract administration functions for improving procurement efficiency and ensuring value for money. The situation may be improved through application of a broad systemic approach. First, to develop a cadre of procurement professionals. Second, for capacity building of existing procurement practitioners; and thirdly the strengthening of the National Institute of Procurement.

Lastly and exceedingly important reform area is that PPRA must introduce E-procurement, which is the future. International experience suggests that technological innovations such as e-procurement and electronic reverse auctions can enhance the efficiency of procurement, eliminate bid-rigging, strengthen transparency and achieve value for money. The digitalization of procurement processes eliminates the direct interface between procurement officials and bidders and thereby significantly reduces the chances of bribery and corruption. Having said that, digitization is possible in the long run only. As of now, there is no ground work being done for the purpose and there also requires a skilled human resource for the subject idea.

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CRITICAL EVALUATION OF THE BUDGET MAKING PROCESS IN PAKISTAN

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1. INTRODUCTION

The budget of a country depicts the picture of its financial, fiscal, economic, and social and welfare objectives. It also gauges the policies of the government; both in domestic arena and international domain. It projects a vision for the future of its people. The decisions made in the budget and their allocations accordingly have a strong impact on the socio-economic outlook of the society. In developing countries like ours and democracies in general, budget is crucial determinant of the future of the ruling party/sitting government - who formulate, illustrate, and implement it. Budget in this regard can be considered as part of the campaign for the next election as well, and ruling party gets an advantage for sure. Moreover, owing to its sheer importance, it has a distinct place in the machinery of parliament. It is one of the most significant legislation that is debated and passed there during the fiscal year. On account of its so much eminence, the whole process of groundwork, determining, deliberation, endorsement, implementation and monitoring the execution of the budget also assumes a special importance to any democratic system. Internationally, different measures and ways are employed just to make sure that budget is inclusive.

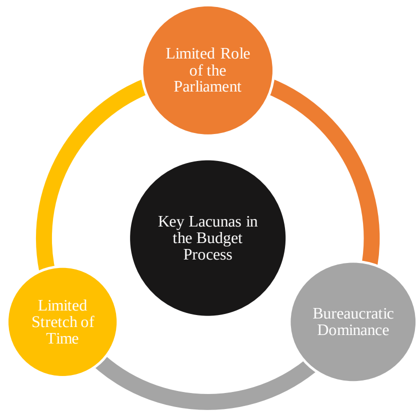
2. BUDGET PROCESS IN PAKISTAN

> **Role of the Senate**
> The budget is then submitted to Senate for recommendations. The Senate can give suggestions or make comments on budget to the National Assembly within seven days. However, the recommendation or comments by the Senate are not binding on the National Assembly.

On July 1st, the fiscal year in Pakistan takes its start. The budget suggestions which are made by the Finance Ministry and considered and approved by the Cabinet are consequently presented before the Parliament. There is no official provision in the rules of procedure for a pre-budget discussion or talk on the part of the ministry to involve the people or the Legislature on fiscal subjects and concerns. After approval from the Cabinet, the Finance Minister on the behalf of the sitting government gives his budget speech in National Assembly. On the day while budget is being presented, no other activity is permissible in the House. The stages of the budget discussion include general discussion on budget, discussion on appropriations, discussion and voting on demands for grants. Speaker is authorised to allocate days for the different stages of the budget according to the rules of procedure of the National Assembly. It requires two days to lapse between the days the budget is presented and the general discussion which happen to be on the first day. For general discussion of the budget, no less than four days should be allocated according to the prescribed rules. Any fellow of the National Assembly can move a cut motion to lessen the sum of demand. Every demand for grant is conversed and voted subsequently. Finally, a vote of account is taken, and the Finance Bill is passed.

3. LACUNAS IN THE BUDGET PROCESS

The key lacunas in the whole process of budget formulation are depicted in the chart below.



3.1. Limited Role of the Parliament

Pakistan legislative experience indicates that the there is a restricted role of the Parliament in the whole process of budget. The deliberation held on national budgets is habitually concluded just within few days. Some serious deficiencies are there in the whole machinery of budget from formulation till implementation. It doesn't give a good picture from the perspective of good governance too. It lacks active participation from the side of parliamentarians and parliament as a whole; there is no involvement of committees at any phase. The process as it is now, seems more to be a ritualistic one. It is by no means technical or policy reflective or has no significant input from the legislature. Individual lawmakers or legislative body as a whole has almost no research and analysis support from any kind of research department. In some countries, pre-budget discussions offer an opportunity for civil society members to provide their input into the budget cycle. No such exercise is commenced in Pakistan formally.

International Examples

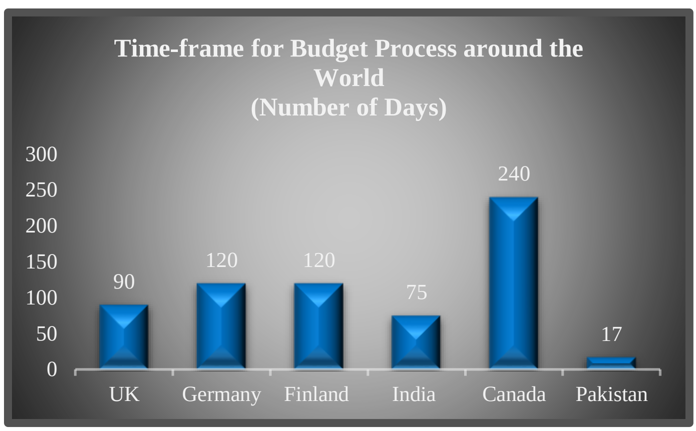
In Canada and India, parliamentary committees play a significant role in the budget making process, where committee assessments provide a chance to the parliament for detail scrutiny, the government's budget proposals and their likely impact on future financial management.

3.2. Bureaucratic Dominance

In Pakistan, the budget formulation process primarily remains an exclusive dominion of the shrewd bureaucracy, which of course is not the elective representation of the people. True representatives which are elected through the power of vote are systematically kept out of the loop regarding budget making. It is very obvious that technicalities of the budgets and numbers game has to be done by the bureaucrats and everybody agrees upon this, but the broad policy choices and course of the budget need to reflect the policy of an elected government. This is the point where extensive participation of the elected representatives is vital to make the budget inclusive process and not the entitlement of the few. Among the elected executives, it is only the Finance Minister and Minister of State in some cases who are somewhat involved in budget making. Even the cabinet which has to take the collective responsibility of all the government decisions is made to bless the budget as decorum just few hours before the budget is formally presented in the parliament. The present parliamentary budget process which hardly runs for around two weeks offer very little time for the elected representatives to either shape or meritoriously review the budget. The parliament and more precisely the National Assembly is used by the bureaucracy as a rubber stamp on this significant job of legislature. Thus, the current process does not provide any opportunity for the parliamentarians for their meaningful inputs. There is a solemn need for lawmakers to take part in budget making process at its various stages. As representatives of the people, legislators should set their priorities reflecting in the budget as per wishes of their voters.

3.3. Limited Stretch of Time

The annual budget statement is generally presented in the National Assembly during the second week of June every year and is passed in the beginning of the last week of June, which leaves around 12 to 17 working days for the various stages of budget debate in the National Assembly. For instance, this year's Budget 2021-22 was presented on June 11, 2021. Then there was a gap of two days to start the debate on budget and on June 29, 2021, budget was finally approved. So, there was 16 days in total from presentation of the budget and its approval, without considering off days and parliament in session days. Why such a haste? The budget debate is an exercise to make parliament answerable for something it knows nothing of and has had no role in formulation or reviewing. Parliamentarians are provided roughly like 1500 to 2000 pages of finely typed printed papers bunged with figures which are hard to decode even by experts on the day the budget is presented. They have no institutional or individual backing to get briefed on the budget and they get just 02-03 days to start debating the issue. This does not let even the parliamentary parties enough time to study the budget, establish their corresponding positions and brief individual members on the considerations of the deliberation. The result is



that budget speeches cover nearly anything and everything under the sun but hardly any logical or thoughtful appraisal of the budget. Most of the speeches relate to the respective electorate problems and subjects, but rarely analyse the budget. The entire budget debate continues for an average 12 days which averages around 34 hours. At no point, any part of the budget is referred to a committee for detailed review and the entire exercise is carried out in the plenary sessions of a house of 342 where no meaningful analysis or dialogue can take place. In comparison to the parliamentary budget process of Pakistan, Indian Parliament follows a parliamentary budget process of 75 days' spell. Shortly after the general debate, the Demands for Grants for every single ministry are referred to their corresponding standing committees called Departmentally Related Committees. It is in these committees that the budget goes through a thoughtful, in-depth, and mostly non-partisan analysis. Each Committee makes a comprehensive report on its appraisal of the Demands for Grants which is then presented to the plenary which ultimately passes the budget at the close of 75-days cycle. Thus, keeping in view, the importance of the budget process, it is proposed that as a first step, the duration of the parliamentary budget process in Pakistan should be extended to minimum 60 days starting from May 01 and concluding on June 30. The budget should be presented on first working day of May each year. Likewise, mirror reforms are inevitable in the provinces as well. The current rules of the provincial assemblies also do not permit finance bill to be referred to the standing committees. The Rules of Procedure or the conduct of business in the provincial assemblies ought to be revised to offer a role for the standing committees to evaluate ministerial demands for grants once the budget is presented and formulate reports by identified period and table those reports in the House. The debate on budget should resume in the light of reports by standing committees. At present, the rules of procedures in the National Assembly do not halt committees from holding pre-budget hearings linking to their Ministries/Divisions but a more pro-active role by the committees and a backing infrastructure were required.

THE IDEA OF PARTICIPATORY BUDGETING

Participatory budgeting (PB) is a different way to manage public money, and to engage people in government. It is a democratic process in which community members directly decide how to spend part of a public budget. It enables taxpayers to work with government to make the budget decisions that affect their lives. Basically, voters elect politicians to improve their communities, not just to do mere legislation without involving private sector of public in general. If elected legislators and government authorities share the responsibility of budgeting with the public, then they can better address local demands. PB helps in efficient decision making increasing the overall social welfare. Participatory budgeting is established in most of the developed countries and some developing countries have also adopted the model to consolidate democratic processes[1].

ROOTS OF PARTICIPATORY BUDGETING

Participatory Budgeting emerged in Brazil as part of a larger effort to overturn Brazil's long history of patronage politics, social inequity, and corruption. Government, civil society, and political parties mobilised to experiment with participatory budgeting as a way to improve government transparency and increase citizen voice in government decisions. Participatory budgeting began in 1989 in the municipality of Porto Alegre when the Workers' Party won the mayoral elections. The new government experimented with different mechanisms to overcome fiscal constraints, re-direct capital investments and services to the poor, and provide citizens with a direct role in decision-making. Participatory Budgeting emerged from this two-year experimental process. Since then, PB has spread throughout Brazil and nearly 140 municipalities and five states have implemented some sort of a PB program. Today, over 27 countries are implementing some kind of PB program.

ADVANTAGES OF PARTICIPATORY BUDGETING

- Consolidates democracy
- Ensures transparency and accountability
- Informed Decision making
- Fair Spending

4. CONCLUSION

In conclusion, few policy recommendations are being proposed from the above analysis, which would help improve the system or at least start a healthy discussion about the subject. Firstly, in order to link the break between people and the Parliament, each standing committee should hold 03 to 05 days' public hearings on ideas, views, and proposals about the next budget from the stakeholders relating to the area of concern/expertise of each committee. The hearings should be publicised in the media and media be allowed to cover the hearings. This act alone will be the single most rewarding activity for the Parliament and parliamentarians. Each hearing should be well-documented.

Secondly, the standing committee on finance may undertake a comprehensive exercise of holding pre-budget public discussions in several cities of the country. The exercise may instigate with the advertisements in national newspapers by the Finance Committees inviting public and various interest groups and stakeholders such as Chambers of Commerce, Civil Society Organisations (CSOs), and Trade Unions to propose their thoughts and recommendations for the next budget in script. The committee then may travel to numerous cities of the country where it may hold open forums with the people and all major stakeholders about the next coming budget. The Finance Committee should invite various experts to present their viewpoints. Grounded on this exercise, the committee may pile up its report and endorsements and advance these to the Ministry of Finance for possible incorporations in the budget. This exercise may not only strengthen the position of the parliament as the supreme body that would articulate public views and concerns on subjects of public and national concern, but it will also make available very useful insight into public issues and would make the budget making process an inclusive one. The committee may act as a very effective link between the people and the executive.

Thirdly, many developing countries have established an agency of the Parliamentary Budget Office, a sovereign office that looks at the budget and national economy from the perspective which is dissimilar from that of the executives and provides this information to the Parliamentarians. Pakistan's parliament can also devise such an office to offer technical support to the parliamentarians with respect to budget formulation and related dynamics.

Fourthly, a number of parliaments across the globe have their Autonomous Budget Offices; Philippines established its Congressional Budget Office in 1990, Mexico in 1998, Uganda in 2001, Canada in 2006 and lately Afghanistan in 2007. Such an office provides an independent non-partisan enquiry of the budget to the parliamentarians who can greatly help them in reviewing the budget and developing an opinion on it. In keeping with the increasing trend in the world, Pakistani Parliament should initiate the establishment of an Independent Budget Unit within the Parliament as a starter, having experts who can provide impartial information as well as analysis relating to the budget for the understanding of the parliamentarians. A feasibility study be commissioned and a comparison of various Independent Parliamentary Budget Units existing in the world may also be considered. Afterwards, it may also evolve into Autonomous Budget Unit, functioning as an exclusive body, formulating budget proposals from a technical and academic perspective, which then would be reviewed by the Parliament for approval – keeping in view the political priorities and national consensus.

Lastly, reform of the budget process must also create space to involve civil society stakeholders. As entities organised around shared interests, purposes, and values, they can be an important countervailing power to the state. Think tanks, policy institutions, Non-Governmental Organisations (NGOs), professional associations, communities, activists, support groups, volunteers, social enterprises, trade unions, cooperatives and academia can help set intra-sectorial and inter-sectorial priorities and strengthen analytical ability.

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