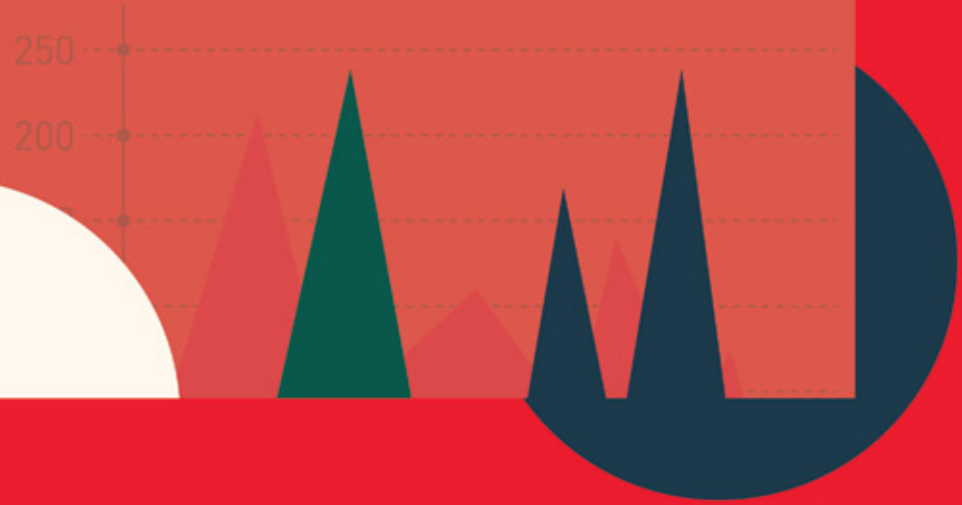
PIDE

Pakistan Institute of Development Economics

CELEBRATING 5 YEARS OF

# REASON, RIGOR & RESEARCH




OCTOBER 2024

**The Pakistan Institute of Development Economics**

A center of cutting edge research on Economics,
Governance and Public Policy since 1957 and the official think tank
of Ministry of Planning, Development and Special Initiatives.

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# HOMAGE TO *Dr. Nadeem Ul Haque*

Who is a leader? This question brings many answers and queries. Is a leader a person who leads by example or is he/she someone who takes charge to control and authorize? Does leading positions in the public sector bring an unquestionable adherence to power or can it be about inclusion, diversity, and equality of opportunity and opinions? These questions become even more complex when we consider them for a leadership position at a place that requires intellect, knowledge, and most importantly IDEAS!

PIDE, Pakistan's oldest and leading public sector think tank, was fortunate to have such a leader for the last five years. One with rigour, radicality, criticality, and foresightedness- Nadeem Ul Haque.

Haque is the leader public sector organizations need and deserve. He not only leads by example, but he paths ways for the people to explore, invigorate, and even fly. He is inclusive in sociality and determined in professionality. He is radical in his thoughts and steadfast in his vision. He is quick to learn and easy to adapt. He expects to push the envelope after he pushes it himself. He has done things for the Institute no one else could imagine or dared to imagine. He is never subservient to the powerful...something that becomes a source of frequent annoyance in certain quarters. He is always unafraid. He questions. He critiques. And he is always ready to be questioned and critiqued. He reads to impart, he ideates to give, he questions to improve and happily takes a back seat to cheer for others. He is a legacy.

When Haque joined PIDE in October 2019 as the Vice Chancellor, the Institute was struggling to align its research with the recurrent issues of Pakistan's economy and public policy. He brought policy-informed research back to the institute's agenda, and a radical shift not only in research but also in the outlook of the employees occurred. With engagement with the leading local and international academics, policymakers, politicians, and development practitioners, he developed PIDE's research agenda siphoning into the power corridors through consistently engaging dialogue and debates. He envisioned PIDE's research agenda, organized platforms to articulate it, developed teams to execute it and campaigned to disseminate it. Due to his amicability, malleability, and consistency, PIDE stands tall in policy-informed research with its thematic areas focusing on economic growth, cities and urban development, the energy sector, regulatory burden, demography, education and healthcare, law and economics, and public sector management.

He started many research projects on critical public policy issues, some of which have been incorporated into policymaking. His idea of Sludge and the Cost of Bureaucracy, intensely researched by his carefully constructed team, is being acknowledged both in policy circles and by the world's leading academics, including the Nobel Laureates. His masterstroke of researching key policy-laden areas such as the evaluation of Pakistan's regulatory authorities, estimating the cost of regulatory burden, and paid parking in Islamabad, to name a few, and conducting conferences, seminars and webinars to build academia-policymakers nexus is proven most fruitful.

The formats and platforms to develop and disseminate research during the last five years were diversified. These include innumerable books, the journal Pakistan Development Review, Knowledge Briefs, Policy Viewpoints, seminars/webinars, Discourse magazine, regional conferences, policy-dialogue moots, and the public's economics festival, the EconFest.

Haque does not merely believe in producing research, he emphasizes marketing it, reverberating it, and spelling it out loud to academics and policymakers. For this, he engaged with youth, developed a media and outreach office, he hired young people in the institute; a freshness in thought which was lacking. Initiatives like the PIDE YouTube channel, documentaries, animated videos, podcasts, newspaper articles, and Twitter/X Spaces were all to take the Institute's research to all kinds of audiences, including laymen.

Most of the linkages developed in the last five years, such as media-academia, industry-academia, and policymakers-academia are the result of his dream of building a thought community in Pakistan. Academic, policy and corporate research in Pakistan has remained constricted to the silos. The aim to make it intersectional and interactional has been materialized by Haque. He believes that without digging deep into the heartlands of the country, digging out rooted issues Pakistan's economy is confronting, and becoming the intermediary between policymakers and the problems of the common person, change will never happen.

With the same spirit, he took the Annual General Meeting and Conference of the Pakistan Society of Development Economists (PSDE) out of Islamabad, and into the country's heartlands: Peshawar in 2021, Quetta in 2022 and Multan in 2023. Including these conferences, PIDE in totality, has organized conferences, consultative sessions, and seminars in 18 different geographical areas of Pakistan, including Malakand, Chitral, Gwadar and Gilgit Baltistan. These academic and policy networks have been developed with the provincial governments, development partners, universities, think tanks, foreign institutes and R&D reforms. Haque believes in building thought networks.

The most important initiative during his tenure to build a thought network in Pakistan is the Research for Social Transformation and Advancement (RASTA). This initiative with its eulogization of 'Local Research, Local Solutions' has turned into a slogan for research that is local, indigenous, and contextual. RASTA, now Pakistan's largest economics and public policy research grants program, has established an extensive knowledge network and produced high-quality, evidence-based policy research. It has engaged 65+ Universities, 12 International Institutes, and 3,200+ researchers, academicians, and practitioners. A network like RASTA has been Haque's dream for a long, and the last few years have led to its realization.

With Haque's five-year tenure nearing completion, we, the staff of PIDE, pay our deepest homage to his contributions in creating and developing ideas and stressing the need for local thought and research in policy-making. His impact on the Institute, and even the country, is much more than this write-up can ever do justice to. This book is just a small token of our appreciation and an acknowledgement of the ideas and the culture of debate you have germinated at the Institute. With its key thematic areas, covering Macroeconomy, Regulatory Burden, Opportunities, Cities as Engines of Growth and Markets, the book reverberates all the ideas you have spelt out over the last five years.

We want to THANK YOU for all you did for PIDE and for us!!

May your tribe grow. May you grow.

WE WILL MISS YOU.

*Durre Nayab &*
*Fahd Zulfiqar*
(ON BEHALF OF THE STAFF OF PIDE)

# MACROECONOMY:

## Concurrent Issues and Reforms in Pakistan

# DOING DEVELOPMENT BETTER

Mohammad Shaaf Najib

The federal government in the budget for the fiscal year 2024-25 proposed an outlay of PKR 1,400 Billion for the Federal Public Sector Development Programme (PSDP), which was later reduced to PKR 1,150 Billion and approved by the parliament with the passing of the Finance Bill 2024-25. This is the first occasion when the PSDP allocation in the federal budget has crossed the one trillion-rupee mark. Over two-thirds of the PSDP funds have been allocated to the ongoing schemes for FY25, indicating the mammoth size of the PSDP portfolio. The focus this year too remains on dealing with infrastructural development challenges along with the transportation, energy, IT and Water Resources Sectors.

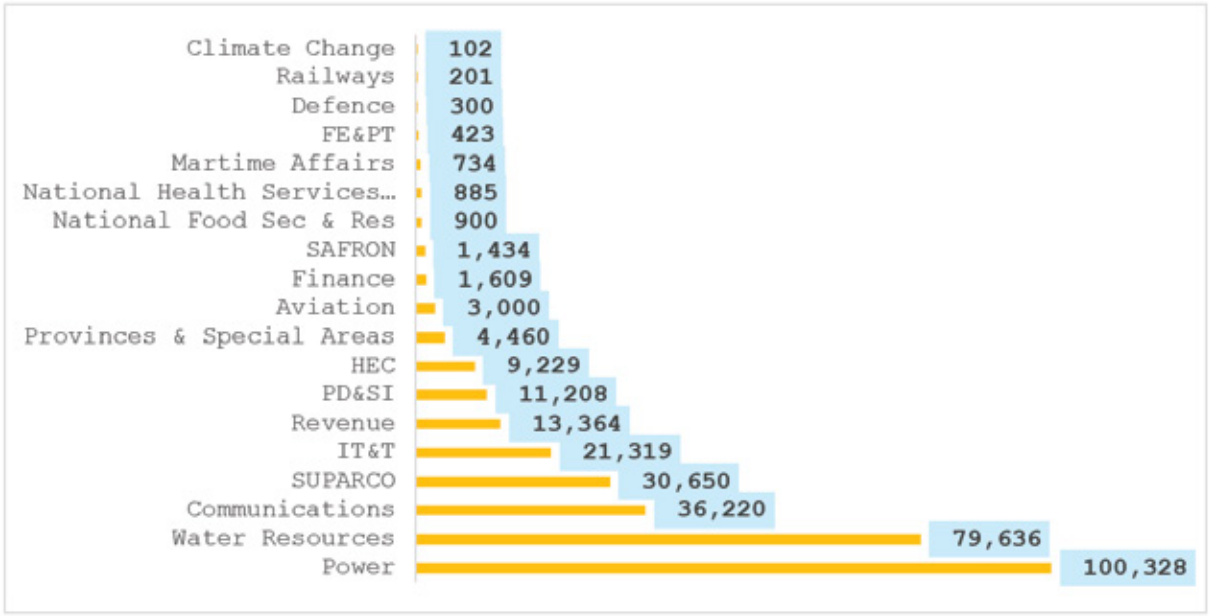
The PSDP 2024-25 allocations, as per the guidelines of the National Economic Council have been prioritized on the following:

a. Projects about Water Resources, Transportation, Communication and Energy. These projects have been categorized as Strategic and Core Projects.
b. Projects with a major foreign loan component to ensure timely completion of such projects
c. On-going schemes upon which 80% of expenditure has been conducted FY24 to complete such projects in FY25.

While the government has further expanded the PSDP by introducing a little below 200 new schemes, the challenges associated with it seem to not be decreasing any time soon. The throw forward as of 01-07-2024 has exceeded PKR 11 trillion. A third of the ongoing projects remain incomplete despite completing their gestation period while cost overrun is

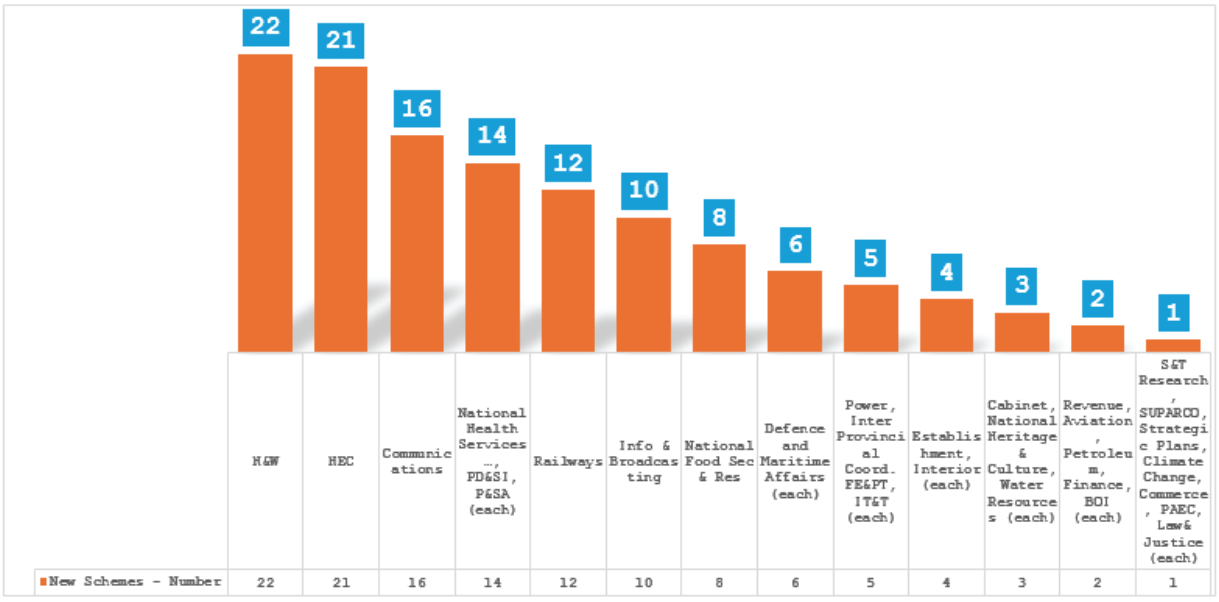
a common occurrence in various projects as well. In addition to the throw forward, the foreign loan component of the PSDP projects is also significant. The foreign aid component forms over 40% of the total PSDP portfolio and 22% of the ongoing fiscal year's PSDP allocations (Figure 1).

Figure 1: Foreign Loan Allocation - PSDP 2024/25 (PKR Million)




The PSDP focus has remained primarily on infrastructure and real estate projects. Even in the PSDP 2024-25, the new schemes introduced focused on the same areas, with a few ministries taking most of the cake. (Figure 2).

Figure 2: New Schemes per Ministry/Division - PSDP 2024/25



This, however, has not happened overnight or in a few years. Instead, this is a direct consequence of the long-term development focus of the federal government which has remained consistent under different governments over the decades. It does beg the question; how did the decision-makers converge to adopting this developmental approach in Pakistan?

## EMERGENCE OF PAKISTAN'S DEVELOPMENT APPROACH

After independence from British India in 1947, Pakistan was faced with severe economic challenges. With a negligible industrial base and limited infrastructural development, stimulating economic growth was quite an uphill task. In the initial decades, the agriculture sector shouldered the country's economic progress; however, the need for industrialization in the country was timely identified. To crowd in investment in the manufacturing sector, the country needed to develop the necessary basic infrastructure and allied facilities to make investing in Pakistan a viable and practical option.

Consequently, in the decade of 1960s, Pakistan adopted a new development model for nationwide infrastructural development through project-based public sector investment to attract private investment with three following key aspects to the public sector investment:

1. Building physical infrastructure/Expenditure on brick and mortar
2. 5-year plans for expenditure consistency on physical infrastructure
3. Seeking foreign loans and aid to finance physical infrastructure projects, if need be.

This development model was proposed by the world-renowned Pakistani economist Dr. Mahbub Ul Haq, and was supported in this by the Harvard Advisory Group and hence is referred to as the Haq/HAG Model. Dr. Haq believed that it was essential to pursue high growth in developing economies, but it is unattainable unless necessary infrastructure is present in the country. As a result, his development model proposed directing public sector investment towards developing physical infrastructure including transport network, land development and other allied utilities and necessities. To ensure that public sector investment in physical infrastructure remains an expenditure priority, medium-term budget planning under the umbrella of five-year plans was introduced to maintain financing the sectoral hardware.

Moreover, realizing the fiscal constraints for the country to effectively finance such large-scale physical infrastructure development, Dr. Haq recommended that the financing gap must be filled by obtaining foreign loans to fund the brick-and-mortar infrastructure projects when domestic savings fall short of financing this expenditure.

Given the economic challenges faced by Pakistan at the time, coupled with the negligible industrial and infrastructural base, the Haq/HAG model presented an adequate development approach as per the needs of the time. Research, even decades later, supports the hypothesis of Dr. Haq at the time. Hussain et.al. (2017) and Butt & Faraz (2022) have both found that PSDP expenditure crowds in private investment. However, Hussain et. al. (2017) and Butt & Faraz (2022) also concluded that this applies only to a few sectors and not all

sectors of PSDP spending. Ahmed & Ammad (2011) have extended this argument to state that while PSDP does crowd in investment to some sectors, it also crowds out in other sectors. Therefore, while Dr. Haq's thesis is that public sector investment to develop physical infrastructure is necessary for attracting private investment and stimulating economic growth, there is a limit to it as well.

While all the developed economies in today's world focused on necessary infrastructural development to promote economic growth and development, unlike Pakistan, they over time have successfully managed to evolve their development approach as per the needs of changing times and economic conditions. Pakistan, on the other hand, is still stuck in the same hardware focus as proposed by the Haq/HAD Model.

Modern policy globally focuses on promoting economic growth through a focus on developing human capital, increasing productivity, enhanced policy management, innovation and strong institutions. In simpler words, developing the software of the economy is the catalyst for economic growth in the modern world. Unfortunately, Pakistan still finds itself focused on developing the hardware of the economy without due diligence to evaluate the effective utilization and management of the physical assets it keeps building.

## THE PSDP OF TODAY

As aforementioned, the focus of the federal PSDP has not evolved in the last half-century. Long-term project-based spending on physical infrastructure with a high foreign loan component has made the PSDP not just a major liability but a fiscal threat to the federal government. In the annual budget for the Fiscal Year 2024-25, the debt servicing cost for the federal government is equal to the targeted tax revenue. This means that if the government can achieve its targeted tax revenue for the year, it will entirely be used to pay just the interest on the already accumulated debt. To finance all other current expenditures as well as development expenditures, the government will be forced into raising further debt. As mentioned earlier, the foreign loan component is approximately 22% of this year's PSDP allocation. This is the direct debt in the project costs, however, given the current fiscal scenario of the country, the remaining expenditure will also be financed through raising further debt thus making the entire PSDP debt funded.

This has however not happened overnight but is a continuation of the Haq/HAG development model long past its effective life. In recent times, the Pakistan Institute of Development Economics has done a considerable amount of work in analyzing the persistent issues within the PSDP and proposing necessary reforms. Over three-fourths of the PSDP still consists of infrastructural and real estate development projects.

Zubair et al. (2023) conducted bucket analysis to conclude that there is no clear trend of annual decay i.e. reduction of throw forward present in the PSDP, while Haque et al. (2020) have estimated the output efficiency of public capital to be only a meagre 33.0% in Pakistan. Zubair et al. (2023) and Haque et al. (2020) both highlight that public investment has failed to drive economic growth in the country. This is substantiated by Pasha et al. (2011) estimates that the fiscal multiplier of the development spending in Pakistan stands equal to two, thus, showing that public sector development expenditure is unable to invigorate economic activity and growth in the country.

Moreover, Butt & Faraz (2022) and Ammad & Ahmed (2014) both through empirical analysis concluded that the development spending in the country while might be able to generate some employment opportunities in the short run, there is no long-run relationship visible between public sector development spending and employment generation in Pakistan.

# FROM HAQ/HAG MODEL TO THE HAQUE MODEL

The Haq/HAG model has outlived itself in Pakistan. It is about time that Pakistan shifted its development model based on a modern approach as per the needs and requirements of the 21st-century world. While criticisms of the Haq/HAG model and the current state of the PSDP can be found in abundance, what must replace this development model is a topic less talked about.

The Pakistan Institute of Development Economics organized a conference titled 'Doing Development Better' in 2020 where a study under the same title was presented and discussed. The reform idea as presented in the study and hence discussed in the conference focused on shifting the development approach of the country from the hardware of the economy towards the software. It emphasized strongly the need for developing a research-backed coordinated development strategy to drive economic growth in the country. Haque et al. (2020) also pressed upon the need for adopting a pre-approval cost-benefit analysis (CBA) of the proposed projects while also ensuring post-completion project evaluations to assist in improved and informed decision-making about public sector investment.

Considering, the Pakistan Institute of Development of Economics (PIDE) based on its research, consultations and conferences has chalked up the following recommendations for reforming the PSDP:

1. Cleaning the PSDP portfolio
a. Systematic portfolio cleaning which involves early completion of projects nearing completion or having completed gestation period, identifying low return projects and projects yet to take off and immediately shut down to save costs.
2. Placing a moratorium on new PSDP projects
a. The throw forward has crossed PKR 11 trillion and requires at least one decade of entire allocation and complete utilization for clearing the entire throw forward.
b. Moratorium on new schemes will allow more funds directed towards ongoing schemes to speed up completion and clearing the throw forward significantly.
3. Devolution of Development
a. The Federal PSDP must not be used for micro-managing development in cities and villages.
b. Development should be localized, with local governments empowered to carry out development work in their areas.
4. Focus on mega projects
a. The federal PSDP must only focus on mega-national projects as identified and approved by the parliament.
5. Creation of a sovereign wealth fund

a. All public assets that yield returns must be used to create a sovereign wealth fund which must then be used to finance future development expenditures.

6. Refocusing development from hardware to software of economy

a. The focus of federal PSDP must be diverted from just physical infrastructure to capacity building, human resource management, productivity and innovation.

7. Adopting a Result Based Management Framework for approval, monitoring and evaluation of PSDP

a. Under the RBM Framework, a baseline survey is conducted to assess the status quo
b. Intermediate and final project outputs are identified based on supporting research
c. Identification of inputs and aligning with outputs
d. Setting quantifiable and measurable targets at various stages of implementation as well as tangible post-completion outcomes

The above can be termed as the "Haque Model of Development", based on the fact that Dr. Haque presented a comprehensive analysis of the underlying issues within the PSDP, the issues associated with the Haq/HAG model of development in today's world while also presenting a wide-ranging development reform proposal. Doing Development Better, and other associated work done by PIDE during this time for the reformation of PSDP must be taken as the blueprint for future decision-making about the public investment.

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# REER AS A MEASURE OF EXCHANGE RATE MISALIGNMENT

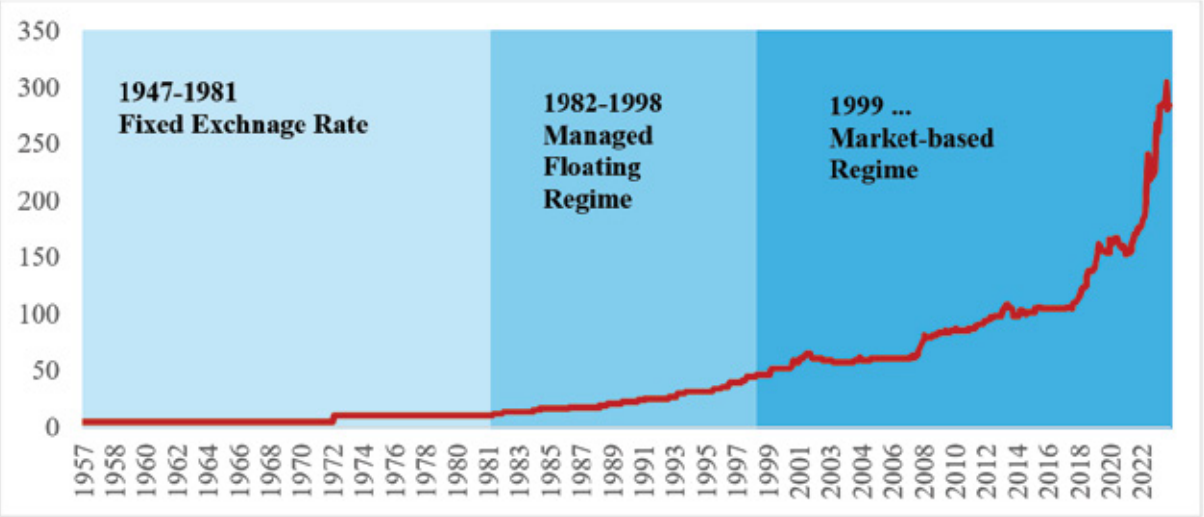

Hafsa Hina

The exchange rate is considered as a measure of a nation's relative success in the external sector. For example, an appreciation of the currency rate indicates that a country has performed better than its competitors, and vice versa. However, this measure is applicable under flexible exchange rate regime, where the exchange rate is determined by market forces. According to IMF's report on Exchange Rate Arrangements, only 29 countries in the world are following purely flexible exchange rate regime and rest of the countries are following Managed Float exchange rate regime (Poirson, H. ,2001). In managed float, exchange rates are controlled by SB's direct and indirect interventions in the foreign exchange market, which leads to undervaluation or overvaluation of exchange rate.

## EXCHANGE RATE REGIMES IN PAKISTAN

- Pakistan remained under fixed exchange rate regime till 1981.
- Adopted managed float in 1982.
- Adopted market based exchange rate in 1999, but never allowed exchange rate to take its market value.

Figure 1: Exchange Rate Regime




# IS PAKISTANI RUPEE OVERVALUED?

Over the past five years, PIDE's research on the exchange rate has focused on uncovering the complexities of currency devaluation and the uncertainties surrounding Pakistan's foreign exchange market. By exploring key issues such as depreciation, undervaluation, the effect of exchange rate fluctuations on prices, and the onset of currency crises, the research provides valuable insights into how exchange rate policies can shape economic outcomes. In Pakistan, the exchange rate policy has always tended toward overvaluation due to SB continuous intervention in the foreign exchange market. SB, continuously supporting the overvalued exchange rate at the cost of depleting foreign exchange reserves (see Figure 2) even in the market based exchange rate regime.

Due to the intervention of SB, in last thirty years we have seen five currency crisis (for details see Haque and Hina, 2020).

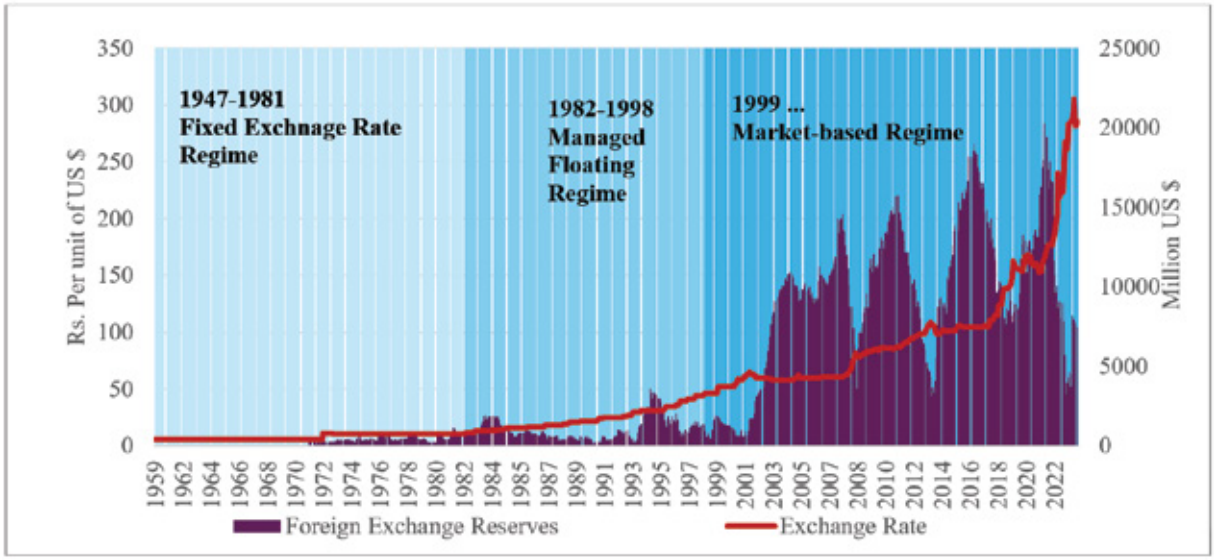
- In 1993, Pakistani rupee was devalued by 10% at the cost of 31% declining foreign exchange reserves.
- In 1999, Pak rupee was devalued by 12% at the cost of 51% declining foreign exchange reserves. It is known as foreign currency deposit crisis, in 1990s dollarization increased as the SB was allowing banks to take dollar deposits and on lend to the SB with the SBP taking the exchange risk. By the end of the decade the SBP had liabilities stood at about 11 billion dollars while reserves had fallen to 2-3 weeks of imports.
- Third crisis is the fixed rate of the 2000s in the Musharraf's era, the exchange rate was fixed at 60 to the USD. But in 2006 we lost foreign exchange reserves by 31% and depreciated the rupees by 14%. At the same time, we went into IMF standby agreement 2008.
- In 2014, domestic currency appreciated by 7%. The reason behind this appreciation is that PML-N had relied mostly on borrowing loans from international financial institutions and friendly countries to build up foreign exchange reserves. Foreign exchange reserves increased from $ 5.67 billion as on February 2014 to $ 8.70 billion on April 2014.

- Finance Minister Dar willfully fixed the exchange rate despite much public opposition from various factions such as known economists. In defense of the rate substantial reserves were lost. By 2017, the folly of the fixed rate had become apparent and a series of depreciations were allowed as reserves continued to bleed. By the middle for 2019 the exchange rate had depreciated from 98 to the USD to 164, a depreciation of 67%. It finally settled at 155 to the USD after an IMF program had been signed.

Pakistan facing a growing shortage of foreign reserves, limited capacity to import essentials such as food and fuel, high inflation and the continued depreciation of the Pakistani rupee against the US dollar. In recent year rupee's value depreciated due to a growing gap between the demand and supply of the US dollar. In order to resume the halted International Monetary Fund (IMF) loan programme, the government lifted an unofficial exchange rate cap on the US dollar to Pakistani rupee (USD-PKR), the exchange rate reached a new all-time low of Rs299/$ in the interbank market on May 11, 2023. Later on, the gap between the official interbank rates and the open market rates motivated non-resident Pakistanis to send their remittances via illegal hawala-hundi networks. Therefore, a significant portion of emigrant Pakistanis chose to utilize unofficial channels for transferring their funds.

SB is again intervening the exchange market and maintaining the exchange rate around Rs. 280/$ which is against the macroeconomic fundamentals of the country. Therefore, the prevailing exchange rate does not reflect the equilibrium exchange rate. In countries like Pakistan exchange rate overvaluations highly unsustainable given the low level of foreign exchange reserves and deep-rooted structural external imbalances.

Figure 2: Foreign Exchange Reserves




# EXCHANGE RATE MISALIGNMENT

Exchange rate misalignment is defined as the deviation of actual exchange rate from its (long-run) equilibrium exchange rate. Jalil (2020) simulated a counterfactual exchange rate in the absence of central bank intervention and found that the support of SBP kept the

exchange rate overvalued for a long time. If the SBP does not intervene to support the foreign exchange market, the nominal exchange rate would have been higher around 17% as compared to the current level.

## REER AS A MEASURE OF EQUILIBRIUM EXCHANGE RATE

Several methodologies are available to gauge whether a currency is over or undervalued (see Box 1). A simpler method is to examine the real effective exchange rate (REER). A REER value greater than 100 in a specific year signifies that the currency is overvalued, whereas a REER value less than 100 indicates undervaluation relative to its assumed "fair value of 100" in the base year.

REER also offers valuable information on a nation's competitiveness in global trade. An increase in REER implies that exports become more expensive and imports become cheaper; therefore, an increase indicates a loss in trade competitiveness (International Financial Statistics).

### ASSESSMENT OF EQUILIBRIUM EXCHANGE RATE

Different approaches have been developed to evaluate the equilibrium exchange rate. Such as, Purchasing Power Parity, PPP with Balassa-Samuelson (B-S) Effect, Fundamental Equilibrium Exchange Rate, Desired Equilibrium Exchange Rate, Behavioral Equilibrium Exchange Rate, Permanent Equilibrium Exchange Rate, Natural Real Exchange Rate, The IMF approaches - The Macroeconomic Balance (MB) Framework, Equilibrium Real Exchange Rate, External Sustainability Analysis. These techniques are unique in its focus; objective; conceptual framework, underlying assumptions; and empirical construction (Khalid, 2014)

## CONSTRUCTION OF REAL EFFECTIVE EXCHANGE RATE INDEX

Construction of REER index is based on three components:

1. The number of foreign countries to be covered,
2. Weights, and
3. The price indices.

# COUNTRY COVERAGE

All countries that directly or indirectly compete with home producers in third markets should ideally be taken into account.

### REAL EFFECTIVE EXCHANGE RATE (REER) INDEX

In international markets, where a nation engages in trade with several other nations, the real exchange rate is calculated as an effective index called the real effective exchange rate (REER) index. A nation's overall level of international competitiveness is indicated by its REER.

REER measures how nominal exchange rates adjusted for price differentials between the country and its trading partners.

$$REER = NEER * RPI$$

$$NEER = \prod_{i=1}^{N} (e_i)^{w_i} \text{ and } RPI = \frac{P}{\prod_{i=1}^{N} (P_i)^{w_i}}$$

where e_i is the nominal exchange rates of domestic currency against the currency of trading country i, P is the index of domestic prices; P_i represent price indices of competitor countries; and w_i is the relative weight of the trading country i in the index.

# WEIGHTING SCHEMES

The choice of trade weight depends on the specific purpose for which the index is intended to be used. Generally, four types of weights are employed:

1. Trade flow weights: These are based on bilateral exports, imports, and total trade concerning trade destination.
2. (ii) Weights reflecting third-country competition: While bilateral trade shares are suitable for evaluating competitiveness on a direct trading partner basis, they do not account for the "third-country" effects—the competition faced by a country's exports in foreign markets from alternative sources.
3. (iii) Capital Flow Weights: These are based on the currency of denomination rather than the destination of trade.
4. (iv) Weights derived from a multilateral model: This approach takes into account the

relevant price elasticities of demand and supply, as well as their feedback effects on domestic costs and prices resulting from a given exchange rate change.

# PRICE INDICES

The most important component in the measurement of REER is the choice of price index. Ideally, the price index should representative of traded goods, possibly excluding primary products. This exclusion is justified by the fact that prices for primary products tend not to vary significantly internationally, even when there are changes in underlying competitiveness. Furthermore, the selected price index should be exogenous to the exchange rate, reflecting equilibrium values rather than transient fluctuations associated with phenomena like "pricing to market" or other short-term influences.

In reality, identifying equilibrium price indexes for traded goods is challenging. The available alternatives are consumer price indexes (CPIs), wholesale price indexes (WPIs), GDP deflators, export and import unit values, and unit labor costs. It is widely acknowledged in the literature that each of these measures comes with its own set of advantages and disadvantages (see Table 1).

Table 1: Advantages and Disadvantages of Various Price Indices

| Price Indices | Advantages | Disadvantages |
|---|---|---|
| **CPI** | • Take into account both non-traded and traded goods | • CPIs are influenced by the exchange rate since they encompass import prices, potentially understating changes in competitiveness. |
| **WPI** | | • It comprises of similar tradeable goods, resulting in prices that tend to equate across countries when expressed in a common currency. Therefore, RER based on WPIs make it difficult to measure actual change in competitiveness. |
| **GDP deflator** | | • Contains a higher percentage of non-traded goods<br>• It might not show the end product's price; for instance, the manufacturing sector's GDP deflator does not include the cost of intermediate inputs across the board. Therefore, compared to the WPI, the GDP deflator may be a less accurate price indicator. |
| **Export / Import unit values** | • Useful indicator of a country's external competitiveness<br>• Excluding non-traded goods | • Significantly influenced by the costs of primary products and heavily weighted with prices of primary products. |
| **Unit labor costs** | Labor costs are less subject to exchange-rate effects than traded-goods prices. | • Unit labor costs are calculated using labor productivity and worker compensation, both of which are not always reliable and available on a timely basis.<br>• While labor is generally immobile worldwide, goods are exchanged on global markets. As a result, labor prices vary significantly among nations compared to other production expenses, and they disproportionately affect a country's ability to compete. |

Note: This table is constructed by consulting various research papers provided in bibliography.

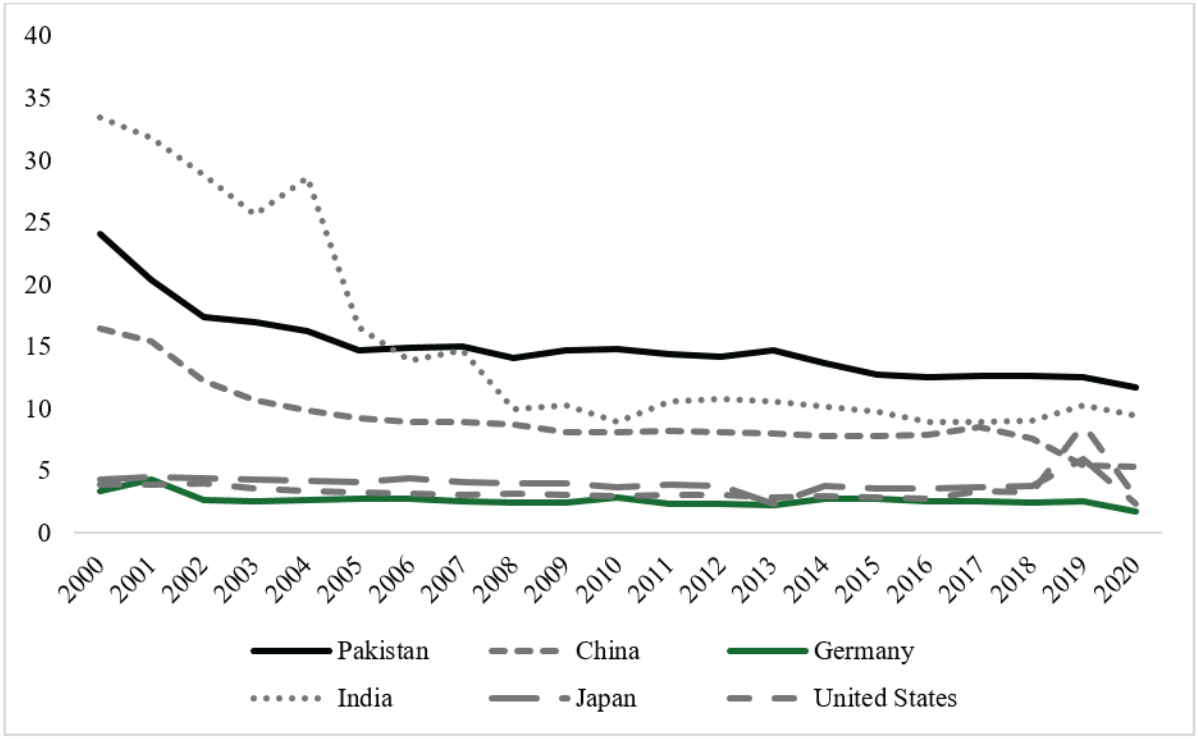
# TRADE RESTRICTIONS AS A MEASURE OF PRICE INDICES

One of the limitation of REER is that it fails to consider trade restrictions that can significantly impact international trade dynamics. Trade restrictions are often implemented to protect domestic companies and workers from foreign competition, with tariffs being a prominent form of protectionist measure. Tariffs alter the flow of trade by elevating the prices of imported goods. Consequently, local producers are not forced to reduce their prices from increased competition, leaving domestic consumers burdened with increased prices. Moreover, tariffs can reduce efficiency by enabling the survival of companies that would otherwise cease to exist in a more competitive market.

Tariffs can cause inflation. By imposing a tax on imported goods, tariffs increase the prices of goods and services in domestic markets. This tax is borne by the domestic importer, who, in turn, raises prices to balance the increased costs. As a result, consumers experience elevated prices for goods and services, creating a potential inflationary impact. Therefore, higher tariff rates can be translated into loss of trade competitiveness. It is essential to recognize these details in understanding the broader implications of trade restrictions on REER.

If we look at the tariff rates in Pakistan which is higher than its major trading partners (see Figure 3). So through tariff protection domestic companies' loss their efficiency. Without competition, a sector may end up producing goods of lesser quality, and the subsidies needed to keep the state-backed company alive may hinder economic progress.

Figure 3: Tariff rate, applied, simple mean, all products (%)




Source: World Bank

Beside tariffs (or import duties), Non-Tariff Measures (NTM) which include a wide range of regulatory and non-regulatory measures, such as Quotas, Licensing requirements, Technical barriers to trade and Sanitary and phytosanitary measures, have a significant restrictive or distortionary impact on international trade.

The ad valorem equivalent (AVE) of an NTM has increased numerous times during the same period, although average tariffs have only marginally decreased. Though the total degree of protection has been rising, the unweighted average tariff rate decreased from 17 percent in 2003 to 13 percent in 2015. Between 2003 and 2015, the average AVEs of NTMs climbed from 1% to 55%, and 51% in terms of import weight. From 18% in 2003 to 68% in 2015, the total protection rate increased due in part to the phenomenal growth in NTMs and their coverage. Over time, NTMs have become a more significant source of protection than tariffs. Thus, in 2003 and 2006, tariffs made a larger contribution to overall protection; in 2015, however, the opposite was true (see Table 2). NTMs must be addressed in trade liberalization plans in order to increase exports from Pakistan; tariffs alone may not be enough. There is a very high level of protection overall. By focusing solely on lowering tariffs, which do not represent total protection, it is understated [Aleem and Faizi(2021)].

Table 2: Average AVE Estimates, Tariffs, and Overall Protection (in Percentages)

| Years | Simple Average AVEs of NTM | Simple Average Tariffs | Overall Protection |
|---|---|---|---|
| 2003 | 1.05 | 16.98 | 18.04 |
| 2006 | 0.58 | 14.86 | 15.44 |
| 2009 | 50.11 | 14.72 | 64.83 |
| 2012 | 59.15 | 14.14 | 73.29 |
| 2015 | 55.18 | 12.73 | 67.91 |

Source: Author's calculation using import data and tariff data from World Integrated Trade Solution database (WITS). Follows the estimation methodology that Aleem and Faizi(2021) adopted from Niu, et al. (2018).

If we considered the NTMs imposed by the importers of Pakistan's products. Available data on major markets to which Pakistan exports its products suggests that their AVEs also increased, which gives additional reason for export stagnation in Pakistan. For example, based on Niu et al. (2018) estimates, AVEs of the US increased from 27 % to 61 % from 2003 to 2015, AVEs of India rose from 6 % in 2003 to 66 % in 2015. Similarly, the AVEs for China was 61 % in 2015 (see Table 3).

Table 3: NTM (in Percentages) in Major Trading Partners

| Years | Pakistan | China | United States | Japan | India |
|---|---|---|---|---|---|
| 2003 | 1.05 | 61.63 | 27.26 | 7.61 | 5.90 |
| 2009 | 50.11 | 45.89 | 36.65 | 5.93 | 12.25 |
| 2015 | 55.18 | 61.07 | 60.62 | 4.96 | 65.57 |

Source: Niu, et al. (2018)

# COMPUTATION OF REER FOR PAKISTAN

## Choice of Weights and Price Indices

This study utilizes the trade weights for Pakistan's 37 trading partners, as provided by the IMF. These trade weights are calculated based on the trade patterns observed in the global economy during the period of 2016-18[1]. Detailed information is presented in Table 4.

Table 4: Pakistan's Major Trading Partner and Their Weights

| Country | Weight | Country | Weight |
|---|---|---|---|
| China | 32.14758 | Bangladesh | 1.245279 |
| United States | 10.05473 | Malaysia | 1.187011 |
| Germany | 6.630772 | Canada | 1.183695 |
| Japan | 4.887961 | Switzerland | 0.988998 |
| India | 3.389639 | Australia | 0.988122 |
| Italy | 3.110751 | Brazil | 0.912038 |
| United Kingdom | 3.0337 | Vietnam | 0.910857 |
| France | 2.67497 | **Poland** | 0.902582 |
| Thailand | 2.313521 | Russian Federation | 0.894899 |
| Korea, Republic of | 2.297992 | Mexico | 0.882884 |
| Spain | 2.236283 | Sweden | 0.781552 |
| United Arab Emirates | 2.21431 | Iran | 0.627297 |
| Saudi Arabia | 2.053515 | Austria | 0.561166 |
| Indonesia | 1.673148 | Morocco | 0.560094 |
| Netherlands | 1.658925 | South Africa | 0.550849 |
| Turkey | 1.471724 | Ireland | 0.514662 |
| Taiwan | 1.335787 | Sri Lanka | 0.49945 |
| Belgium | 1.3251 | Bangladesh | 1.245279 |
| Singapore | 1.298161 | Malaysia | 1.187011 |

To compute the relative price index, the following price indices are employed:

1. Consumer Price Index (CPI)
2. GDP Deflator
3. Unit Value of Export
4. Unit Value of Imports
5. Unit Value of Imports with Simple Tariff
6. Unit Value of Imports with Overall Protection rate (Tariff +NTM)

The WDI price index data is available for 16 trading partners, while labor unit cost data is not available for Pakistan. Additionally, labor unit cost data is available for only 15 countries among the remaining trading partners.

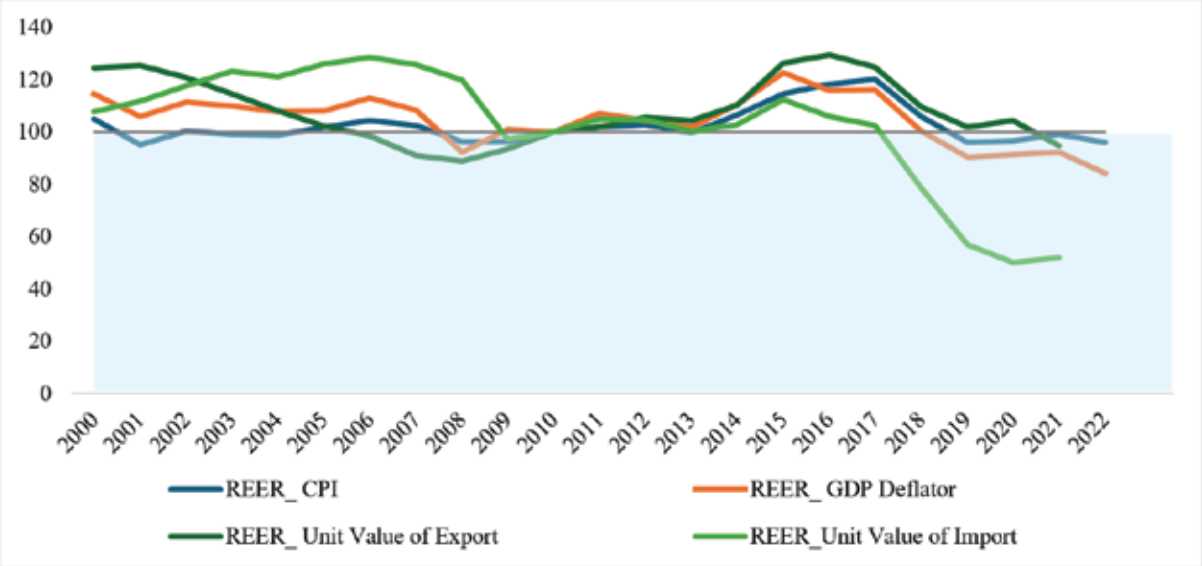
The time period considered for the analysis spans from 2000 to 2022, with data sourced from the State Bank of Pakistan (SBP), the International Monetary Fund (IMF) and the World Bank (WB). The base year for the calculations is set at 2010.

[1] For details see Bayoumi et al. (2005), New Rates from New Weights, IMF Working paper 05/99.

# Real Effective Exchange Rates

Figure 4 shows the REER indices based on CPI, GDP deflator, unit value of exports and unit value of imports. All indices move broadly together and are highly correlated. Although, the overall trends are similar, there exist distinct trajectories posted by the different series. For example, REER_ CPI remains lower than REER_GDP deflator throughout the analysis period. Whereas REER based on unit value of exports declining sharply before 2008 as compare to the REER_CPI and REER_GDP deflator and also rising at a faster rate. REER based on the unit value of exports serves as a valuable indicator for assessing a country's external competitiveness. This measure includes traded commodities and provides insights into the competitiveness of a nation's exports. Specifically, in the case of Pakistan, it indicates that the country's exports gained competitiveness exclusively during the period of 2005-2010, when prices were higher in trading countries

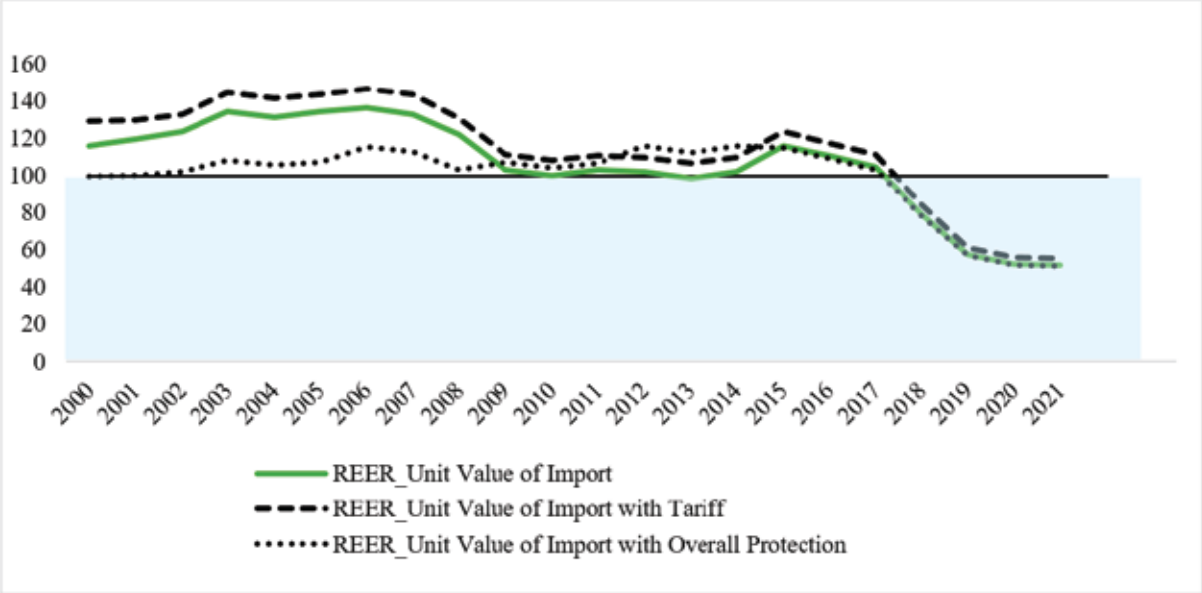
Figure 4: Alternative REER Indices for Pakistan (2010=100)




Now measure the Real Effective Exchange Rate (REER) based on trade barriers, which is proxy by the simple tariff rate, AVE of NTM and overall trade restrictiveness indicator. It will provide an insight about the trade competitiveness of Pakistan and currency overvaluation. Figure 3 intensely illustrates that

- Pakistan initially achieves competitiveness in the early years (2000-03). However, after 2003, a noticeable weakening trend emerges, and Pakistan struggles to regain competitiveness compared to alternative measures of REER.
- As compare to the fair value of 100 in the base year 2010, rupee is overvalued up till 2017.

Figure 5: REER Indices with Trade Restrictions for Pakistan (2010=100)




## Analyzing the Discrepancy Between REER and Market Sentiment

Although all indicators of the Real Effective Exchange Rate (REER) showed that the Pakistani rupee was undervalued after 2017, they do not fully capture market sentiment. According to Kemal (2020), despite the IMF identifying a 21% overvaluation in 2017, which was corrected by mid-2019 with a 35.6% depreciation, market sentiment still suggests that the rupee remains overvalued and requires further depreciation.

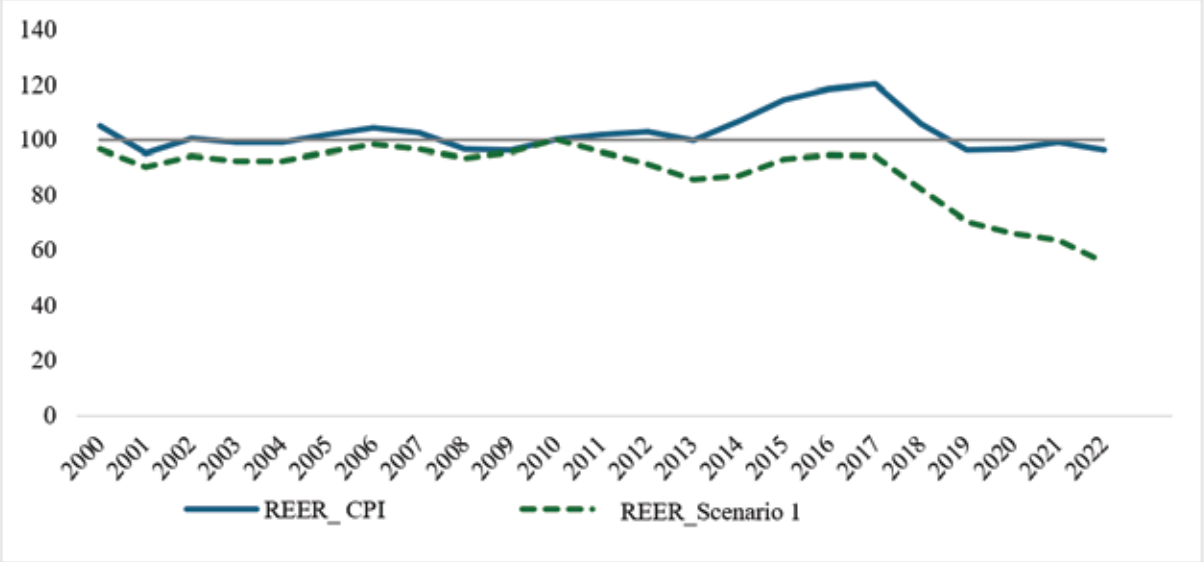
This disparity between REER indicators and market sentiment reflects the complexity of government intervention. The government's control over imports through restrictions on Letters of Credit (LCs) artificially limits the demand for foreign currency, which puts upward pressure on the exchange rate. This intervention can counteract market forces that might otherwise drive the exchange rate towards a more depreciated level. Additionally, the State Bank of Pakistan's (SBP) efforts to maintain foreign exchange reserves by intervening in the market, buying or selling dollars, can temporarily prop up the exchange rate, preventing it from adjusting to its true market-determined level. This intervention distorts the natural depreciation that market forces would otherwise impose on the currency.

As we know, changes in both inflation and currency value directly impact the REER. When a currency depreciates, the REER falls, signaling a real depreciation. However, if domestic inflation is higher than that of other countries, the currency needs to depreciate even more to maintain its real value and competitiveness. In this way, both inflation differentials and exchange rate movements must be considered to accurately assess whether the REER reflects an overvalued or undervalued currency. In order to get the clear picture of REER, let's take the different scenarios

## Scenario 1

- The parallel exchange rate is the value of the domestic currency against foreign currency in the absence of State Bank intervention, and it is typically higher than the official exchange rate.
- Also assume that the amount of increase and decrease in the parallel exchange rate are the same as in the official exchange rate, and the premium between the parallel and official exchange rates remains constant. Therefore, we use the initial value of parallel exchange rate from Jalil (2020) and then amend with the amount of change of official exchange rate.
- Price remains constant across all regions

Figure 6: REER under Scenario 1

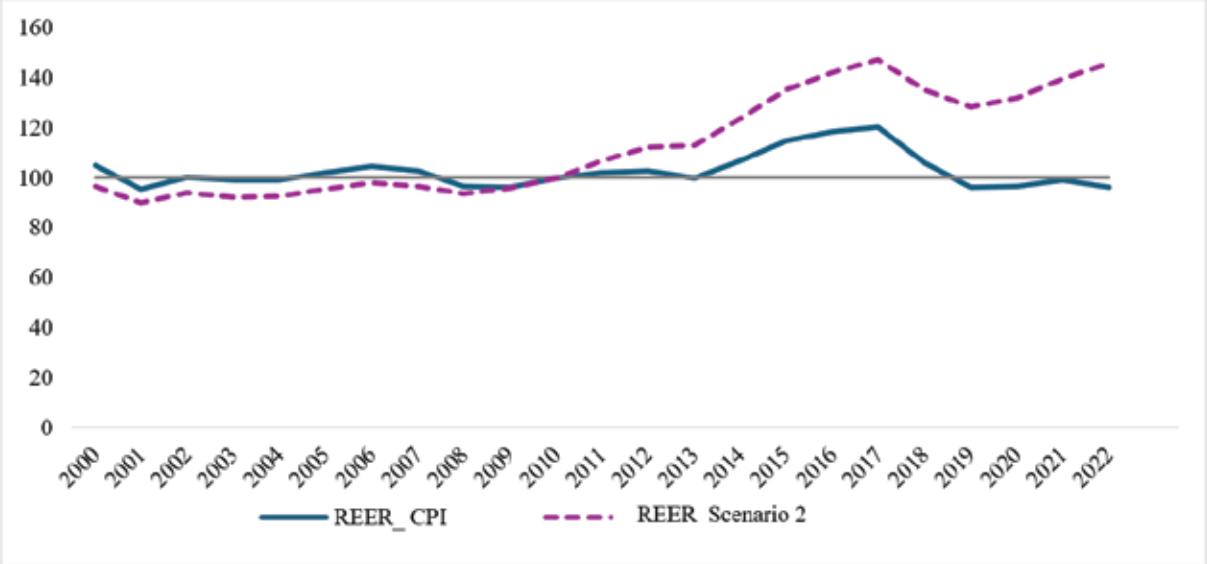



In this case, the REER based on the official exchange rate and CPI is higher than the REER based on scenario 1. Therefore, we need to depreciate the official exchange rate to eliminate the overvaluation of REER, as was done in 2019.

## Scenario 2

- The increase and decrease in the parallel exchange rate are the same as in the official exchange rate, and the premium between the parallel and official exchange rates remains constant.
- The price in Pakistan is higher compared to its trading partners

Figure 7: REER under Scenario 2

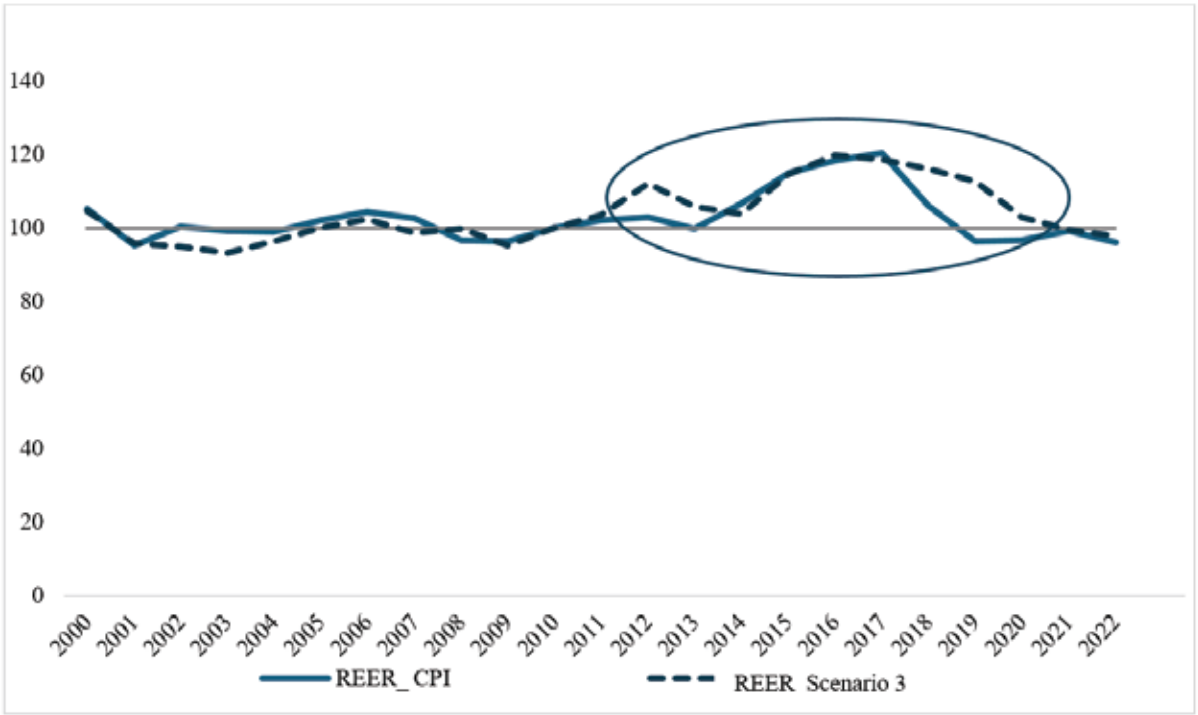



In this scenario, Figure 7 suggests that the REER based on the official exchange rate and CPI is lower than that of scenario 2. As a result, inflation offsets the impact of depreciation, and higher domestic prices reduce the competitiveness of exports. As a policy recommendation, it is necessary to depreciate the official exchange rate to address the overvaluation of the REER and implement measures to control inflation.

## Scenario 3

- The increase and decrease in the parallel exchange rate are not the same as in the official exchange rate. For this analysis, we utilize the parallel exchange rate series calculated by Jalil (2020).

Figure 8: REER under Scenario 3

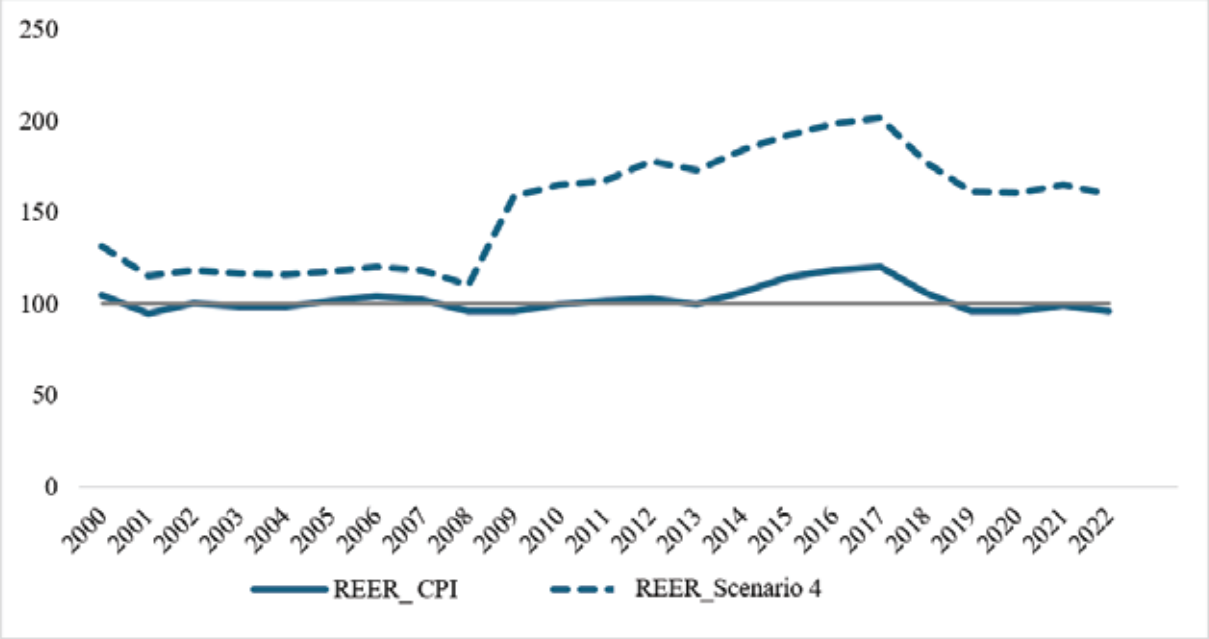


Typically, the REER based on the parallel exchange rate is lower than the REER based on the official exchange rate (assuming no inflation). But under scenario3, when the REER based on the parallel exchange rate exceeds the official REER, or when both rates are equal, it indicates that domestic inflation is higher than that of trading partners (see Figure 8). As a policy recommendation, it is essential to depreciate the official exchange rate to correct the overvaluation of the REER and implement measures to control inflation.

## Scenario 4

The import ban, through the non-issuance of Letters of Credit (LCs), effectively restricts imports to maintain foreign exchange reserves. By withholding LCs for imports, we are essentially banning imports and protecting the domestic market. This restriction on LCs can be viewed as equivalent to imposing tariffs and non-tariff measures on consumer Price Index (CPI). In this case we inflate the CPI of Pakistan by tariff and non-tariff measures.

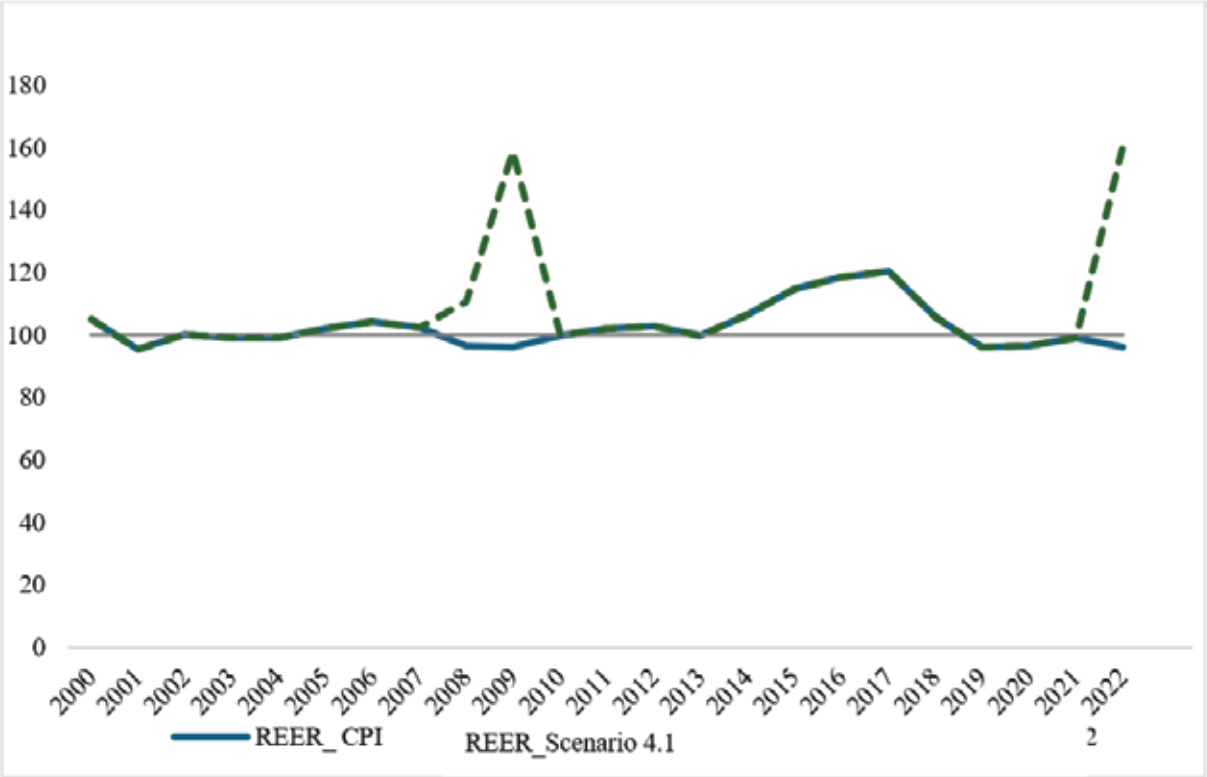
Figure 9: REER under Scenario 4




In this case, Figure 9 indicates that the REER based on the CPI with trade restrictions is higher than the REER based solely on the CPI, clearly indicating that trade restrictions contributed to the overvaluation of the exchange rate. The sharp increase in 2008-2009, during the global financial crisis, reflects Pakistan's imposition of import restrictions to counter the effects of declining exports and reduced capital inflows.

In recent years, particularly in 2022-2023, Pakistan faced significant economic challenges, including a balance of payments crisis and dwindling foreign exchange reserves. To address these issues, the government implemented measures to conserve foreign exchange, such as frequently restricting imports through the non-issuance of LCs. If we adjust the CPI for trade restrictions during 2008-2009 and 2022-2023, the impact of these policies becomes more evident (see Figure 10).

Figure 10: REER under Scenario 4.1




It also indicates that Pakistan's exchange rate is not undervalued; in fact, it is overvalued. Government restrictions on Letters of Credit artificially limit foreign currency demand, putting upward pressure on the exchange rate and preventing natural depreciation.

## CONCLUSION

- Pakistan's exports lose its competitiveness in the international market, we should focus on the fundamental factor for export promotion such as quality standards, promotion and branding, market diversification.
- REER based on CPI inflated with import barriers suggests that Pakistan's exchange rate is currently overvalued rather than undervalued. Government restrictions on Letters of Credit artificially constrain the demand for foreign currency, which exerts upward pressure on the exchange rate and hinders its natural depreciation. This intervention prevents the exchange rate from adjusting to its true market value, leading to an overvaluation that does not accurately reflect the underlying economic conditions.
- The choice of REER metric significantly influences the perception of Pakistan's export competitiveness and exchange rate overvaluation. Policy implications may vary based on the selected REER measure.
- A central theme across PIDE's studies is the emphasis on maintaining an undervalued exchange rate to stimulate economic growth and avoid financial crises that arise from overvaluation. However, achieving this balance comes with trade-offs, such as managing short-term price volatility and inflationary pressures, which policymakers must navigate carefully.

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# EXPORT SUBSIDIES AND IMPORT SUBSTITUTION: STEERING MERCANTILISM IN THE MODERN TIME

Uzma Zia

Mercantilism, rather than being a well-organized body of thought, is better understood as a set of ideas and policies aimed at controlling and interfering with international trade. This economic philosophy remained prominent in Europe from the 16th to the 18th century, where nations sought to accumulate wealth and power by managing trade flows and maximizing their stock of precious metals & valuables (Haque, 2006).
One of the core principles behind mercantilism is the Montaigne fallacy—the belief that in trade, the gain of one person or country comes only at the loss of another. According to this fallacy, wealth is viewed as a zero-sum game: "No profit can be made but at the expense of another." (Qadir, 2022)

This assumption, driving many mercantilist policies, leads to the idea that a nation's wealth is determined by its stock of precious metals (gold and silver), making the accumulation of these resources a key economic goal. Countries while adopting policies, would impose tariffs and export subsidies, protect domestic industries, and hoard precious metals to enhance power in the homeland. It has been noted that Pakistan's economic policies have historically aligned with mercantilist doctrines by focusing on export promotion[2], import substitution[3], and policies that are often linked to currency management (Raja,2003)[4]. Currently, they are considered outdated but the fragments of mercantilist thought still exist

in modern policies where nations emphasize export promotion and import substitution, often at the expense of global cooperation and long-term economic efficiency (PIDE webinar, 2022). Despite the efforts for export substitution Pakistan managed to export only 65% of its products to traditional export partners and has not made remarkable progress in terms of destination diversification (RASTA-PIDE,2023).

With this backdrop, this paper aims to test the hypothesis that "Is Pakistan a mercantilist state seeking to subsidize exports and substitute imports with high tariffs to maintain an appreciated exchange rate?". Additionally, it will be argued how these policies are impacting the economy. A thorough review has been done. To meet the objective of this paper, secondary sources, policy documents and PIDE research all are explored well.

## PAKISTAN'S POLICY CHOICES AND OUTCOMES

In the contemporary global economy, where nations strive for integration, liberalization, and the unified flow of goods and services, Pakistan stands as a country still following a mercantilist approach. This economic philosophy of 16th to 18th-century European powers is characterized by a strong emphasis on export subsidies and import substitution through high tariffs. This policy aims to maintain an appreciated exchange rate, and raise national wealth and economic self-sufficiency. However, in a world of complex interdependencies, this strategy seems questionable and impacts the long-term economic growth of Pakistan.

Pakistan's trade-related policies aim to enhance exports and protect its domestic economy. The Strategic Trade Policy Framework (STPF) focuses on export growth, while the National Tariff Policy (2019-2024) is designed to safeguard the domestic market. The Trade-Related Investment Policy seeks to attract investments in export-oriented manufacturing. Special Economic Zones (SEZs) are being developed as industrial hubs to draw foreign direct investment (FDI). Additionally, Pakistan participates in multiple trade agreements, including bilateral deals, free trade agreements, and is a member of the World Trade Organization, South Asian Free Trade Area, and China-Pakistan Free Trade Agreement.

Pakistan's economy is politically captured, with businesses getting export subsidies and forming cartels to gain market power and exploit opportunities. This environment stifles business growth, as firms avoid equity markets and focus on maintaining control. The informal economy thrives outside formal structures due to lawlessness, low trust, and regulatory lobbying (PIDE Knowledge Brief, 2020). Investment is hampered by political instability and security concerns, deterring foreign investors and limiting local economic growth. Pakistan's ranking in global ease of doing business is 108th (WB group, 2020) and 107th in GCI in 2018 (PIDE webinar brief, 2022) raises serious concern.

[2] Export promotion (EP) strategy- implemented in early 1990s
[3] Import substitution (IS) strategy-adopted in early years, & in current period
[4] https://pide.org.pk/research/misplaced-mercantilism-and-the-case-for-domestic-markets/

# PAKISTAN TRADE POLICY OR MERCANTILIST APPROACH

Pakistan's trade policies reflect a mercantilist approach—focused on export subsidies, high tariffs to block imports, and potential exchange rate interventions to manage external trade relations. As noted by (Haque,2007 ; and Siddique, 2003[5]) mostly the country is focusing on Exports over Domestic trade; Import substitution policy: Lopsided policy focus; Appreciated exchange rate.

1. **Focus on Exports Over Domestic Trade:** In Pakistan, trade discussions are focused on increasing exports while neglecting domestic commerce. This mirrors mercantilist policies, which prioritize boosting exports as a way to accumulate wealth. The bias against domestic trade supports the idea that the state's policies are designed to promote exports over internal economic development.

   Policymakers focus on export-led growth without addressing the domestic retail market. It implies that this preference for exports over domestic economic development aligns with the mercantilist mindset, where exports are prioritized to accumulate foreign currency, even at the expense of fostering strong domestic commerce (Raja, 2003).

2. **Import Substitution Policy:** Mercantilism often involves high tariffs or import barriers to protect domestic industries, which aligns with the statement being tested in this paper using high tariffs to substitute imports. The view of (Raja,2003) is that Pakistan has long pursued policies favouring producers over consumers, reflecting these import-substitution strategies. While (Haque,2007: and Siddique, 2003) also mentioned the Haq/HAG model from the 1960s, which emphasizes import substitution—a classic mercantilist strategy where high tariffs or trade barriers are imposed to reduce imports and protect domestic industries. This aligns with the concept of shielding domestic markets from foreign competition, as a mercantilist state would, to reduce reliance on imports. It has also been discussed that import substitution policies create anti-export bias (Mahmood, 2023)[6]

3. **Lopsided Policy Focus:** The "lopsided" focus on exports and import substitution has been at the expense of broader market development, reinforcing the claim that the state seeks to artificially boost exports through subsidies while implementing protectionist measures (such as high tariffs) to minimize imports (Siddique, 2003).

4. **Appreciated Exchange Rate:** Although the article does not explicitly mention the exchange rate, maintaining an appreciated exchange rate is often associated with controlling inflation and subsidizing export competitiveness. This can be inferred as part of the broader economic strategy to manage trade balances, particularly if the exchange rate is manipulated to favor exports.

[5]https://pide.org.pk/research/can-domestic-trade-be-the-engine-of-pakistans-growth/
[6]https://pide.org.pk/research/exchange-rate-and-trade-regime/

Some writings implicitly focus on an appreciated exchange rate, as it can be seen from the policies of subsidizing exports and protecting domestic industries from imports through tariffs. Such policies are often employed by countries aiming to protect the value of their currency by limiting imports (which would require foreign exchange) and boosting exports to earn foreign reserves, maintaining a stronger currency.

5. **Subsidies to Export-Oriented Industries:** The article criticizes the persistent policy of giving subsidies to "export-oriented" industries. This reflects a mercantilist approach, where the government prioritizes exports by offering financial incentives to industries that focus on external markets. You can use this to argue that the state is heavily focused on boosting exports, a hallmark of Mercantilism (Raja, 2003).

## THE LEGACY OF THE HAQ/HAG MODEL OR IRREPARABLE DAMAGE?

In Pakistan, domestic trade has long been unnoticed as a potential part of economic growth. The country's past policy framework has been shaped by the Haq/HAG model of the 1960s, which emphasized the two goals of boosting exports and reducing imports through an import substitution strategy[7]. While this approach aimed to secure foreign exchange and build industrial self-sufficiency, it unintentionally put aside the development of domestic commerce and inhouse market dynamics.

The Haq/HAG model's focus on import substitution led to a disproportionate policy agenda that prioritized protecting domestic industries from foreign competition and incentivizing exports. This policy environment was not suitable and muffled the growth of domestic markets, restricting competition and innovation within the country. As a result, the country could not develop strong infrastructure, and logistics, and market access remained limited for small and medium-sized enterprises (SMEs), which only flourish in the supportive domestic trade environment.

The bias against domestic commerce has had far-reaching implications for Pakistan's economy. By concentrating policy efforts on international trade, the potential of local markets, which could have driven employment, productivity, and innovation, was mainly ignored. In addition, domestic trade could have served as a shield against global economic volatility, providing stability in times of external shocks.

To unlock the potential of domestic commerce, Pakistan must revisit its economic strategy. Implementing policies that encourage market development, improve logistical challenges, and encourage competition internally (Ahmad et al., 2022)[8]. By creating a balance between external trade and internal market expansion, Pakistan can promote a resilient economy that strengthens both export-driven growth and domestic well-being.

[7]Emphasizes industrial production, creating foreign exchange surplus through export promotion, and a large government footprint.
[8]https://pide.org.pk/research/business-and-investment-issues-in-pakistan/

## IS SUBSIDIZING EXPORTS A GOOD OPTION OR A DOUBLE-EDGED SWORD?

Pakistan's approach to subsidizing exports is rooted in the desire to enhance the competitiveness of its goods in international markets. The government often provides financial assistance to key export-oriented industries such as textiles, agriculture, and sports goods. These subsidies aim to lower production costs, enabling Pakistani goods to compete more effectively on the global stage.

However, while this strategy may yield short-term gains, it also risks fostering inefficiencies within the economy. Industries that rely heavily on subsidies may lack the incentive to innovate or improve productivity, leading to a dependency that could hinder long-term growth. Moreover, such subsidies can strain public finances, diverting resources from critical areas like infrastructure, health, and education.

## WILL IMPORT SUBSTITUTION AND HIGH TARIFFS BE ABLE TO SHIELDING DOMESTIC INDUSTRY?

Pakistan has also adopted a policy of import substitution, imposing high tariffs on foreign goods imports (PIDE Policy & Research, 2020; PIDE Blog. 2020; PIDE Costonomics, 2024). This protectionist measure is mainly designed to encourage domestic production, protect domestic industry and reduce reliance on imports, thereby preserving foreign exchange reserves.

On one side, import substitution can stimulate local industries and create jobs, but on the other side high tariffs lead to higher prices for consumers, reduce their purchasing power and potentially fuel inflation. Likewise, by limiting competition, protectionism can suppress innovation and efficiency within domestic industries, making them less competitive over time. In an interconnected global economy, where supply chains are increasingly complex, separating a country from imports can also disrupt access to essential inputs, hindering industrial growth. Pakistan has made limited progress in upgrading its export product value chain. The country's bottom 10 high-value-added exports have shown little change since 2003. The modest diversification achieved since 2005 has not significantly boosted income, with 26 new products contributing only USD 4 per capita in 2020 (RASTA-PIDE,2023).

Despite decades of import substitution policies, Pakistan has seen little progress in industrialization, with a growing reliance on imported raw materials. From 2000 to 2020, the share of imported intermediate inputs rose. High tariffs and cascading rates have led to the highest effective protection rate (ERP) in the manufacturing sector, making raw materials more expensive. In contrast, ERP is very low in agriculture and negative in services. Within manufacturing, the automobile and cooking oil industries are the most protected, contributing to higher consumer prices for cooking oil (RASTA-PIDE,2023).

## IS THERE ANY SOLUTION OF THE EXCHANGE RATE ENIGMA?

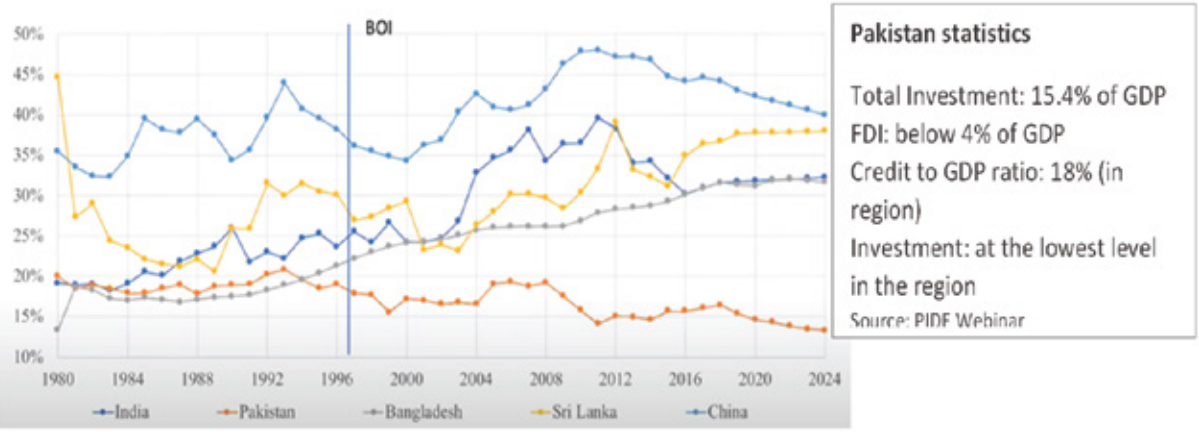
An appreciated exchange rate is usually maintained through interventionist policies and is an evidence of Pakistan's mercantilist approach. A strong currency makes imports cheaper, helping to control inflation and reduce the cost of imported inputs for domestic industries. Conversely, it also makes exports more expensive in the global market, potentially discouraging the competitiveness that the country seeks to achieve through subsidies.

Additionally, maintaining an appreciated exchange rate can lead to imbalances in the balance of payments, as the cost of imports outweighs the revenue from exports. This scenario can exert pressure on foreign exchange reserves and necessitate borrowing, further complicating economic stability.

## INVESTMENT ENVIRONMENT IN PAKISTAN VS THE REGIONAL COMPETITORS

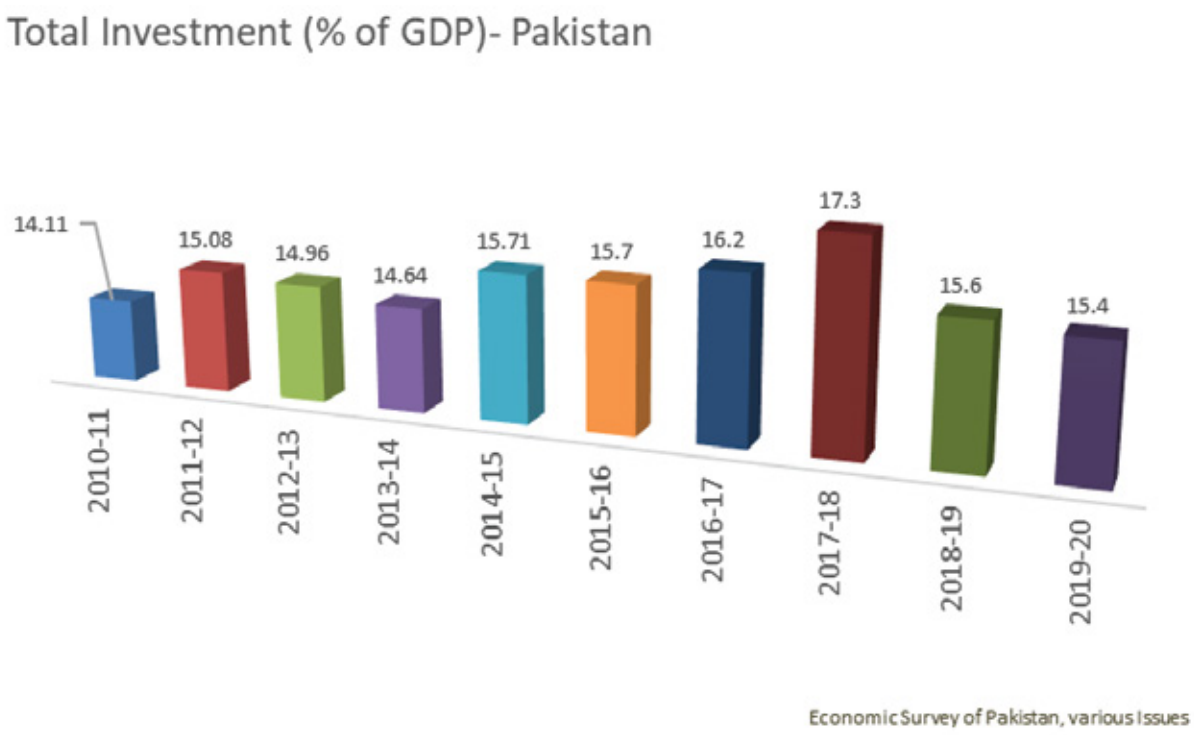
Pakistan's economic history faced a weak industrial base encountered with a closed economy, agricultural dominance, and political instability. Policies in the past were meant to strengthen the industrial base. Pakistan adopted a restricted trade regime and protected its domestic industries. In past, the government nationalized various industries in the country. The privatization program of Pakistan was started mainly as a reaction to the large-scale nationalization in 1972-77. The purpose of the privatization program was to encourage private ownership and to attract foreign investment. Gradually government tried to adopt measures of trade liberalization to encourage exports in each regime. Key measures were the devaluation of the Pakistani rupee, the elimination of the export bonus scheme, and the discontinuation of the restrictive licensing scheme. Like in India's dismantling of license raj in the 1990s. Steps were taken to stimulate exports of manufactured products. Businesses face multiple challenges in both the short-run and long run. The government also focused on enhancing the role of the private sector and tried to enhance competitiveness in the economy.

**Fig 1: Total Investment (% of GDP) of Pakistan and regional countries**



Total investment in Pakistan is at 15.4% of GDP which is just the replacement investment. In the region, Pakistan has always ranked the lowest (see figure 1). It is indeed worrisome that India and Sri Lanka have an investment GDP ratio of over 30 % and China over 40%. Surely this should be a matter of policy concern (PIDE webinar brief, 2022).

Vietnam and India have performed well in exporting capital goods as compared to Pakistan which continues to export consumer goods and industrial supplies with a very small share of the export of capital goods (RASTA-PIDE, 2023).




Comparing businesses in South Asian region it is noted that India has more investments in businesses while Pakistani companies grow, but at a slower rate, partly due to low investment levels. While a few leading businesses have expanded their consolidated sales by 2-3 times, many others are still striving for growth (Webinar brief, 2022). The economies of Bangladesh, India, China, and Vietnam have witnessed an increase in the concentration of export products due to the rising levels of specialization in these economies (RASTA-PIDE,2023).

Is growth the only fundamental problem for Pakistan? Nationalization in past damaged the business attitude. Directions come from the top public levels and are more about power and control. Business sentiment is at the lower end and the country will never grow until it becomes a core value from top to bottom. Policies do not grow in Pakistan as it has become a victim of the manifestation of the system and non-conducive work culture. Businesses are running in an environment where the business community is forced to take action for their existence in the market not for growth. Unthoughtful policies and an environment of distrust exist. The current situation of the economy differs as Pakistan now fall lowest in investment and maintains the lowest credit to GDP ratio (Pakistan 18%, Bangladesh 47%, and India 50%) (PIDE webinar, 2022).

Comparing the FDI inflow in Asia; India has the leading role while Pakistan and Bangladesh stand lower. For Pakistan, most of the FDI inflow comes from Hong Kong and China and the power, finance and oil sector have almost 70% share of the total FDI in the country. Pakistan has a grim vacuum of policies as no conclusive growth policy, industrial policy, or export policy exists. Pakistan unfortunately failed to demonstrate big investment transactions in the last several years like RECODEC, KARKEY, Bahawalpur solar project. There are structural flaws and disconnections between institutions at the federal and provincial levels. The ultimate solution is to rely on the private sector to run some economic zones. SEZs and the Provision of utility services are also important to attract foreign investors (PIDE webinar, 2022).

## CONCLUSION AND THE WAY FORWARD

Pakistan's incessant devotion to mercantilist policies has taken the country to the brim of complex challenges. While the desire to build self-sufficiency and protect domestic industries is understandable, the long-term efficiency of such strategies in a globalized world doesn't seem possible and remained a part of economic debates. Pakistan must critically assess the sustainability and long-term impact of these policies. The country can try to build a more resilient economy capable of dealing with the complexities of modern times. Reducing the government footprint and moving away from interventional policies is recommendable. In today's world, an economy is a set of transactions. More transactions and more interconnections mean higher economic growth. The recommended approach is the gradual reduction of subsidies and tariffs while encouraging a competitive business environment. Engaging in trade agreements, and investment treaties that provide access to new markets, adopting new technology and modernising infrastructure, can help Pakistan's industries compete globally without the need for excessive protectionism.

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# ASSESSING FISCAL RESOURCE DISTRIBUTION IN PAKISTAN- THE NFC AWARDS

Iftikhar Ahmad

Fiscal resource distribution in Pakistan has never proved easy. Due to the associated political economy, Pakistan has experienced a stagnant state of affairs with regard to National Finance Commission awards (NFC), which is worrisome. Research at PIDE[9] has shown the fault lines and has highlighted the line of action, as summarised below.

Functioning federal system needs a coherent, vibrant and effective interaction between the centre and the federating units. Resource generation, its apt availability and efficient utilization is what the representatives compete for in the federal and provincial governments, so to make their electorate satisfied. Hence, clarity in constitutional mandate as well as in fiscal responsibilities is important to mitigate negative competition. Efficient resource distribution mechanism is achieved through a dynamic resource distribution formula, which carries a balance between equity and efficiency aspects. As obvious, the dynamic resource distribution is required to contain incentives for each tier to perform and achieve their best.

[9]See Bibliography for details

Pakistan faces challenges not only in finding an efficient NFC formula (which could satisfy the conditions of need, equity and efficiency) but also has yet to adopt an efficient mechanism, which could help to arrive at an amicable resource distribution in Pakistan.

## HURDLES FACED IN SMOOTH POLICY PROCESS FOR RESOURCE DISTRIBUTION

**1) Stalemate in meeting and resultantly in the announcement of NFC awards**

a. Unanimity rule (decision revolves around political economy and consensus rather than economic rationale)
b. Constitutional Bar after 7th NFC award has compromised the dynamic nature of resource distribution (no incentive for new formula unless greater funds are available for redistribution)

**2) Mechanism adopted for resource apportioning**

a. NFC members are predominantly political stakeholders
b. Absence of dedicated NFC secretariat
i. Lack of professionals and inability to engage research support
ii. Lack of institutional strength, hence, lack of continued analysis and monitoring

**3) Missing emphasis on efficiency**

a. Efficiency is not adequately rewarded in NFC formula (given criterion in formula ('revenue collection/generation') is inappropriately represented with inadequate proxy
b. Weights for different criteria are arbitrarily assigned, needs in-depth impact assessment for different formula (needs experimentation with available criteria factors and weights for each criterion)

## FAULT LINES AND THE PROPOSED POLICY RESPONSES

### Issue

1. What is unique to Pakistan is that throughout its history the provinces always remained dependent on the financial assistance from the centre to provide basic services

### Line of action

- The federal government shall have regular meetings of CCI to discuss the issues faced by the country and shall work to achieve consensus among the federating unit. Given the constitutional bar, there is no incentive for provinces to agree to a new NFC award because the federal government cannot spare more funds for the provinces. Thus, the only way out at the moment is that each unit shall work to enlarge the resource pie and also to efficiently utilize the given fiscal resources

### Issue

2. Provinces' eroded fiscal capacity as well as the lacking political will to raise revenues from potential indigenous resources, despite having a clear mandate since 2010

## Line of action

- In the last NFC award, provinces were required to generate budgetary surpluses to contain fiscal deficits, they should adhere to their promises; a consensus to be achieved through CCI. Moreover, provincial own source revenues shall be tapped to its full potential. The new NFC formula shall keep significant incentive (e.g. matching grant) for achieving local revenue growth. Similarly, NFC formula should reward the tax-broadening efforts by each subnational government tier including local governments (100% retention of newly generated resources for specific period)

## Issue

3. A functioning Local government (LG) system is missing

## Line of action

- Provinces draw constitutional mandate of autonomy from the 18th constitutional amendment but when the same Act asks for empowered LGs, provinces have somehow avoided it til date. A range of hurdles including: late legislation, delay and postponement of LG elections and subsequent oath taking, compromised fiscal mandate (coupled with lack of decision space) and alike, were imposed on LGs to not let go the influence of provincial governments/representatives on local administration and local funds allocation. This has hampered the service delivery process at lower level which subsequently now rest (unduly) on provincial bureaucracy and members of provincial assembly.
- This discrepancy in the form of compromised decision space at local government level needs to be sorted out for efficient resource utilization. CCI can be a forum where the provincial LG system and the ICT LG system needs to be reviewed, analysed and amended to ensure an efficient service delivery model in true spirit.
- Direct transfers to LGs (in NFC award) can be a good start to empower the LGs in all federating units. Such funds can be allocated on the basis of (i) development needs (population and area), (ii) basic rights (health and education – spending needs and rewards for high achiever LGs) and (iii) adherence to national strategic goals (e.g. working towards sustainable urban development, SDGs and environmental sustainability)
- In addition to direct transfers, LG shall be allowed to retain all the locally generated revenue resources which should be spent on improvement of local services in area of origin

## Issue

4. The compromised federal budgetary situation post 7th NFC (2010) and the continued federal government's stubbornness not to let go the subjects and initiatives (and hence the concerned ministries, authorities and departments) which are purely provincial mandate post 18th constitutional amendment

## Line of action

- The federal government has rightly embarked upon the right sizing policy. All the ministries, departments and initiatives (e.g. poverty (BISP), Education (HEC/Single National Curriculum), Environment (Ministry of Climate Change) and Health (Ministry of National Health & DRAP)) needs to devolved to appropriate subnational level.
- Moreover, the discretionary funds for the executives and member of parliaments shall be discontinued where all the public finds allocation be made through the concerned institutions. This will institutionalize the public funds allocation and empower the institutions while ensuring better transparency.

## Issue

5. Specifically with respect to the resource distribution in Pakistan, three issues need special attention. Firstly, what mechanism of vertical inter-governmental transfers should Pakistan follows? Secondly, how the weights be assigned to different criteria and lastly, the functionality, consistency and above all the ability of the resource distribution forum to present amicable resource distribution formula.
6. Regarding the selection of criteria and assigning their weights is concerned, the situation in Pakistan is not ideal. While deciding the NFC award in 2009, the commission failed to share any analytical evidence (other than brainstorming) to support the rationale for selecting certain criterion or their respective weights. Similarly, allocating different weights to each of the four criteria also needs to be based on sufficient analysis to understand the individual impact of each and hence to develop different scenarios. This is even more important when the stated aim of 2010 NFC award was diversification but still population criterion is continued as a dominant indicator with 82% weightage.

## Line of action

- As far as the resource distribution mechanism and the formation of NFC forum is concerned, political appointees (federal and provincial finance ministers) dominantly occupy the given mechanism (i.e. the national finance commission). Given their prime responsibilities and engagements, the forum lacks the ability to undertake rigorous analysis that is necessary for ensuring efficient resource distribution in Pakistan. This impression arises when one look at the composition of NFC, which is predominantly consisting of political representatives instead of experts in the field. Hence, the NFC forum should have a permanent secretariat, consisting of researchers and experts in the field. The said research secretariat for NFC and PFCs shall be responsible to provide essential support in the form of compiling international best practices, ensure regular stream of data and determine the future needs of the nation.
- Similarly, the existing national finance commission shall be replaced with a technical research team, having professionals and policy experts that can make extensive engagements with stakeholders, conduct field visits throughout the country and develop impact scenarios for different resource distribution formulae to assess the impact of any given resource distribution formula on the people and state.
- The said forum should prepare a report (within the stipulated time) and place it before the CCI (or any appropriate political forum), which shall be responsible to review, amend (if required) and award the apportioning formula.

## Issue

7. The current fiscal resource distribution mechanism has left the centre handicapped to take any immediate policy initiative having financial implications (e.g. terrorism, natural calamity in the form of Covid-19/ floods, development needs of erstwhile FATA, agricultural catastrophe like locust attack etc.)

## Line of action

- While deciding the NFC award, a given percentage may be allocated out of the total government proceeds to achieve strategic national goas. CCI can be utilize to develop consensus about the given strategic goal and the ratio of total proceeds.

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# Annexure:

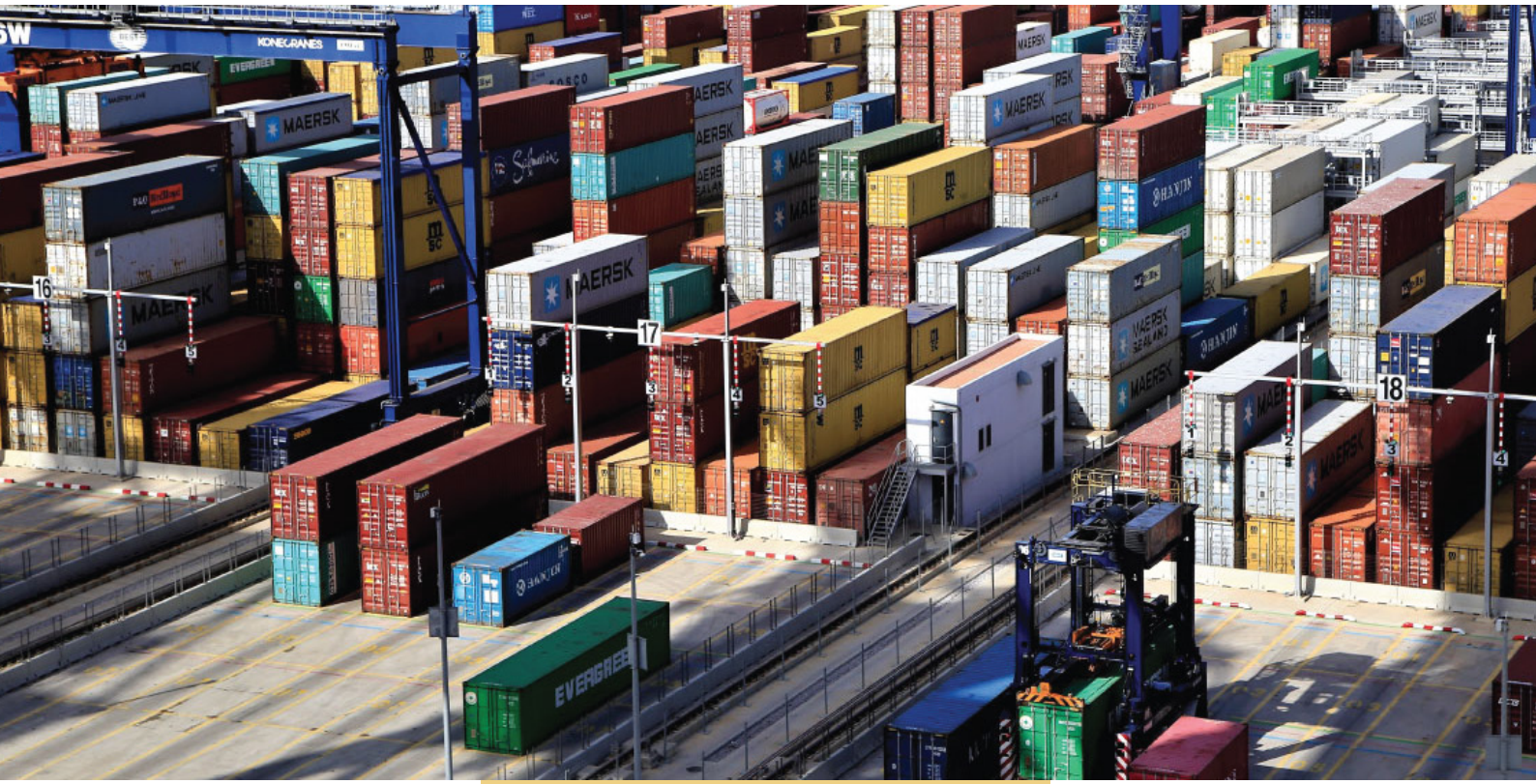
**Table 1: Revenue and Resource Distribution between Centre and Sub-National Governments**

| S.No. | Country | Shared taxes | Percentage | Criteria | Percentage |
|---|---|---|---|---|---|
| 1. | Argentina | Value added tax | 53.90 | Population | 65.00 |
| | | Income tax | 48.70 | Development gap | 25.00 |
| | | Asset tax | 49.00 | Inverse population density | 10.00 |
| | | Excise tax | 49.00 | | |
| | | Financial service tax | 49.00 | | |
| | | Fuel tax | 53.00 | | |
| 2. | Brazil | Income tax | 21.50 | Population | Equal |
| | | Payroll tax | 66.70 | Area | |
| | | Tax on industrial production | 21.50 | Per capita basis | |
| | | Taxes on Hydroelectricity and Minerals | 45.00 | | |
| 3. | Colombia | All Federal Taxes | 23.00 | Population | 70.00 |
| | | Beer Tax | 40.00 | Equal share | 30.00 |
| | | VAT | 50.00 | | |
| 4. | Germany | Income tax | 42.50 | Origin | 100.00 |
| | | Corporate tax | 50.00 | Origin | 100.00 |
| | | VAT | 50.00 | 75% on population & 25% to Lander having per capita tax revenue below national average | 75:25 |
| 5. | India (15th FC award, 2020-2025) | Income Tax | 28.00 | Population | 15.00 |
| | | Excise Duties | 28.00 | Income distance | 45.00 |
| | | Estate Duties | 28.00 | Area | 15.00 |
| | | | | Demographic performance | 12.50 |
| | | | | Forest and ecology | 10.00 |
| | | | | Tax & Fiscal efforts | 02.50 |
| 1. | Indonesia | Royalties on Oil & Gas | 100.00 | Origin | 100.00 |
| | | Forestry Royalties | 35.00 | Origin | 100.00 |
| | | Motor Vehicle Tax | 100.00 | Origin | 100.00 |
| | | Tax on land and area | 81.00 | Origin | 100.00 |
| 2. | Japan | Income tax | 32.00 | Collection | 100.00 |
| | | Liquor tax | 32.00 | | |
| 3. | Malaysia | Import & Excise duties on oil | 30.00 | Collection | 100.00 |
| | | Export duties on Tin | 10.00 | | |
| 4. | Mexico | Income tax | 17.35 | Population | 50.00 |
| | | | | Collection | 50.00 |
| 5. | Nepal | NA | NA | Population | 50.00 |
| | | | | Poverty | 25.00 |
| | | | | Tax effort | 15.00 |
| | | | | Area | 10.00 |
| 6. | Nigeria | All federal taxes | 31.50 | Minimum responsibility | 40.00 |
| | | | | Population | 40.00 |
| | | | | Social development factor | 15.00 |
| | | | | Collection | 05.00 |

| Table 1: Revenue and Resource Distribution between Centre and Sub-National Governments (Cont…) | | | | | |
|---|---|---|---|---|---|
| **S.No.** | **Country** | **Shared taxes** | **Percentage** | **Criteria** | **Percentage** |
| 1. | Pakistan | All federal taxes | 57.50 | Population | 82.00 |
| | | | | Poverty or Backwardness | 10.30 |
| | | | | Revenue Collection or Generation | 05.00 |
| | | | | Inverse Population Density (Area) | 02.70 |
| 2. | Philippines | All federal taxes | 40.00 | Population | 25.00 |
| | | Tax on Petroleum and Natural Resources | 77.00 | Land area | 25.00 |
| | | | | Equal share | 50.00 |
| | | | | Origin | 100.00 |
| Source: Rana (2017); For Germany-UNDP, 2015; For India and Pakistan-Author's own contribution; For Nepal, Palihakkara (2016), NA= Not Available | | | | | |

| Table 2: History of Resource distribution in Pakistan | | | | | | |
|---|---|---|---|---|---|---|
| **Year** | **Fed/prov.** | **Distribution criteria** | **Punjab** | **Sindh** | **KPK** | **Baluchistan** |
| 1974 | 20:80 | Population 100% | 60.25 | 22.50 | 13.39 | 3.86 |
| 1979 (Interim award) | 20:80 | Population 100% | 57.97 | 23.34 | 13.39 | 5.30 |
| 1985 (Interim award with adjustments) | Interim award | Population 100% | Interim award | Interim award | Interim award | Interim award |
| 1991 | 20:80 | Population 100% | 57.87 | 23.29 | 13.54 | 5.30 |
| 1997 | 62.5:37.5 | Population 100% | 57.88 | 23.28 | 13.54 | 5,30 |
| 2000 (Interim award) | Interim award | Population 100% | Interim award | Interim award | Interim award | Interim award |
| 2006 (via Presidential ordinance) | 45*:55 | Population 100% | 53.20 | 24.96 | 14.78 | 7.05 |
| 2010 | 42.5:57.5 | Population 82%<br>Poverty/ Backwardness 10.3%<br>Revenue Collection/Generation 5%<br>Inverse Population Density 2.7% | 51.74 | 24.55** | 14.62*** | 9.09 |
| 2015 (Interim award) | Interim award | Interim award | Interim award | Interim award | Interim award | Interim award |
| 2020 (Interim award) | Interim award | Interim award | Interim award | Interim award | Interim award | Interim award |
| * to rise by 1% per annum till its reaches 50% of the divisible pool<br>**plus 0.66% for losses in OZT<br>***plus 1% of total divisible pool for losses in war on terror.<br>Source: Author's contribution | | | | | | |

# A CASE FOR DOMESTIC COMMERCE-LED GROWTH




Omer Siddique

## A CASE FOR DOMESTIC MARKETS AND DOMESTIC COMMERCE LED GROWTH

Though presented in different garbs over the years, Pakistan's growth policy has been informed by the Haq/HAG[10] model of the 1950s. The Haq/HAG model is based on chasing industrial production, creating foreign exchange surplus through export promotion, and a large government footprint with a suspicion of the market and the private sector (Haque, 2006). The government's footprint, according to an estimate by Haque and Ullah (2021), is approximately 67% of GDP. As a result of these policies, domestic commerce that caters to domestic consumers and markets, domestic markets, and private sector development has been neglected. The negligence of domestic commerce and too much focus on exports have stifled domestic trade and market development.

[10]HAG stands for the Harvard Advisory Group.

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

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

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

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

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

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

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

## Domestic Commerce as the Engine of Growth

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

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

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

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

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

## The Development of Domestic Commerce and Markets in Pakistan

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

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

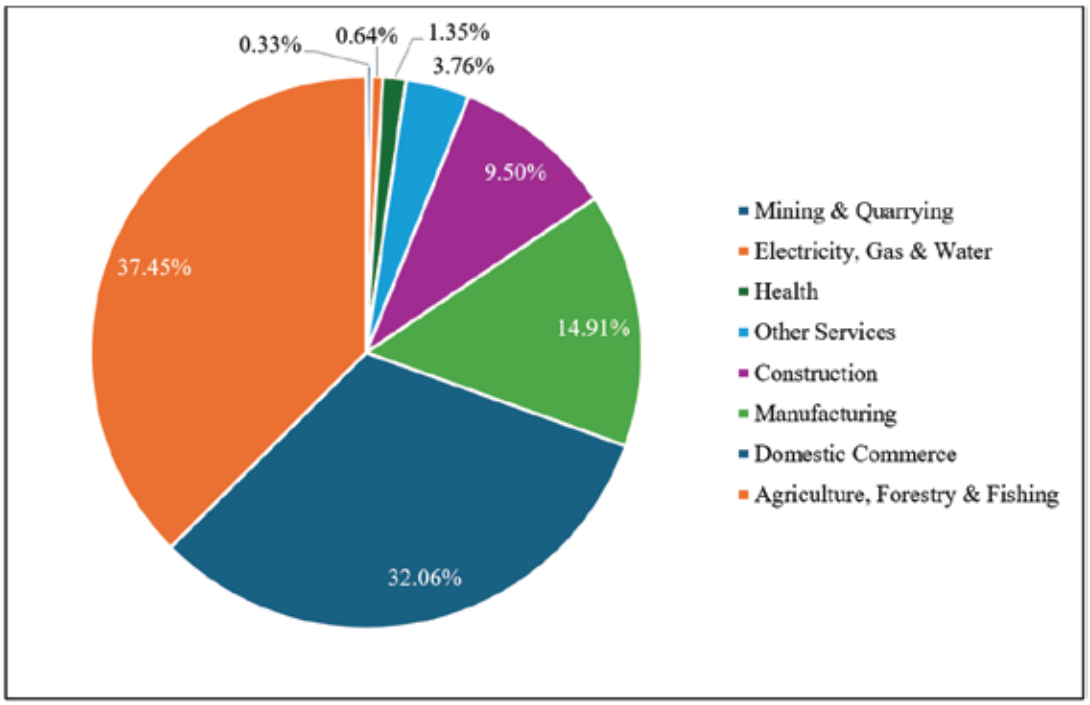
## Situation Snapshot

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

## Employment

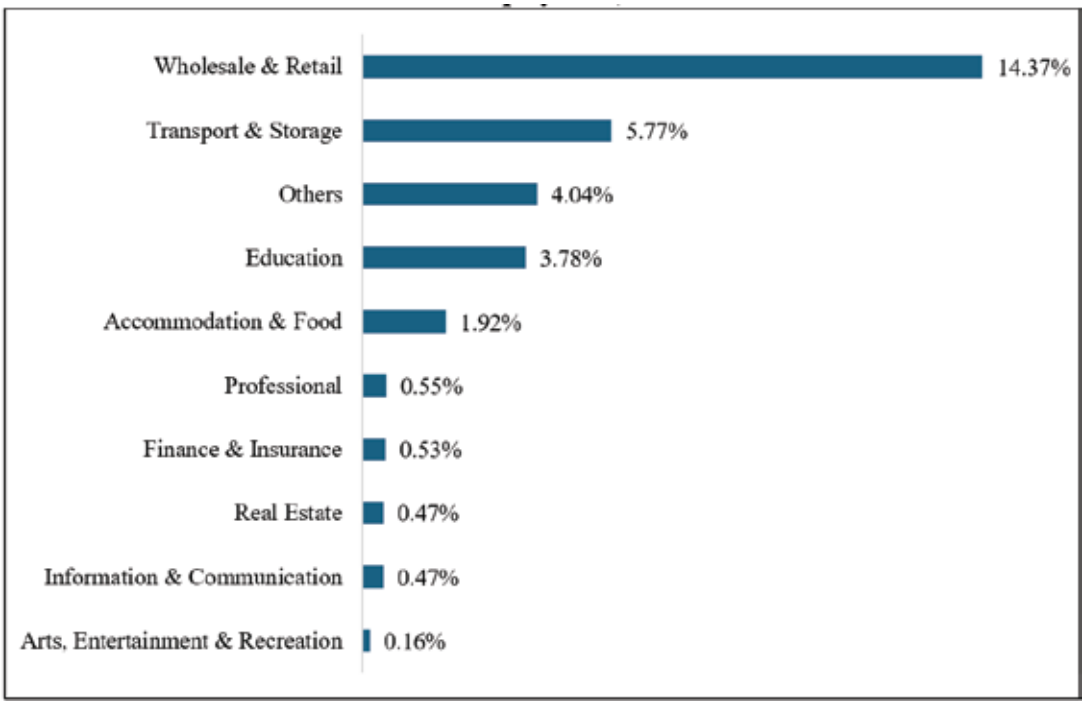
According to the calculations based on the LFS 2020-21 data, domestic commerce's share in total employment is 36.02%. It makes domestic commerce, as shown in Figure 1, the second largest sector after agriculture in terms of providing employment. Among the domestic commerce activities, the WRT has the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

Figure 1 Sectoral Employment Shares (Percent)[11]




Source: Calculations based on Labor Force Survey 2020-21

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



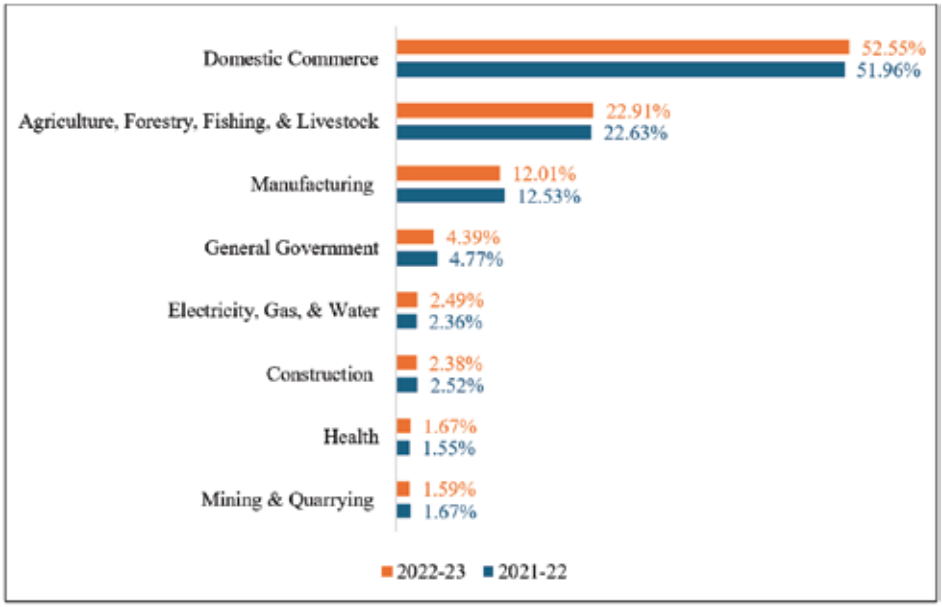

Source: Labor Force Survey 2020-21

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

## Output

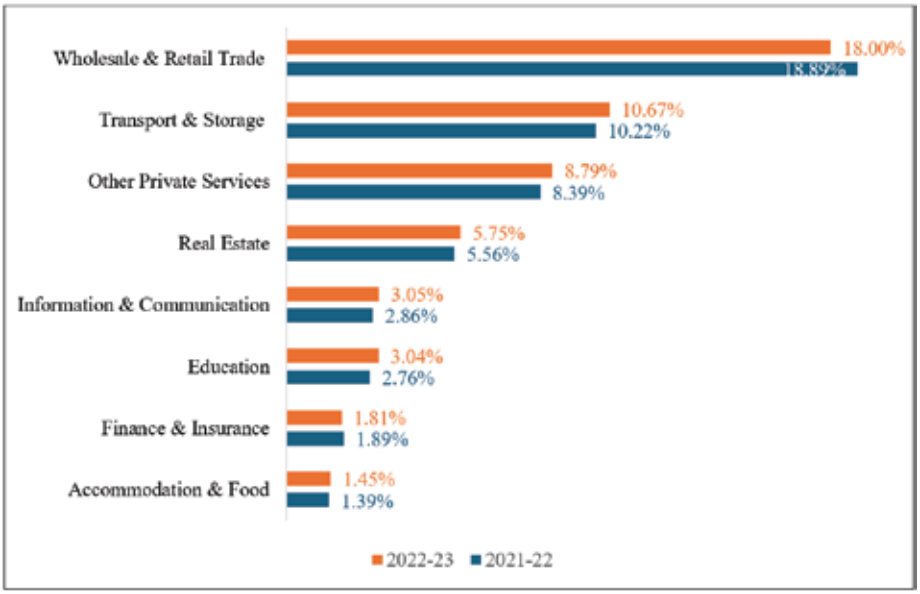
Domestic commerce's share in the GDP is 52.55% in 2022-23, which increased from 51.96% in 2021-22 (Figure 3). Among the activities in domestic commerce, the WRT sector's share is the highest at 18% of the GDP (Figure 3). Thus, as is the case with employment, the WRT contributes the most to the domestic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

Figure 3 Sectoral Shares in GDP (Percent)



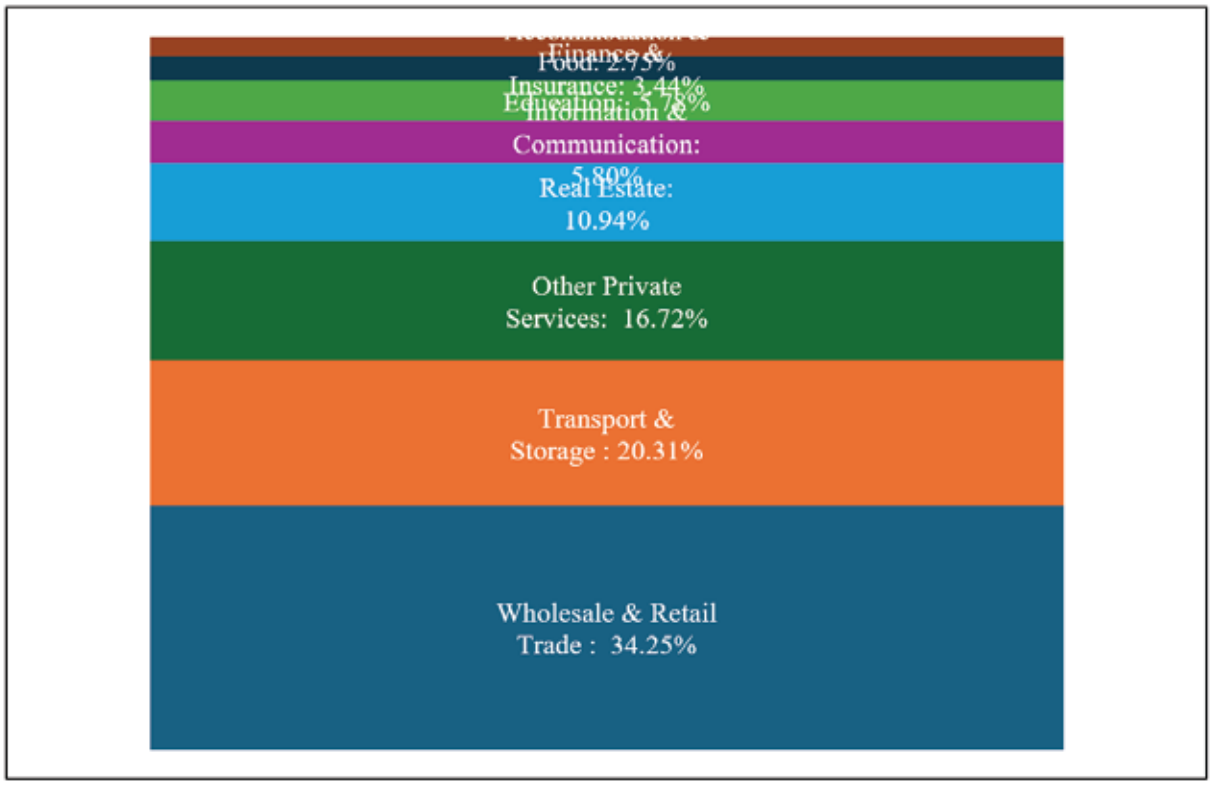

Source: Pakistan Economic Survey 2022-23

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




Source: Pakistan Economic Survey 2022-23

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




Source: Pakistan Economic Survey 2023

## The number of wholesale and retail establishments

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

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

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

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

Table 1 Number of Retail & Wholesale Establishments (Million)

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

## Taxation

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

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

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

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

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

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

Table 3 Income Tax Compliance in the Wholesale & Retail Sector

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

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

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

# Regulations

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

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

## Shops and establishment acts

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

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

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

### PROCEDURES AND COSTS OF GETTING A TRADE LICENSE IN ISLAMABAD

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

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

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

Source: PIDE Sludge Audit Volume 1 (2022)

# Other departments and authorities

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

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

Table 4 Rules & Regulations Applicable to Organized Retail Sector

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

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

Source: Courtesy Chain Stores Association of Pakistan 2023

# POLICY LANDSCAPE

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

## Real estate

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

## Taxation

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

## Development of e-commerce

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

## The wholesale and retail sector

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

## Local brand development

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

## Skill development

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

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

# HEADWINDS

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

## Current growth paradigm

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

## Regulations

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

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

## Zoning regulations

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

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

- **Outdated Urban Zoning**

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

- **Anti-Commercial Bias**

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

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

- **Poor Retailers**

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

- **Clustering of Commercial Activities**

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

- **Excess Demand for Domestic Commerce Activities**

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

- **Excessive Government Ownership**

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

## WEAK CONTRACT ENFORCEMENT

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

### High cost of doing business

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

### Taxation regime

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

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

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

# CONCLUSIONS AND SUGGESTIONS

## Regulations

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

## Taxation

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

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

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

## Zoning Regulations

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

## Brand development

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

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# THE IMPORT SUBSTITUTION POLICY AND STRONG DOMESTIC COMMERCE: CASE STUDY OF MOBILE PHONES[13]

Abid Rehman

One of the markets with the fastest-growing rates of cell phone use is Pakistan. The Pakistan Bureau of Statistics (PBS) reports that from USD 28 million in 2019 to USD 2 billion in 2020, the import of cell phones rose by 51%. The Mobile Phone Manufacturing Policy 2020 was created by the Pakistani government in response to the rising demand for cell phones. It offers producers of mobile devices favorable tariffs and non-tariff measures to encourage local manufacturing while addressing their concerns. This case demonstrates the critical importance of balancing import substitution with the development of a strong domestic market. For Pakistan and other emerging economies, it is essential to foster domestic commerce to create a platform for competitive exports. Without this, policies risk becoming mercantilist, trapping industries in low-value production that cannot scale for global success.

[13]This work is based on PIDE Research on Domestic Commerce: https://pide.org.pk/research/the-state-of-commerce-in-pakistan-international-domestic/

By June 2023, 49% localization is the goal established by this policy, with 10% localization in motherboards and batteries included. To support Pakistan in maintaining strong development over an extended period, the policy's primary goals are job creation, import substitution of value-added engineering items, and export diversification and enhancement. If the mobile manufacturing sector barriers are removed, the nation can participate in international value chains.

**HEADLINES**

Mobile phone Manufacturing Policy 2020 has failed to achieve its most of targets of localization, bringing in FDI and Export to Africa.

The idea of Import substitution has failed in case of Mobile phone assembling, just like all other Import substitution policies.

## PIDE'S VIEW ON IMPORT SUBSTITUTION POLICY AND DOMESTIC COMMERCE

Both the PIDE Reform Manifesto[14] Economic Policy and the study on domestic commerce, particularly focusing on mobile phone manufacturing, identify serious deficiencies in Pakistan's economic policy, such as excessive reliance on import substitution and over-regulation. The policy for mobile phone manufacturing aimed to promote local production by reducing imports but failed to achieve the goals of localization, export growth, and job creation. This reflects broader structural problems highlighted in the PIDE Reform Manifesto, which criticizes Pakistan's continued dependence on protectionist policies and government interference in the market[15]. In both cases, policies intended to protect domestic industries, such as tariffs on imported goods, fail to foster a competitive and innovative economy. They argue that overly restrictive government policies and regulations create a "permission economy," leading to high costs and significant restrictions on economic activities. Similarly, the study on domestic commerce emphasizes how unnecessary bureaucratic obstacles like no-objection certificates and letters of credit deter both foreign and local investment, limiting innovation and market growth.

Both the Reform Manifesto and the domestic commerce study stress the importance of investment in R&D and creating an environment that fosters innovation.

[14]PIDE Reform Manifesto: https://pide.org.pk/research/pide-reform-manifesto-transforming-economy-and-society/
[15]Haque, N.U., Qasim, A.W., & Khawaja, I (2022). PIDE Sludge Audit Volume I. Islamabad: Pakistan Institute of Development Economics Haque, N.U., Qasim, A.W., & Khawaja, I (2022). PIDE Sludge Audit Volume I. Islamabad: Pakistan Institute of Development Economics.
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The Reform Manifesto advocates for replacing outdated policies with a market-oriented economy, embracing international competition, and harnessing national talent through R&D[16]. This is reflected in the mobile phone case study, which shows that without substantial investment in technologyand localization of key components, the industry remains stuck in low-value production reliant on imported parts. Both documents also stress the need to learn from international examples like Vietnam, which successfully used trade liberalization, deregulation, and market competitiveness to become a global manufacturing hub. By reducing bureaucratic barriers[17], promoting innovation, and integrating into global value chains, both the PIDE Reform Manifesto and the domestic commerce study argue that Pakistan can overcome its current economic challenges and unlock its potential for sustained growth.

# PAKISTAN MOBILE PHONE MANUFACTURING POLICY (PMPMP) 2020: AN ANALYSIS

## Key Incentive to Manufacturers

Completely knocked down (CKD) and semi-knocked down (SKD) kits are subject to a 15% lower import charge by the government than completely built units (CBUs). Consequently, following the 2020 Policy, some 6 million mobile phones were assembled locally utilizing CKDs and SKDs that were imported and registered under the HS Code 8517.7000.

## Targeted Achievements of PMPP 2020

The following (Table 1) shows the targets and achievements of the PMMP 2020.

Table.1: Targets Set in Mobile Phone Manufacturing Policy 2020 and Achievements

| Category | Target | Achievement |
|---|---|---|
| Localization | 49% localization target by June 2023, including 10% localization in motherboard and batteries | No parts of the motherboard and batteries are currently being manufactured in Pakistan except for a few casings |
| Export | Pakistan will export to regional countries such as Central Asian Republics and Africa, UAE, | Exported low-end 16,000 mobiles (i.e., mainly 2G) to the UAE in 2019 & 2020 according to the PTA |
| Job Creation | Pakistan will create a further 200,000 to half a million jobs | Only 20,000 jobs have been created |
| Foreign/Local investment | Foreign / Local investment of more than USD 200 million | Total FDI is USD 23.38 million with Samsung having the maximum share of USD 8 million |

Source: PMMP 20 and author's analysis

[16]Unrevealing the State of Engineering Industry Phase I (2023). https://pide.org.pk/research/unraveling-state-of-engineering-industry/
[17]Haque, N.U. (2007). Entrepreneurship in Pakistan. Microeconomic Working Papers 22190. Canberra: East Asian Bureau of Economic Research.

# EVALUATION OF THE POLICY

The primary flaw in the policy is that it does not offer recommendations to develop an appropriate value chain and research and development (R&D) to satisfy the export and localization goals. Moreover, there is little emphasis on creating an atmosphere that is favorable to international investors to facilitate them. Foreign and local investors must contend with bureaucracy, legal challenges, and sloppiness, including needless no-objection certificates (NOCs) and letters of credit (LCs).

**IMPORT SUBSTITUTION POLICY**

Import substitution is a policy that aims to reduce a country's reliance on imported goods by encouraging domestic production of substituted goods. It is often used to promote economic development and reduce a country's trade deficit. Pakistan has implemented import substitution policies in various sectors, including mobile manufacturing.

## Has the import substitution worked?

Pakistan implemented import substitution policies in several industries, including the production of mobile phones. The effects of these programs have been uneven. In theory, the import substitution strategy may support economic growth, increase employment inside the country, and improve the local economy. The import substitution program has, at best, had a mixed effect on Pakistan. Several businesses, like the car industry, are one example. The auto industry has been given incentives to enable it to create components domestically, but up to now, import substitution has not been accomplished, and the bulk of car parts are imported.

Is the situation different with mobile phones? The following evaluation will give a clearer picture.

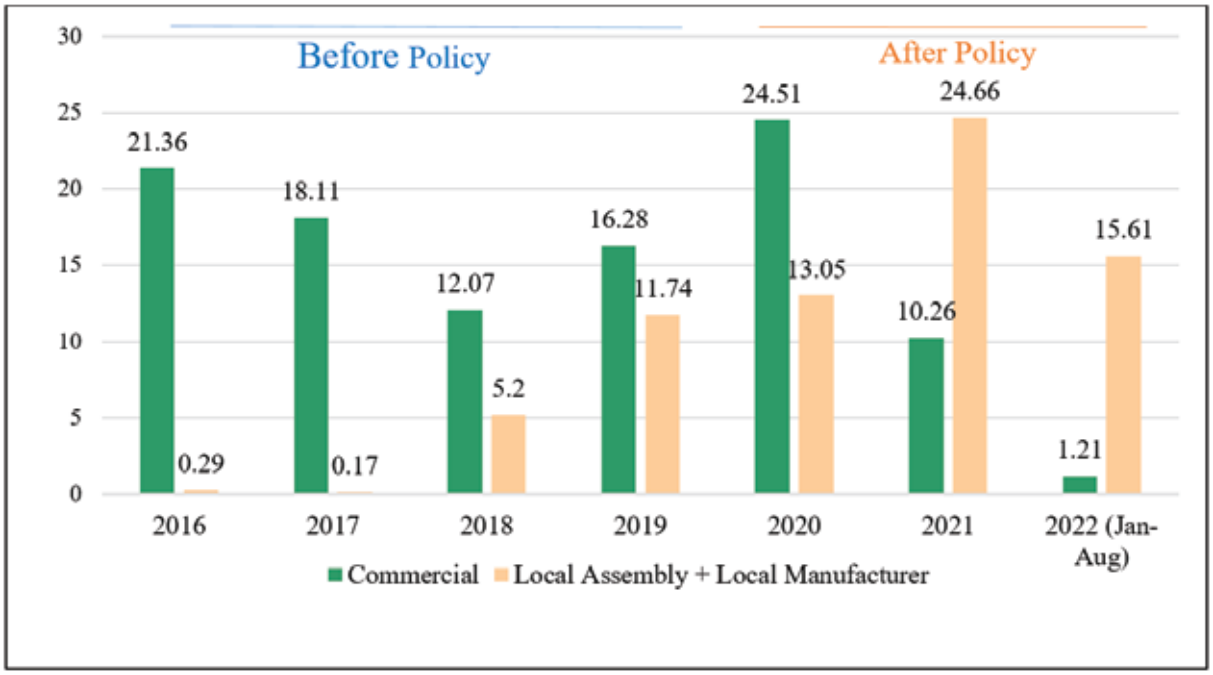
## Before and after policy analysis of manufacturing

The telecom industry has benefited from the local mobile manufacturing strategy, which has increased income. As we can see, though, imports of CKDs and SKDs have increased while imports of CBUs have decreased. Prior to the PMMP in 2020, Pakistan was unable to produce mobile phones profitably. But between CBUs and the CKD and SKD parts that the industry imported for manufacture, the government set up a 15% tariff difference. Every month, at least 3 million phones are sold, but because of a policy change in 2020 that

reduced tariffs on the importation of raw materials and CKD or SKD components, about 4 million components and CBUs are imported each month. It encouraged local cell phone production and assembly within a year. Currently, almost all brands that are sold in Pakistan are produced in Pakistan.

According to the data, once the Policy was introduced in 2020, the number of mobile phones assembled increased from 0.29 million units in 2016 to 24.66 million units in 2021. This demonstrates how import substitution has been effective in reducing the import of CBUs while increasing local mobile phone manufacture. Nevertheless, a thorough import and export study helps to further clarify the situation.

Figure 1: Mobile Phone Assembling: Before and After Policy (Millions)

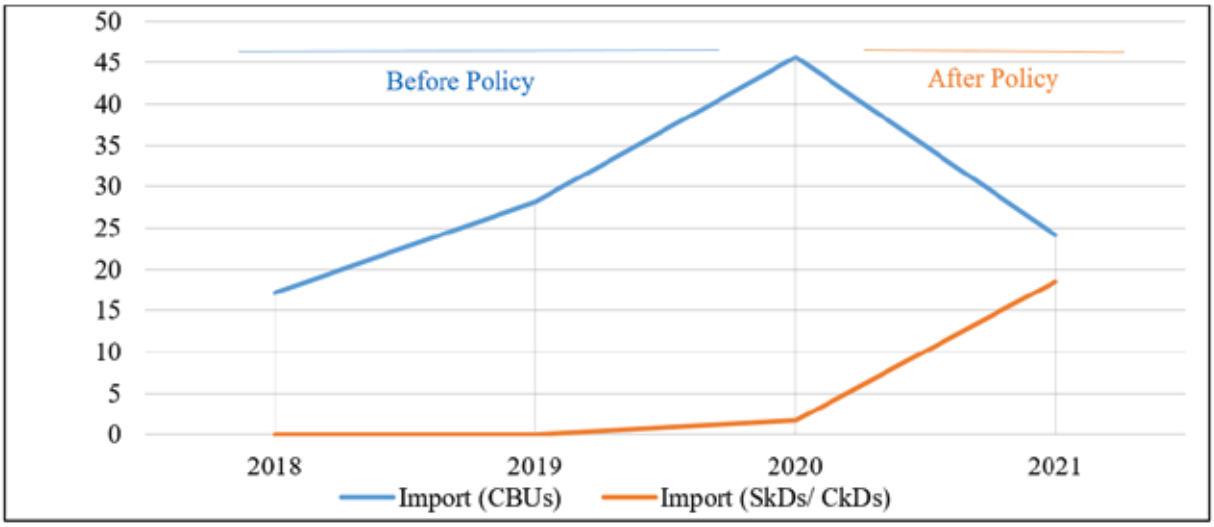



Source: Pakistan Telecommunication Authority

## Imports and import bill before and after Policy

The import of CKD and SKD kits has increased significantly, whereas the import of CBUs has decreased (Figure 1). It suggests that, at least thus far, part localization has not taken place. As a result, the import substitution policy's primary goal—localizing components, which include technology transfer—has not been achieved.

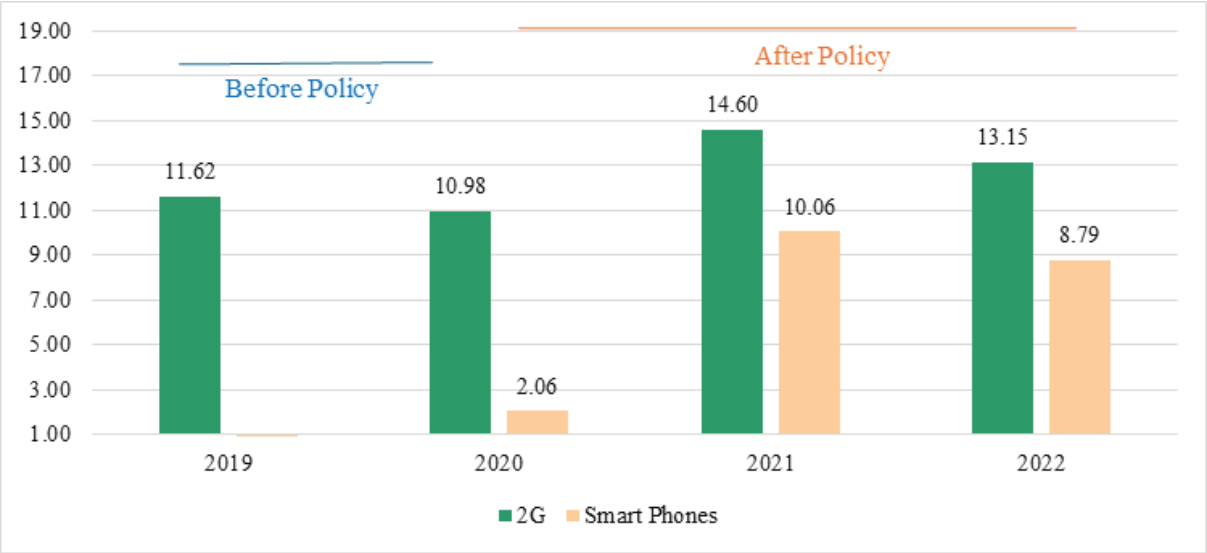
Figure 2: Import Vs. Local Manufacturing: Before and After Policy




Source: Pakistan Telecommunication Authority

As more local mobile phone assemblies have been produced, import substitution appears to be effective, as seen in the prior figure (Figure 1). But following the policy, as shown in (Figure 2), the import of CBUs fell sharply, while the import of CKDs and SKDs increased sharply instead, without being localized in the manufacture of mobile phone parts.

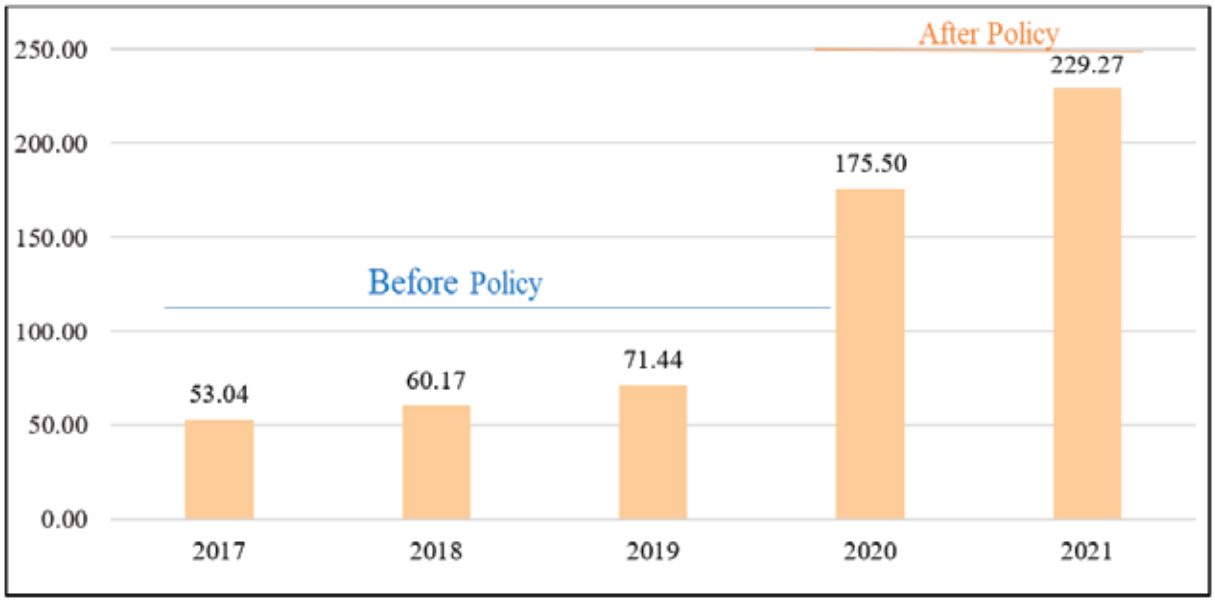
Figure 3: Quality Wise Mobile Assembling: Before and After Policy(Millions)




Source: Pakistan Telecommunication Authority

(Figure 3) illustrates Pakistan's mobile phone assembly quality. 8.79 million smartphones and 13.15 million 2G phones were made in Pakistan in 2022. At now, there is no local manufacturing of mobile parts because of a lack of investment in research and development, localization, and technical patents.

Figure 4: Import Bill: Before and After Policy (USD Million)

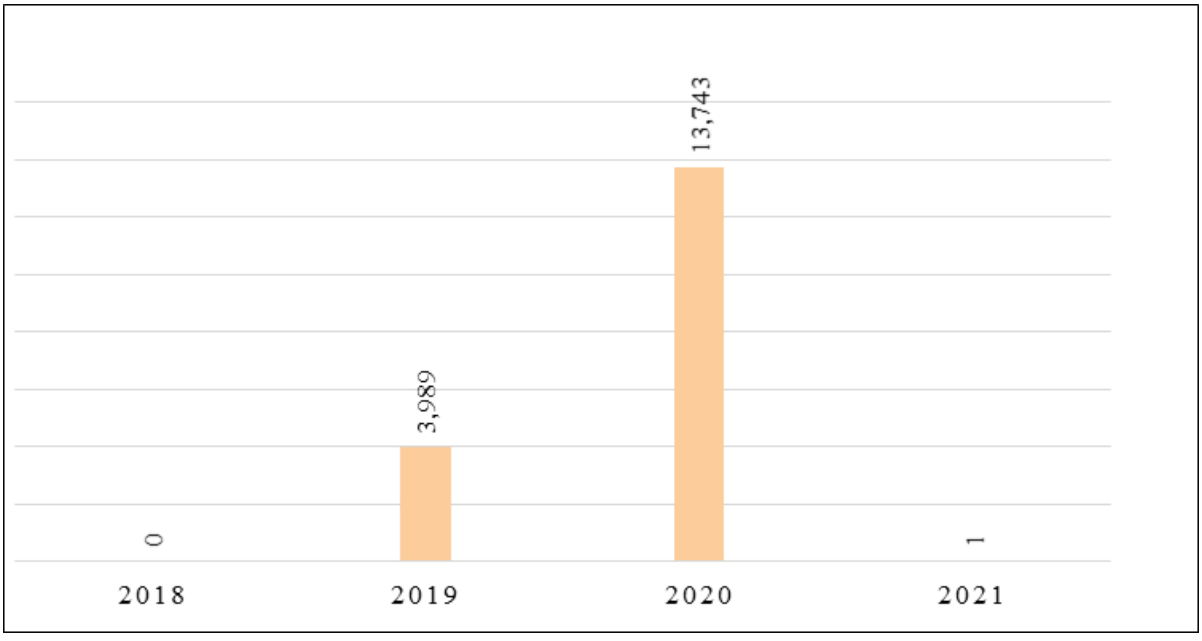



Source: Pakistan Telecommunication Authority

## Exports before and after the Policy

Pakistan only exported a small number of low-end mobile phones to the UAE, as the graph below illustrates. The Mobile Phone Manufacturing Policy 2020 did not, however, set any export goals for the local phone manufacturers in relation to the subsidies. This unrestricted subsidy led to policy failure because it neither increased Pakistan's exports (Figure 4) nor lowered the import bill (Figure 5). This demonstrates that Pakistan's attempt to assemble mobile phones through import substitution, which was the policy's intended goal, has failed.

Figure 5: Exports: Before and After Policy (Units)




Source: Pakistan Telecommunication Authority

# CONCLUSION

The government developed the Mobile Manufacturing Policy 2020, which provides producers a 15% reduced import duty on CKDs and SKDs compared to CBUs, in response to the growing use of mobile phones, particularly smartphones. With the expansion of local mobile phone assembly, it seems that import replacement is working. However, at least for the foreseeable future, no R&D or technical patent suggests that this industry won't localize the mobile phone component in Pakistan. Because trained labor and semiconductors are hard to come by, there is virtually little chance of localization in Integrated Chips (ICs) and batteries, and we are only producing the shells for low-end mobile phones. It seems that the participants in the mobile phone manufacturing space joined the market just to increase their profits because the industry's guaranteed subsidies allow them to make a healthy profit throughout the assembling process. The purpose of an import substitution strategy is to discourage companies from participating in R&D and gaining the necessary technologies in order to fully localize manufacturing. This appears to be their lack of desire.

**SUCCESS STORY (VIETNAM)**

- one in 10 smartphones is produced in Vietnam – generating more than 65 billion in 2021.
- Why is manufacturing witnessing a renaissance in Vietnam, while relapsing in many parts of the world?
- First, it has embraced trade liberalization - global integration, domestic liberalization
- Second, it has complemented external liberalization with domestic reforms through deregulation
- Third, relentless focus on competitiveness and the ease of doing business.
- Fourth, Vietnam has invested heavily in human dividend and physical capital, predominantly through public investments.
- Finally, Vietnam invested in infrastructure, especially in the power sector and connectivity.

In addition, the majority of the goals are not achieved when we evaluate the policy objectively. By June 2023, for example, this approach was supposed to achieve 49% localization, which included 10% localization of motherboard and battery parts. But except from a few examples, Pakistan has not yet designed or produced a motherboard or batteries. Furthermore, no local production has yet begun. Second, although the target of 500,000 employments has been reached, only 20,000 jobs have been created. Third, the program intends to sell 200,000 mobile phones manufactured in the country to countries such as Central Asian Republics and Afghanistan. Only 16,000 phones were shipped to the UAE, though. Not to mention, the approach aims to lower the price of mobile phones so that local

customers may get less expensive phones. This does not appear to be the case, though, since locally produced mobile phones continue to rely on imported parts, which are expensive to import for a variety of reasons, including the weakening of the local currency. In addition, a comparison is made between the Production Linked Incentive (PLI) Scheme and the Mobile Phone Manufacturing Policy 2020 to show how comparable their designs are. In conclusion, because neither nation had any R&D and both had negative net exports, none was able to significantly contribute to the supply chain.

History and the failure of these policies show that import substitution programs are always counterproductive, driving up costs and reducing customer choice. Furthermore, local industries could not be as productive or competitive as those in other nations, which would lead to a decline in global competitiveness and lower-quality goods.

# REGULATORY BURDEN & SLUDGE

# SLUDGE ECONOMY OF PAKISTAN: A DYNAMIC CGE-SLUDGE FRAMEWORK

Muhammad Zeshan

Pakistan's economy is hindered by bureaucratic inefficiencies, or "sludge." The Pakistan Institute of Development Economics (PIDE) has undertaken various sludge audits (1-3) to examine this issue under the mentorship of Dr. Nadeem ul Haque. This study develops a Computable General Equilibrium (CGE) framework to account for the total economic cost of sludge across different sectors. Different sectors are impacted by sludge in varying degrees. The construction sector is hit hardest by permitting and red tape, while real estate might see growth by 2028 as construction-related sludge reduces. Household demand drops across the board, particularly in construction and pharmaceuticals. Increased demand for imported construction materials and drugs suggests weaknesses in domestic production. The study calls for reducing sludge by streamlining bureaucracy, boosting local production, and promoting R&D in pharmaceuticals.

## INTRODUCTION

The sludge economy refers to the inefficiencies and administrative burdens that hinder economic productivity and individual welfare. Sludge makes basic tasks, regulatory compliance, and accessing services unnecessarily difficult for businesses and individuals. Reducing

these frictions has become a key goal for policymakers aiming to streamline bureaucracy and foster economic growth. In Pakistan, the cost of sludge is 39% of the GDP, equivalent to over $132 billion in 2023 (PIDE, 2022). Studies show that digitization can reduce time and monetary costs by over 40% and 34%, respectively (Faraz & Qasim, 2022), though opportunity costs can only be reduced significantly if physical documents are eliminated.

The Pakistan Institute of Development Economics (PIDE) has undertaken various sludge audits to examine this issue.[18] These audits meticulously assess and quantify the impact of regulatory and procedural bottlenecks on various sectors. By identifying areas where administrative processes create unnecessary delays or barriers, PIDE provides guidelines how to streamline procedures and reduce the economic drag associated with bureaucratic red tape. The insights gained from these audits are crucial for formulating targeted reforms that can enhance the efficiency of governance and facilitate a more conducive environment for business growth and investment in Pakistan.

While sludge creates significant costs across many sectors, no study has yet examined its full effects using a general equilibrium approach. An inter-sector analysis is crucial to understand how sludge in one industry impacts others, both domestically and internationally. This gap calls for applying a Computable General Equilibrium (CGE) model, which can assess the total economic cost of sludge across sectors.

CGE models use a Social Accounting Matrix (SAM) to simulate the relationships between different economic activities. They help estimate changes in macroeconomic variables like GDP, employment, and prices in response to specific shocks.[19]Though originally for trade policy, CGE models have evolved to analyze a wide range of economic distortions, including market imperfections and institutional failures. Sludge fits into this category of market imperfections, as it distorts prices and reduces productivity by imposing unnecessary burdens on firms and consumers. However, no dedicated CGE model has yet been used to analyze the effects of sludge in a developing economy like Pakistan.

Reducing sludge is essential for Pakistan's development, but effective policies require a detailed analysis of how sludge affects the economy. This research aims to fill that gap by using a CGE model to measure the impact of sludge on key economic outcomes, such as sectoral outputs, household incomes, and trade flows. This approach will also help identify the most impactful policies for reducing sludge, guiding reforms that could alleviate one of Pakistan's major growth constraints.

## PIDE SLUDGE AUDITS (1-3)

The section outlines different types of sludge that the private sector faces while initiating and completing a project in Pakistan. These costs are represented in three categories: 1) In terms of GDP, 2) Stress level, and 3) Number of trips.[20]The first indicator (cost in % share of GDP) summarizes all the costs faced by the private sector, whereas the other two indicators are additional explanatory factors that represent additional dimensions of this cost.

[18]https://pide.org.pk/research-category/sludge-audits/
[19]Our simulation results are based on GTAP data base version 11, and author is the solo contributor of the Pakistan input – output table to the GTAP data base: https://www.gtap.agecon.purdue.edu/resources/res_display.asp?RecordID=5957
[20]https://pide.org.pk/research-category/sludge-audits/

For the sake of our analysis in the dynamic CGE framework, this study uses the first indicator because it sums up all types of costs in monetary terms.

**PIDE Sludge Audit 1** mainly focuses on high-rise buildings, residential construction, sludge cost for obtaining permission from an environmental protection agency, acquiring a plot in a private housing society, setting up a pharmaceutical Unit, a private Hospital, a Diagnostic Center, a Pharmacy or Petrol Pump, and Pension kick-off process.

**PIDE Sludge Audit 2** primarily focuses on different industries (such as restaurants, hotels, and cash & carry), services (such as private school, intercity public/private transport business, banking & loan services, electricity connections and IT business), and others (including registration of a new medicine, and intellectual property rights). Finally, the **PIDE Sludge Audit 3** basically focuses on Pakistan's judicial system such as criminal trials, civil trials, inland revenue court cases and various other categories.

## DYNAMIC CGE-SLUDGE FRAMEWORK

The CGE-Sludge framework enhances the dynamic GTAP model by incorporating sludge features through productivity, accounting for changes over time in GDP, investment, and welfare (Ianchovichina and McDougall, 2012). It analyzes medium- and long-term policy impacts. Moreover, the micro foundations of this dynamic CGE-Sludge framework are based on PIDE Sludge Audits (1-3)[21].

One key feature of our model is treating time as a continuous variable, offering a more accurate portrayal of economic processes. Traditional models use time indices, but CGE-Sludge integrates time directly, enabling smoother simulations of economic dynamics.

Capital accumulation plays a central role, represented by an integral equation that tracks net investments and initial capital stock. This continuous approach captures real-world economic behavior better than discrete-time models. Investment decisions are based on adaptive expectations, where agents respond to past experiences and anticipated returns, ensuring capital stocks adjust gradually.

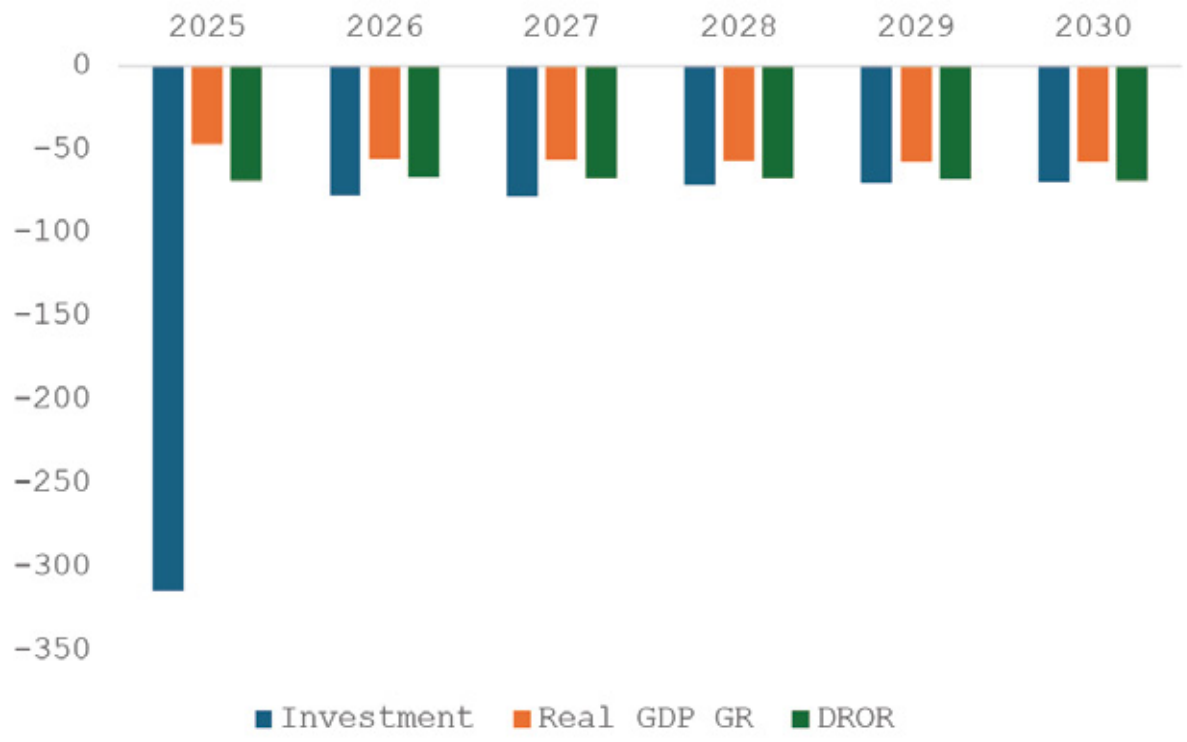
The model strikes a balance between complexity and computational efficiency, maintaining GTAP's sectoral detail while enabling dynamic analysis. It also faces challenges like ensuring accuracy over long periods. The CGE-Sludge framework advances economic modeling by incorporating dynamic elements that improve policy analysis. While it doesn't cover short-run dynamics, its focus on capital and wealth accumulation offers key insights for long-term policy impacts.

[21] https://pide.org.pk/research-category/sludge-audits/

# SIMULATION RESULTS OF THE DYNAMIC CGE FRAMEWORK

Our simulation results highlight the economic and welfare impacts of sludge on investment in Pakistan, covering investment costs, real GDP growth, domestic Rate of Return (DROR), and welfare levels. The initial impact in 2025 is severe, with a -314.6% reduction in investment compared to the baseline, signalling a substantial early loss. However, this cost lessens over time, stabilizing around -70% by 2030, indicating a decreasing financial burden. Real GDP growth falls consistently from -47% in 2025 to -57.9% by 2030. The overall impact is higher (57.9% of GDP) than micro-Sludge Audits (49% of GDP) due to industry linkages and dynamic sludge interactions, though the negative impact stabilizes over time.

Figure 1 Macro indicators

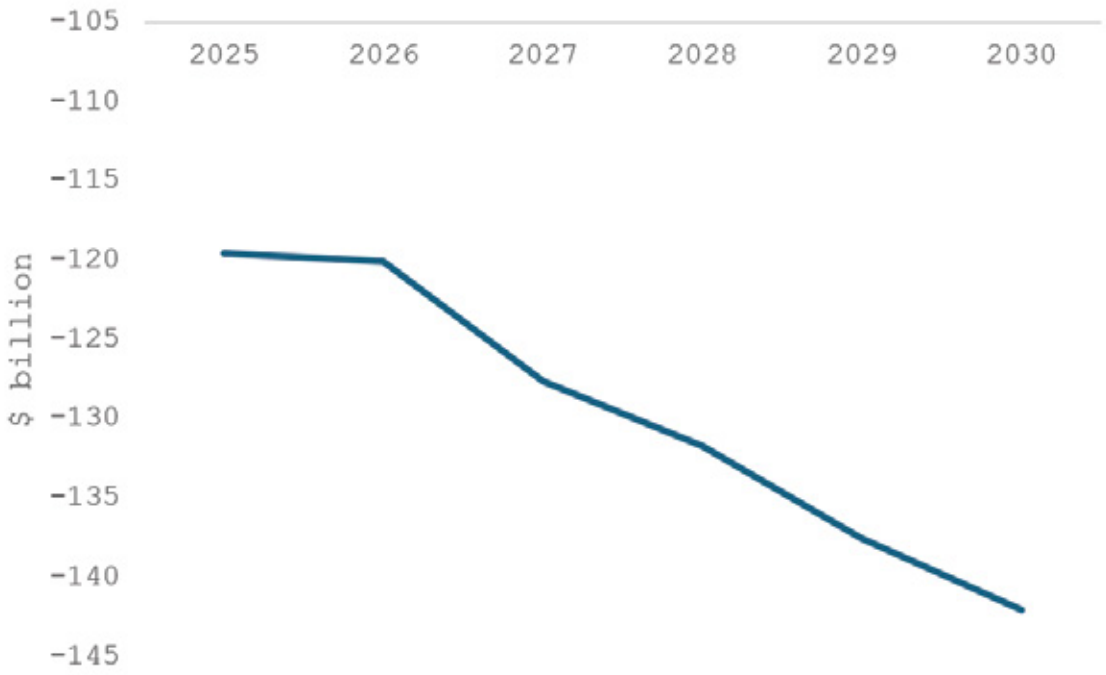



Source: Own calculations

The domestic rate of return stays consistently negative, around -68%. It starts at -68.6% in 2025, dips slightly in 2026, and rises to -68.9% by 2030. This indicates poor financial returns, suggesting these investments may not be viable unless supported by subsidies or non-financial benefits. Welfare costs linked to sludge begin at $119.55 billion in 2025, growing yearly to $142.045 billion by 2030. This increase highlights the escalating economic burden on Pakistan, straining public resources and impacting economic stability.

The simulation results reveal significant economic challenges. High initial investment costs, falling GDP growth, negative returns, and rising welfare costs indicate substantial hurdles. The upfront capital needs remain a financial burden, and the negative impact on GDP growth signals harm to economic expansion. Meanwhile, increasing welfare costs suggest an escalating strain on the country's economy.

Figure 2 Welfare level




Source: Own calculations

The construction sector sees a sharp decline in 2025, with a -301.5% drop in domestic activities. Though it stabilizes slightly, it remains heavily negative, indicating long-term challenges. In contrast, real estate shows negative growth from 2025 to 2027 but experiences a surge in 2028, peaking at 345.5%, suggesting a major recovery in the sector.

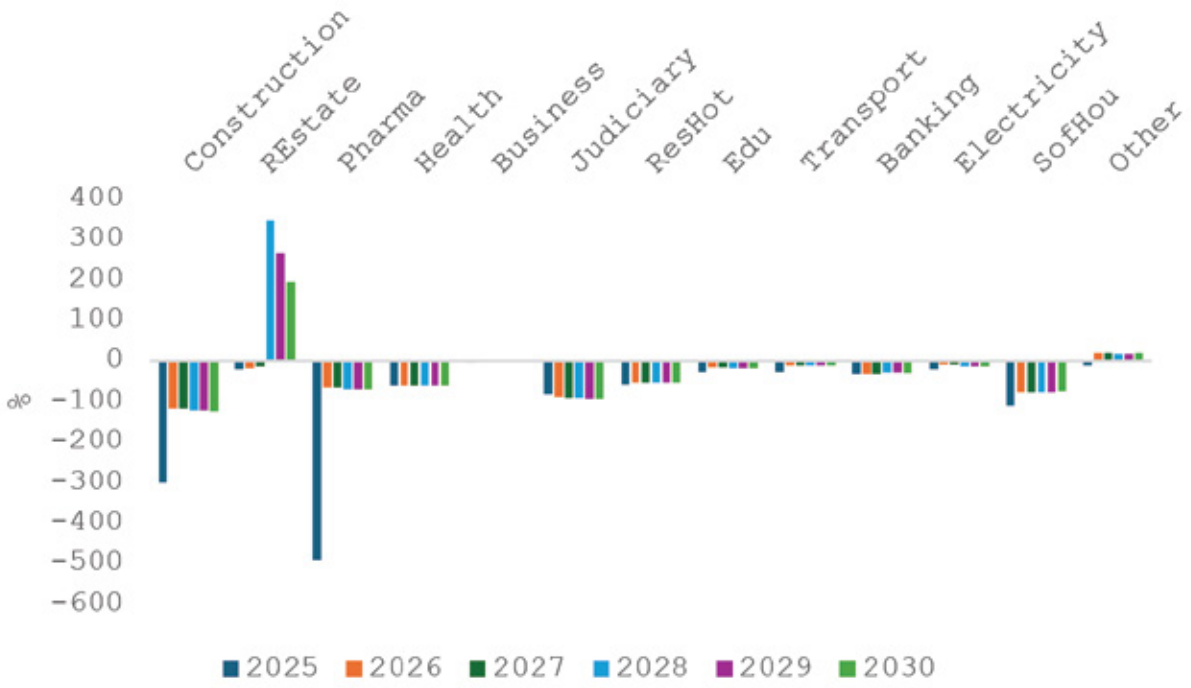
The pharmaceutical sector faces a steep drop of -491.7% in 2025, followed by smaller but consistent reductions, signaling persistent issues. The health sector remains negative, hovering around -61.5%, indicating continued underinvestment or inefficiencies.

The business sector improves from a slight decline in 2025 to positive growth by 2027, reflecting resilience. The restaurant & hoteling sector shows consistent negative growth of around -55%, possibly due to changing consumer behavior. The banking sector also shows ongoing but manageable decline.

The education sector experiences a significant drop in 2025, with a slower decline afterward. Similarly, the software and transport sectors show steep declines in 2025, followed by gradual easing but remaining under pressure. The electricity sector drops in 2025 but stabilizes with partial recovery. Meanwhile, the judiciary sees increasing declines, reaching -93.4% by 2030, indicating systemic issues.

Finally, the 'Other' category rebounds strongly post-2025, showing recovery and growth. This analysis highlights severe downturns in key sectors like construction and pharmaceuticals, while sectors like real estate and 'Other' recover, offering opportunities for policy interventions and investment strategies.

Figure 3 Domestic sales




Source: Own calculations

The simulation results show a persistent drop in private household demand for various commodities in Pakistan from 2025 to 2030. The construction sector suffers a drastic decline of -131% in 2025, improving slightly but still stabilizing at -125.7%. This reflects a sharp reduction in household investment in construction, likely due to economic downturns or lower disposable income. Real estate demand also drops initially, fluctuating before stabilizing, but remains negative, indicating ongoing but manageable cuts in household investments.

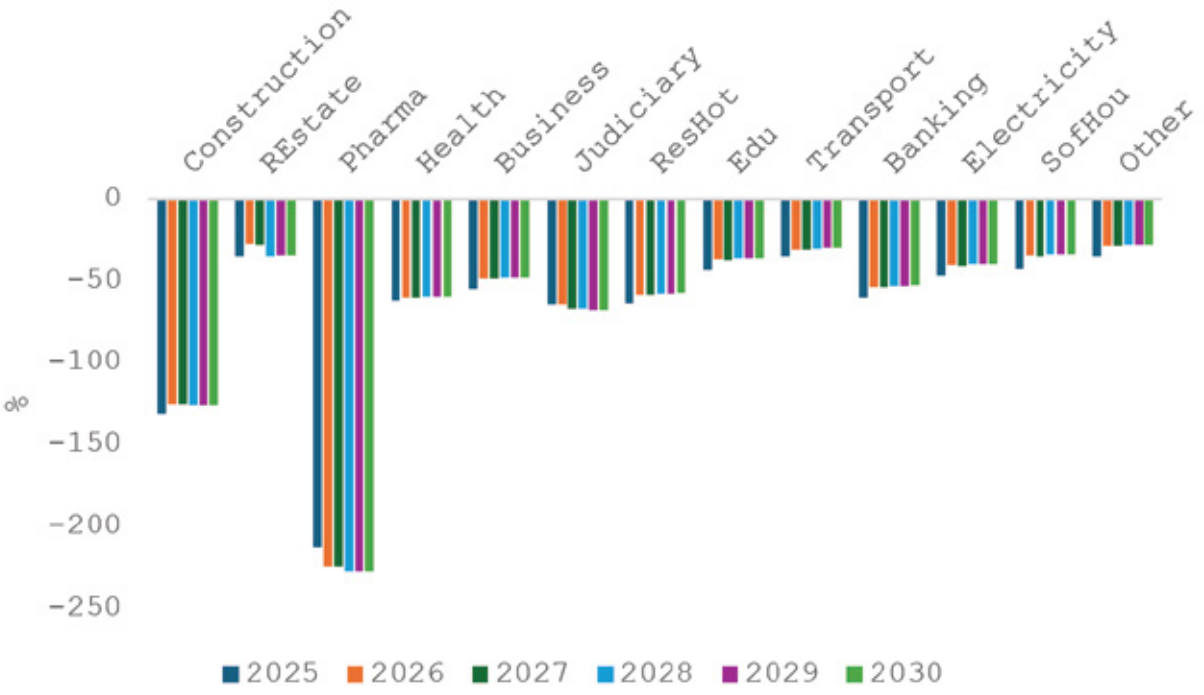
The pharmaceutical sector experiences a severe drop, from -212.6% in 2025 to -227.3% by 2028, where it stabilizes. This may indicate affordability challenges or a shift in spending priorities. Similarly, the health sector sees a steady decline, stabilizing around -59.8%, signaling reduced household health expenditures, likely due to economic pressure.

The business sector shows gradual recovery, improving from -54.8% in 2025 to -47.8% by 2030, though demand remains negative. The restaurant and hoteling sector also improves but stays negative, hinting at lower discretionary spending. This could be linked to the banking sector slump, which suggests limited household banking activity due to economic instability or alternative financial solutions.

The education sector stabilizes at -36.6%, reflecting reduced spending, possibly due to economic constraints or more affordable options. Transportation sees a similar pattern, with gradual improvement but staying negative, indicating reduced spending, likely driven by economic factors. The software sector also shows a drop, likely due to spending cuts or the use of free alternatives.

The electricity sector follows a similar trend, with reduced spending, possibly due to energy-saving measures. The judiciary sector worsens, reaching -68.5% by 2030, indicating minimal household engagement. Finally, the 'Other' category stabilizes at -27.8%, reflecting broader economic difficulties and reduced household spending across the board. Overall, the results suggest a pervasive decline in household demand across all sectors from 2025 to 2030, with most sectors showing negative growth.

Figure 4 Overall private HH demand for commodity




Source: Own calculations

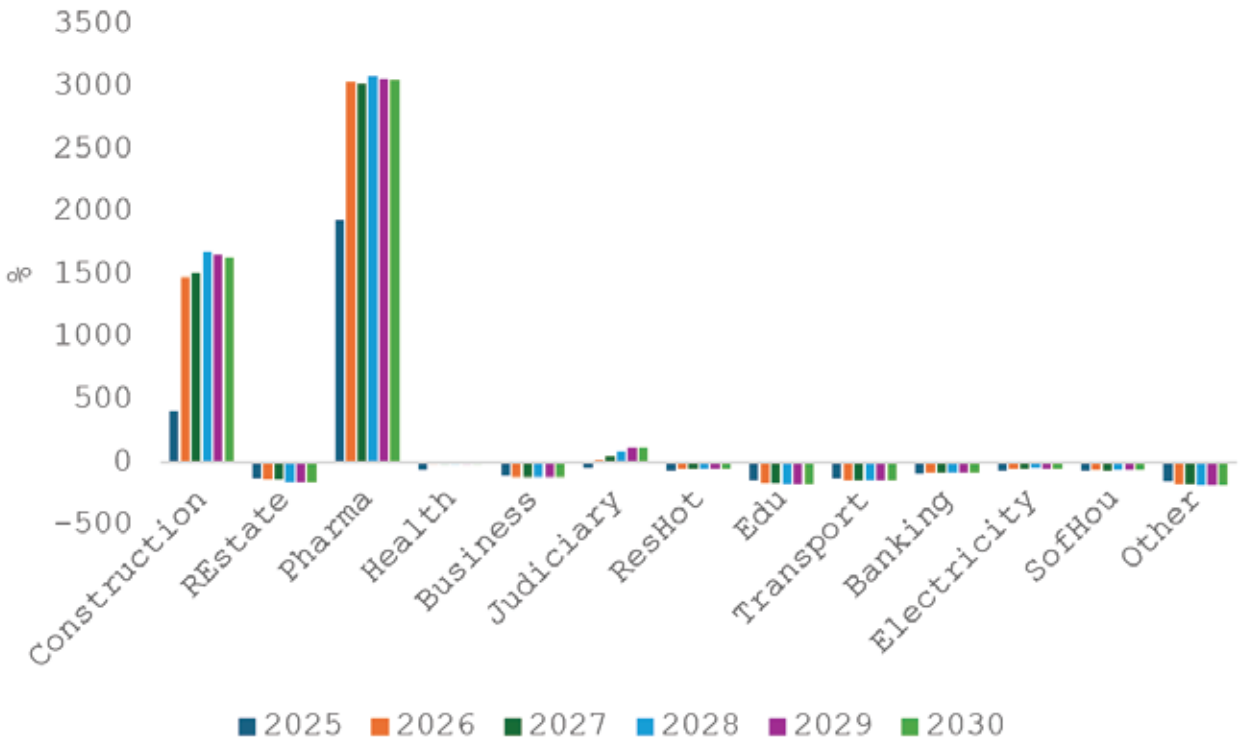
The simulation results highlight notable shifts in household demand for imported commodities in Pakistan from 2025 to 2030. The construction sector shows a sharp rise, with demand spiking from 417.9% in 2025 to 1677.8% in 2028, then slightly dropping to 1642.3% by 2030. This surge suggests a reliance on imported materials, likely due to domestic shortages or superior quality of foreign goods. In contrast, real estate experiences a declining trend, reflecting a shift towards local materials, potentially driven by domestic production or policy shifts favoring local goods.

The pharmaceutical sector sees a significant rise, with demand growing from 1931.9% in 2025 to 3083.3% in 2028, indicating a heavy dependency on imports, possibly due to limited local production. The health sector, however, shows a decreasing trend in imports, which may point to improving domestic production or services.

Several sectors, including business, restaurants, banking, education, software, and transport, exhibit a steady decline in demand for imported goods, suggesting increased local production and changing consumer preferences. The judiciary sector, however, transitions from declining to rising demand, indicating possible changes in infrastructure or operations.

Overall, the results reflect contrasting trends: a growing dependency on imports in construction and pharmaceuticals, while other sectors move towards self-sufficiency. This reliance on imports, particularly in construction and pharmaceuticals, could strain foreign reserves and highlight gaps in local production capabilities. Investing in local manufacturing, fostering innovation, and building resilient supply chains are essential to reduce import dependency and support sustainable growth.

Figure 5 Private HH demand for imported commodity




Source: Own calculations

# CONCLUSION AND DISCUSSION

Pakistan's economy holds great potential, but bureaucratic inefficiencies, or "sludge," act as a major hindrance. This research develops a dynamic CGE-Sludge framework to illustrate the severe economic drag caused by these inefficiencies. Investment takes the hardest hit, with a projected -314.6% drop in 2025 compared to the baseline. This discourages businesses from investing, stifling innovation and job creation, which hurts long-term economic growth. Similar to Faraz & Qasim's (2022) findings, this bureaucratic maze forces investors to either abandon projects or look for easier markets.

The CGE-Sludge model also reveals a steady decline in Pakistan's real GDP growth, plummeting to -57.9% by 2030. Sludge in one sector ripples throughout the economy, disrupting industries and reducing output. The construction sector, for instance, faces decreased demand for steel, cement, and related industries, sparking a broader economic slowdown.

The study also highlights a negative domestic return on investment, around -68%, signalling

poor financial gains and further discouraging private sector involvement. This places a greater burden on the public sector to fuel growth, limiting resources for vital investments in infrastructure and education.

Sludge impacts households too, with welfare costs projected to soar to $142 billion by 2030. Higher costs for goods and services, paired with job losses, mean lower living standards and increased poverty.

Sector-specific findings are telling construction activities decline due to red tape, while real estate grows starting in 2028, possibly benefiting from improved efficiency in housing construction. The pharmaceutical sector, however, sees a massive -491.7% decline by 2025, likely due to stringent regulations and supply chain inefficiencies, limiting access to essential medicines.

While some sectors struggle, others show resilience. Business activities improve by 2027, showing adaptability. However, the restaurant and hotel sector remains particularly vulnerable due to time-sensitive permits.

The decline in household demand, particularly in construction and pharmaceuticals, signals reduced spending power. Reliance on imported construction materials highlights the need to boost local production for long-term economic sustainability. Similarly, rising demand for imported pharmaceuticals reflects the challenges faced by domestic producers. Addressing these issues requires fostering innovation in the pharmaceutical sector and streamlining regulations to boost local production of essential medicines.

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# STUNTED SETH-STATE OWNED COMPANIES


Anjeela Khurram

In Pakistan, the business milieu is retarded owing to multiple factors. Among various factors like institutional and structural barriers, political unrest, government footprints etc., the stagnancy of the business landscape in Pakistan can equally be attributed to a longstanding family centric control of the wealthy business magnates normally called "Seths" and their families. This Seth culture has eroded the business landscape in Pakistan. With roots embedded in the colonial system, the dominance of seths and their families in Pakistan's business sector is deeply embedded in the social stricture. Partition (1947) has consolidated power in the hands of a few influential business families. Wealth and opportunities are concentrated within a small group of the population, thus exacerbating income and social inequalities. When the economic prowess of the nation concentrates in the hands of a few families, it results in monopolistic or oligopolistic practices in the market, thus slowing down the economic growth. This oligopoly offers friction to new entrepreneurs, particularly those without the family or political influence. Some 22 families were controlling 66% of industrial assets in Pakistan in the 1960s. Now, this control is in the hands of 31 families constituting a small "elite club" (Haque & Husain, 2023). In Pakistan, the corporate culture has the dominance of Seth mindset, which puts bars to innovation and expansion. This Seth mindset does not let the owners to think beyond the box and venture into new avenues to grow and expand. The lack of innovative ideas stalls efficient management of resources, impeding the investment in research and development (Mukhtar, 2021, PIDE Webinar, 2023).

The supremacy of Seth mindset slays innovation and growth, efficient management of resources, and effective use of human resources in a country (Haque et al., 2023; Mukhtar, 2021).

The prevalent stagnation in the Pakistani market is primarily due to this lack of competition, which restricts the prospects of innovation and new ideas and business models to emerge. Unlike its regional counterparts, Pakistan could not achieve competitiveness and growth targets owing to market stagnation and other factors like political upheavals, regulatory burdens, limited human capital development and financial constraints etc. (Sattar & Urooj, 2023). The fate of business milieu in the hands of the elite club has hampered the country's productivity and competitiveness. The rein of economic power in their hands limits the economic opportunities for others, making entrepreneurialism hard to grow. The low number of high-growth firms and superstars in terms of exports (top exporters) signifies Pakistan's inability to compete in the global market and attract foreign investment (PIDE Webinar, 2020; Sattar & Urooj, 2023). Pakistan's average GDP signifies a miserable rate of economic growth leaving Pakistani consumers with less disposable income to spend. This subsequently adversely affects the business environment by decreasing the overall market demand. Besides, the tendency of local businesses to avoid risks and low prioritization of R&D has resulted in limited innovation and product development, underscoring the absence of an entrepreneurial culture in Pakistan—an element integral to trailblazing innovations (Haque et al., 2023; Abbas, 2024). The presence of platforms like "Shark Tank" is pivotal to promote entrepreneurship in a country[23], which is non-existent in Pakistan. In nature, the economy of Pakistan is cyclic. The authority centered within a small hub of people allows them to influence the policy making in their favor to dispense the national resources for their self-interests, limiting competition in markets, thus, retarding entrepreneurship. This in turn, restricts economic growth of the people, thus, lowering their purchasing power and limiting the demand. The need is to break this cycle.

Admittedly, Pakistan is a politically captured economy (Moosvi, 2023). Pakistan's growth model relies heavily on the government's (political) interventions and provision of import substitutions, subsidies and protectionist policies by the government. All this has over-protected the businesses making them too crippled to compete in the international markets. Businesses make cartels to get market power to exploit opportunities at low cost, discarding any possibility of an equity market for growth and making the business environment less conducive (Anjum, 2020). The members of family-owned businesses have strong ties with the political figures. These coalitions are symbiotic in nature, where business owners can influence policy making to facilitate their profit margins exponentially. Likewise, rent seeking is the by-product of the elite-controlled business culture in Pakistan. Pakistan needs policy reforms to promote competition and innovation for their organic growth. In this perspective, research in PIDE (Khan, 2022) proposes to re-orient the subsidized credit from financing working capital to long-term financing for investment expansions and innovations. Besides, political interference should be minimized to free the market to ensure steady economic growth. A free-market mechanism could lead to a win-win situation for all stakeholders, i.e., consumers, producers and the government (Anjum, 2020).

[23] https://yourstory.com/2024/02/shark-tank-india-startup-impact

Seth-occupied business culture is fostering an environment favorable for tax evasion for their owners, who deliberately do not list their companies on the stock. This practice of undocumented economy retards an adoption of efficient corporate culture in Pakistan. The Seths are unwilling to declare their accounts. This culture should be revitalized to allow domestic business to compete and grow organically. The barriers like onerous and expansive tax policies should be revisited to attract more investments- domestic and international (PIDE Webinar, 2020; PIDE Webinar, 2023; Ahmed et al., 2022). Extant research establishes that in an economy investment and productivity are key drivers of growth (Haque, 2020; PIDE, 2021; Qadir & Ullah, 2021; Haque & Hussein, 2022). Unfortunately, these two parameters are not only quite low but have been in a downward spiral over the years (Haque & Hussein, 2022).

Pakistani businesses have very little global presence for various reasons. One reason these companies do not venture into international markets can be attributed to their exorbitant local profit margin; they earn from the domestic consumption led economy of 25 crore Pakistanis. Pakistan's largest conglomerates operate in industries like fertilizer, energy, cement, sugar, automotive – all meant for the local population, where they can hold and exercise their network influence. They invest in the sectors that promise incentives like protection and subsidies in the form of high tariffs on imports, tax breaks, subsidized energy tariffs etc. (RASTA-PIDE, 2023). The government policies incentivize these companies to compete domestically through protection and opportunities such as IPPs, privatization, subsidies etc.

The over-protection has also crippled these Seth companies so much so that their failure to go into the value-added segments at the right time had allowed new entrants like India, Bangladesh, Turkey and Vietnam to share the market. Pakistani companies lag way behind the international competitors in terms of high-tech, value-adding, and capital goods production and exports. There is an across-the-board failure to diversify be it manufacturing, exports, or domestic markets (RASTA-PIDE, 2023). Pakistani industries primarily rely on basic production capabilities and unlike the global practice do not invest in superior production and marketing strategies. Pakistani businesses should focus on the value-added chain rather than on little value-added commodities (RASTA-PIDE, 2023). This depicts the failure of following the Haq/HAG model, emphasizing more on import substitution and manufacturing for exports and loan borrowing. The failure to achieve the set targets in the Mobile Phone Manufacturing Policy is a recent example (RASTA-PIDE, 2023).

The need is that the government should give incentives to companies by lowering the high tariff cascading in Pakistan despite the tariff rationalization to promote export growth. Pakistan is second, after Egypt, among the top 20 countries in terms of import duty cascading. Similarly, in Pakistan, businesses even in the formal sector still use the traditional methods for inventory and demand management and do not use market intelligence and forecasting (RASTA-PIDE, 2023). This behavior discourages new entrants and prevents competition. Likewise, Pakistan has made marginal progress in terms of destination diversification, since it still exports 65% of its products to its traditional export partners.

The monopoly control authorities (MCA) and Pakistan competition commission (PCC) should incentivize Pakistani companies to set their profit margins proportionately to spur the stunted growth of Pakistani companies. Poor government policies and the lack of interest of investors have also inhibited the spirit of market competition. Thus, many Small and

medium-sized enterprises (SMEs) have failed to provide value added services (Mahmood, 2024). Globally, SMEs are billion-dollar companies. But in Pakistan, this is not the case. No nation can grow without growing their companies. The growth policies in Pakistan should provide the conducive milieu for a stable growth of its companies through a diligent implementation mechanism in place (PIDE Webinar, 2020; Ahmad et al., 2022). Now the common practice is that profit margins of Pakistani companies are too high i.e., internationally profit margins are very narrow but volumes are high, whereas domestically profit margins are high and volume is low (Mahmood, 2024). Likewise, many companies do not invest in R&D to develop a brand name with a known product. Pakistani companies have no brand equity (RASTA-PIDE, 2023). R&D is a much-neglected market and has mainly been dumped upon by the international consultants who are being supported by the international aid agencies and lenders, depriving the local thought industry to present local solutions for local problems (Haque, 2020; PIDE Webinar, 2023). A liaison among the major stakeholders like the government, industrial sector and academia can facilitate developing educational programs in domains like international marketing, project management, overseas customer support and service, product design, development and foreign languages and finally cultural awareness. Research proposes domestic commerce as an engine of growth (Haque, 2006). This stance is augmented by PIDE research in the following words that "A vibrant domestic commerce sector is the core of the economy facilitating intermediation between supply and demand, entrepreneurial development, risk-taking, innovation, and competitive markets. Such an economy transitions from commodity exports to brand names, process, and capital exports, all of which command a higher rate of return" (RASTA-PIDE, 2023).

The business activities of the companies greatly affect the stock market of an economy. In the current circumstances, the Pakistan Stock Exchange (PSX) is shrinking. The PSX is thin with few Initial Public Offerings (IPOs) and limited stock trading activities in Pakistan. Out of 421 companies owned by 42 business conglomerates, only 24% are listed on the Pakistan Stock Exchange (RASTA-PIDE, 2023). Even after 60 years of financial market development, the local companies are still a small part of the market at about 30% (PIDE, 2024). The KSE-100 is predominant by 31 Seth-owned companies (Haque & Husain, 2023; PIDE, 2024), where the owners keep stranglehold on the management. A bulk of shares held by these owners lower the liquidity, trade volumes and market efficiency. This leaves fewer free float shares to be traded. Most of the blue-chip companies' free float shares range between 4.2% and 55% in 2021(RASTA-PIDE, 2023).

The export figures of the 42 conglomerates listed companies depict that the combined exports of 39 companies of the 42 business conglomerates are USD 2.07 billion (PKR 594.35 billion) (RASTA-PIDE, 2023). Their main focus is to chase incentives by securing gains in the traditional sectors with less or no value-addition. For instance, the exports of the engineering sector are only USD 24.09 million, while those of the chemical sector are only USD 18.38 million (RASTA-PIDE, 2023). It is noteworthy that of all the listed companies, only seven (07) listed companies in Pakistan have a market value above $1 billion and the OGDCL with the highest valuation has a market cap of around $2 billion. This fact reflects the dearth of multi-billion-dollar companies in Pakistan. Even in Bangladesh, which has been going through different kinds of economic crises at present, eight business conglomerates have entered the billion-dollar club. No doubt, single Indian Tata's market capitalization alone with $365 billion stands larger than Pakistan's entire economy in February 2024. Compared to regional peers, Pakistan's business market is shackled. High protectionism,

permit and licensing requirements, stringent government footprints and regulations are the mucks that have restricted the prospects of business expansion and productivity in Pakistan. The "footprint of the government" plays a heavy-handed role to stifle the growth in all areas of trade as well as in most markets and costs over 70% of the economy (Haque & Ullah, 2021). Similarly, the burden imposed by the regulatory bodies retards the parameter of "ease of doing business" in Pakistan. The cost of regulation calculated in research by PIDE is over 60% of the GDP (Haque et al., 2022; Haque et al., 2023). Despite these hurdles, many sectors like construction, retail, chain stores, food, franchises, and transport are growing, showing that a better thought-out policymaking can help these businesses to embark on the global markets (RASTA-PIDE, 2023). The dominance of the conglomerates and family-run businesses can be attributed to a lack of competitive markets and the government's misguided protection and subsidy policies leading towards lack of a professional growth culture (Haque et al., 2023).

In this scenario, PIDE (2024) has proposed to incentivize listing with a tax incentive of 1–3% in corporate income tax for each 10% listed on the stock exchange for 5 –10 years (PIDE, 2024). Double taxation should be avoided. The market should be allowed to determine the takeover price. The holding companies should be allowed to operate and develop a market presence (PIDE, 2024; Ali, 2024). The policy should focus on developing large, exporting, listed, outward-looking, professionally-run corporations driving the economy (PIDE, 2024; Ali, 2024).

One core element highly linked to the family-owned businesses is the phenomenon of ownership and composition of the board of directors in these businesses (Khurram, 2022; Haque & Husain, 2023). Unlike the private sector, where a competitive environment ensures that the most competent flawlessly gets promoted to take charge of key decision-making roles, the leadership in Seth owned companies is the product of network clustering. The business ecosystem is dominated with the members of 31 primary families holding directorship positions to steer the market conditions. One common practice prevalent in these Seth owned companies is connectedness to their network (Moosvi, 2021). The board of directors (BODs) of the family-owned companies are controlled by a small group of interconnected people, who do not allow outsiders like the accomplished people in the country on their board. The network analysis depicts that individuals occupying directorship are part of their elite club (Haque & Husain, 2023). This study shows that each director in the central position holds or held the identical positions in parallel companies at least 10 times, some have or had as many as 17 times (Haque & Husain, 2023). This signifies that these companies do not bother to ensure adequate procedures to appoint the key board positions in an independent way (Moosvi, 2021). There is a dearth of democratic norms, transparency measures, accountability mechanisms, and meritocratic practices in the corporate sector (Haque & Husain, 2023) and the companies hardly adhere to the Code of Corporate Governance (CCG) (Khurram, 2022). The board members are predominantly male, with disproportionate female presence (Khurram, 2022; Haque & Husain, 2023; PIDE, 2024). The color of the colonial remnants of the 'Seth' culture is so deeply inherent that a major part is unwilling to professionalize their management and wants to maintain the status quo to extract the maximum benefits (Moosvi, 2021). The management of these companies has a regressive vision. Their culture suffers from corporate myopia, lacking foresight and long-term plans (Mehmud, 2017). The boards normally consist of the members from the elite club like are made up of similar individuals: corporations, family membersof business founders, retired and active civil servants, the armed forces, and a sizable portion of

non-executive directors with prior government experience (Haque & Husain, 2023; Fraz, 2024).The appointment of designating bureaucrats and government officials as independent directors on business boards creates a mismatch in priorities, strategies, knowledge, capabilities, and perspectives between the corporate and bureaucratic domains. These officials once appointed cannot navigate the competitive and dynamic corporate (Faraz, 2024). This is also against the State-Owned Enterprises Act of 2023, which forbids the appointment of bureaucrats as independent boards of directors (Fraz, 2024). There is always an economic cost related to poor governance (PIDE Webinar, 2023a). Therefore, there is a need to restructure the governance mechanism (PIDE Webinar, 2023b; PIDE Webinar, 2023c) to cater to corrupted practices in Pakistan (PIDE Webinar, 2023c). In these family-owned businesses, boards of directors are part of this consolidated elite club (Haque & Husain, 2023). To regulate boards, USAID created Pakistan Institute of Corporate Governance (PICG) to ensure rotation of board members between companies.

In short, the causes of the prevalent doldrums in economic activities are multifaceted and are embedded in structural, institutional, and cultural factors (Abbas, 2024). Pakistani companies are mainly Seth-owned, showing stunted growth and are mostly unlisted. Only a few companies are valued over $2 billion in the stock market. Whereas, the presence of many multibillion-dollar companies globally is a point to pause and ponder about the ineffective business policy making and poor governance practices prevalent in Pakistan (Haque, 2022). The major reason can be attributed to the presence of the government footprints and burden of unnecessary and redundant regulations (Haque & Ullah, 2021; Haque & Qasim, 2022). The easy breaks provided by the government through import substitution, opportunities and subsidies make them crippled to compete globally. Markets with less regulations can provide an arena for fair competition to companies to grow and develop (RASTA-PIDE, 2023). There is a dire need for reforms at all levels to ensure a stable economic growth in the country (PIDE, 2024). To pave the way for sustainable economic growth and development, the need is to learn from international best practices, to promote competition, privatization, credit provision, and R&D etc. The industry-academia linkages should be fortified to tap the great potential for entrepreneurial activities of the 60% youth population.

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# BUSINESS COMMUNITY PROBLEMS IN PAKISTAN: AN OVERVIEW


Farhat Mahmood

The business community (small size entrepreneurs) in Pakistan faces many challenges before and after starting a new business. There are many brilliant business minds with innovative and sustainable business ideas but are unable to sustain their business ventures particularly from last ten years[24]. Following are the top common business community problems of Pakistan, which if could be solved, Pakistan can progress by leaps and bounds.

## WEAK CONTRACT ENFORCEMENT SYSTEM

The biggest problem for attracting foreign and local investment in Pakistan is the inefficient contract enforcement mechanism. According to the World Bank's Ease of Doing Business Report 2019, Pakistan stands 156 out of 190 countries in terms of enforcing contracts indicating less priority area for the government. State Bank of Pakistan (SBP) statistics also revealed that investment was shifting out of the country due to weak contract enforcement system of the country. Due to weak contract enforcement system in Pakistan, big businessmen exploit the young/new entrepreneurs which is why they are unable to sustain their business. Hence, without independent and efficient judiciary system the business environ

ment will remain very uncertain and full of risk and will damage entrepreneurship and investment climate in Pakistan (Haque 2007). The solution of the problem is to make exclusive courts for speedy trials for small size enterprises.

## PRODUCT OPTIMIZATION

Many Pakistani business owners replicating foreign business ideas without having done proper local market research. This creates big problem when they join the real business world. The solution is to amend foreign business ideas according to the socio-cultural needs of Pakistani society. In this regard handholding of small entrepreneurs by experienced successful business tycoons could solve the problem.

## BUREAUCRACY INVOLVEMENT

Another challenge faced by young entrepreneurs in Pakistan is the bureaucracy involvement in business. In fact, Pakistan lacks innovation and creativity in businesses because of being a controlled economy (controlled by bureaucracy). People are trained to opt for jobs in future not for businesses due to the fear of failure in business because of excessive involvement of bureaucracy. The solution is that bureaucracy's role should be zero or minimal, only then businesses can flourish in Pakistan. For this Bureaucratic reform is the need of hour (Sameen 2023[25] .

## ROLE OF EDUCATIONAL INSTITUTES

There is a very limited collaboration between industry and academia in Pakistan. This is because academia lacks an insight into real business problems. The main focus of most of the higher education institutes (especially public institutes) is to deliver only theoretical aspects of business without going into the practicality of business. This prevents students to think innovatively. The solution of the problem is to connect young students/future entrepreneurs with business community into education institutes so that students learn from their experience (to avoid major mistakes) and become able to think innovatively to work in a competitive environment. Even all vocational centers should be closed or updated with latest technology trainings. There should be frequent lectures given by top businessmen in these centers.

## LACK OF FINANCIAL SUPPORT

One of the major reasons for most of the failed small businesses in Pakistan is the lack of finance. Mostly small size businesses rely on informal financial sources (personal savings

[24]The list of defaulting companies has increased sharply in 2023 comparing to previous years, see https://www.psx.com.pk/psx/resources-and-tools/Defaulting-Companies-Profile-Portal
[25]https://pide.org.pk/research/bureaucratic-reform/

or loans from relatives) and so when they face financial problems they were not able to sustain in the market. The solution is that the government must focus on micro- level businesses in Pakistan. Even at the time of crisis small and medium size businesses could survive to some extent but micro level businesses are unable to sustain without government support especially financial support at the time of recession. There should be an institute under the patronage of government which provides finance to the business sector only and especially promotes businesses with innovative ideas. The amount provided to support such ideas should be generous not marginal like the existing micro- finance banks which offer very small amounts with huge markups. There should be no requirement of collateral if a business has an NTN. Therefore, the government should provide interest free and collateral free loan schemes to sustain small size businesses at the time of financial crunch.

## ATTITUDE TO RISK/RISK MANAGEMENT

In Pakistan people are usually reluctant to apply innovative ideas due to fear of failure and societal pressure and so opt secure professions. Even after facing few business failures the young entrepreneurs/small size companies choose for safest investment such as investment in T-bills to cater their short-term investment requirements (Mehmood and Fraz 2020). Therefore, there is a dire need to change the risk-averse business mind set and this could be done with the involvement of government in risky business projects.

## LOW FEMALE PARTICIPATION

The gig economy motivate women to enter into businesses but due to social restrictions from their male counterparts they are unable to express their full potential. The solution is that the government should develop more flexible policies to promote female entrepreneurship in Pakistan.

## SETH LED FAMILY BUSINESS CULTURE

In Pakistan the family-run business remains the dominant model (PIDE RASTA Conference, 2023) due to lack of competition especially from small size entrepreneurs who do not receive government support to enlarge their businesses. As a result, family businesses lack innovative capabilities and professional growth culture. There is a need to replace the Seth model of "owner and worker" with the model of "employee as a stakeholder and contributor".

## LACK OF VENTURE CAPITAL FUNDS

Due to very small size of available venture capital funds, many young entrepreneurs/start-ups are not able to materialize their business ideas in Pakistan. They are unable to secure the venture capital financing (which they need to grow) because it is very competitive in case of Pakistan. The solution is that the government should foster more venture capital funds by offering them multiple benefits such as tax breaks (Mahmood 2024).

Finally, the government policies should reflect upon the best practices of other Asian countries to solve small entrepreneurs' problems. Hence, it is the need of hour that government should make separate and more flexible policies to flourish micro level businesses (i.e. 10million - 150million annual sales turnover) to achieve more sustainable long run economic growth.

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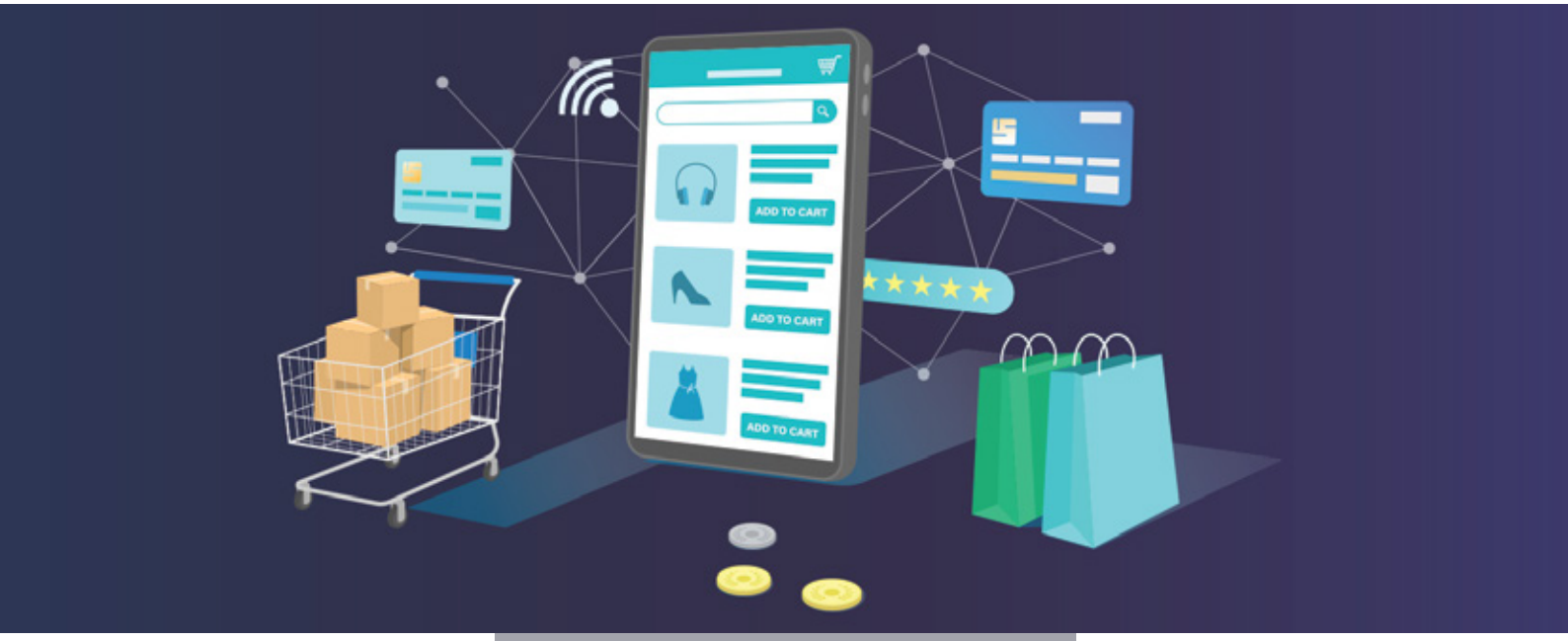
# SETH-OWNED, UNLISTED, NON-CORPORATISED STAGNANT ENTERPRISES OF PAKISTAN

## An Analysis of Growth Constraints and State of Professional Management of SUNSET Businesses in Pakistan




Usman Qadir

The relationship between a firm's ownership structure and its performance is a key area of study in corporate governance. Entrepreneurship, as a foundational concept, plays a crucial role in the formation and growth of firms. Entrepreneurs, driven by the prospect of profits, often aim to maximize efficiency and optimize resource allocation to achieve higher performance. The desire for profits acts as a primary motivator, and it is logical to assume that owners of firms will pursue decisions that favor profit maximization. However, the way a firm is owned and controlled becomes critical as businesses grow and face complex challenges.

Ownership structure refers to how a company's ownership is distributed among its shareholders, ranging from concentrated ownership—often in the hands of family members or a

small group of investors—to widely dispersed ownership among numerous shareholders. This structure can significantly influence decision-making, strategic objectives, and the firm's capacity for growth and innovation. The ownership structure directly impacts a firm's governance mechanisms, which in turn affect its performance in achieving financial and operational goals.

In the context of Pakistan, the corporate landscape is dominated by family-owned businesses, many of which are small to medium-sized enterprises (SMEs) with limited growth trajectories. Notably, the firms that Pakistanis often consider to be world-class and performing spectacularly are, in the global corporate landscape, equivalent to medium enterprises at best. Unlike in more developed or comparable emerging economies, Pakistan's corporate sector faces challenges such as limited access to capital, insufficient professional management, and a lack of strategic expansion through mergers and acquisitions (M&A). This study compares Pakistani enterprises with those in similar countries, highlighting key differences in ownership structures and their implications for firm performance, governance practices, and overall growth potential.

## Theory behind Firm Ownership and Performance

Entrepreneurship need not always be wealth-creating and growth inducing. Gordon Tullock (1989) and Krueger (1974) have shown that entrepreneurship can be directed towards the accumulation of wealth through unproductive enterprise. Rents can be earned from government awards of licenses and titles that impede market and goods development. The system of incentives that a country sets up in its governance mechanism can either promote healthy entrepreneurship leading to economic growth and prosperity or rent seeking where productive activities are at a discount. In the latter case, a society gets stuck in a low poverty-low growth trap.

The relationship between firm ownership and firm performance is a well-researched area in economic theory, with several key theories providing insights into how different ownership structures impact firm behavior, efficiency, and overall performance. Agency Theory, pioneered by Jensen & Meckling (1979), explores the relationship between owners (principals) and managers (agents), highlighting the potential for conflicts of interest when the separation of ownership and control occurs. This theory emphasizes the principal-agent problem, where managers may pursue personal goals that diverge from the interests of shareholders, leading to inefficiencies. To mitigate these issues, owners incur monitoring costs and align incentives, such as performance-based compensation, to enhance firm performance.

In contrast, Stewardship Theory posits that managers act as stewards of the firm, inherently motivated to act in the best interests of shareholders. It was primarily developed and formalized by Davis et al. (1997) and they argue that managers, as stewards, are motivated to act in the best interests of the shareholders and the organization, rather than being solely motivated by self-interest as suggested by agency theory. This reduces the need for strict monitoring and controls so firms that support managerial discretion and trust in managers' expertise may see improved performance.

Property Rights Theory focuses on the allocation of property rights and its influence on firm behavior and performance. Grossman & Hart (1986) and Oliver Hart & John Moore (1990)

argue that this allocation influences firm behavior and performance. This theory is particularly associated with their work on the "incomplete contracts" framework, where they explored the importance of ownership and control over assets in determining firm performance and decision-making. This theory asserts that well-defined ownership rights provide strong incentives for owners to maximize firm value. Owners with control over the firm's resources are better positioned to make informed decisions about resource allocation, thereby improving performance.

Stakeholder Theory developed by Freeman (1984) expands the focus from shareholders to a broader group of stakeholders, including employees, customers, suppliers, and the community. It argues that firm performance should be assessed by its ability to satisfy the interests of all stakeholders. Firms that effectively engage stakeholders may achieve better long-term performance, and ownership structures that encourage such engagement, like employee ownership, can foster loyalty, innovation, and social responsibility.

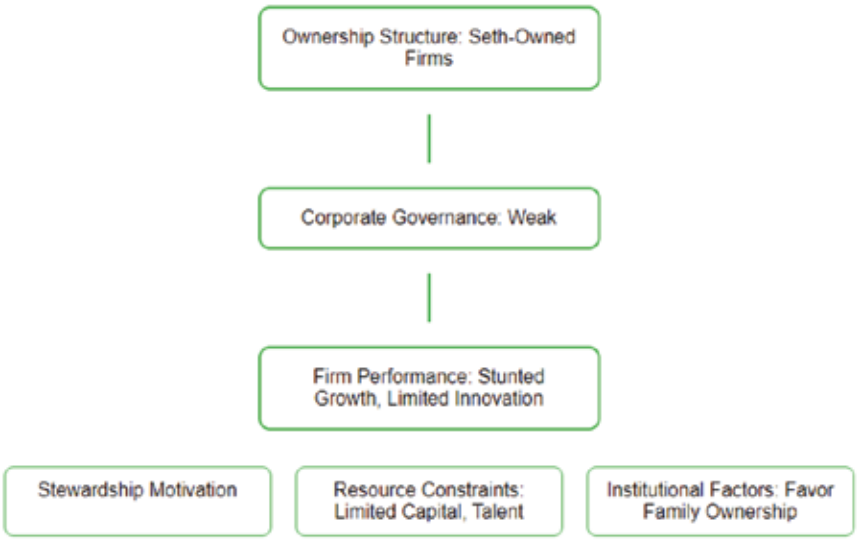
Corporate Governance Theory examines how ownership structure influences governance practices, which in turn affect firm performance. Adolf Berle & Gardiner Means (1932) explored the separation of ownership and control in large corporations, laying the foundation for modern corporate governance discussions. Good governance practices can mitigate agency problems and enhance performance. Ownership concentration, as seen in family-owned firms, may lead to more effective governance due to active owner involvement, while institutional ownership often pushes for improved transparency and accountability.

Behavioral Theories propose that ownership structure can influence firm performance through the cognitive biases and decision-making processes of owners and managers. These theories were pioneered by Cyert & March (1963). They introduced the idea that firms are complex organizations influenced by the cognitive biases, bounded rationality, and decision-making processes of their managers and owners. Their work laid the foundation for understanding how internal decision-making processes, influenced by ownership structures, can impact firm behavior and performance. For instance, owners with substantial control may exhibit overconfidence, leading to risky decisions that impact performance. The identity of the owner, whether family, institutional, or state, also plays a role in shaping firm behavior and performance based on their specific goals and risk tolerance.

The Resource-Based View (RBV) suggests that a firm's internal resources and capabilities are primary drivers of performance and  can provide firms with a sustained competitive advantage. The theory was pioneered by Wernerfelt (1984) and further developed by scholars including Jay Barney (1991) who significantly advanced the theory. Ownership structure affects how these resources and capabilities are developed, allocated, and utilized, influencing the firm's competitive advantage. Long-term-oriented owners, such as those in family-owned firms, may invest more in building firm-specific capabilities, thereby enhancing performance.

Finally, Institutional Theory examines how firms' behavior and performance are shaped by the broader institutional environment, including legal, cultural, and regulatory factors. Ownership structure can determine how firms respond to institutional pressures, with firms that align with institutional norms achieving better performance due to enhanced legitimacy and resource access. Different ownership structures also impact a firm's ability to adapt to institutional changes, influencing long-term performance.

These theories collectively highlight the complex interplay between ownership structure and firm performance, showing that governance, incentives, resource allocation, stakeholder engagement, and the broader institutional context all play critical roles in shaping outcomes. The specific impact of ownership on performance is contingent on various factors, including the industry, context, and institutional environment in which the firm operates, but ownership of the firm, is paramount.



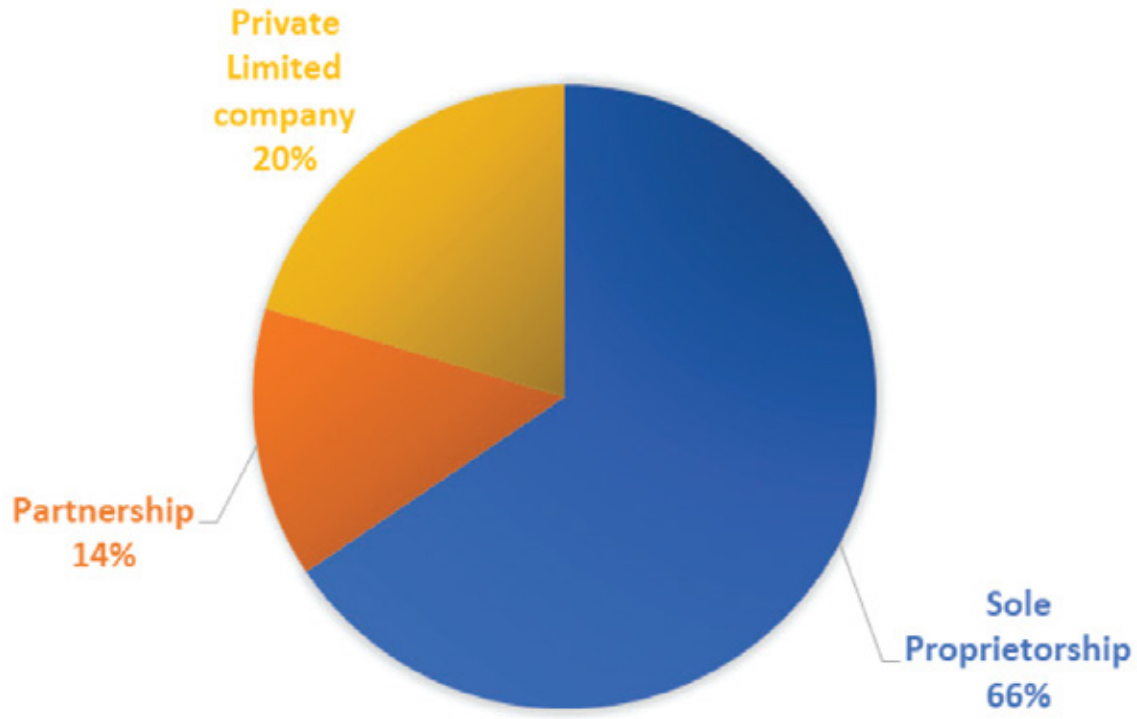

The conceptual framework linking firm ownership by Seths to firm performance in Pakistan highlights key relationships between ownership structure, governance, resource allocation, institutional factors, and performance outcomes. SUNSET businesses are marked by highly concentrated ownership, which often results in weak corporate governance and limited professional management. Centralized control stifles decision-making, reducing the firm's ability to adopt modern practices or bring in external expertise. This governance model also influences how resources are allocated, with a focus on traditional methods and family networks, limiting investments in advanced resources such as technology and talent development. The broader institutional environment reinforces this dynamic, where weak enforcement of corporate governance norms and cultural resistance to external control further entrench family dominance. These factors collectively shape the firm's performance outcomes, leading to stunted growth, a lack of innovation, and survival-focused strategies that hinder competitiveness in global markets. This framework illustrates the complex interplay between ownership, governance, resources, and institutional factors in determining firm performance within the Seth-run corporate landscape in Pakistan.

## CURRENT STATE OF ENTERPRISES IN PAKISTAN

When evaluating companies based on market capitalization, Pakistan has only a few firms with significant market capitalization. As of the latest data, some of the largest publicly listed companies include Habib Bank Limited (HBL) with a market capitalization of approximately USD 1.2 billion, MCB Bank Limited with around USD 1.1 billion, Engro Corporation with about USD 1.4 billion, and Pakistan State Oil (PSO) near USD 1 billion (Haque & Husain, 2021, 2023). These figures indicate a limited presence of large-scale enterprises, especially when compared to neighboring economies such as India, which boasts several companies with market capitalizations in the tens of billions of dollars.

# State of Engineering Firms in the Golden Triangle

Three hundred twenty-eight engineering firms in Pakistan were surveyed in 2023 in Pakistan's golden triangle of engineering. The results indicate that 66% of them are sole proprietorship, 20% are private limited, and 14% are partnerships (Figure 1).




Most of these firms specialize in manufacturing items such as auto parts, fans, steel, kitchen accessories, electrical & electronic equipment, machines (water pump/laundry), and sanitary products.

| Industry Cluster | Firm Count | Share (%) |
|---|---|---|
| Fan | 46 | 14% |
| Automobile Parts | 49 | 15% |
| Steel | 46 | 14% |
| Pumps & Motors & Electrical Home Appliances | 65 | 20% |
| Cutlery, Utensils & Knives | 61 | 19% |
| Furniture | 50 | 15% |
| Ceramic & Sanitary ware | 11 | 3% |
| Total | 328 | 100% |

# State of (Engineering) Firms in Punjab and Sindh

In a survey of 901 engineering firms located in Karachi, Hyderabad, Lahore, Sheikhupura, and Gujranwala, the majority of firms were private limited companies (52%), followed by sole proprietorships and family-owned establishments (36%) (Table 4). Consistent with findings from literature on industrial dynamics in Pakistan, micro and small enterprises dominated the sole proprietorship segment, with only a small number of firms classified as large, reflecting a common structural constraint faced by smaller firms in emerging markets (Amjad et al., 2012).

**Surveyed Firm Type Based on Ownership Structure * Surveyed Firm Size Based on Number of Employees Crosstabulation**

Count

| | | Surveyed Firm Size Based on Number of Employees | | | | |
|---|---|---|---|---|---|---|
| | | Large | Medium | Micro | Small | Total |
| Surveyed Firm Type Based on Ownership Structure | Family own | 23 | 60 | 184 | 73 | 340 |
| | Partnership | 10 | 53 | 8 | 8 | 79 |
| | Private limited company | 152 | 255 | 18 | 52 | 477 |
| | Public limited company | 13 | 8 | 0 | 1 | 22 |
| Total | | 198 | 376 | 210 | 134 | 918 |

Family-owned firms, particularly small enterprises, were concentrated in the capital goods sector (58%), a pattern that reflects the lower barriers to entry in sectors with predominantly domestic clientele. These firms often do not face the stringent international standards of quality control or branding that are common in export-driven sectors. This has been echoed by PIDE's findings, which highlight the limited international competitiveness of family-owned SMEs in Pakistan's manufacturing sector due to both quality and capacity constraints (Kostevc, 2022).

| | | Surveyed Firm Type Based on Ownership Structure | | | | |
|---|---|---|---|---|---|---|
| | | Family own | Partnership | Private limited company | Public limited company | Total |
| Surveyed Firm Engineering Industry Sector | Capital Goods | 110 | 3 | 70 | 6 | 189 |
| | Sanitary ware Ceramics | 62 | 22 | 89 | 3 | 176 |
| | Automotive | 55 | 10 | 84 | 4 | 153 |
| | Cutlery Utensils | 35 | 12 | 21 | 1 | 69 |
| | Engineering Services | 33 | 7 | 55 | 3 | 98 |
| | Home Appliances | 26 | 17 | 38 | 3 | 84 |
| | Power and Electrical | 5 | 4 | 74 | 2 | 85 |
| | Pumps and Motors | 4 | 1 | 6 | 0 | 11 |
| | Glass | 3 | 0 | 2 | 0 | 5 |
| | Mechanization of Agriculture | 3 | 1 | 6 | 0 | 10 |
| | Leather manufacturing | 1 | 0 | 0 | 0 | 1 |
| | Metal | 1 | 0 | 12 | 0 | 13 |
| | Mobile and Electronics | 1 | 0 | 9 | 0 | 10 |
| | Plastic | 1 | 1 | 4 | 0 | 6 |
| | Aluminum | 0 | 1 | 1 | 0 | 2 |
| | Fiber glass pipes | 0 | 0 | 1 | 0 | 1 |
| | Foot ware | 0 | 0 | 1 | 0 | 1 |
| | Galvanized Pipe (GI Pipe) | 0 | 0 | 1 | 0 | 1 |
| | Geo-membrane, fiber, PVC, | 0 | 0 | 1 | 0 | 1 |
| | Polymers | 0 | 0 | 1 | 0 | 1 |
| | PVC pipes | 0 | 0 | 1 | 0 | 1 |
| Total | | 340 | 79 | 477 | 22 | |

Furthermore, 76% of family-owned firms reported no online presence or client engagement through digital media. Among those that are digitally active, only 33% engage customers through web or social media platforms, indicating that the majority of family-owned businesses have yet to fully embrace digitalization. This limited adoption of technology may be linked to the low export orientation of these firms—only 7% of family-owned firms export, with just 13 firms exporting products under their own brand name. These findings align with studies on the export barriers faced by Pakistani firms, where a lack of digital presence and international marketing strategies contributes to poor export performance (Amjad et al., 2012).

**Surveyed Firm Type Based on Ownership Structure * Surveyed Firm Online Presence Crosstabulation**

Count

| | | Surveyed Firm Online Presence | | | | |
|---|---|---|---|---|---|---|
| | | Both | None | SM | Web | Total |
| Surveyed Firm Type Based on Ownership Structure | Family own | 33 | 260 | 30 | 17 | 340 |
| | Partnership | 35 | 26 | 7 | 11 | 79 |
| | Private limited company | 256 | 79 | 46 | 96 | 477 |
| | Public limited company | 16 | 2 | 1 | 3 | 22 |
| Total | | 340 | 367 | 84 | 127 | 918 |

# STRUCTURAL CHALLENGES

Firms in Pakistan face a number of structural challenges that constrain their ability to become productive and operate competitively and efficiently.

## Family Ownership and Control

Furthermore, 76% of family-owned firms reported no online presence or client engagement through digital media. Among those that are digitally active, only 33% engage customers through web or social media platforms, indicating that the majority of family-owned businesses have yet to fully embrace digitalization. This limited adoption of technology may be linked to the low export orientation of these firms—only 7% of family-owned firms export, with just 13 firms exporting products under their own brand name. These findings align with studies on the export barriers faced by Pakistani firms, where a lack of digital presence and international marketing strategies contributes to poor export performance (Amjad et al., 2012).

## Limited Market Listings

The reluctance to fully list companies on the stock market reduces transparency and limits opportunities for growth through public funding. This also restricts M&A activities, as potential acquirers find it difficult to gain control of these firms.

The literature indicates that limited market listing can be a significant impediment to firm growth. Firms that are not publicly listed often face difficulties in accessing capital, which is essential for funding expansion and innovation. For example, Cooney & Malinen (2004) discuss the struggle for small firms to engender growth due to limited access to financial resources and market opportunities. Additionally, firms that are not listed may lack visibility and credibility, making it harder to attract investors and customers (Hoang, 2021).

The arguments presented in the literature highlight that market listing can provide firms with the necessary capital for investment in research and development, marketing, and other growth-related activities. The ability to raise funds through public offerings is a key advantage that publicly listed firms have over their privately held counterparts (Hay & Kamshad,

1994). Furthermore, voluntary disclosure associated with public listing can improve market liquidity and investor confidence, contributing to the overall growth prospects of the firm (Khurana et al., 2006).

## Professional Management

The lack of professional management practices is another critical issue. Family-owned businesses often prioritize trust and loyalty over professional expertise, which can hinder strategic decision-making and operational efficiency.

The literature consistently identifies the lack of professional management as a significant barrier to firm growth and expansion. Professional management is crucial for strategic decision-making, efficient resource allocation, and the implementation of growth-oriented practices. Studies show that firms with professional management tend to perform better in terms of innovation, operational efficiency, and market expansion. For instance, Gupta et al. (2013) highlights that internal and external environmental factors, including management quality, greatly influence the growth patterns of SMEs.

Additionally, Dominic Louis & Priscila Macamo (2011) note that organizational barriers, such as the lack of professional employees and inadequate training, pose significant hindrances to small business growth. This is echoed by Buenstorf & Witt (2006), who discusses how problems in organizational growth and development, including poor management, affect firm performance and industry dynamics. Overall, the consensus in the literature is that professional management is essential for overcoming growth barriers and achieving sustained expansion in firms.

## Little is Enough Vs Entrepreneurial Mindsets

Limited access to finance for small and micro firms. Desire to retain control of enterprise within closed circle limits innovation and growth. Business expansion is not conducive to inherent thinking of staying under the radar (Nadeem ul Haque et al., 2023).

The literature indicates that a lack of an entrepreneurial mindset is a significant barrier to firm growth and expansion. An entrepreneurial mindset encompasses creativity, innovation, and risk-taking, which are essential for identifying and exploiting new business opportunities. Research shows that firms with an entrepreneurial mindset are better equipped to navigate market challenges and pursue growth trajectories. For example, (Ali , (2024);, Asenge et al. (2018)) and others highlight role that entrepreneurial mindset plays in driving creativity and innovation, leading to the establishment of new ventures and business expansion.

Conversely, the absence of this mindset can lead to missed opportunities and stagnation. As noted by various studies, firms without an entrepreneurial orientation may struggle with strategic planning, innovation, and market adaptation, thereby limiting their growth potential (Asenge et al., 2018).

## Rent Seeking As A Business

When it is more profitable to engage in DUP activities (Bhagwati, 1982) and create or transfer wealth through licensing, policies and SROs (Haque, 2007) then entrepreneurial activity will be geared towards ensuring such activities continue.

The literature indicates that when firms engage in rent-seeking as a primary business model, their growth is significantly impeded. Rent-seeking diverts resources away from productive activities such as innovation and investment, which are critical for firm growth and economic development. According to Brou & Ruta (2013), rent-seeking allows firms to avoid economic competition, leading to reduced incentives for innovation and efficiency. This behavior not only stifles firm growth but also affects the overall market structure negatively by creating barriers to entry and fostering an environment of economic stagnation.

Further empirical studies, such as those by Iqbal & Daly (2014), show that rent-seeking activities are negatively correlated with economic growth in developing and transitional countries. These activities create economic distortions that impede resource allocation and reduce the incentives for firms to pursue productive investments. Additionally, research by Wong et al., (2022) finds that controlling rent-seeking activities is crucial for economic growth, particularly in middle-income countries where such activities can significantly hamper development prospects. Overall, the consensus in the literature is that rent-seeking undermines firm growth and economic development by diverting resources from productive to unproductive uses.

### Access to Finance

Limited access to finance is widely recognized as a significant bottleneck to firm growth and expansion. The literature emphasizes several key points on this topic. Credit constraints limit firms' ability to obtain necessary funds for investment and innovation, preventing them from taking advantage of growth opportunities (Rahaman, 2011). Additionally, studies indicate that financing constraints negatively affect firm sales and employment growth. When firms lack access to external finance, they are unable to scale their operations or hire additional employees, stunting overall growth (Leitner, 2016). The effect of financial constraints varies by country, influenced by both firm-specific and country-specific factors. In some regions, SMEs face greater challenges due to underdeveloped financial systems and regulatory environments (Nizaeva & Coskun, 2021). Furthermore, firms experiencing financial constraints often encounter higher financing costs, which reduces their available cash flow and limits investment in growth initiatives, leading to lower competitiveness and slower expansion (Fernández de Guevara et al., 2021). Financial barriers are compounded by other organizational, external, social, and legal barriers, creating a hostile environment for business growth, especially for small enterprises (Dominic Louis & Priscila Macamo, 2011).

## Staying Under the Radar

Staying under the radar of tax authorities and regulators is often seen as a bottleneck for firm growth and expansion. The literature highlights several key points on this issue. Firms that under-report their revenues to avoid stricter tax enforcement often miss out on growth opportunities because they remain small to avoid detection by tax authorities. This behavior can result in lower productivity and less resource allocation for investment in expansion initiatives (Almunia & Lopez-Rodriguez, 2018).

Empirical studies indicate that increased monitoring and stricter enforcement of tax compliance can lead to better firm performance by reducing economic distortions and improving resource allocation (Garriga & Tortarolo, 2024). Furthermore, delegating tax collection duties to large firms in weak enforcement settings has been shown to bolster tax capacity, suggesting that proper tax administration can positively influence firm growth and productivity (Dabla-Norris et al., 2017). Overall, the literature argues that while firms may initially benefit from staying under the radar to avoid taxes, this strategy ultimately hinders their long-term growth and expansion potential.

## Corporate Governance in Pakistan

The corporate governance structure in Pakistan has seen various reforms aimed at improving transparency and accountability. The Securities and Exchange Commission of Pakistan (SECP) has introduced several codes and regulations to enhance corporate governance practices. The 2017 Code of Corporate Governance (CCG) introduced mandatory inclusion of female directors, reduced the number of directorships, and emphasized board independence and financial expertise within the audit committee. Despite these measures, challenges remain, including a lack of board diversity, limited independence, and concentrated ownership structures.

The literature on corporate governance highlights several ways in which poor governance practices can impede firm growth. Weak corporate governance can lead to a lack of transparency and accountability, resulting in poor decision-making and inefficient use of resources. This can stifle innovation and limit a firm's ability to expand and compete effectively (Maher & Andersson, 2000). Effective corporate governance involves proper oversight of management. Without it, firms may suffer from mismanagement, leading to financial instability and hindering growth. (Arslan & Alqatan, 2020) argue that the enforcement of governance standards is critical for firm performance and growth. Strong corporate governance practices are essential for maintaining investor confidence. Poor governance can lead to reduced investor trust, making it harder for firms to raise capital needed for growth and expansion.

Economic Implications: Inconsistent and weak governance practices can have broader economic implications, impacting not just individual firms but also the overall economic development and growth of a country. Effective governance systems contribute positively to economic growth by promoting sustainable business practices.

# IMPLICATIONS AND RECOMMENDATIONS

For Pakistan to accelerate the growth of its corporate sector and address long-standing structural challenges, the following comprehensive measures are recommended. By addressing these core areas, Pakistan's corporate sector can become more globally competitive, technologically advanced, and financially robust.

## Incentivizing Full Market Listings

Encouraging more firms to list on the Pakistan Stock Exchange (PSX) could significantly enhance corporate transparency and governance. Full market listings offer firms access to deeper capital pools and attract foreign direct investment, crucial for scaling up operations. Incentivizing these listings through tax breaks, reduced regulatory hurdles, and investor protections will promote a more vibrant and transparent corporate sector, as seen in the growth of emerging markets in Southeast Asia (Arif et al., 2023).

## Promoting Professional Management

The transition from family-owned and privately managed businesses to professionally managed corporations is key to enhancing operational efficiency and strategic flexibility. Research highlights that professional management practices improve firm competitiveness, foster innovation, and open new avenues for growth, particularly in export-oriented industries.

## Facilitating M&A Activities

A streamlined regulatory framework for M&A activities could help firms overcome capacity constraints, consolidate resources, and compete globally. M&A-driven growth enables rapid scaling, market diversification, and technological upgrading, crucial for capital-intensive sectors like engineering and manufacturing. Clear guidelines and incentives for mergers will provide firms the necessary tools to consolidate and expand.

## Government Support and Policy Reforms

Sustained government support through industrial policy reforms, targeted incentives, and bureaucratic simplification is vital. Simplifying regulatory frameworks, improving ease of doing business, and offering incentives like low-interest loans for technological upgrades will position Pakistan's corporate sector for robust growth. Government initiatives must also focus on digital infrastructure, enabling firms to engage in e-commerce and adopt modern business models (Khan et al., 2022).

## Conclusion

The comparative analysis underscores the need for structural reforms and strategic shifts in Pakistan's corporate sector. By addressing the challenges of family ownership, limited market listings, and lack of professional management, Pakistani firms can achieve more significant growth and compete effectively on the global stage. Drawing lessons from comparable economies can guide policymakers and business leaders in fostering a more dynamic and prosperous corporate environment in Pakistan.

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# THE PARADOX OF ELITE CAPTURE: A DOUBLE-EDGED SWORD

Tehmina Assad

In contemporary socio-political and economic discourse, the role of elites and the elite capture remains highly contentious in shaping strong governance structures and developing markets. Most of the literature on elite capture characterized it as a phenomenon where resources that are transferred to the masses are usurped by those who are politically or economically more powerful. The power is perpetuated through land holdings, family networks, employment status, wealth, political and religious affiliation, personal history, and personality.

Theoretically, as DiCaprio (2012) explains, these powerful actors use their elite status and ability to control resources. Their command over productive assets and institutions enables them to steer the distribution of both resources and authority. Co-optation among common interest networks to achieve their goal further strengthens and empowers these elite groups. The contributing factors to this are voter ignorance, electoral uncertainty, and embezzlement of campaign funds. In South Asian and African contexts, strategic distortion of local information creates informational asymmetry, which allows the elite to manipulate the outcomes. Embezzlement of external resources, especially from donor-induced development or community projects, adds to this influence.

information creates informational asymmetry, which allows the elite to manipulate the outcomes. Embezzlement of external resources, especially from donor-induced development or community projects, adds to this influence.balance between equity and efficiency aspects. As obvious, the dynamic resource distribution is required to contain incentives for each tier to perform and achieve their best.

Numerous studies identify the elite capture as a significant barrier to equitable growth, income equality, and economic development, whereas some studies shed light on the significance of elites as a potential driver for equitable growth and income equality. These perspectives present two contrasting narratives of elite capture. One is a potential engine of growth and a driving force for society, and the other as a barrier to equitable development. This duality of elite capture raises some fundamental questions: are elites crucial drivers of innovation, progress, and economic development? Or do they perpetuate rent-seeking inequality, power, extraction, and appropriation?

To understand the complexity of elite capture and unravel its associated nuances, it is essential to first define who the elites are. Various scholars have provided differing interpretations. Some of these thorough studies have been carried out by PIDE. Zulfiqar and Moosvi (2022) summarize major definitions in their study identifying, elites based on caste, class, wealth, land holdings, and political connections. These definitions of elites represent elites as dominant groups that disproportionately influence development processes, and distribution of resources due to their superior social, economic, or political status

In the Pakistan context, an insight comes from scholars like Armytage (2020) who defines the elite class as those belonging to families who generate at least U.S. 100 million dollars in revenue per year. Similarly, during a session on elite capture organized by PIDE at EconFest (2023) political journalist Habib Akram, in conversation with Dr Nadeem ul Haque, offered a further elaboration of this view. He describes Pakistani elites as people who have secured their elite status through manipulation and exploitation. This manipulation and treachery, according to Akram, makes elite capture particularly more problematic in the case of Pakistan as it entrenches inequity and undermines merit-based growth.

Another significant contribution to the understanding of elites is provided in Haque and Zulfiqar (2024). They categorize elites into two distinct categories that are essential for addressing the central question of this essay. These categories include meritocratic elites and gatekeeper elites.

The meritocratic elite refers to a group of individuals who attain their elite status through merit, talent, and achievements rather than inherited privilege or social connections. In contrast, the gatekeeper elite includes individuals or institutions that control access to resources, opportunities, or positions of power within society (Haque and Zulfiqar, 2024).

The rest of the essay will discuss the elite capture through the lens of these distinct elite groups. It will assess the role and impact of gatekeepers and the institutional as well as meritocratic elites on society and analyze the implication of these concepts on Pakistan's socio-economic and political landscape.

## ELITES AS GATEKEEPERS OF GROWTH AND BARRIERS TO EQUITY

According to Haque & Zulfiqar (2024), these elites may not necessarily achieve their status based on their merit and achievements but rather through their control over key institutions and networks. Since the gatekeeper elites come from a position of power, wealth, and

socio-political or economic status, it is expected for them to develop entry barriers to sustain their status. Their control over institutions, legal structure, politics of the country, and economic resources of the country enables them to perpetuate inequalities, thereby hindering economic growth and progress among the most marginalized groups. This dynamic is why they are termed gatekeeper elites.

Haque and Zulfiqar (2024) offer illustrative examples of gatekeeper elites as political party leaders who control access to political nominations and endorsements, corporate executives who control hiring and promotions within organizations, media owners and editors who shape public discourse by controlling access to information and platforms, and academic institutions or credentialing bodies that determine qualifications and certifications for certain professions. These gatekeeper elites, by their ability to control key institutions and networks, wield power to determine who can gain access to these elite circles irrespective of merit thereby perpetuating systematic inequalities.

In their study, they also offer a historical explanation of the gatekeeper elitism in Pakistan, linking it to colonialism. They outline how colonialism progressed through three stages that established the foundations of elite capture: military control and wealth extraction from the colonized state, transforming colonies into trading partners, and creation of bureaucratic and hierarchical administrations that trained local elites to sustain colonial institutions and continue appropriation. The military, established to uphold the dissent and ensure colonial supremacy: the bureaucracy and judiciary, trained to enforce colonial laws, extract resources, and stifle the local initiatives have continued to perpetuate elite capture in the post-colonial world across many colonies including India, Pakistan, and Bangladesh.

The consequences of domination of the military and state are explained in Alavi (1972, as cited in Zulfiqar and Moosvi,2022) who criticizes that this state-military dominance has resulted in an over-developed state. This over-developed state maintains discursive control over the populace and embodies the colonial legacy of extracting economic resources.

Zulfiqar and Moosvi (2022), identify major groups involved in the appropriation of state resources, categorized eight primary sectors. These include state-owned enterprises (PKR 345 billion), the military establishment (PKR 257 billion), high-net-worth individuals 1% of earners nationwide (PRK 368 billion), larger traders (PKR 348 billion), exporters (PKR 248 billion), banks (PKR 196 billion), industry (PKR 528 billion), and the feudal class (PKR 370 billion). Collectively, these groups are responsible for an estimated loss of PKR 2606 billion, which represents nearly 8 percent of GDP. In another similar study, Zeeshan (2024) shares an estimated loss of 6 billion is accrued to the subsidy policy in textile export sector. The mechanisms of this extraction often involve preferential access to land, capital, and infrastructure, facilitated by a vast network within and outside government. These networks enable elites to circumvent the regulatory framework. Benefitting from lower taxation is another way these extractions are made simpler and are characterized by exemptions, evasions, and ineffective rates. Lastly, the favorable prices by the state provide protection and means of access to lower prices for inputs.

Rent-seeking, an exploitative and extractive economic phenomenon that runs on the principle of manipulation of institutions rather than through productive activity, rooted in the colonial economic system, continues to plague present-day Pakistan's economy, the authors

explain. From bureaucratic red tape with officers demanding bribes and engaging in nepotism to a land distribution system benefitting the small elitist groups and the incessant military dominance, its colonial characteristic continues to play a role in forming government and military elites accumulating power and resources at the expense of democratic governance and civilian institutions (Haqqani, 2005, as cited in Haque and Zulfiqar, 2024).

Zulfiqar (2024) further notes that confiscation, extraction, and expropriation of land, physical resources, and natural resources through fear is another modus operandi through which the elites achieve their purposes, including the state and military. The fear of not complying with the elite authority is deeply internalized into the masses and has been perpetuated throughout history. The interconnected roles of the government, police, and military as institutions of social control play out critically to ensure the reproduction of fear by suppression. Examples of this can be seen in land grabs for housing societies, extortion money demanded by politically backed highly influenced individuals, and bonded labor ordered by the feudal and landlords-most pervasive fear-based capture.

Saad Rasool, a renowned lawyer, during a session in EconFest (2023) shared similar sentiments on gatekeeper elites by dividing them into three distinct categories. First, those who possess immense financial resources can contest the election and thereby be separated from the rest of the society; second, those who have attained positions, say within the bureaucracy, and thereby gained substantial power based over the common man; and third, a more problematic category, where people are appointed to significant positions without any regard to merit. This later form, as Rasool argues, is the most detrimental as it entrenches inefficiency and corruption undermining the principles of meritocracy.

There is a very succinct literature that is available to understand the root cause of the elite capture, particularly concerning Pakistan and the sub-continent. Zulfiqar and Moosvi (2022) have it linked with the colonial legacy. The reason is that, since the sub-continent was not a settler colony, there were little or no incentives for the British to ensure that the fruits of economic growth trickled down in society. As Haque and Zulfiqar (2024) and Robinson and Acemoglu (2012) explain, the colonial economic systems, bureaucracy, and judicial systems were established on the principle of extraction of wealth and resources from colonized territories to colonial centers. To this day, these systems are applied and adopted without any change and change of mindset.

Pakistan Institute of Development Economics (PIDE) conducted a session on Elite Capture in EconFest[26], 2023. The session, hosted by Dr Nadeem ul Haque, brought together a group of distinguished journalists/lawyers. All the guests viewed elite capture in Pakistan as a problem undermining growth and development in the country. Nasim Zehra (EconFest, 2023) viewed elite capture as the root cause of underperformance and wealth accumulation among the top. She added that the state, by wielding the elite capture in society, is financing the denial of opportunity, underdevelopment, underemployment, and global marginalization. Furthermore, the beneficiaries of the elite capture discussed above are polito-military elites.

[26]EconFest is an initiative comprising discussions, debates, exchange of ideas on issues concerning the economy that is the brainchild of Dr Nadeem ul Haque. This is first-ever fest where families, citizens, youth and university students participated, shared , debated and discussed the ideas that matter to them the most05/99.

Consider the example of the sugar industry where licenses, loans, land, and the export of sugar to benefit the politicians, who are largely the owners of the sugar industries.

Javid (2024) also refers to three disadvantages the elite capture accrues in the case of Pakistan. First through taxes and subsidies, and protection undermining productivity and global competitiveness (this has also been argued by Nasim Zehra in EconFest 2023). Secondly, the diversion of public resources to benefit elites and pay off debt limiting the use of these resources as human capital resulting in poor social outcomes. Finally, the persistence of elite status within a few families limits social mobility and deepens intergenerational inequality.

Dr Nadeem-ul-Haque in a podcast also drew attention to another example of elite capture reflected in the fall of the Sheikh Hasina Wajid's Government in Bangladesh, which he attributes to elite capture policies. Resistance rose against the quota system in job allocation which systematically excluded the general population and promoted intergenerational transfer of power that protected the select few to get the jobs and not based on merit.

However, not all the elites perpetuate inequalities, extraction, and extortion. Some act as catalysts for growth, and economic development and harness merit, creativity, and innovation, and nurture excellence through mentorship. In the next section, I discuss the role of meritocratic elites and their contributions to societal progress and economic development.

## ELITES AS DRIVERS OF INNOVATION, GROWTH, AND DEVELOPMENT

The term elite capture often carries a negative connotation, likely due to the implication of 'capture' within it. However, there is another perspective attached to the elites, the associated capture, and the implication of elite capture. This perspective has been explained, very precisely though, in a few studies as well. More recently, Haque and Zulfiqar (2024) in their work "Not Elite Capture but the Capture by Colonial-made Elites", share that elite capture sometimes contributes positively to state formations by providing coherence and stability to governance structure. Throughout history, cohesive elite groups have been central to centralized state formation, fostering economic growth and maintaining social order.

On one hand, the elite capture perpetuates inequalities while on the other hand, it leads to positive socioeconomic order. Therefore, a balanced mix of cohesive elite capture and democratic participation, as the authors suggest, is significant to ensure that the elite capture serves the interest of the masses.

In a panel discussion on elite capture at EconFest (2023), Habib Akram shared his thoughts on how elites have formed societies, assisted in making the legal structure, and supported world-renowned artists and singers. Notable figures such as poets Allama Iqbal and Mirza Ghalib, as well as singers Nusrat Fateh Ali Khan and Ustaad Ghulam Ali, were all beneficiaries of patronage from the elites of that era.

Haque (2024) in an Islah debate with Fahd Zulfiqar on the Elite Capture also highlighted that elites have done wonders. During the Renaissance era, elites played a fundamental role

in influencing art, architecture, and literature, by financing artists, scientists, and intellectuals to allow them to pursue their work without any financial struggle. This patronage, from wealthy elite social status families, such as the Medici in Florence, led to the flourishing of all sorts of innovation from remarkable individuals such as Leonardo Da Vinci, Michelangelo, and Raphael. It was also a key factor in the revival of classical knowledge, which emphasized science, reason, and the potential of the human mind and its subsequent achievements. This movement is also known as the humanist movement, emphasizing the idea that elites can play a crucial role in the shaping of society, and eventually human history, for the better.

The scientific, and technological discoveries have also been made possible by an active role and support provided by the elites who encouraged growth and development. From decoding the human genome, the greatest scientific discovery sponsored by funds created by elites for the universities conducting that research, to bringing a revolution in space science, as mentioned by Haque (2024) in the Podcast on elite capture.

While Haque and Zulfiqar (2024) build their thesis on "no state without elite", Akram (EconFest, 2024) shared his account of such a state where the elites have suddenly vanished. During his trip to Afghanistan, following the US withdrawal and the rise of the Taliban, he witnessed firsthand the impact of the absence of elites and key societal figures from Afghanistan including journalists, intellectuals, thinkers, doctors, engineers, the dominant business personnel, artists and the singers, as no one wanted to live in Taliban's Afghanistan. As a result, Kabul's chamber of commerce – the hub of economic activity- was an epitome of bewilderment and neglect. The press club – usually bustling with journalists, was deserted. This void, he added, further extended throughout the Afghan society leaving the society in a state of disarray and dysfunction.

The meritocratic elites as explained earlier in the introduction of this essay are the individuals who achieve their elite status based on their hard work, skill, education, and contributions to society. The study has provided some interestingly well-known public figures and professionals across various segments of society, from the industry to scientists and researchers, to athletes, and arts and entertainment. There are numerous well-known examples of meritocratic elites. In Pakistan, there are meritocratic elites who have risen to positions of power through their hard work, dedication, talent, and ability. The most recent examples include the famous cricketer Babar Azam, the Olympic gold medalist in 40 years, and the javelin thrower Arshad Nadeem who had little means to even practice. Successful businessmen like Syed Baba Ali Shah, Philanthropist, Abdula Sattar Edhi, music Maestro like Nusrat Fateh Ali Khan and Atif Aslam, and renowned economists including Mehbub ul-Haque and my mentor, Dr Nadeem ul Haque.

As mentioned in Moosvi (2024) in the news article "Leader Par Excellence", I am a witness to how the tenure of Dr Nadeem-ul-Haque exemplified the transformative potential of meritocratic leadership that changed the dynamics of the institution in several ways. As VC PIDE, he dismantled all the barriers of gatekeeping and bureaucratic resistance that hinder innovation and talent progression. His approach was to encourage open debate, bold stances, and context-specific research. Dr. Haque commitment to forming an intellectual community was evident through numerous webinars, seminars, podcasts, Twitter spaces, and WhatsApp community groups, among many other contributions. He formed a society of

academic intellectuals called Research for Social Transformation and Advancement (RASTA) hoping to promote research cultures and network of academia across Pakistan producing high-quality, evidence-based public policy research. In addition to this, he has encouraged young researchers to be proactive, write prolifically in Pakistan's' academic and public discourses, and engage with other research networks to ensure a stringent research culture and cohesive network.

Dr. Haque represents a sterling example of the impact the meritocratic elite can have on the fate of an institution, so it is not hard to imagine what people like him can do for a country like Pakistan. His tenure at PIDE stands as a testament to the positive impact of a meritocratic and open internal culture, suggesting that if more organizations in Pakistan could emulate this model, the potential for national progress would be immense.

## CONCLUSION

In conclusion, the examination of elite capture in Pakistan reveals a complex dynamic driven by various elite groups such as military, bureaucratic, landowning, industrial, political, and religious elites. These groups individually influence policies and resource allocation to favor their own interests, while also collaborating to strengthen their collective influence. The dominance of gatekeeping elites has perpetuated systemic inequalities across various sectors, including education, health, sports, and culture. For instance, gatekeeping elites create barriers to limit the access of common people to several opportunities and resources, thus reinforcing class and caste division which was already prevalent in Pakistan.

Immediate reforms are essential to mitigate this dominance and promote a more dynamic and equitable society. This includes addressing the colonial legacy in institutions, reforming education and health policies, and promoting competition by eliminating subsidies, preferential pricing, and quotas. A PIDE study has proposed a phased plan to eliminate subsidies gradually over 5 years. In addition, fostering a competitive market environment will stimulate growth. By reducing the influence of gatekeeping elites, Pakistan can tap into the potential of meritocratic elites to drive economic growth, societal progress, and innovation.

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# OPPORTUNITIES AND DIGITAL RIGHTS

# OPPORTUNITIES, NOT "RELIEF"!

Durre Nayab

"Government needs to provide 'relief' to the people" — it is a refrain that we hear so very often on Pakistan's media, from the opposition and public in general. Taking a break from this notion, that almost equates government with a body expected to provide 'relief', Dr Nadeem Ul Haque promotes the idea that a good government is one that creates opportunities for its people to prosper, and not just one that provides relief. Dr Haque pushes the idea that opportunities, and not relief or taxation should be the cornerstone of policy, underscoring the importance of reducing regulatory burdens, simplifying taxation, and fostering an environment conducive to growth and prosperity.

Pakistan's government has long operated in a state of crisis mode. Economic policy is often driven by immediate needs—fiscal deficits, debt rollovers, and bailout packages from international financial institutions—rather than strategic, long-term planning. Dr Haque criticises this approach, noting that Pakistan is "always in critical times," with no real contemplation of the past or the future. This lack of foresight has led to repeated cycles of debt accumulation, with little regard for how these debts will be serviced or what long-term benefits the borrowed funds could generate1. This approach, he frequently argues, has led to stifling opportunities for growth, including that of the country and its citizens.

The government often presents 'relief' as a generous act, one that is to make lives easy for the people. In reality, many of these hardships are the consequence of government policies. Over regulation, size of the government and bureaucracy2, and unnecessary controls lead to an environment of low growth and investment, and resultantly scarce opportunities for the people. As Dr Haque in his recent column in Dawn state, "The government's obsession with relief measures is about maintaining a narrative of control, not solving problems"3

Opportunity creation is essential for sustained economic progress, as evidenced by the experiences of both developed and developing nations. Dr. Haque stresses the importance of opportunity-driven policies and argues that growth cannot occur in environments stifled by overregulation and excessive taxation. The most successful economies are those that have created conditions where businesses can thrive with minimal interference from the government.

In Pakistan, fostering opportunities for businesses is key to unlocking the country's economic potential. Dr. Haque has long argued that the government's role should be to create a conducive environment for economic activity by simplifying the tax system and reducing bureaucratic hurdles.

I had the privilege of co-authoring the paper presented as the Presidential Address of the 35th AGM and Conference of the Pakistan Society of Development Economists (PSDE), titled "Opportunity to Excel: Now and the Future"4. The paper talked about availability of opportunities to people, both economic and other, to pick from in order to have a productive and satisfying life. With its 60 percent population aged under 30 years, presence of opportunities become even more imperative. In an age of AI, robotics, 3D technology, automation, biotechnology and human augmentation, life is changing at an unprecedent pace. Do Pakistanis, especially the youth, have the opportunities to keep up with the rest of the world and excel in the future?

Dr. Haque gives a call for policy reform. His writings stress that Pakistan's future economic prosperity hinges on a critical shift in policy. The government must prioritise economic opportunity over taxation and regulation. By simplifying the tax code, reducing bureaucratic hurdles, and fostering an environment where businesses can grow, Pakistan can create opportunities for its people and achieve inclusive economic growth. He calls for a growth-driven policy framework, one that empowers businesses to create wealth and opportunities. By focusing on opportunity rather than taxation, Pakistan can unlock its full economic potential and achieve the kind of progress that has long been elusive under its current policy paradigm.

Countries, and its people, do not progress on the basis of 'relief'. It is the creation and availability of opportunities that make growth, a sustainable one, possible. To reverse the current trend being experienced by Pakistan, Dr. Haque premises that the country must adopt a policy framework that prioritizes opportunity creation, simplifies taxation, and reduces the regulatory burden on businesses. In doing so, the country can finally break the cycle of crisis management and move toward a more prosperous, sustainable future.

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# INTERNET FOR ALL: AVISION AND A MISSION

Fizzah Khalid Butt

There has been an uproar regarding the digital economy since the inception of the internet in one way or another. All economic activity through the use of the digital medium is considered as the digital economy. It entails all infrastructure needed for the operations of digital processes, all digital transactions, and all digital content (Barefoot et al., 2018). The infrastructure required for the digital economy at the foremost level is the Internet and all the hardware and software equipment including computers, mobiles, gadgets, servers, telecommunication equipment, structures, and Internet of things that require the Internet to work and process digital activities. Digital businesses include all e-commerce systems, click-only setups, all the paid digital content, digital media, etc. Conclusively, the digital economy is huge, it plays an important role in the overall GDP of any country. The Secretary-General of the Digital Cooperation Organisation (DCO) mentioned that by the year 2030, 30% of the global GDP will be generated by the digital economy (Devi, 2023). As mentioned by Amin (2024), the digital economy of Pakistan by the year 2025 can contribute 13% to the total GDP of Pakistan which is a big deal. The efforts to strengthen Pakistan's digital space are encouraged by the country's superior powers as well. There have been multiple initiatives by different governments of Pakistan to digitize the country sustainably specifically after COVID-19.

This was bound to happen as the global pandemic changed the course of almost everything. Human interaction was limited and the way people managed their lives had to be shifted to a new way, which was home-bound. The cities were locked down, streets became deserted, planes were grounded around the world, educational institutions decided to close, and businesses took a nosedive; in short the physical space, to do anything, was squeezed to an unprecedented level. However, there was one thing that came to the rescue of humankind as a last resort, and that was technology. Within the ambit of technology, the internet lies at the core, which helps people across the world to go on with most of their daily routines in digital space. People in developing countries and third-world countries at the time of COVID-19 understood the better usage of the internet, unlike developed countries who were already using the Internet in the right direction. Thus, the internet has provided ease of communication and has established its significance more than ever (Favale et al., 2020).

Figure 1: Pakistan Position in World Internet Index 2022. Source: Economic Impact


Around the time of COVID-19, the Pakistan Institute of Development Economics realized the importance and need of the internet. The realization came with the idea of spreading the word and advocating that the Internet is not a luxury to have in a country like Pakistan, but it is a necessity and there should be Internet for All in Pakistan. Pakistan was standing at 90th position in 2021 and year 2022 according to the Economic Impact report, Pakistan

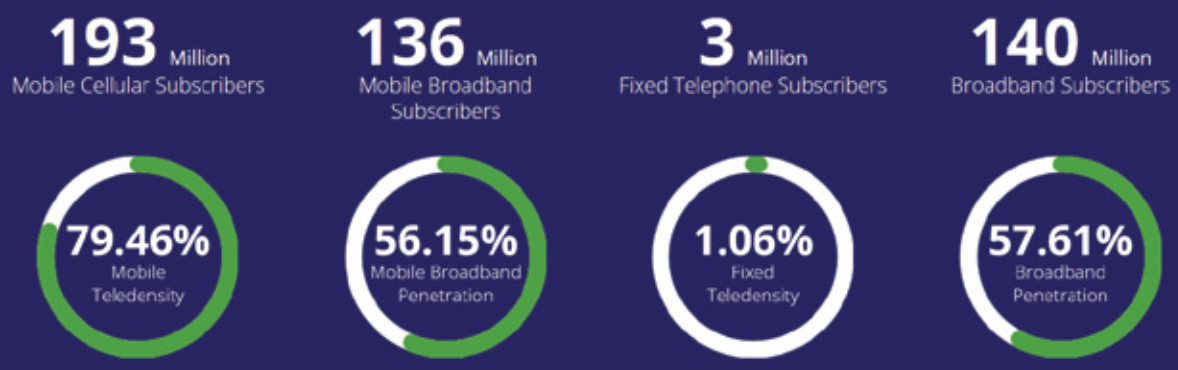
reached 84th position, yet it stayed last in Asia which is alarming.

With the vision of internet provision for everyone around the country, PIDE has struggled a lot to dialogue with all key stakeholders to do proper internet advocacy and publish about all aspects of the internet and its provision however, the lived realities are still similar as they were few years ago, the advocacy of internet provision with its needed components still look relatively fresh and new. The piece focuses on the idea of the current issues of the internet in Pakistan and how everything has been explained and advocated multiple times by PIDE and the scenarios are similar or worse since 2020 and the paper aims to provide a way forward. Since everyone around the country knows about the use and need of the internet, this piece deals with the supply-side and provision issues.

## NEED FOR INTERNET

The internet has come with the opportunities to expand, and start businesses, reach out to people, and spread the message of peace or any other social plea. In today's world, through the internet, social movements have taken place around the world, social issues are highlighted, and online education, e-fitness, and virtual meetups are becoming normal. Likewise, this is now also a fact that technology has taken over quite evidently, and businesses are trying to increase their online presence to stay in the competition. Similarly, Pakistan is promoting digitization and is focusing on the availability of all the official data and needed information on the web for the ease of the people of the land. All the policies focus on the use of the internet and the related information to be present on the web for the success of the policies and related sectors. While considering the idea of providing of internet for all, it is important to have an idea of internet access to people. The following figure shows the number of current users of telephone and internet as shared by the Pakistan Telecommuni-

Figure 2: Overview of Telecom Indicators. Source: PTA



Irfan Wahab, CEO of Telenor Pakistan mentioned in his article for PIDE that "inclusion of the digitally excluded" is the only way to strengthen the digital business and community of Pakistan and the telecom sector is the bridge and must play its role through internet provision (Khan, 2021). It has been observed that most of the urban youth of Pakistan have now accepted technology and the digital market as part of their everyday life and the internet has become a necessity for them, however, the case is slightly different in the rural areas. This has been adding to the digital divide. The digital divide causes information and knowledge hindrances for the ones without the availability of the internet (Lythreatis et al., 2022). The digital divide can hinder the socioeconomic growth of countries as well (Hussein, 2021). This is grounded in the idea of the struggle for internet penetration across the country because of two reasons. As explained by Hina (2021), one reason is the unavailability of updated mobile phones and gadgets to most of the population as most of the internet subscribers are living with 2G technology and the other reason is the struggle of Pakistani telecommunication companies to provide high-speed internet i.e. 4G in case of Pakistan whereas the world has moved to 5G technology. The traditional or the other way for the provision of internet is broadband but, in most cases, the speed is compromised due to the infrastructure issues of the broadband provision. If such problems persist, it will take many years for Pakistan to reach its digital potential and it will remain a vision to digitalize the economy in the best way possible to earn revenue from it.

It is pertinent to realize that the digital divide isn't only reflected through the availability and unavailability of the internet but also in the speed of the internet (Gallardo and Whitacre, 2024; Haque, 2021). One of the major issues Pakistan faces is regarding the infrastructure of internet provision of both broadband and cellular data. The details regarding what infrastructure comprises of internet provision are well explained in a PIDE knowledge brief by Anwar and Qayyum (2021), hence this article touches on the crucial infrastructure points. The broadband and general internet provision requires the quality of fibre optics that helps to increase the speed of the internet. While visioning digital Pakistan, the Ministry of Information and Communication, Pakistan mentioned that Pakistan has an optical Fiber cable that covers 164000 km of the area but only 11% of the towers are connected to fibre optics and 1.1M subscribers have access to fast fibre optics internet which raises high concerns in the year 2024. Similarly, for high-speed cellular internet, along with optical fibre, a range of spectrum is needed. PTA announced another round of spectrum auctions in September 2024, few times the auctions proved to be useless activity due to the high price of spectrum for better internet provision. When telecommunication companies buy high price spectrum, they have less to manage other business activities and that also impacts the affordability of the internet provision (Anwar and Qayyum, 2021). A similar point is made by many CEOs of telecommunication companies in a webinar with PIDE that the government is focusing on gaining high revenue without caring for long-term benefits and profits which becomes a hurdle for spectrum buying and moving towards better technologies (TelecomSectorCEOs, 2021). The CEOs further mentioned that the government also imposes a wide variety of taxation which then makes it difficult for the provider to deliver their services at an affordable rate.

Pakistan is currently using 4G LTE as the highest spectrum range of the internet whereas the world is moving ahead of 5G. Though 5G is a crucial need of time, in Pakistan, it is firstly important to provide internet across the country and then move towards another technology considering the enlarging digital divide. According to an estimate, by the researchers at

at PIDE in the year 2021 the Telecom sector needs huge investments, with average infrastructure price taken from the industry, the researchers estimated the need of around 1000M to provide internet in 4 districts of Pakistan which is a heavy amount and one tower was covering a radius of 6km. According to a one-on-one discussion with the PTA chairperson in 2021, researchers at PIDE realized that 5G requires a stronger spectrum range and covers fewer areas. Similarly, in 2024, the talks with industry personnel mentioned that the 5G internet is expensive and as it covers a lesser area, they require more equipment for the upgradation of all the towers in the country which is why it wasn't optimal for them to go for 5G. the same was indicated by Hina (2021) that an entire ecosystem change is required to move towards 5G which is suboptimal, therefore the provision of 4G across the country should be the foremost priority in the mission to provide internet to all. Accepting the fact that currently, Pakistan has infrastructural issues that require long-term planning and time to be resolved, the government and telecom sectors need to work together to look for solutions and work on their suggestion to improve the accessibility of the internet.

## CURRENT INTERNET POSITION

Currently, most of the businesses in Pakistan have moved digitally, many businesses are using omnichannel i.e. having digital and physical touchpoints for the customers. Few businesses are run based on shared economy principles which is a merger of innovation and digitalization (Mohsin and Butt, 2022), examples of such businesses in Pakistan include InDriver, Foodpanda, AirBnB, etc. Certain businesses run solely through the internet i.e. apps that connect users and service providers, freelancing, social media influencing and digital programs, etc. Since, the internet is helping the cottage industry to flourish, helping people reach and connect with loved ones through social media, despite the digital divide and internet accessibility issues, people in Pakistan are trying to make the best use of the internet. But there is another problem that is beyond the digital divide, that comes with the political agendas and political instability where the government chooses to stop the supply of internet provision which then causes huge losses for the businesses that depend on the internet. Since the internet penetration through mobile services is more than broadband in Pakistan, Haque and Najib (2023) estimated that due to one day of internet closure by mobile service providers, businesses lost around 1.3 Billion rupees. The financial sector lost around 45% of the daily average, the cab services lost 97% of the business, food services lost 75% of the business and freelancers lost their work denting 390M of economic activity (Haque and Najib, 2023). Since 2023, the practice of closing the internet over political issues, protests, and large gatherings has become a norm which is impacting businesses and the public hugely. Further, the government sometimes bans certain internet sites and apps that may be important for the public to connect or to work, it impacts the mental well-being of the public and by using VPN, the government is allowed to shift the revenues to other places. As these activities are done by the government, there is no way to appeal about it as well. The government needs to realize that the vision of digital Pakistan can't be achieved if there are hindrances in the provision of the Internet.

## Way Forward

- The government should not see providing spectrum as a revenue generation opportunity, instead reducing the spectrum prices to make it more affordable and easier for the telecom companies to buy spectrum. This will enable telecom companies to provide internet coverage to more areas at a relatively lower cost.

- The government needs to support the buying of optical fibres to enhance the broadband and mobile internet experience for users

- The government should encourage tower-sharing options and the provision of optical fiber for towers, it will help them reduce costs and provide better revenue opportunities for all. This will also lessen the competition and increase the opportunities for the companies and the people.

- Telecommunication companies tend to discontinue services where they're bearing losses, government should provide subsidies to provide internet to everyone.

- Government needs to lower the taxes on the provision of internet

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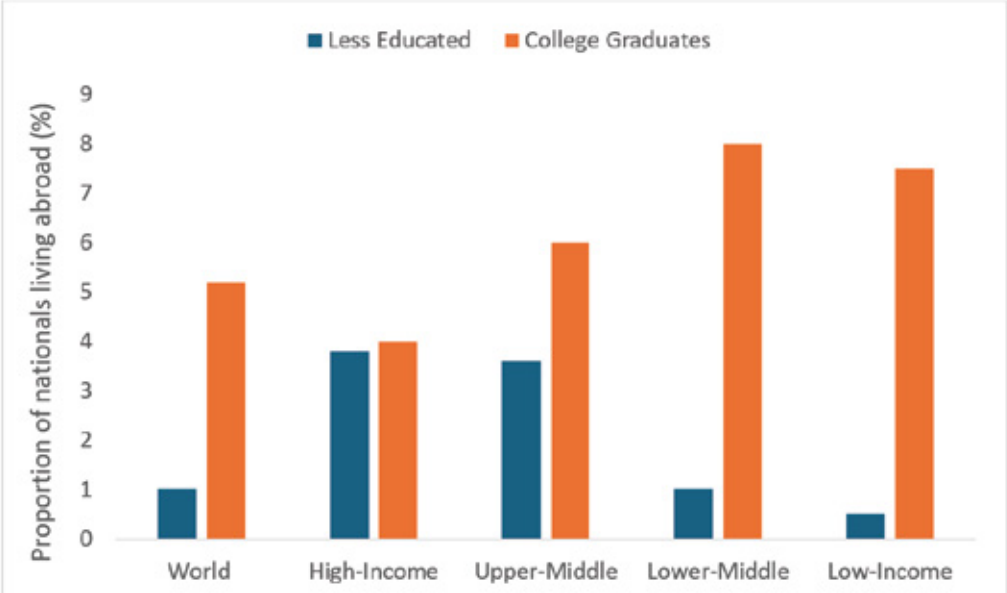
# BRAIN DRAIN IN PAKISTAN: ANALYZING TREND, CAUSES AND CONSEQUENCES

Henna Ahsan

Brain drain could be defined as the migration of highly skilled human resources (Docquier et al., 2009) from one country to another or often the migration of highly skilled people from lower-income countries to high-income countries is termed as "brain drain" (World Bank report, 2023).

Talent from less developed countries is drawn to developed nations due to their higher salaries, access to cutting-edge technology, better living standards, and more stable political environments. The migration of high-skilled workers is a global phenomenon. However, most of the migration is from developing to developed countries. For high-income member countries of the Organization for Economic Cooperation and Development (OECD) it stands at 4 percent of the highly skilled population, for middle-income countries this value is slightly over 10 percent and for low-income countries figures are 20 percent (Artuc et al.,2015; World Bank Report, 2023). Docquier (2014), through his landmark study, revealed the same findings that a low percentage of skilled people migrate from developed countries whereas in developing countries this percentage is very high as is shown in figure below.

Figure 10: REER under Scenario 4.1




Source: Calculations based on Labor Force Survey 2020-21

Pakistan, too being a developing country, stands third in South Asia (after India and Bangladesh) and sixth in the world in human capital migration (Farooq and Ahmad, 2017). Brain drain is the growing concern for developing countries like Pakistan, as these countries invest heavily in education and training of their young professionals. However, when these individuals migrate, significant resources are lost, and the recipient states benefit directly from these migrations as they haven't paid any cost for it. Any nation's intellectuals are among its most expensive assets due to their training, which involves both time and material costs, but more significantly, lost opportunities.

One of the early works done by Haque (2006) highlighted the possible reasons behind the problem. As per him, poor governance infrastructure—lack of personal security, poor roads and railway system, lack of clean environment and decent facilities to raise children, are often quoted as one of the few reasons responsible for this brain drain. Moreover, non-comparative wage rates and lack of job opportunities for highly educated individuals is one of the other main reasons which lead to migration of people from the country.

Although the Pakistani diaspora, dispersed globally, has significantly contributed to the nation's economy through the remittances, thereby enhancing livelihoods and alleviating economic pressures during crises such as energy shortages, food insecurity, and heightened foreign debt repayments (Ahmed, 2021). But the question is how much is contributed by highly qualified and highly skilled labor as the size of remittance inflows depends on migrants' characteristics. Low-skilled migrants are more likely to migrate alone and remit a significant portion of their income on a regular basis to support the families they left behind (World Bank, 2023). For instance, Indian migrants in the Gulf Cooperation Council (GCC) countries send, on average, nearly 70 percent of their earnings to their families. On the other hand, high-skilled migrants are more likely to come from wealthier families, migrate with their immediate families, and move permanently. They do remit high amounts but that is usually done infrequently.

Khan and Ahmad (2024) from PIDE measured the cost of brain drain for Pakistan's economy. When the costs of losing a highly qualified worker to the home country outweigh the benefits of the worker's remittances and knowledge spillovers, it is determined that brain drain is a development barrier. When employees hold jobs that are considered necessary for their nation of origin, these negative effects become even more significant.

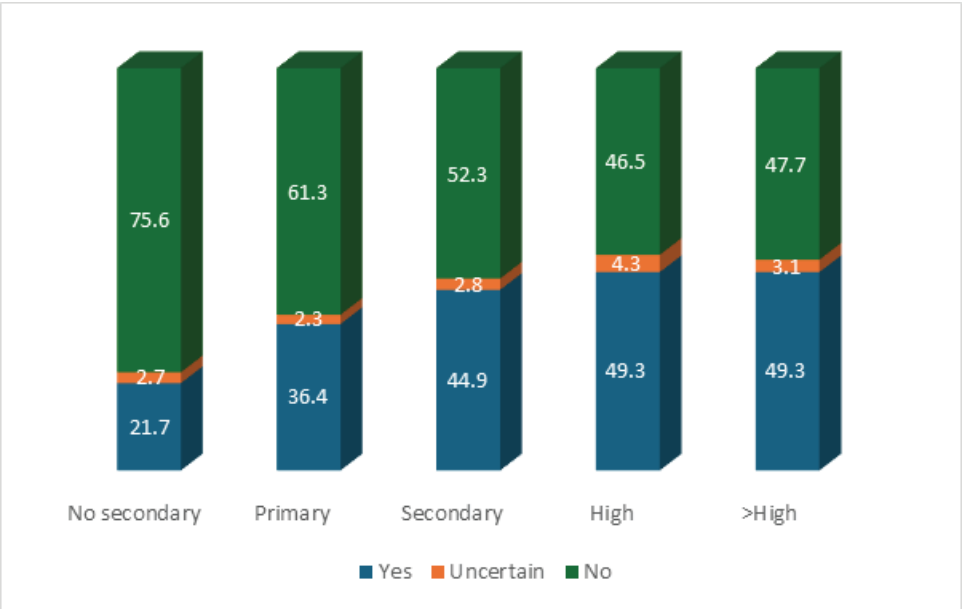
Therefore, the objective of our study is to analyze this trend of human capital flight, major factors responsible for it and its consequences for Pakistan economy. The research will be carried out by measuring brain drain skill wise using the method of Docquier et al., (2009). To analyze the causes and consequences of this brain drain past studies will be reviewed in detail.

The study has a great significance as it explores an important topic directly impacting the country's growth and advancement. By outlining the underlying causes and contributing factors of the brain drain, it provides policymakers, educational institutions, and other relevant organizations with insightful information. The study might influence decision-makers to launch programs that entice highly educated individuals to reside, work, and contribute to the nation's development.

## Trend of Human Capital Flight

Before analyzing the facts and figures regarding human capital flight from Pakistan it is imperative to know what general public thinks about this phenomenon. For this purpose, PIDE's pioneer work by Nayab (2022) is an important source to consult. Findings of her survey show that 37% of the people in Pakistan want to leave the country. One of her interesting findings is that educated people are more interested in leaving Pakistan as compared to low educated ones as depicted in below figure.

Figure 2: Desire to Leave Country by Education Level




Source: PIDE BASICS Survey, 2022.

One strand of literature argues that the percentage of highly qualified/skilled migrants has remained less than 10 % in total migration for most of Pakistan's migration history. In 2011-2015, when a total of 3.7 million workers went overseas, only 2 % fell in this category. The percentage in 2021-22 was only 5 %. A majority of the outflows since 1971 in fact comprised of semi-skilled and unskilled workers (Shah et al., 2023). Thus, ringing alarm about the unprecedented high outflow of qualified/skilled workers is misplaced and based on inaccurate analysis of the available data (Shah et al., 2024). However, this is not the complete story as the full scenario of skilled people migration only becomes clear when we compare the percentage of migrants in a specific skill/education with the total percentage of people, having that skill/education, available in the origin country. To measure this percentage of migrants by skill wise for Pakistan's economy we adopted the methodology of Docquier et al., (2009).

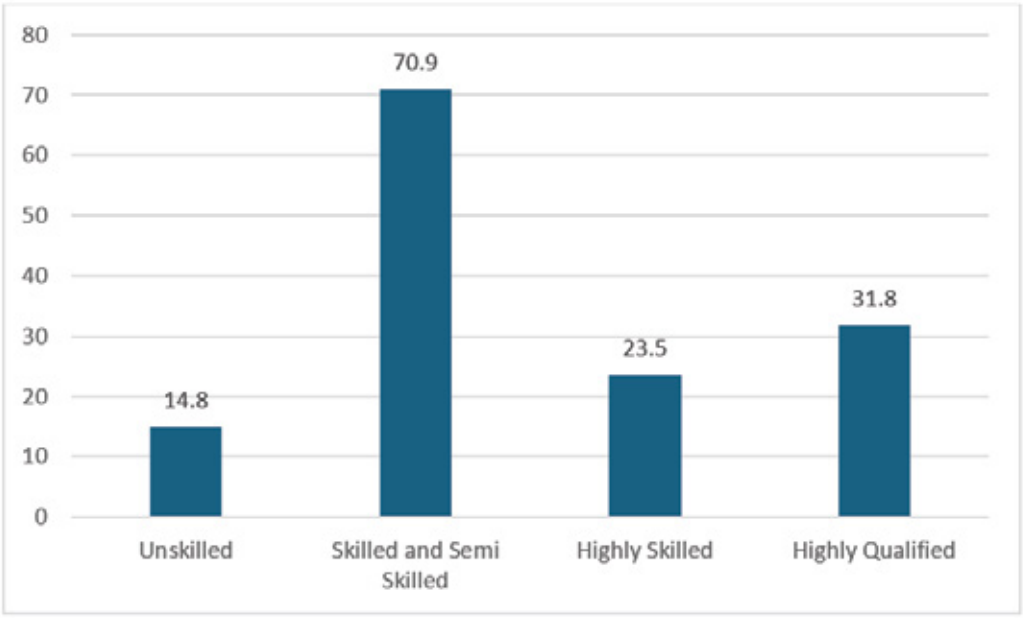
Where migration rate is defined as below;

$$m_s = (\Sigma M_s)/(\Sigma M_s + \Sigma N_s)$$

Where $M_s$ is the stock of people migrated from origin country with specific skills in a given period and Ns is the total stock of human capital with these skills in a given period. To measure the specific skill into years of schooling we took the definition of Khan and Ahmad (2024) as they define the brain drain separately for semi-skilled and skilled, highly skilled and highly qualified people. Whereas they defined skilled and semi-skilled having 12 years of education, highly skilled individuals having 16 years of education and highly qualified are those with 18 years of education or above.

The below figure shows that the percentage of unskilled migrants is 14 % in Pakistan. Whereas the highest percentage of migration is observed against skilled and semi-skilled category is at 70.9%, followed by highly qualified and highly skilled people.

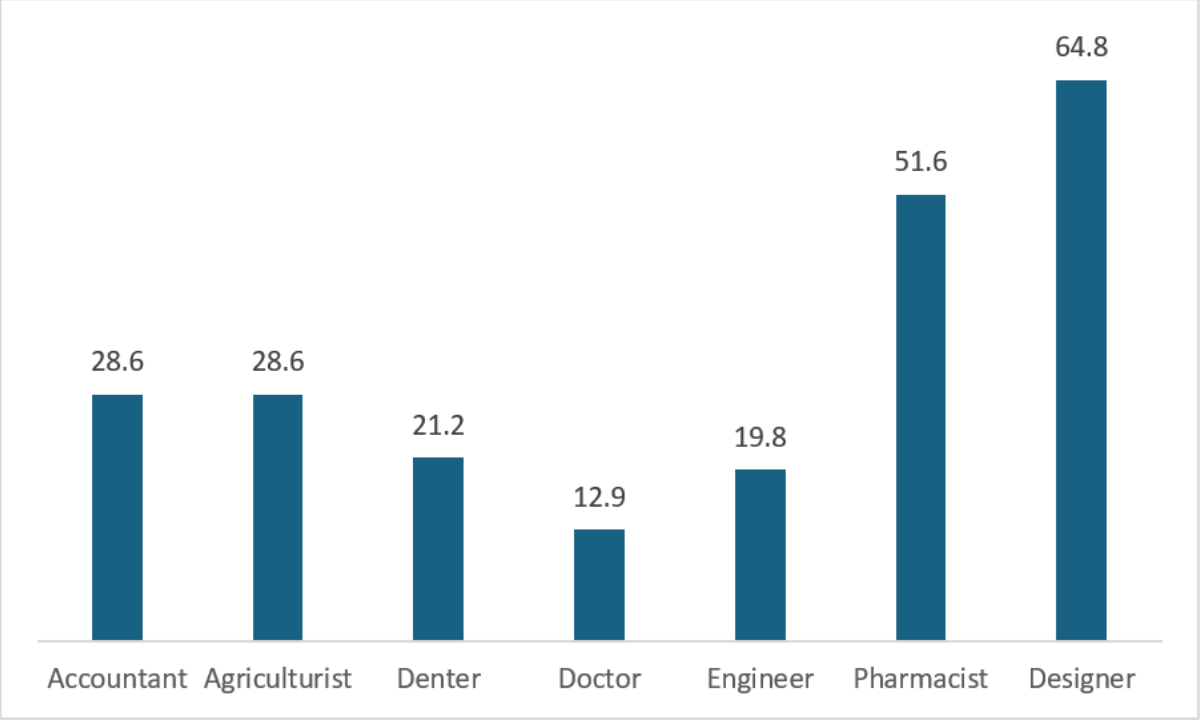
Figure 3: The Percentage of Human Capital Flight by Skilled Level




Source: Author's calculations from BEOE, 2023.

Pakistan is among one of the most uneducated countries in the Asia. It's literacy rate, which is 59.1%, is even lower than that of Bhutan and Nepal, which have literacy rates of 65.5% and 68% respectively. Maldives and Sri Lanka have made great achievements in literacy as more than 90% of the population in both countries is literate. Also, India and Bangladesh have more than 74% literacy rate. However, despite having a low literacy rate we see that trend of human capital flight from Pakistan has been increasing alarmingly over the years. This is a serious issue as it shows that highly educated people are leaving the country and people with low skills and low education are left behind. A major growth in migration is seen among the professionals like Pharmacists, designers, followed by accountants and agriculturists that may show the limited demand of these professions in Pakistan's labour market.

Figure 4: Growth rate of Human Capital Flight across Professionals




Source: BEOE, 2023 report

The US, Canada, Europe, and the Middle East are home to a large number of the nation's physicians, engineers, academics, and highly qualified professionals (BEOE, 2023). The number of Pakistani immigrants opting to go to China has significantly increased in recent years, mostly as a result of China providing more than 20,000 scholarships to students from Pakistan (Hippier and Ahmed, 2022). Pakistani immigrants in Thailand are mostly engaged in business endeavors (Zafar, 2023).

## Factors Influencing Brain Drain

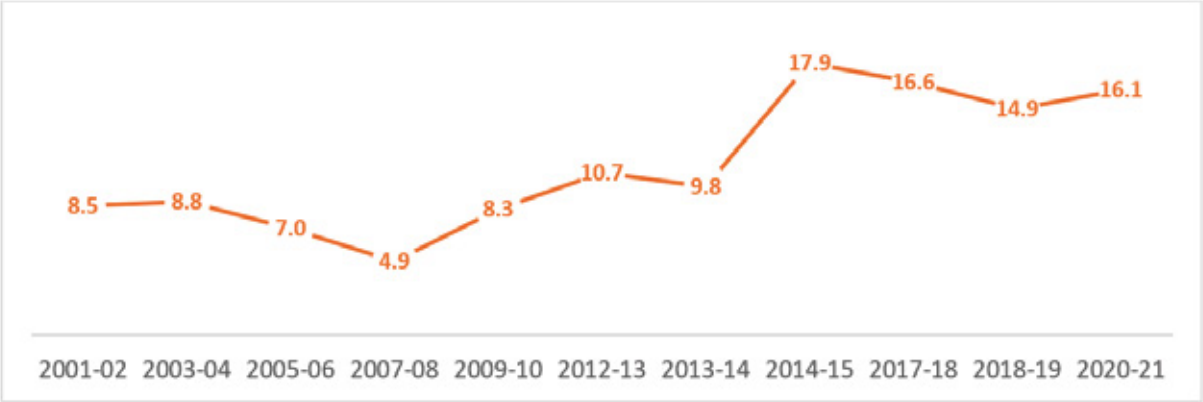
Growth and household production theories proclaim that human capital has an important role for economic growth both at individual and national level. Human capital is the stock of competences, skills, knowledge, education, and training. At individual level accumulated human capital results in increased productivity through knowledge and hence raises

earnings (Becker, 1964). At national level, endogenous growth theories (Lucas, 1988) also emphasize the idea that increasing innovative capacity of a country may greatly promote its economic growth. These models allow for increasing returns through endogenous technical change such as arising from innovation or discovery of new goods through increased R&D (Haque, 2006).

These prospects for the positive impact of human capital on the economy contributed to an increased enrolment in educational institutions across the world as many countries adopted education enhancement as a public policy. In case of Pakistan too, University Grant Commission was upgraded to Higher Education Commission in the year 2002. The objective of this move was to upgrade universities and degree awarding institutes for making access to higher education easy for all, so number of universities increased from 54 to 233 in just last two decades. A number of foreign and indigenous scholarships were awarded to increase of PhDs keeping in mind that higher education promotes the economic growth of a country. The estimates of Ahsan and Khan (2023) from PIDE show that the average growth rate of higher education observed was 18.5 percent from 2001-02 to 201-22.

However, due to poor institutional management, inability of labor markets to absorb increased supply and also the poor quality of education made it difficult to translate these increased years of schooling into increased human capital. Moreover, the worse economic situation of the labor market and its inability to absorb the huge number of skilful labor force resulted in high unemployment of these graduates. The unemployment rate among the tertiary educated has been more alarming reaching about 18% in the year 2014 as shown in Figure 5.

Figure 5: Graduate Unemployment Rate over the time in Pakistan from 2001-02 to 2020-21

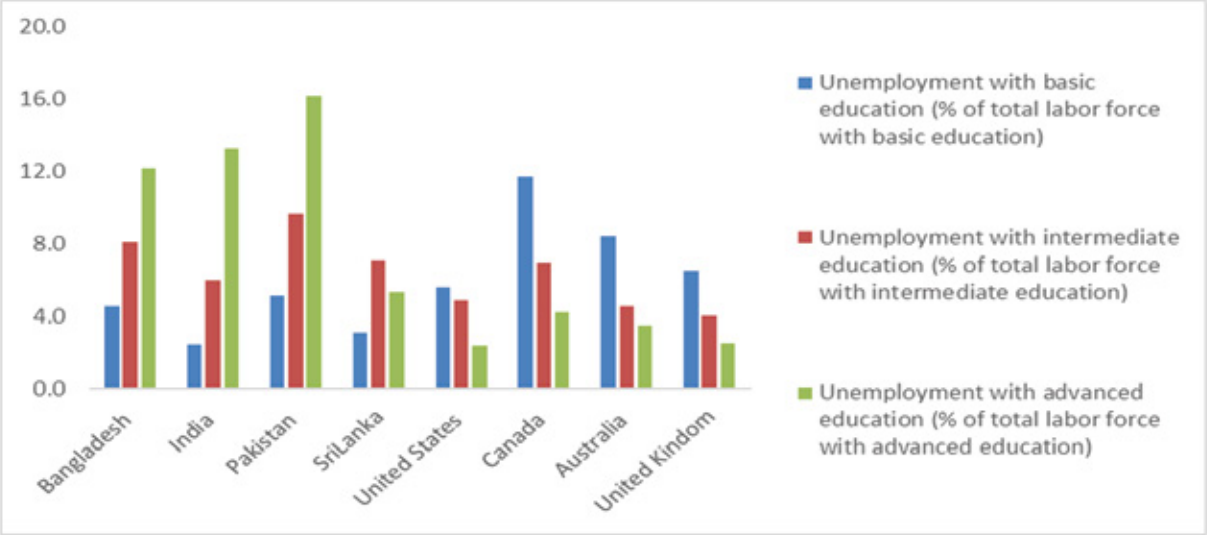



Source: Authors' Calculation based on Labor Force Survey (2001-02 to 2020-21).

Haque and Nayab (2021) from PIDE point out that only 31 percent of the youth with degrees, including professional ones, are unemployed, with females' employment at 51 percent and males at 16 percent. Rural graduate unemployment is even much higher than urban, begging the question of mobility. Most of the literature suggests that one of the leading causes of brain drain are unemployment and desire for better living standards (Hijazi et al., 2024; Sajjad, 2011; Zafar, 2023). Similarly, opinion came to light by PIDE's (2020) basic survey as 78% of the participants wanted to leave the country for better income. In

In developed countries, education plays an important role in reducing unemployment. However, in developing countries unemployment risks are quite higher among well-educated too due to insufficient demand for college graduates in the labor market as is depicted in Figure 6.

Figure 6: Unemployment Rate for Different Education Categories Across Countries




Source: World Bank, 2023

In one of the other related works, Ahsan and Khan (2023), from PIDE, analyzed the graduate unemployment by ¬field of study. Their analysis shows a more pessimistic picture of unemployment against some disciplines. In just two years, the unemployment rate among engineers has doubled, rising from 11% to 23.5% as depicted in table 1. Comparable circumstances have been noted for graduates in agriculture and computer science. Although graduates in the medical sciences have the lowest unemployment rates relative to graduates in other fields, however in just two years, the medical discipline's joblessness also experienced a dramatic increase of 68 percent. Thus, as previously indicated in figure 2, unemployment may be a major decisive factor for highly educated and competent people in leaving a country.

Table 1: Unemployment Rate of Graduates by Field of Study (2018-19 and 2020-21)

| **Field of Study** | **Unemployment rate** | |
|---|---|---|
| | 2018-19 | 2020-21 |
| Degree Engineering | 11.2 | 23.5 |
| Degree Medicine | 6.4 | 10.8 |
| Degree Computer | 14.2 | 22.6 |
| Degree Agriculture | 11.4 | 29.4 |
| Degree in other subjects | 15.5 | 16.1 |
| MPhil/ PhD | 12.0 | 12.2 |
| Total | 14.9 | 16.1 |

Source: Authors' Calculation based on LFS 2018-19 and 2020-21.

The other common drivers of brain drain in Pakistan are longstanding governance issues, poor living standards, unstable financial situation and deteriorating infrastructure (Kousar et al., 2020). As it has been observed that demographic transition and higher education expansion compels graduates to work as over educated and may result in declining returns to education across the cohort (Ahsan et al., 2024; Ahsan, 2023) In addition, people are moving abroad in search of a more stable life due to continued instability and the country's worsening law and order situation (Afzal et al., 2012; Mishra, 2023). Shahid (2020) from PIDE holds a bit harsh view regarding this brain drain. As per him there is no space in the country for creative thinkers and individuals with cutting-edge abilities. Instead, the hierarchical and colonial mindset prevailing in the institutions suggests that there is no need for high-caliber human capital. It is challenging to develop and produce high-quality human capital in such an atmosphere, and it is also challenging to hold onto it for an extended period.

## Consequences of Brain Drain

The transfer of highly educated and skilled individuals from Pakistan has many implications that have a big impact on the nation's social structure, economy, and rate of progress. Its broad ramifications have a significant impact on the nation's development, economy, and society. The main effect is a considerable reduction in skilled human resource. The exodus of highly skilled and educated citizens deprives the country from their experience, knowledge, and skills, impeding innovation and technological growth.

One of the other pioneer studies conducted in PIDE by Khan and Ahmad (2024) calculated the economic cost to Pakistan for the talent lost because of brain drain. The numerous facets of Pakistan's talent loss were investigated in this study. By taking both explicit and implicit costs into account, they estimated the economic impact of this talent loss. Additionally, they also analyzed the decline in production capability of the nation of origin. Their results show that the cost to the country of origin becomes significantly high when productivity loss is considered. Immigrants often contribute to the GDP of destination countries through their work and productivity, resulting in considerable economic losses at origin countries. As per their calculation, which is based on migrants' contribution to global GDP subtracting remittances received, Pakistan suffered a productivity loss of US $ 303.4 billion in just year 2023.

This human capital flight from Pakistan raises many other concerns too that need to be addressed. It shows a limited demand in the domestic economy for highly educated workers and may show the slow growth of the business sector and overall poor economic performance of the country. Rapid technological growth and innovation are at the heart of the contemporaneous development of both developed and underdeveloped nations. If we talk about the Pakistan's manufacturing sector, its share in Gross Domestic Product (GDP) is just 12.79 percent and the sector employs only 16.1 percent of the country's labor force (Mudasir, 2019). Hence, the country needs to focus more on industrial sector development. If properly utilized this educated lot could help in boosting country's education intensive products' exports and could also help in reducing unemployment and country's brain drain.

Moreover, Pakistan is an agrarian economy, and agriculture is considered as backbone of the country. However, it's share in GDP is only 19.2 percent and it provides employment to about 38.5 percent of the labor force. But the important question to ask is how much

targets the employment of educated youth and personnel. Due to low potential for the educated lot in agriculture sector, unfortunately, most of the present labor force is illiterate. Perhaps this is the reason that Pakistan imports a large quantity of seeds, fertilizer, pesticides and other agriculture related machinery from foreign countries. Pakistan spends annually 260,844 US dollar, only to import insecticides and fertilizer[27] . Moreover, Pakistan's export in the agriculture sector is limited to raw material only and there is a lack of expertise and technology to convert this raw material into exportable finished products.

The world is moving fast towards an extraordinary technological advancement that has brought us to the crossroads of innovation in computing and communications. Technologies such as mobile broadband, the Internet of Things (IoTs), and Artificial Intelligence (AI) are rapidly shaping our lives. However, in Pakistan, 22.6 percent graduates in computer sciences were facing unemployment in 2020-21 and growth rate of computer experts' migration is 30%.

Finally, the doctors and medical professionals have comparatively low migration rate when compared to other highly qualified people. That may show the high that the demand for doctors is always high in developing countries and they are also able to easily engage in entrepreneurial activities by practicing their profession independently by opening their own clinics and hospitals. In addition, as of 2020 only 1.632 physicians are available for 1000 habitants in Pakistan. So, this shows that there is a dire need for doctors to fulfill this shortage. On the other trade of pharmaceutical equipment shows Pakistan spends huge foreign exchange reserves on importing medical equipment and medicines. According to the United Nations COMTRADE database, international trade import of pharmaceutical products was US$3.78 billion during the year 2021. So, there is a need to develop a health infrastructure that not only absorbs these medical graduates but also helps to improve the overall healthcare industry.

## Conclusion and Way Forward

Brian drain is one of the major problems Pakistan has been facing since last two decades. The human capital and intellectuals that are an important source for the growth of low-income countries have left the country and half of these are in queue to follow suit. So, there is need to effectively deal with the problem by adopting a comprehensive strategy that addresses the root cause of the problem and creates a conducive climate for retaining and using highly talented workers to contribute to the country's progress.

First there is a need to enhance local opportunities for better job prospects through investment in industries, innovation, and entrepreneurship as this may retain and also attract talent back. For this PIDE reforms agenda (2021) could be a good guide to start. The agenda emphasizes on removing overregulation and over documentation as it hinders many startups from taking off. Not surprising that Pakistan ranks too low in all indices related to ease of business and competitiveness. The agenda further emphasizes reduced government footprint in the economy, which is currently 67%, as it is a big obstacle in offering equal opportunities for all market players and to ensure an open and fair competition.

[27] Federal Bureau of Statistics, Annual Analytical Report on External Trade Statistics of Pakistan, FY 2020-21.

Finally, PIDE report "Opportunity to Excel: Now and the Future" by Haque and Nayab (2021) ascertains a talent focused opportunity approach that may permit creativity and entrepreneurship to prosper everywhere. This could result in a network of activities and many fresh ideas and as a result an increase in GDP due to collaboration with global talent and knowledge networks.

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# TRANSFORMING EDUCATION IN PAKISTAN: PIDE's RESEARCH PERSPECTIVES

Muhammad Jehangir Khan

An array of challenges, solutions, and critical insights emerges from the research studies conducted by the Pakistan Institute of Development Economics (PIDE) on various dimensions of education in Pakistan. These studies show a glowing picture of the country's educational landscape, shedding light on issues ranging from the impact of the COVID-19 pandemic on child education to the quality of professors in universities, the cost-benefit analyses of various education streams, and the efficacy of innovative teaching methodologies such as blended e-learning and STEM education.

The study on child education during the COVID-19 pandemic highlights the pandemic's disproportionate consequences on learning outcomes, with girls suffering more as compared to boys. The finding that millions of students are at risk of dropping out owing to economic hardship highlights the critical need for targeted measures to decrease the consequences of educational disruption. PIDE's recommended reforms emphasize the importance of policies such as vaccination efforts, economic support systems for families, and curriculum adjustments in strengthening the education sector against pandemic aftereffects.

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Equally significant is the exploration of Pakistan's professorless universities, a crucial element in the academic ecosystem often overlooked in favor of infrastructural development. The study rightly questions the prevailing emphasis on physical infrastructure over faculty competence and calls for a recalibration of priorities toward investing in developing and nurturing a skilled academic workforce. PIDE's recommendation to bolster professor training and recruitment efforts, including the recruitment of foreign professors, underscores the pivotal role of professors in shaping educational standards and fostering a culture of research excellence within higher education institutions.

The cost-benefit analysis of parallel education streams in the public sector provides insights into the efficiency of investments in different public sector educational institutions. By comparing the outcomes of Cadet Colleges and Islamabad Model Colleges, the advocates for addressing human resource shortages, enhancing teacher training programs, and promoting transparency in educational data underscores a comprehensive approach to enhance educational outcomes and system effectiveness in Islamabad Model Colleges.

The impact evaluations of blended e-learning and STEM education initiatives provide insight into the transformative power of innovative pedagogical strategies for increasing student engagement, critical thinking abilities, and learning outcomes. These studies advocate for improved educational technology access, infrastructural enhancements, and teacher professional development to maximize the benefits of digital learning tools and STEM instruction in schools.

Moreover, the research on the costs of lost talent due to emigration provides a comprehensive examination of the economic, social, and cultural ramifications of skilled individuals leaving Pakistan. This study underscores the imperative of devising strategies to retain and harness the talents of these individuals within the country to mitigate productivity losses and foster innovation. The findings call for proactive measures aimed at talent retention and creating an environment conducive to the growth and utilization of skilled human capital.

The discussion on education returns in Pakistan provides a compelling narrative about the economic benefits of investing in education. The research emphasizes education's transformative power in unlocking economic opportunities and eliminating societal inequities by emphasizing its large impact on individual incomes and national productivity.

In a nutshell, PIDE's research studies offer a thoughtful perspective on the challenges and opportunities within Pakistan's education landscape. These studies underscore the critical importance of evidence-based policymaking, targeted interventions, and strategic reforms to address the complex issues affecting Pakistan's education system. By implementing the recommendations presented in these studies Pakistan can pave the way for a brighter future where every child has access to quality education to realize their full potential.

# RESEARCH STUDIES ON EDUCATION

## Child education in the time of pandemic: Learning loss and dropout

### Issue

The disruptive effects of the COVID-19 pandemic have affected the education sector at an unprecedented scale. In this regard, we assess the impact of COVID-19 on learning loss, school dropout, and the economic costs in terms of foregone earnings for children in Pakistan. The study finds a substantial decrease in Learning Adjusted Years of Schooling (LAYS) with worsening consequences for girls than boys. Likewise, the aggregate economic cost amounts to 107 billion dollars when adjusted for human capital utilisation. Besides, our simulation results suggest that about 7.2 million children drop out due to a reduction in household expenditure by 50 percent. In comparison, the dropout is more pronounced at the primary level of schooling.

### PIDE's Proposed Reform

Policymakers in Pakistan should implement effective strategies to mitigate the adverse effects of the pandemic and school closures. This includes identifying and mapping affected areas to minimize disruptions in student learning and dropout rates. The government must prioritize and expedite a nationwide vaccination program to facilitate the safe return to in-person instruction. Additionally, efforts should focus on stimulating economic activities and supporting marginalized families to prevent child labor and school dropouts. Lastly, the curriculum should be adjusted to include extra lessons for the most affected students, while investing in infrastructure to build a resilient and future-oriented education system. Professor-less Universities in Pakistan

## Professor-less universities in Pakistan

### Issue

Across the world, universities are about professors engaged in research. But, in Pakistan, it is common to think of universities as mere brick-and-mortar buildings without enough competent professors and innovative ideas. Politicians seek to please their constituencies by setting up universities without thinking about the overall quality of education institutions at these institutions. The Higher Education Commission's (HEC) guidelines for a university are also focused on 'land' and don't mention anything explicitly about 'professors' or the quality of education. This results in extremely poor-quality degree programs being taught at Pakistani universities

### PIDE's Proposed Reform

Shift the policy's focus away from mere 'brick and mortar' to grooming professors. The PSDP should allocate more funds for the training and financing of professors. Also, given the high failure and dropout rates, human capital flight, and emitted peer review, HEC scholarships are an inefficient way of nurturing professors. Perhaps a better approach might be to develop a large-scale professor hiring program. Under such an initiative, foreign professors must be hired at competitive salary packages to spend time in Pakistani universities.

## Cost-Benefit Analysis of Parallel Education Streams in the Public Sector

### Issue

The provision of effective public education is one of the most challenging tasks in the public good provision domain. Since 1947, more than twenty-three education policies and five-year plans have been presented by successive governments in Pakistan. However, our education system is still facing multifold issues such as ineffective management and supervision protocols, poor examination systems, etc. Without any doubt, the public education provision is one of the core investments that a state can make to enhance human capital and well-being. However, the aspect that makes public education provision tricky is the associated cost and benefits to the public of competing investment programmes in the public sector. With this idea in mind, in this research, we conducted a comparative Cost-Benefit Analysis of Cadet colleges (CCs) and Islamabad Model Colleges (IMCs). We also assessed the delivery approach of both streams for lesson learning and system strengthening. The cost-benefit analysis shows that investment in both streams is beneficial for the economy in the long run. Considering the cost to the government only, the CCs are producing more benefits than IMCs, while considering the overall cost (including cost to the government, private cost, and opportunity cost) IMCs are slightly ahead of CCs not because of higher earnings but because of lower private costs. The pooled regression analysis shows that CCs are producing higher academic grades than IMCs. The delivery approach of CCs is relatively better than the delivery approach of IMCs.

## PIDE's Proposed Reform

Both education streams are cost-effective, so a genuine demand for scaling up of either stream can be responded to positively. This research has witnessed complaints about shortages of human resources in the IMCs. Therefore, such demands should be appraised critically and the shortages if any should be filled as soon as possible for system strengthening. New initiatives and interventions are important for improving education outcomes but without competent and skillful teachers such interventions and initiatives may not produce desirable outcomes. Therefore we should focus on teacher training and bring back professionalism to the teaching profession. Additionally, the transparency in education-related data should be increased in all streams to allow research organizations to research to enhance scholarly inputs to the education policy-making process.

# Impact Evaluation of the Pilot Project for Blended E-learning in 200 Classrooms of Federal Capital (Grades 1 -10), Federal Directorate of Education Islamabad.

## Issue

Blended E-learning - Schools in the federal capital received facilities and digital content for various subjects covered from grade 1 to grade 10 in 200 classrooms. three distinct Interventions – Primary Blended (Class 4), Middle Blended (Class 6), and Secondary Blended (Class 9), and Vendors/Service Providers were different for each intervention. The Idea was to estimate the short-run impact of the blended e-learning intervention on students' learning outcomes. The analysis focused on a comparison of student outcomes (grades 4, 6, and 9) in treatment schools versus control schools. Second, we reported whether blended e-learning instruction fosters engagement benefits (interest and motivation). Third, we reported perceived changes in the pedagogical practices and high-order thinking among the students. Finally, we also discussed the potential influence of contextual, design, and implementation factors that may drive or hinder this impact.

## PIDE's Proposed Reform

Ensure increased immersion levels of students into ed-tech technology by giving students more readily available access to devices (computers, tablets, etc.). Increase students' contact hours. Upgrade the existing computer labs in schools and conduct blended e-learning lessons in an environment in which each student has individual access to content through a device. There should be no cross-contamination of treatment and control groups resulting from the transfer of teachers. A mix of multiple ed-tech partners/vendors should be competing at the same grade level rather than being given intervention mandates at different levels

## Impact Evaluation of Pilot Project for STEM Teaching Grades 6 - 8 in 30 schools of FDE: (Knowledge Economy Initiative) Federal Directorate of Education Islamabad.

### Issue

Under the STEM Teaching – STEM-based curriculum (Grade 6 - 8) together with Makerspaces to impart a better understanding of practical learning aspects of Science, Technology, Engineering, Mathematics, and Computing in 30 schools. One Distinct Intervention –Middle STEM (Class 6) and a Vendors/Service Provider. The Idea was to estimate the short-run impact of the STEM intervention on students' learning outcomes. The analysis focused on a comparison of student outcomes (grade 6) in treatment schools versus control schools. Second, we reported whether STEM instruction fosters engagement benefits (interest and motivation). Third, we reported perceived changes in the pedagogical practices and high-order thinking among the students. Finally, we also discussed the potential influence of contextual, design, and implementation factors that may drive or hinder this impact.

### PIDE's Proposed Reform

Improve the quality of STEM makerspaces. Add equity dimension to the STEM pedagogy. Increase student contact hours. Retrain low-performing teachers and include an incentive structure for project compliance.

## Costs of Lost Talent in Pakistan

### Issue

The study explores the various dimensions of talent loss in Pakistan. First, it quantifies the economic impact by considering explicit and implicit costs. Second, it examines the productivity loss in the origin country as immigrants contribute to the GDP of destination countries. Third, the study provides a brief overview of the demographic, social, political, intellectual, and cultural impacts caused by the departure of skilled individuals. The insights from this study are crucial for informing policymakers on designing effective strategies to retain and utilize talented individuals within Pakistan. The finding reveals that both explicit and implicit costs amount to 1499.32 billion in PKR, accounting for 1.77 percent of GDP in 2023, indicating a positive impact when considering the money immigrants send back home. Immigrants contributed approximately 8 percent of GDP through remittances in 2023. However, the cost to the country of origin becomes significantly high when productivity loss is considered. Pakistan migrants' net contribution to the global GDP accounted for 85 percent of Pakistan's GDP in 2023 (Pakistan's GDP was 303.43 billion USD in 2023), constituting a productivity loss.

### PIDE's Proposed Reform

While the return of qualified individuals improves innovation and productivity, their permanent settlement in the destination exacerbates shortages in key sectors of the economy. These findings warrant a holistic strategy for managing emigration effectively.

## Return to Education in Pakistan: A Brief Overview

### Issue

The rate of return to education is a measure of the economic benefits of education in terms of increased earnings and productivity. To provide evidence on the rate of return for Pakistan, we conducted an extensive literature search using online sources such as Google Scholar, JSOR, and others. We also presented global evidence, for comparison on the rate of returns covered extensively in the literature surveys of Montenegro and Patrinos (2023) Patrinos and Psacharopoulos (2020). There are two main estimation frameworks to estimate the rate of returns; the earning function and the full discounting method. The survey of earning differentials in Pakistan reveals several key insights. The rate of return to education varies, but overall, investing in education yields higher returns for females compared to males. However, the average returns for males are relatively low in Pakistan compared to global averages. Across economies, the returns are generally higher for females, and high-income economies exhibit the smallest gender gap. While private returns in Pakistan exceed social returns at higher education levels, a significant proportion of children end up with only primary education, leading to lower productivity and hindering long-term economic growth.

### PIDE's Proposed Reform

The lower private returns to education in Pakistan indicate inefficiencies in the labor market, such as limited job opportunities, underemployment, or a mismatch between skills and job requirements. This suggests the need for policies that improve job creation prospects or investments in the private sector, align education with labor market demands, and enhance vocational training. For females, the higher returns may reflect the relative scarcity of educated women in the workforce, underscoring the importance of promoting gender equality in education and labor participation.

## GORs Everywhere: University Land for Public Housing

### Issue

Globally, two major challenges confronting higher education: growth and sustainability and universities are compelled to reassess their missions and objectives. Because tax dollars are scarce, society no longer favors and financially supports higher education. Consequently, higher education institutions are aligning themselves as entrepreneurial models in both domestic and global markets. Universities in Pakistan are not exempted from these concerns and face significant financial challenges, resulting in ongoing discussions regarding their funding. One issue that has been raised is the construction of housing colonies within university premises, which is seen as a misuse of valuable resources. The land owned by universities is a crucial asset and should be used strategically to ensure that the funds are allocated in the most effective way possible.

### PIDE's Proposed Reform

Housing colonies on universities' land illustrates a substantial opportunity cost. Hence, a paradigm shift is required, viewing land not merely as a space for academic expansion but as a potential source of revenue generation. Therefore, resources need to be redirected for

efficient utilization of land to steer universities toward financial autonomy, fostering a vibrant and self-sustaining higher education system in Pakistan. Universities receive land as an endowment from the government, which is funded through the Public Sector Development Program (PSDP). A crucial reform is to monetize residential perks for faculty and establish standardized pay scales. Housing units should be rented out to the public, including university staff, at market rates, generating additional income for universities and promoting financial sustainability and inclusivity. Another Important reform involves that instead of sprawling housing complexes, universities should embrace high-rise developments comprising modern residential apartments, commercial spaces, and shopping malls as the opportunity cost of housing colonies is substantially higher. This effort can be realized through PPP, where both parties will enter into a contract for a certain period. PPP ventures in universities should operate on a profit-sharing model with defined terms and ownership structures outlined and agreed upon in advance. Ownership must remain with the university and upon the contract's expiry, the land will be transferred back to the university. The revenue generated can be reinvested in academic and research initiatives, reducing dependency on external funding. This reform aligns with contemporary urban development trends.

## Finnish Miracle in Education: Lessons for Pakistan

### Issue

One important initiative currently in the limelight across the globe is the Trends in International Mathematics and Science Study (TIMSS), which ranks countries in terms of students' scores in math and science. Countries have always relied on their indigenous tests to assess their educational excellence but not in comparison to other countries. Hence, the TIMSS assessments, since the spread of global competition, have become a way to achieve educational supremacy. Pakistan participated for the first time in TIMSS in 2019 in fourth-grade mathematics and science study. Performance-wise, we stood second from the bottom. Given Pakistan's low performance on TIMSS, we tried to dissect the salient features of the education system of Finland.

### PIDE's Proposed Reform

First, Pakistan must decentralize and declare complete autonomy of its schools. This reform will enhance competition among schools in a neighborhood and inter-province competition among schools. Schools in each neighbourhood must be judged and ranked on selected performance parameters (student scores, etc, conducted by an international accreditation agency, not BISEs). Schools that outperform others must be incentivized with extra benefits such as performance bonuses and promotions. This reform must be introduced at a small scale, perhaps in schools in Islamabad, and gradually scale up to other regions and provinces. Second, we must map our curriculum with Bloom's Taxonomy. Currently, Pakistan's curriculum only touches the lower tiers of Bloom's, so there is little scope to nurture students' creative skills at the grassroots level.

## Disaggregating the Graduate Unemployment in Pakistan

### Issue

In Pakistan, graduate unemployment is becoming a serious challenge as it is almost three times the average unemployment rate in the country. The unemployment rate for engineers has increased from 11 percent to 23.5 percent which has doubled in just two years. A similar situation has been observed for those who graduated in computer science and agriculture.

### PIDE's Proposed Reform

For better analysis and policy, we need to add more disciplines/fields of study, especially regarding social and natural sciences in LFS. This will help policymakers to accurately analyze the supply and demand gap of these graduates in the labor market. Most of the labor force in agriculture sector is illiterate and perhaps for this reason Pakistan imports a large quantity of inputs and related machinery from foreign countries. Moreover, Pakistan's exports in the agriculture sector are limited only to raw materials. We need to focus on improving prospects for value addition in agriculture to increase exports and employment opportunities for graduates. The reported evidence on the effect of training on employment is mixed, showing that labor market may not value the specific skills being taught. In particular, the curricula of these trainings may lack important "soft" personal and social ("non-cognitive") skills dimensions. Additionally, these trainings might generate expectations that are ultimately not rewarded by the labor market, and participation in the program might thereby end up discouraging workers. Pakistan needs a lot to attract tech-based foreign companies in Pakistan and should also facilitate and encourage local businesses to start such industries on their own to improve the employment prospects in the country. Government, universities, and industries need to develop a strategy to make internship/apprenticeship mandatory for all graduates in their respective degree programs so that they have a better idea of the job market.

## Unemployment and Skills in Pakistan

### Issue

Technological advancement is one of the most transformative drivers of the world of work globally. Contemporarily, such transformations are on a fast track in the developed world, but Pakistan is no exception to such transformations. Sooner or later, we have to face such transformations and the consequences thereof. But the question is: are we envisioning it in a better way to avoid its damaging effects on the already precarious employment situation of Pakistan?

### PIDE's Proposed Reform

First, the focus should be on managing workers' job transition to new jobs, especially the low-skilled who may need the training to reskill. According to the European Union, workers at risk of automation could find similar or better work with adequate training. In addition, the skills investments for younger workers must be forecasted in light of automation trends, ensuring that young workers have the new skills that must match and be demanded in the labour market. For this, resilient educational systems should be in place to foresee and

adapt to meet the fast-evolving demand for skills to prevent both skills shortages and mismatches. Skills development pathways should be inclusive to target women, rural and older workers. Low-wage workers are the most vulnerable to shifts as friction points for such are more burdensome than others, so inclusive and forward-looking reskilling and workforce development programmes, tailored to the individual needs of the low-wage workers. Second, curricula must be aligned with the skills demanded – big data analytics and cyber security, etc. For this purpose, the Technical and Vocational Education and Training (TVET) system must be well coordinated to capture and reflect on innovations occurring in the labor market. Finally, higher and professional education standards along with the TVET systems vary significantly in terms of resources and quality. Our TVET system is less developed, which is underfunded, reflecting the low quality of TVET provision. As a result, the TVET system is unable to attract qualified staff and students. In addition, the students and parents perceive TVET as an inferior option to formal higher education. Given this, the government must ensure cooperation, advocacy, and investment in the upgrading of the TVET system to enhance its quality assurance standards to close the digital skills gap with skills development to achieve lifelong employability.

## Latest PISA results (Students in 2022)

## Issue

The latest Programme for International Student Assessment (PISA) results – released on December 5, 2023 – provide valuable insights into the academic performance and well-being of 15-year-old students from 81 economies worldwide. PISA tests claim to create a unique assessment that differs from traditional tests. The report states that in a world that increasingly values individuals for their ability to apply knowledge, PISA goes beyond assessing rote memorization. To succeed in PISA, students must demonstrate their ability to think critically, and creatively, and extrapolate from what they have learned.

## PIDE's Proposed Reform

Smart integration of technology within and beyond the classroom seems to be the way forward. By leveraging flexible learning models, technology integration, and contingency planning, education systems can better ensure continuity of education and minimize the impact of crises on students' learning outcomes. In addition, as Pakistan is not currently part of the PISA assessments, it must participate in the PISA assessments to allow its education system to benchmark against other countries and gain insights into areas of strength and areas that need improvement. PISA is widely recognized as a global benchmark for assessing educational outcomes. By participating, Pakistan can demonstrate its commitment to improving education and aligning with international standards. This can contribute to enhancing the country's competitiveness in the global knowledge economy. Participation in PISA will also open doors for international collaboration and the exchange of best practices.

# ANALYSIS OF RESEARCH AND DEVELOPMENT IN PAKISTAN: AN ALTERNATIVE APPROACH


Ghulam Mustafa

## Background

The existing literature establishes that innovation leads to sustainable economic growth and prosperity which brings about an uplift in the living standards of the people. Due to its association with economic growth, innovation performance has long been a topic of interest in contemporary business fields (e.g., Dekoulou and Trivellas, 2017; Jian et al., 2021; Wang and Tan, 2021; PIDE, 2002. To assess innovation performance, the World Intellectual Property Organization (WIPO) calculates the Global Innovation Index (GII) for global economies based on 81 distinct indicators grouped under seven pillars that define innovation performance. The index comprises two primary dimensions: i) innovation inputs, and ii) innovation outputs. These two dimensions additionally include seven pillars. Similarly, Innovation Input encompasses the political environment, human capital and research, infrastructure, market sophistication, and business sophistication, whereas Innovation Output pertains to the knowledge creation of each economy. GII evaluates the innovation ecosystem of countries annually, emphasizing their strengths and weaknesses in innovation, as well as specific gaps in innovation metrics. In short, GII allows global economies to assess their standings and evaluate their policies to improve innovation performance. The

Global Innovation Index for 2023 (GII-2023) identifies Switzerland, Sweden, the USA, and the UK as the top economies in the innovation ranking (Khan et al., 2017).

## GII-2023 for South Asia: A Comparison among Pakistan, India, and Bangladesh

The three major economies in South Asia are Pakistan, India, and Bangladesh. An analysis of these factors will enhance understanding of which economy is excelling in GII-2023, as the innovation capability also assesses the capacity of countries to leverage new technologies that facilitate inclusive and sustainable economic growth. The comparison between India and Pakistan is essential, as both nations are regarded as rivals across various domains.

The GII-2023 report indicates that Pakistan's economy ranks (88th) out of 132 countries, showing an improvement compared to the years 2019-21. Although there has been an improvement in the GII compared to previous years, the global ranking remains unsatisfactory. When comparing the GII ranking of the country with India, Pakistan appears to be significantly behind, although it holds a somewhat more favourable position relative to Bangladesh (table 1).

Table 1: Ranking on Global Innovation Index (GII)

| Years | Pakistan | India | Bangladesh |
|---|---|---|---|
| **2023** | 88th | 40th | 105th |
| **2021** | 99th | 46th | 116th |
| **2020** | 107th | 48th | 116th |
| **2019** | 105th | 52th | 116th |

Source: WIPO GII Report (2023)

The segregation of the GII into seven sub-indices reveals that Pakistan's performance across most innovation pillars is relatively low—market sophistication (97th), human capital and research (117th), infrastructure (120th), business sophistication (72nd), and knowledge and technology inputs (69th). Pakistan is demonstrating underperformance, particularly in the areas of market sophistication and human capital and research (table 2). In contrast to the previously mentioned points, India's performance across all major seven pillars of the innovation index is notably strong, particularly in market sophistication (20th), knowledge and technology inputs (22nd), and business sophistication (57th). Additionally, India ranks (48th) in human capital and research indices. However, Bangladesh is positioned lower in the rankings compared to Pakistan. India's high ranking on the Global Innovation Index reflects the effectiveness of its policies aimed at enhancing innovation. In contrast, Pakistan lacks robust and effective policies to improve its position on the global innovation index (PIDE, 2011; PIDE, 2016).

Table 2: Ranking on Seven Pillars of Global Innovation Index in 2023

| | Pakistan | India | Bangladesh |
|---|---|---|---|
| Knowledge and Technology Inputs | 69 | 22 | 89 |
| Creative Outputs | 70 | 49 | 82 |
| Business Sophistication | 72 | 57 | 126 |
| Institutions | 113 | 56 | 108 |
| Infrastructure | 120 | 84 | 93 |
| Human Capital and Research | 117 | 48 | 125 |
| Market Sophistication | 97 | 20 | 100 |

Source: WIPO GII Report (2023)

The previously mentioned seven dimensions are further supported by sub-indices, which illustrate the broader aspects of the innovation index. Human Capital and Research encompasses three indicators: education, tertiary education, and research & development. India holds a superior ranking in education at (88th), whereas Pakistan is positioned at (121st). This clearly indicates that India's performance is comparatively stronger than that of both Pakistan and Bangladesh. The education metrics encompass expenditure on education as a percentage of GDP, school life expectancy, PISA scales in reading, mathematics, and science, as well as the teacher-pupil ratio, which serve as sub-indicators for education. This indicates that Pakistan is not performing as well in these indicators compared to India (PIDE, 2020; PIDE, 2023)

Table 3: Innovation Performance by Sub-Indicators in 2023

| Seven Pillars of Global Innovation Index | Pakistan | India | Bangladesh |
|---|---|---|---|
| Human Capital and Research | | | |
| **Education** | 121 | 88 | 128 |
| **Tertiary Education** | 119 | 65 | 111 |
| **Research and Development** | 62 | 32 | 76 |
| Business Sophistication | | | |
| **Knowledge workers** | 101 | 81 | 119 |
| **Innovation Linkages** | 54 | 59 | 100 |
| **Knowledge Absorption** | 57 | 41 | 120 |
| Knowledge and Technology Outputs | | | |
| **Knowledge Creation** | 57 | 44 | 95 |
| **Knowledge Impact** | 63 | 9 | 62 |
| **Knowledge Diffusion** | 79 | 29 | 106 |
| Infrastructure | | | |
| **Information and Communication technology (ICT)** | 107 | 82 | 90 |
| **General Infrastructure** | 132 | 46 | 93 |
| **Ecological Sustainability** | 113 | 128 | 96 |
| Institutions | | | |
| **Political Environment** | 105 | 69 | 109 |
| **Regulatory Environment** | 116 | 68 | 122 |
| **Business Environment** | 98 | 47 | 76 |
| Market Sophistication | | | |
| **Credit** | 103 | 56 | 86 |
| **Investment** | 81 | 17 | 92 |
| **Trade, Diversification, and Market Scale** | 75 | 9 | 96 |
| Creative Outputs | | | |
| **Intangible assets** | 52 | 38 | 73 |
| **Creative Goods and services** | 117 | 56 | 108 |
| **Online Creativity** | 65 | 66 | 87 |

Source: WIPO GII Report (2023)

In tertiary education, India is outperforming Pakistan, with India ranked (65th), while Pakistan holds the (119th) position and Bangladesh is at (111th) in the rankings for tertiary education. It indicates that Pakistan is not only trailing behind India but also behind Bangladesh. The tertiary sub-index encompasses tertiary enrollment, graduates in science and engineering, and inbound mobility at the tertiary level. Furthermore, the realm of research and development encompasses researchers, expenditures on R&D, global corporate R&D investors, and QS university rankings, all of which serve as significant sub-indicators within this dimension (PIDE, 2024).

As previously discussed, Pakistan's ranking in the area of Business Sophistication is notably low, with its sub-indicators including knowledge workers, innovation linkages, and knowledge absorption. In the realm of knowledge workers, Pakistan holds the (101st) position, whereas India occupies the (81st) position, indicating that India is outperforming both Pakistan and Bangladesh. The detailed analysis of knowledge workers indicates that India is excelling in knowledge-intensive employment, with firms providing formal training, business-led GERD, and the employment of women holding advanced degrees (Waheed, 2017)

Furthermore, the ranking on Innovation Linkages indicates that Pakistan is performing exceptionally well at (54th) place, while India holds the (59th) position and Bangladesh is at (100th). The sub-indicators include collaboration between universities and industry in research and development, the current status of cluster development and its depth, the percentage of Gross Expenditure on Research and Development financed from abroad relative to GDP, and the number of patents. Similarly, India excels in the Knowledge Absorption dimension of the innovation index. The performance of Pakistan in the area of Knowledge and Technology Outputs is notably low, with the country ranking (57th) in knowledge creation, (63rd) in knowledge impact, and (79th) in knowledge diffusion. India is performing exceptionally well in the specified indicators, holding the (44th), (9th), and (29th) positions in knowledge creation, knowledge impact, and knowledge diffusion, respectively.

The three major dimensions outlined above play a significant role in positioning the country on the innovation-based performance index. The fourth significant pillar of the (GII) is Institutions, which encompasses the political environment, regulatory environment, and business environment. India demonstrates notable strengths in its political and regulatory frameworks when compared to Pakistan and Bangladesh. Meanwhile, Pakistan has made relative improvements in its business environment ranking, currently positioned at (98th), whereas India stands at (47th) and Bangladesh at (76th). Currently, we have identified that India is excelling compared to Pakistan in the business environment. The three pillars are illustrated in (Table 3), which clearly shows that Pakistan's performance in the remaining dimensions of the global innovation index is significantly lower than that of India, although it is relatively better than that of Bangladesh (PIDE, 2020).

## Concluding Remarks

The aforementioned discussion concludes that while Pakistan has made progress in its ranking on the global innovation index in 2023 compared to previous years, it still lags behind other global economies. It requires significant effort to rank among high-performing economies. Nonetheless, the comparison between India indicates that India is excelling in all seven pillars of the GII-2023 when compared to Pakistan and Bangladesh, while Pakistan's performance is relatively superior to that of Bangladesh (Waheed, 2017)

The World Intellectual Property Organization (WIPO) indicates that the presence of graduates in science and engineering, significant investments in global corporate research and development, a wealth of knowledge capital, and a thriving start-up ecosystem are key contributors to the ongoing enhancement of the Indian economy as reflected in the Global Innovation Index (GII). They further indicate that India's scientific departments associated with atomic energy, science and technology, biotechnology, and the department of space have made substantial contributions to enhancing innovation performance on a global scale. Furthermore, factors such as political stability, government effectiveness, and macroeconomic conditions are key reasons for achieving higher rankings on the global innovation index in comparison to other South Asian economies like Pakistan and Bangladesh.

In contrast to India, Pakistan encounters several challenges in establishing itself among the highly innovative economies, including i) inadequate quality of human capital, ii) insufficient budgetary allocation for research and development, particularly in science and technology sectors, iii) lack of connections between universities and industry, and iv) weak political and economic institutions. Pakistan must focus intensively on the seven pillars of GII, particularly in the areas of human capital and research, business sophistication, knowledge and technology outputs, institutions, and related infrastructure (PIDE, 2017).

## Key Messages

- Pakistan ranked 88th out of 132 countries in the Global Innovation Index (GII) 2023, trailing significantly behind India (40th) but performing better than Bangladesh (105th).
- Pakistan struggles in key areas like human capital and research (117th), infrastructure (120th), and market sophistication (97th), while India excels across all seven pillars, particularly in knowledge, market, and business sophistication, highlighting its strong innovation policies.
- Pakistan's lower global ranking is largely due to ineffective policies in the science, technology, R&D, and education sectors.
- Political stability, effective governance, and improved economic conditions are critical for Pakistan to improve its innovation performance and rank better globally.

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# MARKETS: ENERGY, AGRICULTURE & REAL ESTATE

# ENERGY POLICY DIRECTIONS: SEEKING THE RIGHT PATH

Afia Malik

## Preamble

Energy fuels economic growth! But for Pakistan's energy sector, it's a constant struggle. There has been a gradual buildup of chaotic situations over decades—one crisis after another, but the sector has failed to learn. The energy sector in Pakistan exemplifies a broader fallacy—a sector struggling with challenges beyond mere implementation hurdles. This underscores the longstanding and pervasive nature of the problem at hand.

Continuation of inconsistent and vague policies, short-term fixes without vision, an outdated governance model influenced by vested interests, and unprofessional management—all these and more have plagued the sector. There is no simple strategy or easy solution to this menace. Acknowledging and addressing the unique façades of the energy problem is central to meaningful progress.

Policymakers believe they know everything. They seek policy guidance only from donors or foreign consultants. Their assertions, or perhaps misconceptions, elude the intellectual rigor necessary to comprehend the intricate nature of this longstanding and profound mess, which poses real and substantial threats to the sector's and country's development.

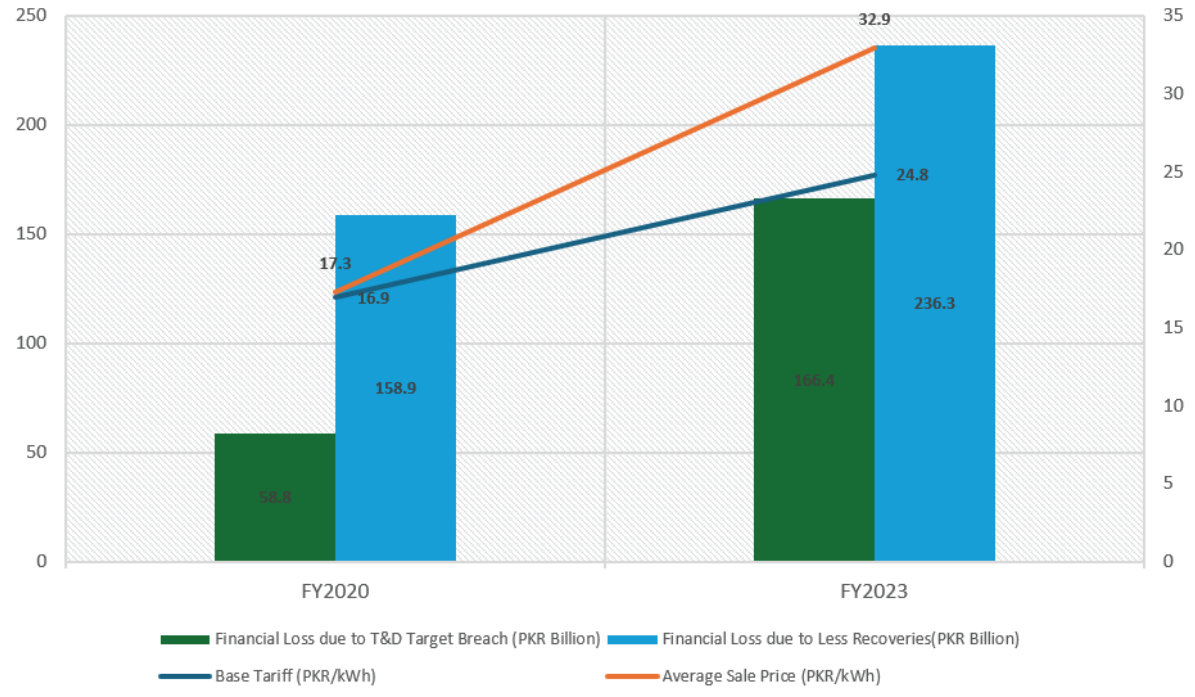
# Navigating Challenges in the Energy Sector

The financial strength of the energy[28] sector is crucial to ensure that it operates smoothly and effectively. In Pakistan's electricity supply chain, unsustainable financial management, rather than inadequate financial resources, has caused a persistent deficit between incoming and outgoing cash flows - circular debt.

Circular debt grew from PKR 0.1 trillion in FY2006 to PKR 2.63 trillion as of January 2024, causing enormous damage to not just the sector but the whole economy. It is estimated that a 10 percent growth in circular debt causes a total public welfare loss of US$13 billion[29] .

Unfortunately, the term circular debt has led policymakers to believe that it is simply an accounting matter. To balance the accounts, they have been using the tool of electricity tariffs. It has not been realized that increase in tariff further increases the circular debt. PIDE Immediate Reform Agenda: IMF and Beyond (2024) rightly defines this as Circularity—tariff increases circular debt; in turn, circular debt leads to tariff increase.

Figure 1. Tariff Increase and Increase in Financial Losses




Source: NEPRA Reports

[28]This write-up focusses only on the electricity sector.
[29]Malik and Mustafa (2024).

In FY2023, with the increase in tariffs, the financial gap was recorded at nearly PKR 403 billion only because of lower bill collections and unaccounted transmission and distribution losses.

The oversimplified strategy of solely increasing tariffs fails to consider the multifaceted nature of the sector mess, necessitating a meticulous unraveling of intricate complexities and contemplation from diverse perspectives. Beyond that, it's imperative to recognize that resolving the decades-old imbroglio through quick fixes will only lead to more troubles. Unfortunately, in the last two decades, governments have merely scratched the surface in addressing sector issues[30] .

To attract media attention, every other year, they shift blame to consumers or point to electricity theft as the primary cause of financial losses. This overlooks the deficiencies in management, incompetency, and bad decisions of decades. Electricity theft may be an issue, but not the sole factor contributing to financial troubles. Theft occurs only with the involvement of administrative staff[31]. To make matters worse, the administration often overcharges compliant consumers to compensate for theft, low collections, and other leakages due to technical constraints.

The world is rapidly adopting smart technologies for theft control, demand management, billing precision, and grid reliability[32] . However, in Pakistan, we persist in using ineffective tactics such as conducting raids on consumer premises with the police in front of the media. These methods have never worked and will not work. However, the generalist(s) who occupy the executive seat do not understand and are unwilling to learn. The main concern that needs to be addressed is this generalist's unnecessary centralized control and unprofessional approach.

Undoubtedly, losing power or control (of several years) is a tough call, especially when loads of freebies accompany this power. The reasons behind recurring debt have been intentionally disregarded or overlooked. As mentioned earlier, policymakers (legislators and bureaucracy) are more inclined towards the donors' advisory, possibly for personal gains. Even reform models or market models are developed and evaluated by foreign consultants. It would not be wrong to say that half of Pakistan's energy sector problems are due to donor-driven policy agendas. For instance, unaware of the actual ground conditions, donor agencies (including the IMF) push for tariff increases to reduce sector deficits (circular debt).

The political and socio-economic influences of the government and bureaucracy (decision-makers) frequently detract from the business-oriented approach of state-owned companies. Decisions such as appointing managerial staff are influenced by political factors rather than merit, compromising performance and accountability. Serving on the board of an energy company is unquestionably a powerful opportunity financially and to shape its decisions. Effectively, all administrative and financial decision-making is carried out at the Ministry level by individuals who may lack in-depth knowledge about the sector.

[30]Malik (2020).
[31]PIDE (2024). The Immediate Reform Agenda for Pakistan, Seminar as part of PIDE ISLAH Series, Serena Hotel, Islamabad, April 01.
[32]Malik, A., Asad, T., and Mustafa, G. (2024). The Efficiency of Electricity Billing System in Pakistan. RASTA DDR Study Showcase at 4th PIDE-RASTA Conference, Roomy Signature Hotel, Islamabad, September 03-04.

Realizing this challenge, PIDE's work[33] consistently advocates decentralized financial and administrative decision-making at the energy company level. Additionally, the PIDE Immediate Reform Agenda recommended that DISCO's Chief Executive Officers (CEOs) be appointed Principal Accounting Officers instead of the Secretary in the Power Division.

## Government Calls All the Shots: No Plan, No Market!

In Pakistan, the energy sector is not driven by market forces but by government decisions regarding future projects, energy pricing, long-term planning, policy design, or any other decision. Unfortunately, there has been a failure to develop an integrated energy plan.

So many polices announced, but none can be categorized as overarching with clear targets. Due to the lack of market, long-term planning, inefficient processes, and poor decisions by government-owned entities, 44% of electricity generation comes from thermal sources. Despite adding local coal and renewables in the generation mix, the reliance on imported fuels is still enormous (above 25%).

The authorities have significantly damaged the power sector by approving and supporting investments in unsuitable projects or jeopardizing crucial projects for personal gain or due to their incompetence. The power sector has consistently been under scrutiny for corruption in financial matters, whether it is related to the establishment of Independent Power Plants (IPPs) as per different policies, rental power plants (RPPs), Re-gasified Liquefied Natural Gas (RLNG) power plants, or coal projects under CPEC[34] .

Several policies were announced over the years (starting in 1987), followed by the new additions in capacity under IPP mode. Missing was the research and debate at the national level behind each policy. Every policy was designed to address the needs of specific interest groups[35] . The result is, as in 2024, IPPs and capacity payments are in the headlines every second day. The reason behind this failure is that the market forces were not allowed to operate and decide the future capacity, plant or fuel type, and mode. The similar mistakes were repeated each time.

An example worth quoting here is of coal power plants, including those based on imported coal and Thar coal. These plants were commissioned without considering future import dependency, capacity payment burden, plant efficiency, location and allied transport costs, and environmental costs. These projects were initiated when the world was planning to transition away from generators that emit greenhouse gases.

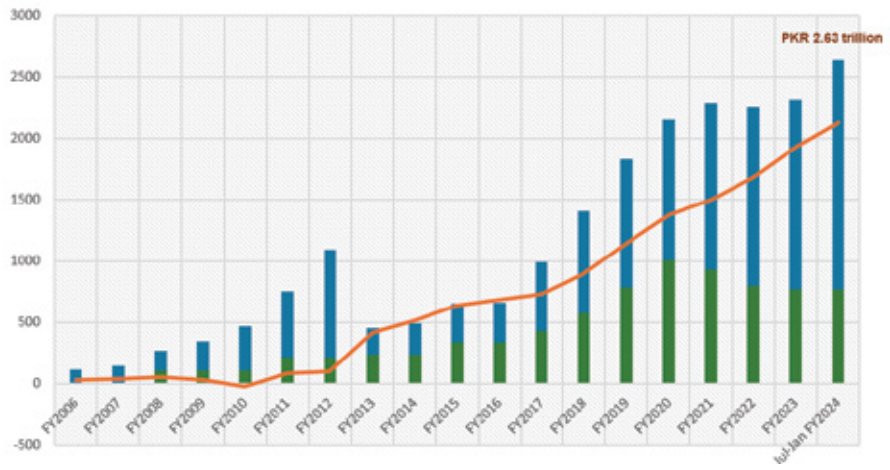
Likewise, as Pakistan's domestic gas production declined, a crucial opportunity emerged to transition towards sustainable and more affordable renewable energy sources. Unfortunately, the decision to commission RLNG plants closed that door and intensified the strain on energy imports, resulting in the addition of costly electricity to the system.

[33]Malik (2020), PIDE (2021), Cheema et al. (2022), and PIDE (2024).
[34]Cheema et al. (2022).
[35]Malik (2021).

We do have an independent regulator formed through an Act, but without effective power and is incapable of regulatory oversight. Government is influencing all regulatory decisions. Competent professionals are not being considered for critical positions.

The power sector lacks coordination across its three main branches: generation, transmission, and distribution. The vague job description for a secretary (in the Power Division, Ministry of Energy) and shallow discussions on losses and recovery in the Ministry, stemming from a lack of technical expertise, have yet to make progress in reducing losses or improving recovery. Receivables are on the rise, and the deficit (circular debt) is continuously growing [36] .

Figure 2. Power Sector Deficit - Circular Debt




Source: PIDE Compilation

The reform process, initiated in the late 1990s, has stagnated. Energy companies have been corporatized after unbundling, yet it is unclear which law governs them, causing confusion and hindering progress. Instead of decreasing, the government has assumed a more prominent role in the power sector.

Rather than prioritizing the maintenance and efficient utilization of existing capacity, the emphasis has remained on new projects, resulting in the incorporation of expensive yet excessive capacity in the system. Inadequate investments in downstream transmission and distribution infrastructure have significantly worsened these issues. Damaged networks, theft, and inadequate energy accounting result in over 25% of electricity lost[37] .

The National Transmission and Dispatch Company (NTDC), despite its status as an independent organization, lacks initiative and a proactive approach. The bureaucratic attitude has hindered its ability to expand the national grid to connect remote areas in Sindh, Baluchistan, and KPK regions. Furthermore, NTDC's failure to upgrade its transmission infrastructure to the desired level is a serious concern[38] .

[36]Cheema et al. (2022).
[37]Ibid.
[38]Malik, et al. (2024).

Despite having surplus capacity, the application of the load suppression model raises questions. Cross subsidies across sectors have led to a loss of competitiveness for the industry in the global market. The current uniform tariff policy does not serve as an incentive for private or state-owned utilities, leading to increased inefficiencies.

The competitive Trading Bilateral Contract Market (CTBCM) model has been developed. However, its implementation hinges on the crucial task of establishing a justifiable wheeling cost. Despite being inactive for four to five months of the year, over half of the currently installed capacity still incurs capacity charges.

Introducing CTBCM will increase capacity utilization and significantly reduce the burden of capacity payments for domestic consumers while offering a promising future for the industry. However, when the wheeling charge tries to cover all ancillary deficits, including the costs of excessive employment, it will not be acceptable or viable for market participants. It is difficult for those in charge to comprehend this straightforward phenomenon.

How can the fundamental challenges plaguing the power sector be addressed? The answer is:

## Professionals Fix, and The Market Decides!

A solution often suggested for all the problems in the energy sector is the privatization of monopolies without realizing the associated challenges and answering solutions to those challenges. Even the privatization model has not been debated as a viable option. It is important to note that making and implementing privatization contracts requires expertise. Does this exist within the relevant quarters? What is the likelihood of making wrong decisions, as has happened in the past? How can the risks of privatizing a loss-making entity's assets be mitigated without addressing the entity's liabilities? What is the likelihood of success considering the unfavorable legal, regulatory, political, and institutional conditions?

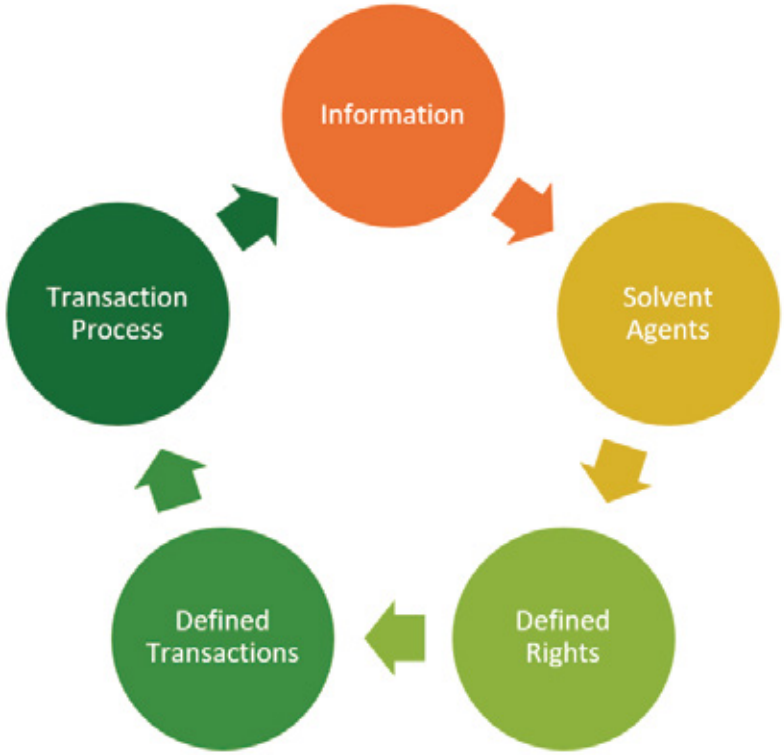
The challenge lay not in the destination but in the absence of a coherent roadmap necessary to reach it, resulting in disjointed planning (and activities) among distinct departments. This fragmented approach in the power sector warrants fundamental transformation. The existing financial and environmental costs underscore the need for deep reform. Even in the case of privatization, the best option could be the gradual involvement of the private sector through listing in the stock market, not by selling the entity's assets.

The energy sector desperately needs sector specialists who comprehend its intricate dynamics and possess the capability to rectify the mistakes of the past two decades. The time for trial and error is long gone. A comprehensive policy and a long-term plan are urgently needed. The absence of a well-informed, long-term vision and strategy has already caused substantial costs.

A comprehensive and coordinated approach to power sector planning is not just important; it's essential. This approach must involve accurately forecasted demand, upgrading and expanding transmission and distribution infrastructure, improving efficiency, technology adoption, reducing costs, and ensuring sustainability. Policymakers and planners need to understand energy systems' complex economic, political, and environmental interconnections and uncertainties. It is only possible when they are sector specialists.

Coordination should extend beyond the energy sector and involve meaningful consultation with other sectors. Successful implementation depends on the active involvement of local stakeholders (with their well-researched input) rather than solely relying on donor agencies.

The most crucial approach to address the challenges in the energy sector is to focus on developing a robust and competitive market. Over the last five years, PIDE's research has advocated developing an energy market. As explained in Figure 1, the energy market is where potential parties have the information; these are solvents, their rights are defined, and the transaction process is clearly spelled out. In simple words, the rules of the game are clearly defined.




Source: PIDE (2021)

Pakistan, an economy worth US$375 billion with a population of over 250 million, relies on imports for 49% of its primary energy supplies[39] . This strains its limited foreign exchange reserves of US$14.7 billion (as of August 29, 2024). From a geo-economic perspective, heavy energy imports and global market volatility constantly threaten Pakistan's economic and energy security.

Resolving Pakistan's energy crisis necessitates a well-considered, interconnected approach that dispels misconceptions and fosters cooperation and discussion to devise sustainable solutions that benefit all.

[39]49% includes overall energy imports.

The energy sector in Pakistan mirrors the nation's broader societal and economic challenges. A lack of academic engagement has led to inadequate, erratic, and flawed energy policies, allowing foreign consultants and donors to address Pakistan's complex energy sector ineffectively. This has significant implications for its socio-economic progress, underscoring the pressing need for reform informed by local insights.

Feeling the gap, PIDE introduced the culture of debate in 2020—several back-to-back webinars and roundtable consultations covering each domain in the energy sector. The vision was to foster collaboration, leverage a wide array of expertise, and thoroughly analyze potential solutions. By considering different perspectives, it becomes easier to understand the strengths and weaknesses of proposals and shape societal acceptance over time. Power Sector: An Enigma with No Easy Solution—comprehensive research compiled (based on sector specialists' input) as a book is an outcome of one of PIDE's initiatives.

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# PIDE's VISION ON ENVIRONMENTAL ISSUES: A CONCISE OVERVIEW

Sobia Rose

## Contextualizing PIDE's Environmental Advocacy:

Environmental degradation in Pakistan demands immediate and coordinated action. The country is struggling with severe environmental challenges reflected in international rankings, with its dismal standing of 179 out of 180 countries in the Environmental Performance Index 2024. Urban smog has become a critical health issue, with five of Pakistan's major cities ranking among the top 20 globally for poor air quality. Reasons behind this are the highly emissions-intensive energy sector, reduced tree cover especially in urban centers, rapid and unplanned urbanization, and shrinking forest area. Although Pakistan's contribution to total global emissions remains below 1 percent, the country's overall emissions and per capita figures have been on a consistent upward trajectory since 1998. Along with this rising temperatures and worsening climate conditions are intensifying the threat of climate change, particularly for vulnerable communities. These mounting environmental risks underscore the urgent need for comprehensive policies to mitigate these challenges and build resilience against future impacts.

As a premier national think tank, the Pakistan Institute of Development Economics (PIDE) has been at the forefront of advocating for a sustainable environmental future for a long time through a series of webinars, reports, knowledge briefs, articles, and policy papers. PIDE has sought to provide practical solutions to issues such as air pollution, deforestation, climate change, and energy sector emissions, ensuring a balanced approach to sustainable development. This document aims to summarize PIDE's comprehensive narrative on environmental issues over the past five years only, drawing on its extensive research and expert discussions. It will focus on the key insights and policy recommendations offered by PIDE to mitigate the country's environmental degradation.

## Air Pollution and Sustainability:

Over the past five years, one of the most extensively researched topics has been the worsening air quality, particularly the phenomenon of smog. Researchers have approached this issue from multiple perspectives. For instance, studies have explored the causes of smog, identifying factors such as industrial emissions, vehicular pollution, and, notably, the burning of crop residue by farmers. The role of farmers in contributing to smog, especially through stubble burning after harvests, has been a critical focus area. Additionally, the complexities of transboundary smog, and air pollution that crosses borders have been examined, highlighting the challenges of addressing smog on a regional scale due to differing regulations and cooperation between neighboring countries. The COVID-19 pandemic also provided an opportunity for researchers to explore its unintended effects on air quality, as the global lockdowns temporarily reduced industrial activity and transportation, offering insights into possible long-term solutions.

"Smog: The Fifth Season in Pakistan" by Naz and Abedullah (2022), highlights the growing issue of smog in Pakistan, particularly in Lahore, which has become a persistent environmental problem over the past few winters. Smog reduces visibility, disrupts daily activities, increases accidents, and can lead to flight cancellations. Air pollution, of which smog is a major component, is responsible for millions of deaths worldwide, with Pakistan suffering from high exposure levels, particularly in its urban centers. The authors underscore the need for coordinated efforts to mitigate smog and improve air quality in Pakistan, emphasizing stricter environmental regulations and public awareness. The government has initiated several measures to combat smog, including plans to import Euro5 fuel, transitioning industries to cleaner technologies, and promoting electric vehicles. Smog control rooms have also been established for monitoring air quality, particularly in Lahore. To effectively reduce smog, efforts should focus on investing in energy-efficient power generation, improving waste management, minimizing agricultural waste burning, and enhancing public transportation systems. Technical measures, such as using hydrogen fuel additives and smog-free towers, are also suggested.

[40]https://pide.org.pk/research/smog-the-fifth-season-in-pakistan/

Rose and Ali (2023) examined the ongoing debate about smog in Punjab, emphasizing that the burning of rice crop residue frequently places disproportionate blame on farmers. Policymakers and urban residents, highlight this practice as the primary cause, despite evidence pointing otherwise. According to two key studies, crop residue burning contributes a much smaller portion to smog than the transport sector, which is the leading emitter. Despite the common misconception that smog only occurs during the rice harvest, particulate matter persists year-round. Farmers often resort to burning due to economic pressures, including distorted input and output markets. The rising costs of fertilizers and black-market practices, combined with lower crop prices, force farmers to seek quick and cost-effective land clearance methods. This practice, while cost-efficient for farmers, has broader environmental and health consequences. The solution to crop residue burning requires a multidimensional approach that includes policy reforms, financial incentives, and technological support. Government plans to provide machines like happy seeders have been insufficiently implemented. More comprehensive solutions could include increasing access to shredding machines, using crop residues for renewable energy, and fostering public-private partnerships. Monitoring systems are essential for evaluating the effectiveness of these interventions and guiding future policy refinements. [41&42]

Rose (2024) discusses the challenges of air pollution, particularly the smog with a focus on the transboundary nature of the problem, largely influenced by emissions from neighboring India. India's crop burning in Punjab and Haryana contributes significantly to the smog in Pakistan, particularly in Lahore. Despite efforts, Pakistan's isolated measures have had limited success, highlighting the need for regional collaboration. The author also emphasizes the importance of diplomatic efforts to address these environmental challenges, noting Pakistan's advocacy for regional collaboration at international forums like COP-26. However, political tensions between India and Pakistan, compounded by economic disparities, have hindered meaningful cooperation. Drawing on international environmental law, such as the 'Trail Smelter Case' and the 1992 Rio Earth Summit principles, the author argues for a shared responsibility in reducing emissions. It calls for a regional framework and improved monitoring and pollution control technology. The 'Male Declaration' of 1998, which called for regional cooperation on transboundary pollution, is critiqued for its ineffective implementation. This article suggests reviving such frameworks with the support of regional bodies like SAARC and international organizations like ICIMOD to achieve more effective cooperation and mitigation. The author calls for urgent, collective action in South Asia to reduce air pollution, proposing joint monitoring systems, harmonized regulations, and technology investments.[43]

[41] https://pide.org.pk/research/farmers-not-the-principal-culprits/
[42] https://pide.org.pk/research/farmers-are-not-the-main-culprits-of-smog/
[43] https://pide.org.pk/research/threats-across-the-borders-tackling-transboundary-environmental-injustice/

Yahya and Abedullah (2022)[44] investigated the impact of the COVID-19 lockdown on air quality in some of the most polluted cities globally, including Anyang, Hotan, Tashkent, Beijing, and Karachi. The lockdowns, imposed to curb the virus's spread, resulted in a significant reduction in air pollution due to restricted mobility and halted industrial activity. Using PM2.5 concentration data, the study observed a substantial decline in pollution levels, with decreases of 26% in Anyang, 23% in Hotan, 14% in Beijing, 24% in Karachi, and 21% in Tashkent. Key findings indicate that reduced transportation and industrial activity contributed to these declines, temporarily improving air quality. However, the study warns that once lockdowns are lifted and economic activities resume, pollution levels are likely to rebound, presenting ongoing challenges for global warming. The study emphasizes the importance of reassessing industrial and transportation needs and enhancing environmental laws to promote sustainability. Additionally, it suggests that COVID-19 may disrupt long-term environmental diplomacy as developing nations shift focus from environmental sustainability to economic recovery.

A study presented by Ali and Rose (2023) at two conferences, one at IBA, Karachi, and the other at the University of Lahore, examines university students' perceptions of environmental issues in Lahore and their trust in key stakeholders to address these concerns. The research highlights that pollution, climate change, waste disposal, and traffic congestion are seen as the most pressing environmental challenges. Students place the highest trust in environmental organizations and scientists for reliable information on climate change, while media and government rank lower in terms of trustworthiness. The findings show that students view the government, businesses, and industry as primarily responsible for tackling climate change, but there is a notable trust deficit, particularly in the actions of the government and industry. Students also pointed out clear indicators of climate change, including more hot days, extreme temperature fluctuations in summer and winter, heavier rainfall, and frequent flooding. The study underscores the need to integrate indigenous knowledge and public perceptions into policy development to create more effective, inclusive, and sustainable environmental solutions.

PIDE also organized a series of webinars aimed at exploring sustainable solutions through expert discussions and conversations, focusing on the various challenges that impede progress toward an environmentally sustainable future. Some of the webinars include Trade as Part of the Solution to Climate Change[45] , Pakistan: Managing Climate Change [46], Climate & Pollution: Law, Politics & Governance[47], Impact Of Climate Change On Rainfall Patterns & Water Resilience In Pakistan[48] , Smog in Punjab: A Least Addressed Issue[49] and People-Centric and Climate Resilient Development in Pakistan[50]

[44] https://pide.org.pk/research/post-covid-19-lockdown-air-quality-analysis-in-most-polluted-cities-of-the-globe/
[45] https://pide.org.pk/webinar/trade-as-part-of-the-solution-to-climate-change/
[46] https://pide.org.pk/webinar/pakistan-managing-climate-change/
[47] https://pide.org.pk/webinar/climate-pollution-law-politics-governance/
[48] https://www.youtube.com/watch?v=Oilld4Vrcd8
[49] https://pide.org.pk/webinar/smog-in-punjab-least-addressed-issue/
[50] https://pide.org.pk/webinar/people-centric-and-climate-resilient-development-in-pakistan-pide-world-bank-invited-lecture/

## From Private Cars to Public Transport:

PIDE also researched the growing issue of air pollution in Pakistan, with a focus on the transportation sector's significant contribution to the problem. A shift from private car use to public transport as a sustainable solution for reducing urban air pollution is a suitable way forward. The study by Abedullah (2022) highlighted the environmental benefits of lowering vehicle emissions through this transition. It highlights how the sharp rise in motor vehicles, especially private cars and motorcycles, is a key factor driving this environmental challenge. While some public transport systems (such as metro buses in Lahore and Islamabad) have been introduced, they are insufficient to meet the growing demand for mobility, leading to increased car ownership. Shifting from private cars to public transport can significantly reduce pollution. Buses, for example, have the potential to replace multiple cars and cut down on CO2 emissions. A bus carrying 80-100 passengers emits less CO2 per person compared to private cars and takes up less space on the road, making it a more efficient and environmentally friendly option. The article calls for enhanced public transport infrastructure and policies, such as higher car parking fees, to encourage a shift from private cars to public transport, which can lead to lower emissions and reduced air pollution in urban areas.[51]

## Sustainable Electoral Procedures:

The Economic and Environmental Cost of Election 2024 provides an in-depth analysis of the financial and ecological implications of Pakistan's 2024 General Election, a report by Ali (2024). This report emphasizes the urgency of addressing environmental degradation within Pakistan's electoral system. The environmental footprint is substantial, with the paper required for 260 million ballot papers resulting in the deforestation of approximately 52,080 trees. The broader environmental toll, including campaign materials and deforestation, is projected to account for nearly 6.64 percent of GDP, potentially escalating to 10 percent when the impact of chemical, and water costs to prepare the paper and other associated factors are considered. The document advocates for the adoption of Electronic Voting Systems (EVS) to reduce both economic and environmental costs, citing the potential for reduced deforestation and energy use, alongside more streamlined election processes.[52]

"Polls and Environment" is a newspaper article by Ali (2024), published in The Dawn. This article is an extension of the previously discussed report, with similar recommendations. However, the article places particular emphasis on the global response, highlighting the evolution of eco-friendly balloting systems. As global concern over climate change grows and the shift toward sustainable practices accelerates, the article explores how voting processes have adapted to become more environmentally conscious. He reemphasizes the need to rethink Pakistan's traditional ballot-based election process due to its severe environmental impact. To mitigate this impact, a transition to Electronic Voting Systems is advocated again. While EVS presents challenges such as cybersecurity concerns, its environmental and economic benefits such as lower costs, reduced paper imports, and simplified election processes, make it a crucial step toward sustainable electoral procedures in Pakistan.[53]

[51] https://pide.org.pk/research/a-smart-shift-from-private-cars-to-public-transport-can-help-to-reduce-smog-air-pollution-in-pakistan-2/
[52] https://pide.org.pk/research/the-economic-and-environmental-cost-of-election-2024/
[53] https://pide.org.pk/research/polls-the-environment/

## Water Security, Climate Change and Pakistan:

Pakistan's water crisis, driven by climate change, requires immediate and coordinated action across sectors to build resilience and ensure water security for the future. Pakistan is listed among the water-scarce countries, having reduced its per capita water availability. It is predicted to face absolute water scarcity by 2025. Population growth, urbanization, climate change, and poor water governance are exacerbating the water crisis. Agriculture dominates water consumption in Pakistan, using 90 percent of water resources to produce just 5 percent of GDP. This inefficiency is alarming, as water productivity in Pakistan is significantly lower than the global average. The country also engages in "virtual water trade," exporting water-intensive crops like rice, which exacerbates the water shortage. A cohesive and strategic national approach is required to mitigate the water crisis. This includes addressing inefficiencies, promoting conservation, and enhancing governance mechanisms to ensure long-term water security for Pakistan.

Nazam (2022) examined Pakistan's water crisis, identifying its causes and potential solutions. He found that water availability in Pakistan has significantly decreased, transforming the country from water-abundant to water-scarce. The agricultural sector, which consumes 94 percent of the available water, continues to have low productivity. Overdependence on the Indus River system and unsustainable groundwater extraction have further strained water resources. Additionally, Pakistan's reliance on external water sources, mainly from India, heightens its geopolitical vulnerability. While exploring the causes behind the crises he noticed:

- Population growth has increased pressure on static water resources, reducing per capita water availability.
- Pakistan is highly vulnerable to climate impacts, faces altered monsoon patterns, glacial melt, and recurring floods and droughts, affecting water availability.
- Inefficient irrigation systems, low water productivity, and underpriced canal water contribute to wastage.
- Contamination from industrial and human waste exacerbates the water crisis, affecting public health and further straining the water supply.

The water crisis demands immediate attention and ownership from political leadership to prioritize water management reforms. A significant paradigm shift is needed to address governance failures in water management, focusing on infrastructure maintenance and water conservation technologies. Learning from global examples like Israel and Singapore, Pakistan should prioritize wastewater treatment and reuse. Introducing compulsory metering and revising the water pricing structure can promote efficient use and generate revenue for water infrastructure. Water-efficient irrigation technologies like drip irrigation, along with a shift to less water-intensive crops, are crucial for sustainable water use[54].

[54] https://pide.org.pk/research/water-crisis-in-pakistan-manifestation-causes-and-the-way-forward/

Nazam (2023) explored further the impact of Climate Change on water in Pakistan. Pakistan is highly vulnerable to climate change, particularly concerning its water resources. Climate-induced changes such as rising temperatures, erratic weather patterns, and glacial melting are affecting water availability, quality, and distribution. Pakistan, already a water-stressed nation, ranks among the top 17 countries facing extreme water risks, with per capita water availability declining sharply from 5,260 cubic meters in 1951 to less than 1,000 cubic meters today. The country is on the brink of facing acute droughts by 2025.

• Pakistan's water supply heavily depends on glacial melt, with the Himalayas providing around two-thirds of the Indus River's flow. Rapid glacial melt due to climate change could lead to both increased flooding and long-term water shortages. This is particularly critical for regions such as Gilgit-Baltistan, which face the risk of glacial lake outburst floods (GLOF).
• Climate change has shifted monsoon patterns, increasing the frequency and intensity of both floods and droughts. These extreme weather events are exacerbating the water crisis by reducing water storage capacity and damaging critical infrastructure.
• Climate change is leading to increased water demand for agriculture due to higher temperatures, while water supply becomes more unreliable. Key crops such as wheat and rice are projected to suffer yield declines, threatening food security.
• The over-extraction of groundwater, exacerbated by reduced river inflows, is leading to a significant depletion of Pakistan's water reserves. The Indus Basin's aquifer is one of the most stressed in the world, according to NASA's satellite data.

Pakistan needs to adopt water recycling practices, as seen in countries like Israel and Singapore, and invest in desalination plants to ensure sustainable water supplies. Setting efficiency standards for domestic, agricultural, and industrial water use is essential. This includes better groundwater management and promoting conservation technologies in agriculture. Building local water storage facilities, rehabilitating dams, and increasing rainwater harvesting are key strategies to mitigate the impacts of water scarcity. Pakistan should work with neighboring countries to establish mechanisms for shared water resource management. Regional cooperation could help address water shortages, improve flood management, and promote joint climate adaptation strategies. There is an urgent need to reform water governance to address the disconnect between federal and provincial management. Strengthening institutions like the Permanent Indus Water Commission is critical to addressing climate change impacts on water resources. [55]

Governance challenges, such as inefficient water pricing (Abiana charges), unequal water distribution, and poor management of groundwater and canal systems, severely limit effective water management in Pakistan. There is an urgent need to improve water governance protocols, enhance infrastructure, and adopt modern agricultural technologies.

[55]https://pide.org.pk/research/impact-of-climate-change-on-water-in-pakistan-policy/

Governance challenges, such as inefficient water pricing (Abiana charges), unequal water distribution, and poor management of groundwater and canal systems, severely limit effective water management in Pakistan. There is an urgent need to improve water governance protocols, enhance infrastructure, and adopt modern agricultural technologies.

Ali and Abedullah (2024) argue that the improper pricing of agricultural water is driving its unsustainable use. They assessed the true value of surface water available for irrigation in the last cropping year, underscoring the critical need for improved water management practices. Using diesel prices as a reference, they estimate the economic cost of water per cubic meter to range from Rs. 7.92 to Rs. 10.39 for an average extraction of 110 cubic meters. The total value of surface water, excluding the consideration of water scarcity rent, is estimated to be between Rs. 710.22 billion and Rs. 931.71 billion. Due to the lack of effective water pricing or appropriate charges, the government faces an annual financial loss estimated at Rs. 677.56 billion to Rs. 899.05 billion. The authors stress the urgent need for the implementation of economic water pricing to promote sustainable water use, warning that failure to do so could push Pakistan closer to becoming a water-stressed nation in near future.[56]

## Green Financing with an Islamic Perspective:

Faraz (2022)[57] explores the intersection of Islamic finance and green finance, emphasizing how Islamic principles can contribute to sustainable development and environmental preservation. He highlights the potential of Islamic finance to contribute to the global green finance movement by aligning with Shariah principles that promote environmental responsibility and social welfare. It calls for the expansion of Islamic financial instruments like Green Sukuk and the creation of a robust green finance ecosystem to address environmental challenges. The concept of "Maqasid al-Shariah" encourages investments that maximize societal benefits while minimizing harm, aligning Islamic finance with socially responsible goals. Islamic teachings stress the responsible use of resources, conservation, and avoidance of wastefulness. There is an emphasis on viewing climate as a divine asset and ensuring its responsible use. The connection between Islamic finance and green finance is based on the shared values of promoting environmental sustainability and social welfare. Financing green projects is challenging due to a lack of conducive environments for mobilizing capital and a need for innovative financial instruments. Developing a green finance ecosystem involves stakeholders such as governments, financial institutions, and advisory firms. Islamic financial institutions can play a key role in this ecosystem.

- Green Sukuk, which are Sharia-compliant financial instruments, provide funding for renewable energy and environmentally friendly projects. They represent a growing segment of green finance, although their market size remains small.
- Green bonds and Sukuk are on an upward trend globally, with increasing issuance since 2013. However, there is still a gap in green equity products, which could be a future avenue for sustainable finance.
- Islamic finance's focus on financial stability, poverty alleviation, wealth distribution, and environmental preservation makes it a natural partner for green finance initiatives.

[56]https://pide.org.pk/research/the-cost-of-government-interference-in-agricultural-markets/
[57]https://pide.org.pk/research/green-finance-an-islamic-way-to-rescue-the-nature/

• The development of frameworks and best practices in Islamic green finance is necessary to enhance the role of Islamic financial institutions in promoting sustainable development.

## The Nexus of Environment, Electronic Waste, and Human Health:

Armughan and Sameen (2022)[58] focused on the electronic waste (E-Waste) effects on human health and the environment in Pakistan. Their key thesis was that the growing challenge of E-waste in Pakistan is exacerbating environmental degradation and causing serious health hazards. E-waste, which includes discarded electronic devices containing hazardous materials like heavy metals and toxic chemicals, is poorly managed in the country. Informal recycling practices and crude processing techniques are prevalent, leading to widespread air, soil, and water contamination. The lack of proper regulation and recycling infrastructure poses significant risks to public health, particularly for workers directly involved in e-waste processing. The key insights of the study include:

- Pakistan generated approximately 433 kilotons of e-waste in 2019. This is expected to increase as electronic consumption rises with the growth of electrical and electronic equipment in the market.
- Exposure to e-waste leads to various diseases, including respiratory, pulmonary, skin, eye, and inflammatory bowel diseases. Workers in informal recycling sectors and communities near e-waste processing sites are particularly vulnerable to these health risks.
- E-waste contains hazardous substances like lead, cadmium, mercury, and brominated flame retardants, which contaminate the environment. These pollutants enter the food chain through soil, water, and air, affecting both human and animal health.
- Despite the existence of a National Hazardous Waste Management Policy (NHWMP), its implementation regarding e-waste remains remains weak. Pakistan lacks a specific, comprehensive policy to manage e-waste effectively.
- This study recommends
- The development of a national e-waste management policy should be done urgently, focusing on regulating e-waste imports, improving recycling standards, and enforcing safe disposal practices.
- Increasing public awareness about the environmental and health risks associated with e-waste is crucial, especially targeting vulnerable populations and workers in the informal recycling sector.
- Pakistan should adopt international best practices in e-waste management, such as recycling technologies from countries like Singapore and Israel, to minimize environmental harm and enhance resource recovery.
- Strengthening labor laws to protect workers from the hazardous conditions in e-waste recycling facilities is essential. This includes enforcing safety protocols and ensuring proper health care for affected populations.
- A comprehensive approach to e-waste management, integrating policy reforms, public education, and international collaboration, is necessary to mitigate the harmful effects of e-waste on both human health and the environment in Pakistan.

[58] https://pide.org.pk/research/analyzing-the-effects-of-e-waste-on-human-health-and-environment-a-study-of-pakistan/

## Tourism, Environment, and Pakistan:

Armughan (2023) conducted a comprehensive analysis of the effects of tourism in the GB region, exploring its economic, environmental, and socio-cultural dimensions. Tourism plays a significant role in GB's economy by generating employment and business opportunities. However, the heavy reliance on seasonal tourism creates challenges for local livelihoods, especially during the off-season and periods of disruption like the COVID-19 pandemic. Further, tourism has resulted in severe environmental degradation in GB, including increased solid waste, air pollution, traffic congestion, deforestation, and water contamination. The mismanagement of natural resources and the construction of unregulated infrastructure have further strained the environment. Moreover, the influx of tourists has disrupted the local socio-cultural fabric. Changes in traditional customs, dress, and values are evident, with domestic tourists often imposing their cultural norms, sometimes leading to disrespectful behavior towards the local community. Issues such as harassment and privacy violations have also been highlighted. It was observed that there is a significant gap between policy formulation and implementation, with government policies primarily focused on increasing tourist inflows rather than ensuring sustainable and community-friendly tourism. Local initiatives and associations have had to step in to address environmental concerns, but the lack of governmental support remains a significant challenge. It is suggested that promoting ecotourism, improving government regulation, enforcing sustainable tourism practices, and increasing the involvement of local communities in tourism management to mitigate these negative impacts is necessary. Expanding off-season tourism and creating alternative economic opportunities beyond tourism are also emphasized. The overall conclusion stresses the need for a balanced approach to tourism that supports economic growth while protecting the environment and preserving the socio-cultural identity of GB.[59]

## Key Takeaways:

Overall PIDE accentuates major environmental challenges in Pakistan, such as severe air pollution, deforestation, and water scarcity, emphasizing the urgent need for a coordinated policy response. PIDE points out that although Pakistan's per capita emissions remain low, the rising emissions and worsening climate conditions pose serious threats, especially to vulnerable communities. Comprehensive policy reforms, regional cooperation, and sustainable practices are essential to tackle these pressing environmental issues. Despite having relatively low per capita emissions, Pakistan's environmental vulnerabilities are intensified by inefficient resource management and governance issues. The country faces significant environmental degradation, including deteriorating air quality, increasing emissions, shrinking forest cover, and climate-related risks such as rising temperatures and glacial melt. The key takeaways from PIDE's environmental advocacy include:

- Plummeting Smog, particularly in big urban centers should be the top priority. While policy responses have been introduced, such as transitioning to cleaner fuel and promoting electric vehicles, broader systemic changes are needed. Farmers are not the primary contributors to smog, but emissions from crop residue burning can be greatly reduced with a relatively small reallocation of financial resources, especially compared to large-scale

[59]https://pide.org.pk/research/the-impact-of-tourism-on-the-environment-socio-culture-and-local-communities-of-gilgit-baltistan-pakistan/

scale infrastructure projects like building flyovers. Redirecting funds to provide or facilitate technological solutions for farmers could have a significant impact. Additionally, addressing this issue requires regional cooperation, particularly with neighboring countries like India, to effectively manage transboundary pollution.

- PIDE calls for enhanced public transport infrastructure and policies, such as higher car parking fees, to encourage a shift from private cars to public transport, which can lead to lower emissions and reduced air pollution in urban areas.
- A transition to Electronic Voting Systems is strongly advocated to reduce both economic and environmental costs, citing the potential for reduced deforestation alongside more streamlined election processes.
- Pakistan's water scarcity crisis is driven by climate change, inefficient agricultural practices, and poor water governance. It calls for reforms such as improving water governance, economic water pricing, the application of efficient irrigation technologies at a larger scale, and infrastructure investment to ensure long-term water security.
- PIDE advocated for a green finance ecosystem aligned with sustainable development goals. The intersection of Islamic finance with green finance, proposing instruments like Green Sukuk to fund sustainable development initiatives. This approach aligns environmental responsibility with Islamic principles.
- A comprehensive approach to e-waste management, integrating policy reforms, public education, and international collaboration, is necessary to mitigate the harmful effects of e-waste on both human health and the environment in Pakistan.

# UNLOCKING STATE CAPTURED REAL ESTATE

Azwar Muhammad Aslam

The challenges that Pakistan economy face today are largely due to the way assets are governed and utilized. The inefficiencies in asset management have stunted the economy, and underutilization due to unproductive use has failed to contribute meaningfully to economic growth. A significant amount of wealth is locked in assets – real estate – in the cities of Pakistan, even easier to unlock and greater in potential than minerals (Haque, Aslam & Qasim, 2024). Most of the prime real estate is occupied by the inheritors of the colonial administration which afterwards expanded the practice of provision of grand houses and gated estates to the state employees (Ibid).

The footprint of the government on Pakistan economy is significantly large i.e., 67 percent of the GDP of Pakistan (Haque & Ullah, 2022). The efficient utilization of the state-owned real estate is pertinent to realize significantly large revenue streams for the state (Haque, 2007; Haque, 2017; Haque, Aslam, & Qasim, 2024). State captured real estate is almost found in all the cities across Pakistan. Underutilization of which through housing facilities for government employees, clubs and grounds for officials, vacant land at prime locations etc. have restricted the growth of the downtowns and ultimately the cities (Haque et. al., 2021; Haque, 2021; Haque, 2007; Aslam, 2023).

This paper is based on insights of the research conducted at Pakistan institute of development Economics (PIDE), which highlights the scale of state captured real estate and the policy reform that is needed to unlock their economic potential. The central to which is land and its management in Pakistan, specifically state-owned land.

## STATE CAPTURED REAL ESTATE – SIZE AND SCALE

The concept of state captured land is crucial to understand Pakistan untapped wealth. State capture real estate refers to assets that are ripe for economic activity but due to legal, bureaucratic and structural inefficiencies are sitting idle, managed poorly and generating far below their potential. The wealth that the nation holds is in the productivity potential that the underlying assets offer, which makes the optimal utilization important for the nations to grow. The size and scale of the documented state captured real estate is presented below.

- As per estimates 17,471 houses are allocated to government employees of various categories in Islamabad which occupies an area of 1375 acres and are valued at PKR 2577.6 billion (Haque, Aslam, & Qasim, 2024).
- Housing for parliamentarians and judges etc. along with parliament lodges in G-5, Islamabad occupies approximately 238 acres, with a market value of PKR 648 billion (Ibid).
- Islamabad club spans 425 acres, valued at PKR 2508 billion (Ibid).
- Pakistan Railways has 169,128 acres of land across Pakistan and approximately 17% of it is employed in various non-core operations. Only in Rawalpindi 66% of the land categories for official use at prime location is utilized for residential purposes, which is of significant value (Aslam, 2023).
- Approximately 160 acres of prime land around and near Rawalpindi railway station with significant potential for commercial exploitation is used for railway employee housing (Aslam, 2023).
- Around 1150 acres of prime Pakistan Railway land is leased out to various co-operative housing schemes for railway employees. Among which 116 acres of land in Rawalpindi is leased out on an average annual lease rent of PKR 11,000 (Ibid).
- The Evacuee Trust Property Board (ETPB) owns approximately 100,000 acres of land out of which approximately 20,000 acres has been under illegal occupation (Mehmood, 2022).
- Pakistan steel owns 18,660 acres of land, Auqaf in Punjab owns approximately 75,000 acres of land of which 45% of the Auqaf land in Punjab is laying idle (Ibid).
- The land owned by Auqaf department in Khyber Pakhtunkhawa (KPK) is approximately 65, 101 Kanals, 71% of which is under illegal occupation and as per estimates it cost around PKR 514 million annual loss to Auqaf, KPK (Mehmood, 2022).
- Pakistan Post own 4171 buildings across Pakistan along with 49 valuables plots which are not utilized for any activity, among all buildings a total of 3252 are residential properties, 19% of which are under illegal possession (Ibid).
- Only 5 government owned residencies in Lahore constitute 4000 acres of prime land (Haque, 2023).
- Another estimate by Dowal, (2009) suggests that 30 percent of the land in Lahore is under state ownership and in other large cities the ownership is is around 20 to 40 percent of the total city land.

- Underutilization is not just limited to housing for officials, educational institutions are also following these practices. The three universities documented in study by Haque, Khan & Nadeem, (2024) show that Quaid e Azam university, Punjab University Lahore and university of Peshawar have 412, 497 and 280 housing units respectively. Which occupies an area of 50 acres, 100 acres and 180 acres respectively. The situation is same for almost all the public sector universities across Pakistan.

The sheer scale of these assets underscores the country's potential to transform its economy. However, their capture by the state complemented by poor management has not only resulted in wasted opportunities but has also imposed heavy cost on the economy, in the shape of lost revenue, inefficiencies, and corruption.

## RETIRING THE DEBT

Government of Pakistan domestic debt is PKR 43,432 billion[22] and the total market value of the state-owned land only in Islamabad as mentioned above is PKR 5,733.6 billion (Haque, Aslam, & Qasim, 2024). If the government is to release the land the revenue generated from the sale of land can be used to repay government obligations to the domestic lenders. Similarly, vast tracts of land are present in almost all the cities of Pakistan; by leveraging the value of state captured real estate the government can reduce the debt burden, improve urban infrastructure and foster economic growth, all while unlocking trillions in

## OPPORTUNITY COST OF STATE CAPTURED LAND

The opportunity cost of the state-owned land is not only staggering but represents a significant drain on Pakistan economy. The opportunity cost here is referred to foregone revenue and investment that could be realized if assets were to be utilized effectively. The opportunity cost of 1988 acres state land only in Islamabad amounts to 34% of GDP of Pakistan. Indicating the economic activity and value locked away due to the state capture of the land.

The continuation of its use in its current state costs the state of significant revenues and investments, the investment potential through alternative high-rise activity on the land in Islamabad is USD 58.8 billion. It holds the potential to create 351,000 jobs and rental income of USD 1.7 billion (Haque, Aslam, & Qasim, 2024).

## OUTDATED LEGAL FRAMEWORK

Much of the Pakistan asset management is still governed by archaic laws that dates to the British colonial period. These outdated and obsolete laws and regulations restricts the growth of the economy and productive use of land, one such example is the legal framework that governs the Pakistan Railways (PR) land.

[22] Pakistan Economic Survey, 2023-2024

The internal (policies and practices) and external (Act, Rules and procedure) legal construct are the biggest hurdle in the commercialization and redevelopment of Pakistan Railways land and other state-owned land management (Aslam. 2023). The provisions in the Railway Act, 1890 governing PR land do not cater to the commercialization of the land. Alongside it the provisions of the land acquisition act overseeing the acquisition and disposal of land presents a significant challenge ultimately discouraging the disposal and commercialization of land as per the best market practices (Ibid).

The land classification that exists for land under the ownership of various enterprises does not allow for the exploitation of land to maximize utility. In PR land that is under the classification of operational use is protected by law to not be used for any other purpose, the operational use is meant to be used for core operations of the enterprise. However, the residential real estate for employees is also categorized under operational use which cannot be commercial or otherwise exploited to raise revenues for the state (Aslam, 2023).

Furthermore, the zoning regulation within cities restricts the development of the land as per the needs of the cities and hinders the growth of the cities (Haque & Khurshid, 2023). Which when linked with the current land use of prime state-owned real estate encourages the increasing sprawl in the cities

**IMPORT SUBSTITUTION POLICY**

The system of land record management is outdated, and it has serious implications for the economy and the society. The contemporary land record management system does not provide titles to land in Pakistan and is just aimed at registration of instrument (Record of right, Transfer deed etc.). The instruments of land property rights are not conclusive and merely based on presumption of truth in few cases. The non-conclusiveness of the property registration instruments increases the uncertainty with regard to the ownership of land. This in return discourages the economic transaction of land.
Majority of the issues that the state-owned real estate is prone to are also rooted in the current land record system in Pakistan. Leading to injunction of state-owned land, keeping it out of the economy, and encouraging the illegal possession of the state-owned real estate.

Source: Aslam & Qasim, 2024

## MISMANAGEMENT OF STATE-OWNED REAL ESTATE

The management of the state-owned assets is largely controlled by the bureaucracy rather than by professional asset management managers. This has led to inefficiency and capture of the state assets by interest groups. Departments form housing societies to acquire public land at subsidized revenues. Similarly, state-owned real estate is often leased at below market rates to the private sector, locking the valuable assets into low-revenue arrangements for decades (Mehmood, 2022; Aslam, 2023). Since mostly the value of the land is ascertained by the DC rate, which values the land at rates that are significantly less than the actual market value of the land (Qasim, 2022), this in part also encourages the leasing of land at low rates.

## UNLOCKING THE STATE CAPTURED REAL ESTATE

- Establish a central repository and balance sheet of information regarding the total amount of state-owned real estate with various departments along with earnings from them, and contemporary use etc.
- Monetization of the non-cash benefits to the government's employees and officials at Market rate. The provision of housing facilities for government employees must be abolished and instead perks shall be monetized at market rate.
  - As per estimates monetization of the land in Islamabad will cost the federal government PKR 135 to 741 billion which will in return release the assets worth trillions of PKR and make them available for significant economic activity.
- Through rezoning allowing high-rise mixed-use development on the released land.
- Ban on the forming of housing societies by various government departments.
- Making necessary amendments to the Acts and ordinances of various state-owned enterprises to avoid policy inconsistency and allowing commercial exploitation of land owned by them. Furthermore, the provisions of land acquisition acts that does not allow the disposal of land at best market practices shall be relaxed.
- Repurposing of the land leased to various co-operative housing societies causing significant revenue losses.
- Release and lease of state owned land at market rates instead of the DC and FBR rates.

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# MISUNDERSTANDING MARKETS: THE CASE FOR A MARKET-FRIENDLY GOVERNMENT IN PAKISTAN

Abbas Murtaza Maken

Markets are the most fundamental pillar of any economy, serving as platforms where buyers and sellers interact to exchange goods, services, and information. In classical economic theory, markets are viewed as self-regulating mechanisms that efficiently allocate resources based on the forces of supply and demand. According to Adam Smith's concept of the "invisible hand", individuals, through pursuing their self-interest within a free market, inadvertently contribute to the overall economic well-being of society (Smith, 1776). Nevertheless, in Pakistan, markets are characterized by widespread government intervention, creating an environment where markets are set up, regulated, and maintained by the state. This distorts market outcomes, rather than fostering and being conducive to competition, acts as a barrier to it.

This document, draws on extensive research conducted by the Pakistan Institute of Development Economics (PIDE), scrutinizing how the government's misunderstanding of market dynamics has adversely impacted critical sectors such as labor, finance, real estate, and domestic commerce.

This viewpoint emphasizes the imperative to transition to adopting more market-friendly policies, where the government plays a facilitatory role. Rather than controlling and heavily regulating markets, the government can create a conducive environment in empowering markets to function efficaciously. By minimizing unnecessary regulation and embarking on a journey towards a more competitive economic environment, Pakistan can unleash its true economic potential.

## CORE MARKET FUNCTIONS

Prior to scrutinizing the contemporaneous state of markets in Pakistan, it is critical to surmise the primary roles that markets play in an economy.

### • Allocation of Resources

- Resource distribution in an economy is determined by markets, leading to efficient outcomes due to the optimal production of goods and services. Nevertheless, in Pakistan, resources are often inefficiently allocated due to government intervention in the form of burdensome regulations, for example, complex zoning laws in urban areas, often result in small domestic traders and street vendors operating outside the formal economy, leading to an inefficient allocation of resources.

### • Price Discovery

- Through the interaction of supply and demand, markets establish prices. These prices signify the value of goods and services, signaling to producers and consumers how to allocate resources efficiently. However, in Pakistan, government interventions through price controls can considerably distort these signals, resulting in suboptimal outcomes, especially in the foreign exchange market.

### • Transfer of Property Rights

- The transfer of ownership is aided by the markets, allowing assets and property rights to be reallocated to their most productive uses, crucial in sectors where property rights may be poorly defined or contested. In the case of Pakistan, poorly defined and inconsistent legal protections for property rights create market inefficiencies, particularly in the real estate market.

### • Information Exchange

- By serving as platforms for exchanging information, markets lower uncertainty, allowing for better decision-making. Nevertheless, when information asymmetry exists — where one party has more or better information than the other — markets can fail, leading to suboptimal outcomes. For instance, in Pakistan's financial market, low levels of financial literacy lead to low public participation and a narrow base of investors, undermining the potential of financial markets.

- **Matching of Buyers and Sellers**
  - Through providing a mechanism for matching buyers and sellers, markets ensure that those who require goods and services can connect with those who supply them. Thus, all participants can potentially achieve mutually beneficial transactions through effective market mechanisms. Nonetheless, in Pakistan's labor markets, there is frequently a mismatch between the demands of the employers and the skills offered by the prospective employees, leading to distortion in labor markets.

## ROLE OF GOVERNMENT

While the aforementioned functions are fundamental to any market, in Pakistan their development is undermined by the government's role as regulator as well as a competitor. This dichotomy inevitably leads to price distortions, uncompetitive practices, and conflicts of interest. Without consistent regulatory policies, markets can become highly unpredictable, entrenching inefficiencies in the overall economy.

Ideally, markets ought to operate on the principles of demand and supply, price signaling, and resource allocation, paving the way for growth and development. Nevertheless, markets in Pakistan are often misunderstood and mismanaged. Rather than allowing markets to function as dynamic forces driven by competition, innovation, and the efficient allocation of resources, the government plays a controlling role, distorting their fundamental operations (Haque, 2023).

Instead of allowing markets to operate freely, the government imposes price controls, distorts resource allocation, and undermines property rights with inefficient legal frameworks. The government's overreach and excessive regulations stifle competition, limit private sector growth, and exacerbate inefficiencies. This misunderstanding of how markets should operate has left Pakistan's economy underperforming, with overregulated sectors struggling to thrive.

## LABOR MARKETS

Labor markets in Pakistan are one of the most affected markets by government intervention. Theoretically, a well-functioning labor market should seamlessly match skills with demand, auguring productivity and economic growth. Nonetheless, in Pakistan, government policies – particularly concerning credentialism and education have created inefficiencies impeding workforce productivity.

The country's labor markets showcase various structural and institutional inefficiencies, influenced by a variety of factors like government dominance in market creation, educational mismatches, and credentialism.

## CREDENTIALISM

Perhaps one of the most critical obstacles is the reliance on the credentials of elite universities as labor market signals. Substantial advantages in the labor market are enjoyed by graduates of prestigious educational institutions like Lahore University of Management Sciences (LUMS) compared to graduates of government-run universities and those without college degrees. These advantages aren't enjoyed necessarily due to better skillsets or higher competence but rather due to the networks associated with their education and the accumulated social capital. Consequently, this impairs meritocracy and leads to inefficacies in Pakistan's labor markets in Pakistan as competent candidates from less prestigious institutions are overlooked leading to suboptimal allocation of human capital (Memon, 2022).

## GEOGRAPHIC DISPARITIES

In rural areas, there have been changes in the labor markets which have seen a shift towards non-agricultural activities with these activities now accounting for two-thirds of income for rural households. However, despite the diversification of the rural economy, there hasn't been commensurate investment in the rural infrastructure to support this shift. In fact, there haven't even been any tangible and deep-rooted changes in rural agricultural markets, with the distribution of agricultural land being still highly inequitable and low agricultural returns (Ullah, 2021). Due to these factors, labor markets in rural areas are highly inefficient and have very low productivity.

Regional disparities in labor markets also become starkly evident and more pronounced during crises. For instance, during the Covid-19 pandemic, in most sectors people were mandated to work remotely from home, however remote work was an option only for a small, segment of the labor force, primarily those in managerial and professional roles. During Covid only about 19% of Pakistan's workforce could transition to remote work as opposed to 35-45% in developed countries. A significant portion of the workforce employed in retail, manufacturing, and agriculture sectors lacked the flexibility and digital infrastructure to switch to remote work (Faraz & Nasir, 2020).

## EDUCATIONAL MISMATCH

A significant source of inefficiencies in the labor market is the high levels of discrepancy and mismatch between the qualifications that labor market entrants have and the skills that the employer expects from their employees. Due to this misalignment in the labor markets, there has been a considerable loss in not just human capital but also overall productivity in Pakistan (Ahsan, 2024). While overeducated workers do earn more compared to their undereducated counterparts, nonetheless they face lower returns than their peers whose educational backgrounds more closely align with their job requirements.

## STATE DOMINANCE

The government of Pakistan continues to play a very dominant role in the creation and regulation of labor markets. These markets are primarily controlled by the state which just impairs competition and innovation. The absence of a market-friendly approach restricts innovation and efficiency, while intellectual discourse largely supports state intervention over free-market principles (Ahsan, 2023).

## RECOMMENDATIONS FOR MARKET-FRIENDLY REFORMS

1. **Broaden Access to Quality Education and Reduce Credentialism:** To remedy inefficacies in the labor market due to over-reliance on elite university credentials, the government of Pakistan should prioritize quality education across all institutions. This would be instrumental in minimizing disparities in the labor market, while also propagating a meritocratic system. Further, policies need to prioritize merit-based hiring by emphasizing vocational training experience and skills over institutional prestige (Memon, 2022).

2. **Support for SMEs and Rural Employment Diversification:** With the diversification in the rural economy, government assistance for small and medium-sized enterprises (SMEs) is crucial. Investment in and upgradation of rural infrastructure and streamlining agricultural markets through land reforms is also imperative for creating and sustaining job opportunities in these areas (Ullah, 2021).

3. **Promote Digital Infrastructure and Remote Work Policies:** It is critical to expand digital infrastructure to boost the number of sectors that can switch to remote work. Investments need to be made in digital capabilities throughout the country, especially in sectors with low potential for remote work, like menial jobs and agriculture to ensure more equitable access to remote opportunities (Faraz & Nasir, 2020).

4. **Align Education with Labor Market Needs:** Education reforms are essential to directly address the mismatch between requirements of the labor market and educational qualifications. A fundamental way in which this could be implemented could be to ensure university-industry linkages to ensure that graduates have the skills most sought after by prospective employers (Ahsan, 2024).

5. **Reduce State Dominance:** The government needs to scale back its heavy control over the creation and regulation of labor markets. Instead, it can create a conducive environment that augments private sector growth and bolsters competition. This can be pivotal in the formation of a robust labor market in Pakistan (Ahsan, 2023).

## FINANCIAL MARKETS

Inefficiencies in the labor market have a direct impact on the functioning of financial markets in Pakistan. Ideally, a robust labor market feeds into innovation and productivity in financial markets. In Pakistan, however, both sectors are inhibited by regulatory overreach and poor private sector facilitation.

Despite efforts to build and sustain strong financial markets, which started soon after the country's independence, financial markets in Pakistan are quite undeveloped, characterized by limited diversity in financial instruments and dismal public participation. This woeful situation is best reflected by the fact that less than 1% of Pakistanis, or 236,000, actively participate in the stock market. Even when compared to regional peers, market capitalization remains significantly lower, showcasing a very shallow market with a limited investor base (Mehmood & Fraz, 2020). Further complicating the poor state of domestic financial markets is the high level of exposure that Pakistan has to global financial shocks, which make creating stability in domestic markets may a difficult task (Ghouse et al., 2019; Jamil & Mobeen, 2021).

## LIMITED FINANCIAL INSTRUMENTS

The absence of innovative and diverse financial products such as derivative markets along with risk management tools curtails risk-sharing, amplifying market volatility and making the domestic market considerably unattractive particularly for small investors (Fraz, 2023). This leaves the financial market in Pakistan highly reliant on government backed financial instruments like National Savings Certificates and government securities and since they offer higher returns than the stock market, this further disincentivizes investment (Mehmood & Fraz, 2020; Saeed et al., 2020).

## UNDEVELOPED FINTECH SECTOR

Pakistan's Fintech Sector, remains undeveloped, despite higher access to broadband services and increasing internet penetration. The overwhelming majority, or approximately 85% of the population, continue to be financially excluded and remain heavily reliant on cash-based transactions. This restricts participation in financial markets particularly in rural areas, dampens market liquidity, and curtails the prospect of innovation in financial markets (Fraz & Haq, 2019).

## STOCK MARKET CONCENTRATION

Financial markets are particularly affected by the concentration of power within a few family-owned businesses and brokerage firms, diminishing transparency in corporate governance and undermining market efficiency (Fraz, 2023). 64% of KSE-100 companies are controlled by an exceedingly small number of families and large government entities hold 12% of the market capitalization. Such a high level of concentration magnifies risks of insider trading, constrains market liquidity, and discourages new entrants by undermining investor confidence (Haque & Hussain, 2021).

## FOREIGN EXCHANGE MARKETS

The continuous intervention by government institutions especially the State Bank of Pakistan (SBP) and Pakistan's limited foreign exchange reserves lead to a disruption of the market mechanism. Attempts by the SBP to maintain currency parity come with the risk of aggravating balance of payment crises and fomenting speculative pressures on the rupee leading to very high levels of market volatility. These artificial pressures on the rupee lead to and exacerbate the long-standing imbalances in the overall economy (Jalil, 2021).

## RECOMMENDATIONS FOR MARKET-FRIENDLY REFORMS

1. **Broaden Market Participation and Enhance Liquidity:** To incentivize corporate debt issuance and spur investor participation, Initial Public Offering (IPO) processes need to be streamlined along with minimizing dominance of government debt instruments (Mehmood & Fraz, 2020). The introduction and adoption of cutting-edge financial products would augment liquidity and allow for better risk management in financial markets (Fraz, 2023).
2. **Strengthen Corporate Governance and Transparency:** To devise an effective response to concentration of ownership and power in the stock market, corporate governance standards must be fortified. This will allow for greater transparency, minimize insider trading risks, and eventually lead to more competition among financial markets (Haque & Hussain, 2021).
3. **Develop the FinTech Sector to Promote Financial Inclusion:** Regulatory processes for FinTech firms need to be simplified, alongside the government needs to promote partnerships between conventional banks and technology companies to boost mobile banking and digital payment solutions. To enhance financial inclusion, internet access and mobile infrastructures needs to be greatly expanded across Pakistan especially in remote rural areas (Fraz & Haq, 2019).
4. **Revise Regulatory and Tax Policies:** The role and functions of the Securities and Exchange Commission of Pakistan needs to be thoroughly scrutinized and overhauled, with the elimination of regulations impeding growth of financial markets. Tax policies need to be harmonized to attract investment into the stock market (Saeed et al., 2020).
5. **Encourage Diversification in Financial Instruments:** Creating a wide array of financial products, like mutual funds, corporate bonds, and derivatives, would appeal to a much wider range of investors along with significantly enhancing market liquidity. In addition, offering and expanding financial literacy programs would be pivotal in enabling small investors to participate in the country's stock market (Fraz, 2023).
6. **Foreign Exchange Market Stability:** The State Bank of Pakistan should be cautious in intervening in the foreign exchange market since this can create a balance of payments crisis and deplete foreign reserves. Furthermore, on the rare occasions that it does intervene, SBP should publicly announce those forex interventions to foster transparency and fend off speculative attacks (Jalil, 2021).

Thus, financial markets in Pakistan can plausibly grow exponentially if key reforms including fortification of corporate governance, financial inclusion, diversification of financial instruments and minimal interventions are effectively initiated and sustained.

## REAL ESTATE MARKETS

Challenges in the financial market mirror those in the real estate market. Overregulation, corruption, flawed land titling and speculative practices hinder local markets from functioning efficiently. Weak property rights frameworks and absence of mortgage financing prevents development of a booming real estate market in Pakistan. Even though real estate accounts for around 60-70% of the country's national wealth (~$300-400 billion), it is adversely impacted by overregulation and flawed land titling systems (Aslam & Qasim, 2024).

### Flawed Titling Systems

The present system of titling, overseen by multiple agencies, acts as a mechanism for revenue collection instead of assigning secure land titles. This obsolete structure decreases transparency in property transactions, constrains real estate development in Pakistan, and also adds to the cost of civil litigation (Aslam & Qasim, 2024). This pervasiveness of property disputes blocks access to credit, with prospective developers and homeowners unable to secure mortgage financing without clear titles.

### Housing Market Inefficiencies

Government policies, such as the promise of 5 million subsidized housing units post-Covid, have often been poorly targeted and financially unviable while also being misaligned with the actual demand for housing (Khurshid and Haque, 2021). The emphasis placed on horizontal development has aggravated land shortages, with many middle-class families being priced out of the housing market.  Single centers-unit houses have dramatically amplified the issue of urban sprawl, especially in major urban centers. Apart from the reduced affordability of decent housing, households especially in rural areas face concerns about congestion (Nayab, 2020).

### Speculative Practices & Lack of Mortgage Financing

The speculative nature of the market leads to short-term investment being given precedence over long-term real estate development, leading to volatile markets and price manipulation. The real estate market in Pakistan is primarily driven by speculative practices, with "file trading" having become the most pernicious issue. Housing societies across the country tend to sell more files than they own, leading to the formation of speculative bubbles and making buyers highly vulnerable to fraud. Formal mortgage financing stands at less than 0.5% of GDP. Not only does such a paltry level of mortgage financing impact reduce the affordability of houses but it also stymies long-term market growth (Haque et al., 2022; Hasan et al., 2020).

### Overregulation and High Taxation

The use of excessive regulations and a highly burdensome taxation regime, particularly from the Federal Board of Revenue (FBR),), have considerably curtailed growth and expansion in Pakistan's real estate sector.Overseas Pakistanis, who are a vital source of liquidity, remain

reluctant to invest in this sector due to the disproportionately high taxes imposed on property transfers and bureaucratic restrictions on non-filers (Fraz, 2021). These monetary and administrative restrictions have inflated prices, and diminished potential returns on investment in real estate, prompting many investors to switch to other sectors like National Savings Certificates or the stock market (Saeed et al., 2020).

## RECOMMENDATIONS FOR MARKET-FRIENDLY REFORMS

1. **Land Titling Reform:** The system of Torrens titling should be urgently implemented as it would secure property rights and curtail legal disputes through conclusive land titles. Digitization will boost transparency and minimize fraud (Aslam & Qasim, 2024; Haque et al., 2022).
2. **Focus on Vertical Development:** Government policy should prioritize high-rise, vertical development over horizontal, single unit housing. This would entail the relaxation of height restrictions and streamlined zoning laws. Along with improving affordability especially for the middle class, this will also be pivotal in controlling urban sprawl (Khurshid & Haque, 2021).
3. **Mortgage Market Expansion:** The mortgage market which accounts for a small 0.5% of GDP, should be expanded via specialized housing finance institutions as well as easing regulatory access restrictions to mortgage financing (Hasan et al., 2022).
4. **Simplify Tax and Regulatory Framework:** Minimizing bureaucratic obstacles in property transfers is crucial to incentivize domestic and foreign investors. Lowering taxes on these transfers as well as eliminating restrictions for non-filers in the diaspora would dramatically increase liquidity in the sector.
5. **Address Speculative Market Practices:** File trading needs to be regulated through oversight by treating it as a financial instrument under the Securities Act, 2015. Further, discouraging informal speculative investments by adopting formal, transparent market mechanisms will stabilize land prices and promote productive use of land (Haque et al., 2022)
6. **Improve Housing Quality:** Instead of promoting mass housing initiatives, policymakers need to focus on improving housing quality, primarily by providing basic civic amenities and reducing congestion. Mixed-use development where affordable housing comes with basic services may be critical to lowering misguided demand in urban areas (Nayab, 2020).
7. **Promote Real Estate Transparency:** A unified property portal can be created for the entire country, where all property transactions are listed. Not will this raise

transparency but it would asymmetries lead buyers and sellers to make more informed decisions by eliminating information asymmetries. Further, due to the restricted role of brokers and real estate agents, buyers and sellers face prices closer to the property's true price instead of artificially influenced prices.

Pakistan can reorient from an overregulated, speculative real estate market to one that prioritizes transparency, efficiency and durable growth. Through adopting vertical development, increasing mortgage financing, and streamlining the titling system, the true potential of Pakistan's real estate sector can be unleashed

## Domestic Commerce

Like the real estate market, domestic commerce in Pakistan is plagued by various inefficiencies. Domestic Commerce is a crucial yet often overlooked part of the country's economy, covering a broad range of activities from formal retail to informal street vending. Although domestic commerce plays a significant role in the Pakistan, accounting for 52.55% of the GDP and employing a third of the workforce, it remains underdeveloped due to burdensome regulations, high rents, and limited commercial space (Siddique, 2023).

## Informal Economy

The informal economy, particularly street vending and khokhas (temporary stalls), is a critical component of domestic commercial activity in Pakistan. Not only are these informal markets responsible for employing a substantial share of the population but they are also instrumental in the provision of essential goods and services to millions of consumers across the country. In fact, in some urban centers, like Karachi, they have an outsized importance, employing 72% of the labor force (Siddique, 2023).

Despite the vital role that street vending plays, it remains largely unregulated, making the vendors vulnerable to fines and demolitions by local authorities, thereby putting them at risk of harassment and extortion. For instance, in the case of Karachi's Saddar Market alone, street vendors often made payments between PKR 700 to PKR 1,000 per month, in bribes amounting to PKR 67 million annually (Shah & Qureshi, 2022).

Moreover, despite wholesale and retail trade (WRT) comprising a key element of domestic commerce, along with employing the bulk of informal sector workers, it has been unable to realize its potential due to a lack of formalization (Siddique, 2023). This neglect can be attributable in large part to the overall policy framework favoring international trade over domestic trade, constraining market dynamism and diversification. This informality not only creates high barriers to entry due to licensing requirements which reduce credit availability, undermining competition and innovation (Shah & Qureshi, 2022).

## Zoning Restrictions

The poor state of this sector is aggravated due to cumbersome zoning laws in urban areas, where restrictive regulations and exorbitant rents prevent traders from expanding their operations. These barriers in turn have undermined the growth of SMEs often forcing them to shut down or relocate, diminishing the formal retail sector (Siddique, 2023). The recurrent anti-encroachment drives further displace street hawkers. The problems associated with zoning laws are complicated by the fact that the few commercial spaces available often lack basic infrastructure (Moosvi, 2021). ,

### Chain Stores and Market Concentration

Chain stores which comprise Pakistan's formal domestic commerce, have seen consistent growth over the past few decades even though this growth is tepid in comparison with regional peers like India. Yet despite the growth, several inequities persist with over 50% of the 3,911 chain stores being concentrated in the three major metropolitan areas alone, limiting accessibility in rural areas. Further, due to family-owned businesses dominating the sector, there is a reluctance to professionalize or list their retail stores on the stock exchange, constraining domestic growth and penetration in international markets.

### Stunted SMEs

As has been documented by PIDE the disproportionate emphasis placed on international trade along with neglect of domestic commerce, has lowered market efficiency, limited economic diversification, and stymied the development of local markets (Haque, 2023). The excruciatingly high costs associated of complying with heavy regulations, complex tax formalizing business and barriers to accessing credit prevent SMEs from scaling up and contributing to economic growth. Pakistan's government is excessively involved in the economy, with a 70% footprint. Not only does this stifle growth in retail, services and other sectors but it also creates barriers to entry and expansion (Haque et al, 2023).

### Government Involvement

The federal government has been excessively involved, with a 70% footprint in the economy. This stymies growth in the private sector especially in the services, retail, and real estate sectors (Haque et al., 2023). Complex tax regimes along with stringent and excessive regulations have resulted in several barriers and led to several inefficiencies.

## RECOMMENDATIONS FOR MARKET-FRIENDLY REFORMS

**1. Urban Zoning Reform:** To lower rental costs and boost the availability of commercial spaces, zoning laws need to be overhauled with the creation of designated vending zones. Additionally, ensuring access to basic infrastructure like water, sanitation, and electricity is crucial. Not only will these measures facilitate market development in urban areas but they will also lead to a considerable increase in participation in the formal economy (Moosvi, 2021; Siddique, 2023).

**2. Legal Framework for Informal Markets:** A clear and cohesive legal framework for khokhas and street vendors needs to be implemented, especially including a simplified licensing system. This would lower barriers to entry and foster competition (Shah & Qureshi, 2022).

**3. Anti-Corruption and Oversight Mechanisms:** The creation of a independent body tasked with oversight of local authority to monitor and reduce rent-seeking behaviours, ensuring that vendors and traders can operate without fear of exploitation and harassment (Shah & Qureshi, 2022).

4. **Expansion of Retail Chains:** To improve consumer access and market coverage in, retail chain stores can be incentivized to expand to rural areas. Also, incentives for chain stores, especially family-owned stores to professionalize and list on the stock exchange will be considerably enhance their ability to raise capital and expand in Pakistan and beyond (Ullah, 2023).

5. **Simplify Regulatory Processes for SMEs:** Streamline the business registration and tax filing processes, while ensuring necessary regulations are applied consistently. This would considerably minimize the bureaucratic burden on traders and especially SMEs, making it easier for them to formalize their operations (Haque, 2023).

6. **Financial Inclusion:** Financial products and services geared towards street vendors, traders and entrepreneurs to improve credit accessibility will be pivotal in enabling to expand their businesses and augur their contribution to the economy (Moosvi, 2021; Haque, 2023).

The government, thus, needs to initiate policies aimed at streamlining regulations, providing a legal cover to the informal street economy along providing opportunities for small entrepreneurs to expand their businesses to boost domestic commerce in Pakistan. Through complying with market-friendly policies, the government can set the stage for the exponential growth of domestic commerce in Pakistan.

## CONCLUSION

Markets in Pakistan – whether in finance, real estate, labour or domestic commerce – are heavily shaped by government intervention. Rather than creating a conducive environment for fostering competition, enhancing efficiency and boosting innovation in domestic markets, the government has assumed the role of both participant and regulator. The resulting distortions and inefficiencies in the economy have inhibited the country's growth potential.

Throughout this policy viewpoint, we have seen how government involvement in every sector stifles the natural functioning of markets. Government-led policies and credentialism in the labor market have led to mismatches between skills and demand. In the financial markets, state-backed instruments hinder innovation and private investment. The real estate sector is vulnerable to speculative bubbles and unclear property rights, exacerbated due poor access to financial instruments like mortgages. Domestic commerce, which largely operates informally, suffers from high regulatory barriers and entrenched corruption.

The extensive research conducted by PIDE illustrates that markets in Pakistan aren't allowed to flourish independently, they are, created, controlled, and constrained by the government. Although a certain level of regulation is essential to ensure stability and fairness, the government's role should be geared towards enabling markets rather than stifling them. Therefore, this policy viewpoint advocates for a paradigm shift in the way markets are understood and calls for a transition from government control to a market-friendly government – fostering competition, innovation, and transparency.

Ultimately, streamlining regulatory frameworks, boosting financial inclusion, safeguarding property rights along creating a transparent and predictable business environment, will Pakistan be able to its potential and drive inclusive, long-term growth.

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# PIDE's PRESCRIPTION FOR BETTER AGRICULTURE IN PAKISTAN

Muhammad Faisal Ali and Abedullah

## AGRICULTURE SECTOR IN PAKISTAN

The agriculture sector is a cornerstone of Pakistan's economy, yet it faces several challenges that hinder its productivity, profitability, long-term sustainable growth, and contribution to food security. As a result, Pakistan's per-acre yield remains well below the international average despite being one of the top ten global producers of several agricultural commodities. Regardless of multiple initiatives and efforts, Pakistan's agriculture sector failed to achieve the required production to help shift major crops' yield closer to the international averages. Therefore, at the first stage, it is crucial to document the key issues, policies, and practices that prevent us from fully realizing the potential of agriculture in Pakistan. At the second stage, there is an urgent need to address those issues by introducing reforms that can lead to economic transformation aimed at unlocking greater productivity and profitability.

Addressing these challenges necessitates a comprehensive and integrated strategy. The Pakistan Institute of Development Economics (PIDE) has undertaken the task of identifying and documenting the critical issues within the agricultural sector. These challenges include low productivity, the provision of unnecessary and poorly targeted subsidies in input and output markets, the presence of monopolies in these markets, excessive regulation, the deterioration of natural resources such as water and soil, and environmental degradation. Beyond merely documenting these problems, the institute has focused on empirical, evidence-based research to propose economically viable solutions aimed at enhancing the efficiency of agricultural markets. This includes optimizing resource markets like land and water, improving input markets such as seeds and fertilizers, and streamlining output markets for key crops including wheat, fruits, and vegetables.

The comprehensive findings of this evidence-based research have been shared through a series of reports, knowledge briefs, newspaper articles, blogs, and policy papers. PIDE has highlighted the urgent need for reforms across various agricultural markets. These reforms aim to create more efficient and competitive input-output markets by reducing bureaucratic barriers, deregulating the input markets (such as seeds and fertilizers) and output markets (including wheat, fruits, and vegetables), eliminating government intervention in price setting, and addressing monopolistic practices, particularly in the output sectors.

This document seeks to summarize PIDE's holistic approach to transforming Pakistan's agricultural landscape by liberalizing input-output markets. Building on PIDE's research during the past five years, it outlines the key recommendations designed to enhance the efficiency and competitiveness of the agricultural markets.

# AGRICULTURAL INPUT MARKETS

## Liberalize Seed Industry

Genetically pure and high-quality seeds are imperative to achieve the objective of high productivity in the agriculture sector. However, the current regulatory processes involve numerous steps and engage multiple government departments, resulting in significant delays and costs. It has badly damaged the growth and potential benefits of both agriculture and the seed sector. Different stakeholders are involved in the development and marketing of seed business considering that the seed sector is over-regulated. Due to over-regulation private sector is reluctant to invest in research and development of the seed sector because the private sector believes that the reputation of a brand is more valuable than the approvals from the Federal Seed Certification and Registration Department (FSC&RD). The government is spending more than 800 million per annum on FSC&RD but its certification does not earn any value in the market. Hence, there is a pressing need to liberalize the seed sector by transitioning from a centrally managed variety approval system. The proposed way forward by Abedullah and Ali 2023[2] & 2024[3&4]& is summarized below

[2] https://pide.org.pk/research/revitalising-the-seed-industry-in-pakistan/
[3] https://pide.org.pk/research/evaluation-of-seed-industry-way-forward/
[4] https://pide.org.pk/research/rethinking-the-seed-industry-in-pakistan/

- Abolish the stringent process of seed certification to attract private sector investment and to create space for its growth. Currently, a poorly regulated seed market promotes low-quality seeds, affecting agricultural productivity adversely
- A transition from a centrally controlled variety approval system to a free market mechanism is an urgent requirement, where entry and exit are free without any restriction.
- The role of public sector in the seed production business and price regulation needs to be abolished.
- Granting intellectual property rights IPRs system should be more transparent and justified, which is only possible with the engagement of the private sector.
- There is a need to establish specialized courts having sufficient knowledge and expertise about biosafety systems, tools, genes, and procedures used in the development of transgenic varieties to decide confrontation on IPRs or the existing courts should seek the technical expertise from the relevant experts.

## Abolish Fertilizer Subsidies

Similarly, our research revealed that fertilizer subsidy is not an effective policy tool to offer low prices to consumers because it is observed that the contribution of fertilizer subsidy in reducing retail prices is negligible. An average family of 5 persons which consumes 15 maunds of wheat, 2 maunds of rice, and 30 kg of sugar in a year will get a monetary benefit of Rs.893 per annum (Rs.74/month) in terms of low prices against the subsidy of Rs.200 billion on fertilizer (Abedullah, 2021)[5].

## Economic Water Pricing for Irrigation Water

Offering heavy subsidies on irrigation water is another policy failure to achieve the highest possible productivity and sustainable utilization of this valuable natural resource. In the presence of low water prices farmers have no advantage to invest in water-saving technologies (drip irrigation and sprinkling), leading the country toward serious water crises. It requires comprehensive reform to implement water pricing mechanisms to incentivize its efficient use. This may involve restructuring Abiana's charges or implementing marginal water pricing systems to discourage excessive usage. The loss to the government due to the absence of economic water pricing or water charges is estimated to be in the range of Rs.677.56 billion and Rs.899.05 billion per annum, accounting for 0.81 percent to 1.07 percent of the country's GDP (Ali and Abedullah, 2024).

## Formal and Informal Credit Market

The arthi operates within the informal credit market, providing financial assistance to small farmers. This role is essential given the inefficiency of formal financial institutions that has hampered by its lengthy procedures.

[5]https://pide.org.pk/research/fertiliser-subsidy-an-ineffective-policy-tool-to-offer-low-prices-of-basic-food-commodities/

Arthies not only offer credit but also act as intermediaries, helping farmers sell their produce. They provide flexibility in credit repayment, often adjusting terms based on farmers' financial circumstances or crop failures. However, they charge significantly higher interest rates than formal lenders, which some view as exploitative. Despite this, farmers frequently rely on arthies due to the flexibility and lack of stringent conditions compared to formal banking channels. While arthies play a critical role in supporting farmers, especially during crises but the financial burden they impose on farmers raises concerns. The study proposes that formal institutions could learn from the arthi model to better penetrate the agricultural credit market, emphasizing the need for reforms in the formal credit system to offer more farmer-friendly solutions (Abedullah and Naurin, 2022)[6].

## Land Reforms through Agricultural Land Consolidation

Pakistan's agricultural landscape is characterized by small and fragmented land holdings. The average landholding size is relatively small, making it challenging for farmers to adopt modern farming techniques, mechanization, and efficient resource management. Agricultural Land Consolidation (ALC) is a land management procedure that entails restructuring, reorganizing, or redistributing land holdings by reducing the number of plots or parcels to create larger, more efficient, and more logically shaped land holdings. Therefore, ALC can be a tactical solution to handle phenomenon of decreasing farm sizes, allowing better access to modern agricultural technologies, economies of scale, and improved productivity. This, in turn, would benefit small farmers by lowering production costs and enhancing profitability. It would lay the foundation for a more prosperous and sustainable agricultural future. This transformation will not only bring benefits to farmers but also play a significant role in boosting food security, fostering rural development, and contributing to overall economic growth (Ali, 2023[7] &[8] ).

## Invigorate Agricultural Land Market

The transfer of agricultural land serves as the fundamental building block of land markets. Surprisingly, when assessing factors influencing overall agricultural production, the issue of a fragile land market is often overlooked. The process of transferring agricultural land from seller to buyer involves numerous participants and can take several months to complete the process in Pakistan. Each transaction typically takes around 3 to 4 months and is marred by multiple instances of corruption. Costless and hassle-free transaction of land is almost impossible. Land prices in Pakistan have always been inelastic because it is considered an important asset for maintaining social status and political power. To invigorate the agricultural land market in Pakistan, a few reforms are prerequisites (Rose, 2023)[9].

[6]https://pide.org.pk/research/the-role-of-arthi-in-agriculture-marketing-an-exploiter-or-facilitator-of-farmers/
[7]https://pide.org.pk/research/agricultural-land-consolidation/
[8]https://pide.org.pk/research/land-reforms-through-agricultural-land-consolidation/
[9]https://pide.org.pk/research/the-neglected-tale-of-agricultural-land-markets/

- Land transfer regulations in Pakistan are outdated, stemming from pre-partition laws. Needs update
- Revisit Land Transfer Fees and eliminate the DC rate system. IF DC rates are necessary then fix them at market rate. Moreover, the valuation of agricultural land should be based on factors like location, amenities, soil type, and distance from the market.
- To combat corruption at the transaction level, it is recommended to decrease the land transfer fees and computerize all the land record.

# AGRICULTURAL OUTPUT MARKETS

## Eliminate Support Prices and Subsidies

Government interference through price support has considerably reduced the efficiency of agricultural markets. Additionally, this intervention places a substantial financial burden on the government, making it unsustainable in the long term, particularly given the budget deficits. PIDE is continuously advocating to end the support prices for the crops as these policies have failed to achieve their intended outcomes of offering low prices to consumers. Rather, fixing MSP has led to transfer taxpayers' money to flour mills and the middlemen without creating any benefit to producers or consumers (Jalil et al., 2020[10], Abedullah 2020[11] , Rose and Abedullah 2023[12]& 2024[13], Rose and Ali 2024[14]). The implementation of the Minimum Support Price (MSP) has placed a significant financial burden on the government, primarily through the procurement process, which is funded via bank loans, institutional involvement, and specific budget allocations. Additionally, there is a forego loss due to reduced acreage allocation to competing crops, which are more profitable than wheat. In 2023, the procurement process alone resulted in a cost of approximately Rs. 168 billion, with institutional budgets amounting to Rs. 260 billion, and lost benefits from reduced acreage allocation under competing crops reaching around Rs. 11 billion. The cumulative burden, exacerbated by circular debt accumulated over the years has reached to Rs. 907 billion, implying that the current MSP implementation is not sustainable. (Ali and Abedullah, 2024)[15] .

## Deregulate Sugar Market

The complexities and challenges in Pakistan's sugar industry, including its production, regulation, and the recent sugar crisis were also explored at PIDE by Abedullah et. al., (2020). Key points include:

[10]https://pide.org.pk/research/wheat-support-price-a-note-for-policy-makers/
[11]https://pide.org.pk/research/does-free-market-mechanism-offer-a-win-win-situation-to-wheat-consumers-and-the-government/
[12]https://pide.org.pk/research/wheat-import-doors-not-closed-yet/
[13]https://pide.org.pk/research/subsidies-vs-market-forces/
[14]https://pide.org.pk/research/revitalising-agriculture-road-to-green-revolution/
[15]https://pide.org.pk/research/the-cost-of-government-interference-in-agricultural-markets/

- Pakistan is an important global player, ranking 7th in sugar production and export. Despite this, recent crises highlight issues related to export subsidies, which contributed to increased domestic sugar prices.
- There is a misconception that sugarcane is replacing cotton but our empirical findings reveal that other crops, such as maize and rice, have expanded more at the expense of cotton due to higher profitability and productivity of these crops.
- Unlike wheat, the government does not directly procure sugarcane, and thus, the support price acts merely as a benchmark. The lack of competition among sugar mills, caused by restrictive regulations like the "License Raj" and import tariffs, contributes to cartelization and reduces market efficiency.
- Sugarcane is often criticized for being water-intensive. Though sugarcane produces more output per liter of water than other crops but its monetary return per liter is significantly lower compared to cotton, maize, and rice, highlighting inefficient water use.
- The crisis in 2019-2020 was driven by export approvals despite declining production, leading to price hikes. Poor regulatory oversight and market manipulation by sugar mills exacerbated the situation.

PIDE recommend the deregulation of the sugar market, elimination of entry barriers for new mills, and reduction of trade restrictions to foster competition and improve market efficiency. (Abedullah et. al., 2020)[16].

## Abolish to implement DCO Prices for Fruits and Vegetables

On day to day basis, Deputy Commissioner Office (DCO) announced prices of fruits and vegetable and grain prices are announced on weekly basis. The prices announced by DCO office called DCO prices. Although, market committed at the Tehsil level is responsible to announce these prices on the behalf of DC office. For perish commodities these prices are announced after adding 15% to 20% in the auction prices in the whole sale market (Mandi). However, this increase does not cover the different costs (transport, wastage, labor, electricity, rent etc.) faced by the retailer. Resultantly, DCO prices are not being observed in the real market. Moreover, monitoring cost for its implementation is too high, implying that implementation of DCO prices is neither economically feasible nor practically viable. Therefore, PIDE has recommended that govt. should not interfere in the market by fixing prices (Abedullah and Naz, 2023)[17].

## Storage Facilities and Private Procurement

Agricultural storage facilities in Pakistan face significant challenges that reduce efficiency and profitability. These facilities, classified into grain storage and cold storage but in both cases, it is three times less than the required capacity, with distant locations in regions like KPK and Baluchistan.

[16]https://pide.org.pk/research/the-sugar-industry-of-pakistan-understanding-structural-and-regulatory-underpinnings-of-the-current-sugar-crisis-3/
[17]https://www.aciar.gov.au/sites/default/files/2024-05/adp-2017-024-final-report.pdf

Government restrictions, especially on private wheat procurement, discourage private investment in this sector. Consequently, existing facilities are inadequate. Due to poor infrastructure, lack of ventilation, temperature control, and pest management, leading to high post-harvest losses. Storage inefficiencies result in losses of around 10 percent for grains and 22 percent for fruits and vegetables. These losses, particularly from poor storage handling, costing Pakistan's agriculture sector about Rs. 315.41 billion annually (Ali and Abedullah, 2024)[18].

Therefore, PIDE proposed that the government should allow and encourage the establishment of private storage facilities on a larger scale to significantly reduce post-harvest losses. By lifting restrictions on private sector involvement, particularly in the case of key crops like wheat, private investment in modern, well-equipped storage infrastructure could be stimulated. This would help to address the current insufficiency in storage capacity, improve the distribution of facilities across rural areas, and enhance the overall quality of storage, including better ventilation, temperature control, and pest management systems. Ultimately, this shift would lead to a reduction in spoilage, preservation of produce quality, and an increase in farmers' profitability by allowing them to store their crops and sell them at better prices when market conditions are favorable.

## Research and Development:

Diverting the resources incurred on subsidies and implementing the minimum support price towards R&D in a sustainable manner could play a significant role in enhancing productivity. If we lift our average production to our progressive farmer's production in five major crops it could add Rs. 1722 billion to our economy. To achieve this, restructuring of seed market can play an emergent role (Abedullah and Ali, 2024)[19] .

[18]https://pide.org.pk/research/the-cost-of-government-interference-in-agricultural-markets/
[19]https://pide.org.pk/research/evaluation-of-seed-industry-way-forward/

# CITIES AS ENGINE OF GROWTH

# KEY TAKEAWAYS FROM RESEARCH ON CITIES

Lubna Hassan

Cities worldwide are the powerhouses of growth, commerce, innovation, productivity, and magnets for talent. They are the cradles of knowledge, entrepreneurship, science, and culture. While the world focuses on their cities to benefit from their positive externalities and minimize the negative impact (congestion, crime, and pollution), we, in Pakistan, have relegated cities and their governance issues to obscurity.

Research on cities and their management is scarce. Pakistan Institute of Development Economics took the lead in bringing this all-important research area to the mainstream back in 2006 with a conference on cities in Karachi. The research programme has advanced significantly since then, with cutting-edge research generating rigorous messages for academia and policymakers (Haque and Hasan, 2024).

## Pakistan Needs a City-Centric Growth Policy

The policy circles in Pakistan are enamored with the idea that Pakistan is a rural, agriculture-based country. PIDE has questioned this myth of 'rural Pakistan' and has argued for a shift toward growth-enhancing city-centric policy. It contends that Pakistan is an urban

country whose policymakers refuse to accept this reality[60]. This policy narrative has relegated cities to oblivion. The paucity of research on cities' functionality, patterns, zoning, optimum size, architecture, globalization, governance, urban sprawl, and the absence of an urban policy has stifled the growth potential of cities (Haque, 2020). From the ancient Greek city-states to the contemporary metropolitan centers (New York, London, Paris), cities have been the cradles of knowledge, innovation, culture, commerce and productivity. They drive growth by enabling the exchange of goods, services, and ideas in a dense and mixed-use environment. This idea of city development being at the heart of the growth process represents an emerging global consensus. However, Pakistani policy and research remain largely oblivious to it, thanks to a highly donor-dependent policy process that eschews domestic thought and debate. The result is that Pakistani cities are the opposite of what conventional policy advice says they should be.

## Pakistani Cities are Dysfunctional

Pakistani cities are dysfunctional, with suburban development and no downtown - dense areas of mixed-use (residential, office, commercial, and entertainment) within an almost walkable district. Unlike a modern city, which is dense, walkable, with mixed-use and high-rise city centers, Pakistani cities are horizontal sprawl with sub-urban two-story housing, car dependence, absence of commercial and public spaces, and limited opportunities for entrepreneurship and the poor. The prime land in city centers is occupied by housing for the government, which takes precedence over commerce. The city administration lacks professionalism and is a continuation of the colonial past. Obsessed with maintaining the status quo, they rely on archaic zoning and building regulations that are exclusionary to the poor and detrimental to dense, walkable, mixed-use city centers. The geographic spread of cities makes the provision of public transport an expensive affair, with the resulting dependence on cars. This car-centric approach makes road expansion (flyovers, underpasses, etc.) a big-ticket item in the development budget. There is an excess demand for most forms of city activities and basic services—education, entertainment, offices, retail, warehousing, and even low-income and middle-class housing. All these activities lack purpose-oriented space, and so are forced to be conducted in the only kind of city space planners have been allowing for the last few years—single-family homes. For cities to lead the growth process, city administrators must adopt a city-markets-governance framework (Haque, 2020).

## Cities are Beholden to Master Plans

PIDE has questioned the relevance of master plans in shaping contemporary cities. It has consistently argued that the masterplans are a thing of the past, and the world has moved on from these archaic restrictive constructs. Masterplans are time and data-intensive. Being static and mostly non-inclusive, their stringent requirements leave little space for markets to develop. There is little flexibility built in to evolve the plan and move the city forward. They are often not updated on time, leaving room for vested interests to intervene and change rules in their favor. Master plans seem to dictate how markets should develop leaving no

[60] It is one of the fastest urbanizing countries in South Asia with two mega cities (Karachi and Lahore).Asia with two mega cities (Karachi and Lahore).

no room for them to find their own level. When life does not adjust to these preordained plans for their life, cities and their residents end up in years of strife with encroachments involving lawsuits and law enforcement. It is thanks to master planning that we see a shortage in several areas in our cities. Yet the push for master-planning continues across Pakistan hoping to keep cities frozen for long periods of time from 15-30 years (Hasan et al, 2022, Hasan et al, 2020).

## Over-regulated Cities

Pakistani cities have unwarranted and archaic regulations which have seldom been reviewed. Building and zoning regulations are excessively restrictive, favoring gated communities and sprawl. The rules are complex, self-contradictory, and subject to multiple interpretations. Building and zoning rules are conflated. Setbacks and heights are arbitrarily related to plot size and road width. The land-use rules and zoning regulations continue to favor outdated concepts, such as commercial roads based on car access over dense areas. The construction industry, which is a leading sector in other countries, has been killed by excessive regulation. PIDE has long argued for zoning and building regulations to be flexible to allow for dense, mixed-use developments that enhance mobility, creativity, and productivity. Zoning should merely differentiate between the city centre and the suburbs. The building regulations must specify FARs only within Sky exposure guidelines. No detailed building setbacks are required. The focus should instead be on building intensity, i.e., the percentage of the plot that can be covered. This, too, should be area by area, not building by building (Haque 2015, 2020, Policy Viewpoint 2, 12, 13, 16).

Further, the government needs to ensure that cities have coherent jurisdiction. Lahore, e.g., is divided into almost five overlapping jurisdictions of LDA, Municipal Corporation, DHA, Cantt, etc., and Karachi has 19 agencies, including DHAs, Municipalities, and Federal Housing Schemes. There are no defined city limits, and mere plot-making stretches cities in strange directions.

## Urban Sprawl

Our city planning paradigm actively encourages sprawl. No Pakistani cities appear to have downtowns or city centres— dense areas of residential, office, and commercial use combined with entertainment within an almost walkable district. Instead, many cities are falling victim to urban sprawl at the expense of valuable agricultural land. The problematic zoning and building codes are inducing a horizontal sprawl. The planners prefer suburban areas as opposed to where the people are densely cramped. Pakistani Cities need to stop sprawling to suit a car lifestyle that pollutes the environment and leads to a scrapped, congested lifestyle.

Cities are often a reflection of their zoning codes. Bad zoning codes result in sprawl, which makes societies worse off. Our zoning codes discourage mixed-use and high-rise development. They also mandate that for new housing projects, developers buy land in hundreds of acres. This results in sprawl primarily because hundreds of acres are usually not available within a city. Additionally, it reduces the availability of fertile agricultural land.

The government ownership of prime urban land also reduces the supply of available land within cities, which in turn also leads to sprawl. There is a huge opportunity cost of the inner-city land that the government holds to provide its officials with plush housing and unnecessary offices. A Planning Commission study showed that investment could increase by 50 per cent of GDP over 10 years – if this land were made available for mixed-use, high-rise development (FEG, 2011).

Sprawl development favours roads and housing estates for the rich over other activities. Resultantly, our traffic management focuses on building roads and corridors for cars. The use of cars has been facilitated at the expense of other forms of transport such as bicycles, walking, taxis, and buses. This form of development poses a high cost of infrastructure provision (pipes, electricity, roads, etc.) with little resources left for other uses. Excessive focus on form over function has incentivized the inefficient use of land to attract customers, and this inefficient use of land has led to sprawl (Haque, 2020)

## Cities for Cars

PIDE has emphasized the importance of having a car policy for Pakistani cities. Car ownership in Pakistan has been on the rise lately. Cities often try to provide a robust infrastructure of roads to ensure a smooth traffic flow, disregarding non-motorized or public transport. When new roads are built, they seamlessly facilitate cars, and people find it easy to own a car for travelling to homes, schools, offices, and city centres. This policy tilt towards cars not only takes up a significant chunk of the city's valuable (often meagre) resources in road construction, but it also leaves little space for other more affordable, inclusive, and sustainable modes of transportation (walking, biking, public transport). The world's cities are quickly realizing their 'planning mistakes' of expanding the spaces for cars while shrinking public spaces; they are now reversing the phenomenon by recognizing streets and roads as public spaces. And are creating a balance between car ownership, road infrastructure, parking provision, parking charges, and public transport, and are increasingly making walkable streets (Hadi 2020, Haque 2020).

## City for People/Commerce

In most cities, the planning process often has no zoning for the poor. Apartment buildings are seriously discouraged through planning permissions and high fees for commercialization. For some reason, our planners think of apartments as commercialization, and so housing is taxed heavily.

Further, since the government owns a major share of prime urban land, it limits the availability of land for commerce and street vending, depriving the poor of income-earning opportunities.

Street-vending through kiosks (khokhas or dhabas in local vernacular) or mobile vendors (chabri wallahs, trucks, bicycles or motorcycles) are all legitimate activities which allow poor opportunities throughout the world. All societies throughout history have had these activities. An unemployed person can, with a small amount of money, buy some fruit and serve it on a small platform or a cart.

Meanwhile, bureaucrats are increasingly hooked to the suburban model of city growth with gated housing societies and broad avenues for cars. They keep prime city centers for their government-owned housing and government-subsidized leisure clubs, as well as plots for themselves. The poor do not fit into this scheme and are forced to live in slums with constant threat of evacuation.

## Vertical Cities

PIDE has repeatedly argued in favour of high-rise construction allowing for dense city centres. It has asserted that the flat is the unit of living in large cities the world over. In most Pakistani cities, barring Karachi, planners are still holding on to the notion of single-family homes and gated communities. This paradigm needs to change in favour of densification through high-rises.

Land is the most precious asset that cities have. Flats make housing affordable by dividing the cost of land among many owners. They also make the most efficient use of land. Single-family homes and sprawl eat up this important resource.
In comparison, the vertical growth of cities would: (1) Avoid urban sprawl by densifying city centers through mixed-use, high-rise development; (2) Avert high transportation and affiliated pollution costs; (3) Lessen the welfare and municipality cost and expenditures; (4) Have Sustainable and regenerated cities.

**A HOUSE IS A FLAT IN BIG CITIES.**

"Globally, people in big cities live in flats/apartments in mixed-use neighborhoods with ease of access that encourages foot traffic eliminating the need for cars. Pakistani policy needs to learn from big cities in other countries and accept that large cities cannot be vibrant entities by spreading horizontally and must adopt the vertical growth model." Haque and Khurshid (2020)

## Urban Regeneration

The city centers of our big cities (Sadars in various cities) are all dying, devoid of deserved economic activity because planners have overregulated them. Building regulations prevent city centers from rejuvenating. Most poor want to live near their places of work, be it the center of the city, to save on their cost of travel. The land is most expensive in the city centers. It is where most job opportunities exist and where poor people want to live. Building houses far away from city centers will add to the misery of the poor by increasing travel time and cost.
Accepting urban regeneration to elevate life in preexisting urban areas. Let city centers densify through the development of flats living in high (10 or more floors) or midrise (less than 10 floors) buildings and allow for mixed-use there. Density gradually reduces with distance from city centers.

## Deregulation

A wholesale deregulation of the real estate sector to facilitate development, transactions, and investment is required. Contrary to popular belief, the planner has no tools to develop clarity on where and what to build. Worldwide, city planners are moving away from rigid masterplans to neighborhood planning. More and more cities are now developing flexible guidelines that allow markets to take decisions on usage, height, and cityscape.

Allow zoning and building rules to be flexible. Let city centers densify through the development of flats living in high (10 or more floors) or midrise (less than 10 floors) buildings and relax zoning laws to allow for mixed-use (commercial and residential) development. Dense city centers with commercial activities will encourage more sustainable modes of mobility (walking and biking).

What is holding back real estate development is too many convoluted government regulations based on excessive requirements of permissions and documentation, and outmoded thinking. The government needs to ensure the uniformity and simplicity of rules to incentivize the developers across the board. Also, the investors do need liquidity of resources for such large projects. Therefore, the state needs to introduce simple laws and do away with the complicated rules and regulations; for they only serve to impede construction and development. There is a clear need to check our mercantilist approach and recognize that all economic activity, including real estate investment and development, is productive. Economic activity begins with purpose-built real estate in cities (Haque and Khurshid 2020, Hasan 2022, PV12)

## Rethinking Mobility

Urban transport is experiencing a paradigm shift in how mobility problems and their solutions are defined and evaluated. The contemporary approach is for compact and connected urban growth that increases livable density by creating mixed-use land development where people can live, work, study, shop, and have fun without excessive travel and synchronize this with citywide public transport. This integrated planning allows for more efficient use of resources, greater prosperity, and social inclusion at lower costs. In Pakistan, however, with its car-dependent suburban style urbanization, urban transport policy primarily hinges on building more roads and signal-free corridors (flyovers and underpasses), seldom focusing on other modes. With roads taking up most of the budget, city administrations rarely spend on buses, which are a primary mode of transport connecting various city neighborhoods. The contemporary approach to urban mobility treats streets as public spaces that connect people to neighborhoods and facilities. They allow mobility and access to street vending, art, and other community services. It is grounded on sustainable and inclusive urban transport modes, viz walking, cycling, paratransit[61] , buses, trucks, cars, motorbikes, and urban railways, which are all part of the system. Pakistan's Urban transport policy must follow suit and move away from a car-centric approach. Finally, it provides a prescription for how Pakistani cities can employ parking fees and congestion charges, amongst other measures, as a tool for revenue generation, moving old fleets of cars out of the cities, and increasing the use of public transport (Haque and Rizwan, 2020). PIDE has also developed a paid parking plan for Islamabad (Khawaja et al, 2023).

[61]A transportation service that supplements larger public transit systems by providing individualized rides without fixed routes or timetables

## Generating Revenues for City Development

With the global consensus on devolution for improved and efficient provision of goods and services at the local level, the cities are under increased pressure to manage funds to perform these tasks. Nadeem Ul Haque proposes a plan for generating a revenue stream for Islamabad. He explains the expectations a city government must fulfill, i.e., to provide jobs and growth, a healthy and safe environment, opportunities for all, and civic participation. For this, cities rely on options that encompass a) property taxes, b) utility payments, c) user charges, d) value creation through urban regeneration and land value capture, e) proactive use of its assets (sports and community centers) and being more cognizant of their wealth. He argues that most of the national wealth is situated in cities in terms of real estate, creativity, entrepreneurship, and markets. Every city has assets that are potential sources of revenue but are poorly managed. Of this, land is the most precious asset held by a city, which is often given over to suboptimal uses, including houses for officials on prime land, golf clubs and polo grounds, railway, and metro stations. Urban regeneration through creative destruction and rezoning can be used to capture this wealth. Based on these principles, he proposes a revenue plan for the Metropolitan Corporation of Islamabad, with an estimated revenue stream from each source (Haque, 2020).

## Housing Societies – A Pakistani Malice

PIDE has also investigated a phenomenon that is peculiar to Pakistan – the private housing societies that dominate the urban space of the country. The study takes Islamabad, widely believed to be a well-planned capital city, as the case study. It finds that vast tracks of land in three out of five zones of the city are under the possession of illegal private housing societies. The Capital Development Authority (CDA), despite its mandate, had failed to regulate private developers. Most government departments have used the cooperative society law to develop land sporadically and in a haphazard fashion for decades. These developments take years to materialize, defraud investors, and allow the powerful in each agency and country to benefit. Housing society and land development remain a scam in Pakistan mainly because regulators and administrators benefit from this approach with free plots to the powerful. In turn, the gifting of plots leads to the capture of regulation and other agencies of governance (Hasan et al 2021).

## Public Wealth of Cities

Governments sit on a goldmine of assets – public land. Its efficient management can bring ample advantages to its holders. Pakistan, like most other countries in the world, has a sizeable portion of public land. Both the Federal and the Provincial governments hold vast amounts of this valuable asset. However, there is no concise estimate of its size, no central data repository, and no balance sheet reflecting its value. Evidence indicates that it has been poorly managed, implying significant forgone revenue to the government. Laws governing the management of these lands evolved out of British laws and invariably have remained the same. There exists enormous wealth in the country, especially in our cities, in the form of government-owned land ('public land'). The inefficient use of public lands is ripping
Provincial and Federal governments of potential sources of revenues. Yet, Pakistan's policymakers and successive governments have been exceptionally incompetent at managing this wealth. Unless the manner of management of these lands changes drastically, the status quo is set to prevail (Mehmood, 2022).

## Real Estate Development Creates Value in Cities

PIDE has argued for a sea change in how real estate is looked upon in Pakistan. It posits that real estate investment has been an essential source of wealth generation throughout human history. Real estate development, through every stage of its value chain, creates wealth as well as specialized spaces that allow humans to be more productive. However, in Pakistan, real estate investment is considered unproductive without any evidence to support this conclusion. In our cities, undeveloped plots rather than finished real estate is the investment of choice, all because of poor city planning. Our city planning has created a plot market because it does not facilitate construction. People invest in plots, a graveyard of capital, when there is no real estate or secure investment alternative. The real estate sector comprises the construction industry and real estate development, both work in tandem. It is a value chain that operates from land to development to the services that flow from constructed space, of which housing is only one. They make a case for the stigma from any part of the value chain to be removed, allow the entire industry to transact freely, and encourage it to supply complex mixed-use buildings that will provide flats, offices, retail spaces, and other needs-based on market demand instead of the whims of city planners. City planners and policymakers must recognize that value and products are created in vibrant city spaces. We need complex multiple-use spaces, which are in demand by both investors and consumers, to be allowed to achieve the national productivity level required by our economy (Haque and Khurshid, 2020).

## PIDE's Reform Agenda for Cities

To sum up, while most of the world's GDP is produced in the cities, Pakistani cities work below their potential and remain chaotic, congested, and haphazard, lacking essential amenities and workspaces. The body of work at PIDE has identified what ails our cities and proposes reforms to spur growth. These are summarized below.

## Issues

1. Cities in Pakistan are trapped in the colonial construct of masterplans. The world has moved on from restrictive master planning. Master plans are time and data intensive. They rely on present data to make future projections, which are often faulty. Being Static and mostly non-inclusive, they become irrelevant fast and leave ample room for maneuvering by vested interests. Their strict requirements leave little space for markets to develop.
2. Cities over-regulated. City zoning has been very restrictive, favoring single-family houses with little scope for commercial and civic activities.
3. Building regulations are stringent. Real estate prices go up where height restrictions are excessive. The strict regulations regarding Floor Area Ratio (FAR) and setbacks make housing unaffordable for low-income groups.
4. Waste swaths of public land are under-utilized. These Subsidized land for elite clubs, golf grounds, and government housing in the center of the cities deprive city dwellers and its administration of the opportunity to create wealth through income-earning opportunities.

5. Urban transport policy primarily hinges on building more roads and signal-free corridors (flyovers and underpasses) to suit the suburban lifestyle, seldom focusing on other, more sustainable modes of mobility.
6. Our cities are fragmented. Multitudes of administrative units (cantonments, Development agencies) make comprehensive planning daunting.

## Reforms

1. Cities' heterogeneity must be respected, with each requiring a different treatment in planning and management.
2. Policy, research, and thinking need to move away from a spaceless approach to development by integrating the role of cities as engines of growth.
3. The zoning paradigm needs to move away from its current emphasis on upper-class housing to one that recognizes the diversity of the functions of a city. It must favor density, high-rise mixed-use, and walkability, especially in downtown areas. In addition, it must favor public and community space while allowing for commerce, culture, education, and other needed city activities. Zoning needs to be based on clear, transparent processes based on open citizen consultations. This act would stem sprawl, save precious agricultural land, generate environmental benefits, and promote more inclusivity. Such changes would also lead to a construction boom that, in turn, would create employment, attract investment, and hasten sustained growth.
4. Building regulations must be loosened to allow complex high-rise construction.
5. Cities need to be equipped with adequate ownership of their land and resources through decentralization. Cities often sit on a gold mine of assets that include not just real estate and public utilities but can also create wealth through the socio-economic uplift of its people and regeneration of decaying urban areas. These assets can be materialized through better city management.
6. City centers need to be developed for dense mixed-use. Government ownership of city-center land needs to be reduced since it is retarding downtown development. Commerce is to be given priority in city centers.
7. Revisit urban mobility policy to treat streets as public spaces that connect people to neighborhoods and facilities and allow mobility and access to street vending, art, and other community services. Revise urban transport policy in favor of more inclusive modes of urban transport viz - walking, cycling, paratransit, buses, trucks, cars, motorbikes, and urban railways being part of the system.
8. Monetize housing benefits for public sector officials, who currently enjoy luxury housing and office space that take up large areas of city centers. Monetization could free up valuable land for high-value commercial and mixed-use development.
9. City management should be professional, consultative, and accountable. Cities must be able to hire out of their budgets without federal hiring restrictions such as the Unified/

10. National Pay Scales and mandatory positions for the federal civil service. Moreover, decision-making must be based on open consultative processes.

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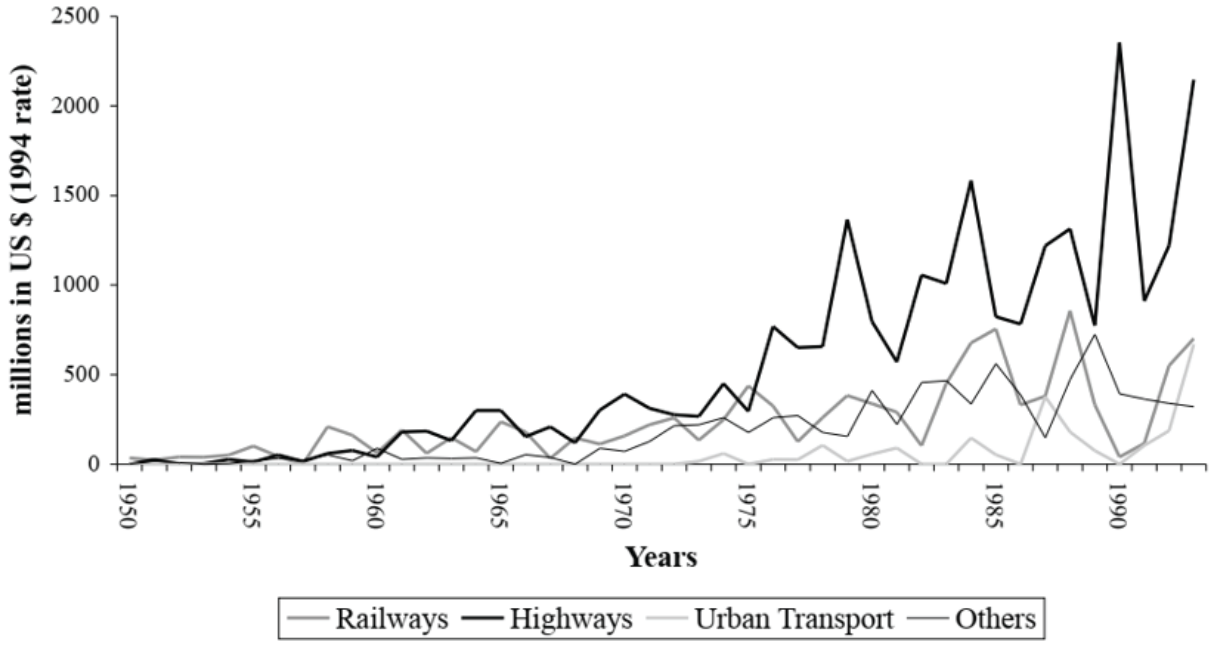
# HARD VS SOFT INFRASTRUCTURE? BLUE PRINT OF PARADIGM SHIFT

Saba Anwar

It all started in the mid-1950s to early 1960s, these years represented a pivotal moment in Pakistan's transport development, often referred to as a 'critical juncture.' This period occurred when international development organizations, along with their consultants, introduced Five-Year Plans to advance the country's transport systems as part of broader economic development efforts to stimulate growth. Pakistan, benefiting from substantial foreign financial and technical assistance from bilateral and multilateral agencies during this period, made key decisions regarding its transport future. Although various options such as railways, non-motorized transport, and road development were available, the country ultimately prioritized road infrastructure and private vehicle use over other alternatives such as rail and non-motorized modes of transport. (Imran and Low, 2005). The financial assistance from the World Bank increased in favor of road development as can be seen in the figure on next page

Fig 1: IBRD and IDA commitments to the Transport Sector (1950-93)




Source: World Bank, 1994.

These plans were made in 60's, one wonders what has sustained the policy for the next seven decades within a complex institutional system where 9 federal ministries and 22 departments are responsible for decision making in transport sector? The answer lies perhaps in story lines that emerged from the real understanding of the problem by different institutions as per their interpretation and biases.

The story lines of 70's was "economic growth/development needs transport infrastructure" or "investment in transport infrastructure brings economic growth" stating economy and transport development as complements. Though the emphasis should have been on efficiency, the "road development as a vision for prosperity" took the lead. This was supported by "poverty reduction through road development" in 80's and "motorization will bring more economic wellbeing" in 90's. The environmental concerns, gave birth to construction of more road infrastructure to alleviate congestion. However, the empirical evidence between road infrastructure, investment and growth nexus depends primarily on local circumstances and could be positive, negative or neutral as has been observed in Pakistan's case.

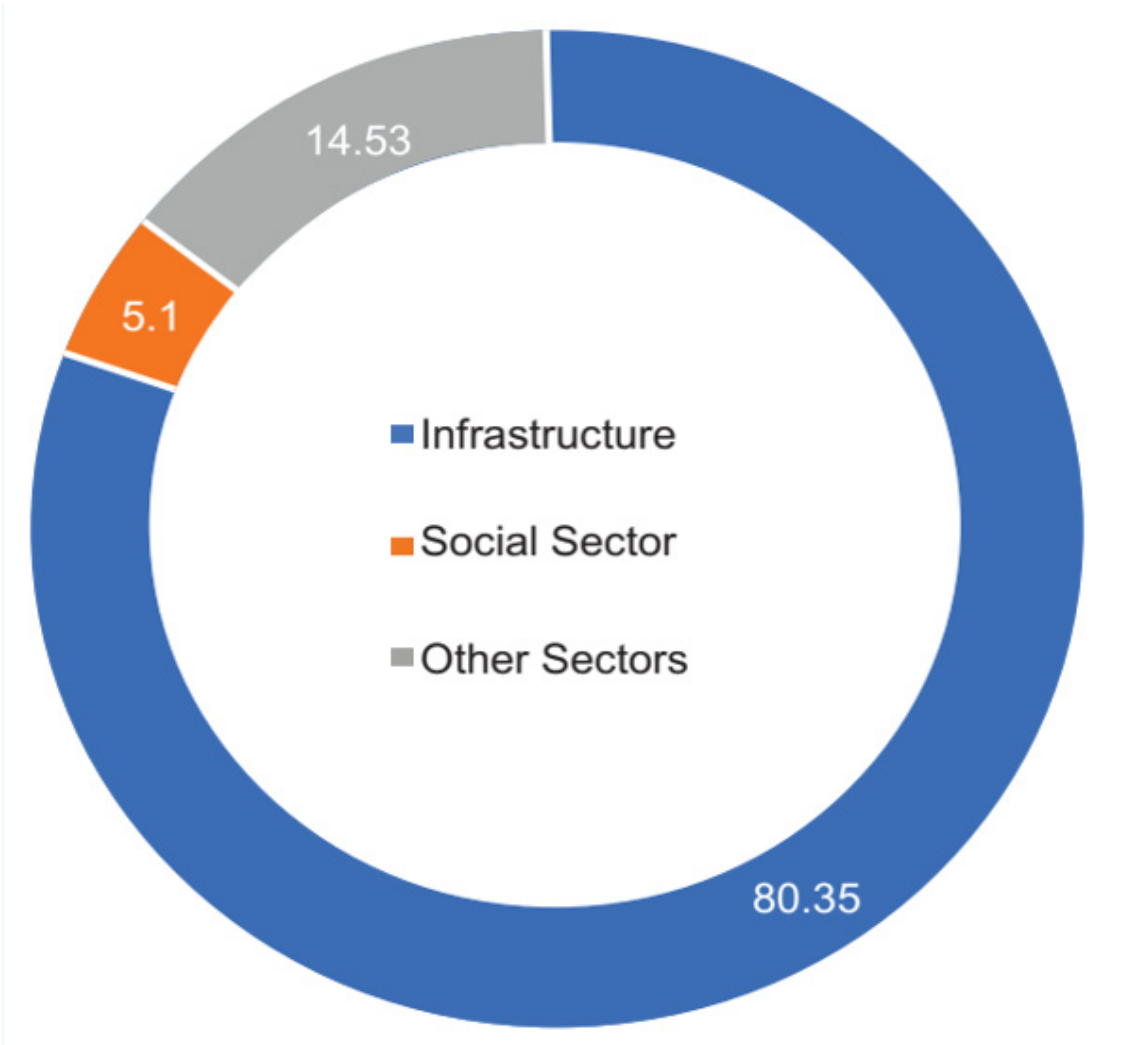
This path dependency in transport sector reflects the broader trends in development policy of Pakistan. The over reliance of Pakistan development programs on foreign financial and technical assistance was long been recognized, unfortunately no solutions were ever proposed. The international development institutions, foreign experts and intellectually

dependent bureaucracy continued to shape the policy making pushing Pakistan to prioritize "hard infrastructure" over soft infrastructure such as capacity building of decision making institutions.

## Doing Development Better – Shifting the Paradigm

A major breakthrough came from the PIDE's conference on doing development better in 2020. The conference provided a much needed review of the growth system in Pakistan indicating that growth and productivity has been declining since the last four decades. Around 80.35 % of the PSDP projects are used to finance infrastructure projects (box 1). Thus there is an urgent need to accelerate growth in a sustainable manner by reevaluating the Haq/HAG approach to shift the paradigm of growth policy (Haque, 2020) . The centrality of cost-benefit analysis, asset management for maximum returns, and the consideration of PSDP funds as loans for the project were some of the proposals that were considered a must to accelerate productivity and growth.

Sectoral shares in PSDP



**The way forward should be based on reform and deregulation to accelerate productivity, private investment and entrepreneurship (Haque, 2020).**

## PIDE Growth Strategies – Reforms and Sustained Growth

Under the leadership of Dr Nadeem Ul Haque, PIDE subsequently introduced several growth strategies which could serve as an alternative to the HAG/Haq model. The PIDE reform agenda for accelerated and sustained growth, launched in 2021, emphasized on the need for immediate reforms in civil services, judiciary, and regulatory bodies. The agenda stressed that Pakistan must develop markets in agriculture, energy, real estate, and cities while also advancing reforms in openness, internet access and tax simplification. PIDE's one-year growth strategy, launched in 2022, presented a comprehensive growth plan centred on software development. It identified the internet for all as the fundamental pillar of growth alongside other initiatives such as regulatory audit, unlocking dead capital and encouraging youth involvement in sports. Transforming Economy and Society, launched in 2023, highlighted the reforms needed in different sectors of society. A focus on strong digital infrastructure to promote innovation and technology-based solutions both in services and manufacturing was emphasized to reduce reliance on traditional sectors like agriculture and textiles.

## Paradigm Shift in Transport Sector – A Blue Print

Similar out of box reforms and suggestions were proposed for the car-dependent transport sector. In "Rethinking Mobility (Urban Transport Policy) in Pakistan" launched in 2020[63], Nadeem ul Haque and Muhammad Rizwan contested that urban transport is experiencing a paradigm shift in how mobility problems and their solutions are defined and evaluated. The contemporary approach is for compact and connected urban growth that increases livable density by creating mixed-use land development where people can live, work, study, shop, and have fun without excessive travel and synchronise this with citywide public transport. This integrated planning allows for more efficient use of resources, greater prosperity, and social inclusion at lower costs. In Pakistan, however, with its car-dependent suburban style urbanisation, urban transport policy primarily hinges on building more roads and signal-free corridors (flyovers and underpasses), seldom focusing on other modes. With roads taking up most of the budget, city administrations rarely spend on buses, which are a primary mode of transport connecting various city neighborhoods. The contemporary approach to urban mobility treats streets as public spaces that connect people to neighborhoods and facilities. They allow mobility and access to street vending, art, and other community services. It is grounded on sustainable and inclusive urban transport modes, viz walking, cycling, paratransit1, buses, trucks, cars, motorbikes, and urban railways, which are all part of the system. Pakistan's Urban transport policy must follow suit and move away from a car-centric approach.

[63] Haque, N. U., & Rizwan, M. (2020). Rethinking mobility (urban transport policy) in Pakistan. Pakistan Institute of Development Economics (PIDE).

## How to promote Cycling and Bus Usage

To encourage cycling in cities, it is essential to create safe bicycle tracks and crossings, ensure access to affordable, high-quality bicycles, provide parking racks at key locations and within buildings, and develop recreational cycling facilities. To promote bus usage in cities, it is important to provide direct routes, adhere to timetables, ensure passenger safety, offer affordable fares through alternative revenue streams, build accessible bus stops, integrate buses with other transport modes, improve first and last mile connectivity through bike sharing and offer real-time service updates.

## Do we need BRT?

Mass transit projects are not sustainable through fares alone; key revenue sources were identified which included real estate value capture from private developers, rental income from retail facilities in stations, payments from developers for station access, advertising on trains and in stations, and special bookings by the entertainment industry. BRT is already operating in a few Pakistani cities with more cities adding it soon. However, the million-dollar question is whether we have evaluated other alternatives and picked the best solution. Spending Rs.30 billion on a locally-funded BRT line serving 5-10% of a city's population is not an effective use of resources, if instead, 2,000 normal buses can operate in the same amount, in Karachi or Lahore for example. The authors insisted that we should have a standard bus coverage before building a BRT system.

## Why we need a Regulatory Regime for Paratransit

As standard paratransit is a component of urban transport system, its easy availability is important in limiting private vehicle usage. However, a policy ensure that fares of paratransit are high enough to make usage of public transport preferable due to it being more economical. Thus, for a paratransit system to be successful, it must adhere to a regulatory regime. Indeed, one reason why taxis have never flourished in Pakistan is that no regulatory authority monitored their operation.

## Freight transport

The study also highlighted the key elements for managing urban freight transport. These include assessing current and future needs through surveys and stakeholder engagement, creating logistics spaces to support urban growth, integrating freight movement with transport and land-use planning, and enforcing restricted operating hours for heavy vehicles.

## How to Forecast Transport

Urban transport planning and investments should not be made on guesswork and personal preferences but through a macro planning process commonly known as '4-stage Travel Demand Forecast' modeling. Planning tools help identify current and future transport needs and provide a quantitative analysis of current and alternate future scenarios. Surprisingly, no city in Pakistan is actively using macro models for transport planning. The major hindrance is the insufficient data and information on travel behavior.

## Transport Planning – The Basics.

Thus to create an efficient and sustainable transport system, independent and professional decision-making at the city level is essential, fully supported by all tiers of government. Public sector teams must have the qualifications to match consultants in order to monitor projects effectively. Urban transport agencies should be given legal and financial autonomy to manage services, while a central organization under city management should oversee all aspects of transport, from planning to operations. It is also crucial to integrate urban planning with transport planning, involve public feedback, and implement clear performance evaluations, tracking metrics such as new bus routes, pedestrian infrastructure, public transport use, and emission reductions, with regular progress updates made available to the public.

## How to Manage Congestion

Over the past few years, urban authorities in Pakistan upgrade road infrastructure wherever they see congestion. This is not urban transport planning but a reaction to car-based congestion. Hafeez ur Rahman Hadi[64](2021) discussed the importance of having a car policy for Pakistani urban centres. When new roads are built, they seamlessly facilitate cars, and people find it easy to own a car for traveling to homes, schools, offices, and city centres. This policy tilt towards cars not only takes up a significant chunk of the city's valuable (often meager) resources in road construction, but it also leaves little space for other more affordable, inclusive, and sustainable modes of transportation (walking, biking, public transport).

**The world's cities are quickly realising their 'planning mistakes' of expanding the spaces for cars while shrinking public spaces; they are now reversing the phenomenon by recognizing streets and roads as public spaces (Toderian, 2020).**

## Our Flyover Obsession?

Obaid Khan[65](2021) also claimed that building flyovers to address congestion provides some relief, however, their private and societal expenses render them impractical for Pakistan, a nation grappling with limited financial resources. Opting for more economical roundabouts instead of flyovers is advisable. But above all, Pakistani cities can also employ parking fees and congestion charges, amongst other measures, as a tool for revenue generation, moving old fleets of cars out of the cities, and encouraging the use of public transport.

## Paid Parking in Detail

A detailed study on parking fee in 2023[66], posited that free parking is a subsidy to car owners in the sense that motorists undervalue the cost of driving resulting in car use beyond the optimal level. Evidence suggests that paid parking reduces car use, yet the policy response to more cars on the roads has been to increase the number of parking spaces – thus instead of demand management, the focus is on augmenting the supply.

[64] Hadi, H. U. R. (2021). Why Pakistan Needs A Car Policy? PIDE Knowledge Brief 22:2021.
[65] Khan, O. (2021), "The Obsession with Flyovers in Pakistan – Roundabouts are Cheaper. PIDE Knowledge Brief 37:2021
[66] Khawaja, D., Gardezi, Z., Najib, M. S., & Khan, M. A. (2023). Traffic management & congestion mitigation: Parking policy for Islamabad Capital Territory. Pakistan Institute of Development Economics (PIDE).

Parking spaces are developed on valuable urban land that has competing uses, hence there should be a limit on land that can be allocated to parking – pricing the parking land will determine the limit. The authors argued that just as car owners pay for fuel, insurance, and servicing of their vehicles, they should pay for the cost of parking as well. A parking fee must be charged to reflect, at least to some degree, the value of the space occupied by the parkers.

## Bringing about change is always difficult

The car owners will have to be convinced about the benefits of paid parking – lesser congestion, better air quality, and above all a greater chance to find a parking space, if one must commute by car. Based on the demand & supply survey and the willingness to pay survey, PIDE suggested that even at the flat rate of PKR 30 per hour, the paid parking is financially viable in Islamabad. Another option for traffic management is to have free parking during the weekend so that some of the traffic can be diverted to a less busy time. Yet, another alternative option is to price the weekend traffic heavily during certain hours of the day to minimize the number of cars during that time. For digital collection of parking fee, the authors also identified several parking meters available in the market and also developed a prototype of the potential payment app that may be developed. To achieve traffic mitigation through paid parking, the availability of adequate alternate mobility means is vital. Thus, an efficient public transport system is at the helm of urban mobility globally.

## Reform Agenda for Railways

Pakistan Railways (PR) is another example of the extent to which poor governance and undue political interference can derail any sector of the economy. The losses incurred by Pakistan Railways during the five years period (2015 – 2020) have amounted to a prodigious 144 billion PKR. The stiff competition from road transport and inability of PR to adopt a customer centric business plan because of complex bureaucratic structure, has led to an inefficient, underfinanced and overstaffed public agency, grappling with the challenges of 21st century despite several repeated rounds of halfhearted reforms, since last three and a half decades. In 2021, PIDE organized an eight webinar series, a thorough all-rounder, on Pakistan Railways. For the first time in Pakistan, the webinar series brought together experts from world bank, consultants, the Chinese railways experts, the ex-chairmen of Pakistan railways, the advisor on institutional reforms, the private partners of railways, the ML 1 team and indulged in the rich discussions that is cited by the Pakistan Railways officers. There is an enormous freight potential that can help the PR to turn the balance sheets in its favour. Two main recommendations were as follows. The freight analysis reveals that there is a potential of 58 daily freight trains, which is equivalent to the loss of almost PKR 5 million per day to PRs. The open-access regime can still be a good starting point for a comprehensive business model of PR[67]. Secondly. Nationwide, Pakistan Railways has under its ownership 167,690 hectares of land. Financially viable alternatives can be sought and the potential of "Dead Capital" can be unlocked to avoid land encroachments with amendments

[67]Anwar, S (2021), Track Access Regime: The International Practices and Pakistan Railways, PIDE Knowledge Brief # 47:2021.

in Railways Act 1890. PR must also reclassify its land, excluding residential areas for employees from operational use, thereby opening them up for commercial redevelopment[68].

## Logistics for Domestic Commerce

In Pakistan, the modal shares are highly skewed towards roads. Roads are the predominant source of transportation in Pakistan accounting for more than 92 percent of passengers and 96 percent of freight. This imbalance has increased the cost of transportation through congestion, pollution, and expenditure on the maintenance of roads. PIDE focusing on the modern multimodal logistics mapped and analyzed all components of seamless logistics network highlighting the issues in each sector. While, these are governed by different ministries and authorities, the lack of coordination between them and the absence of an institutional framework has tremendously impeded the growth of the modern logistics sector. The main recommendation is to establish a unified Department of Transport responsible for creating and executing a comprehensive National Transport Policy (Haque and Anwar, 2024)[69]. This can also be achieved by creating digital dash boards.

The labour unions in these public sector organizations have played a major role in resisting reforms, ensuring inefficiencies and substantial losses to the exchequer. The "Pakistan Post" stand out as a success story which after banning the union and establishing an autonomous, high powered board was able to embrace the vision to provide every household with efficient and affordable communication and business services. The major difference between these public sector organizations and their private sector competitors is the use of cutting edge latest technology which is driving the growth of services sector globally. The dry ports are regulated by the respective provincial board of revenues. The growth and potential of Pakistan's dry ports is constrained by the presence of a government player and 0.9 percent cess on total value of the shipment purchase order. The inland water potential is subjected to the institutional framework as the Indus River traverses three provinces—Khyber Pakhtunkhwa, Punjab, and Sindh. Maritime transport is also in dire need of updated policies.

## Conclusion

These extensive studies by PIDE under the visionary leadership of Dr Nadeem ul haque, highlighted the critical challenges and potential solutions for Pakistan's transport and logistics sector, emphasizing the need for a paradigm shift from the traditional focus on "hard infrastructure" like road development to "soft infrastructure," which includes capacity building, efficient decision-making, and sustainable multi-modal transport planning. PIDE, in fact, successfully provided blueprint of how that transition can be made. These PIDE studies is another "critical juncture" in the path dependency of transport policies, providing indigenous solutions to indigenous problems, paving way for further debate amongst policy makers for a sustainable multi modal transport and logistics infrastructure and services. PIDE research agenda over the last five years offers several compelling story lines for this.... enough of "Brick and Mortar" and "Internet for All" being two of them.

[67]Aslam, A, M (2023), Unlocking Pakistan Railway Dead Capital, RASTA CGP 0.4
[68]Haque, N. U., & Anwar, S. (2024), Transport and Logistics. PIDE Research Report.
[69]Haque, N. U., & Anwar, S. (2024), Transport and Logistics. PIDE Research Report.

# URBAN ENGINES OR ELITE ENCLAVES? A REFLECTION ON PIDE's INSIGHTS

Yasir Zada Khan and Haris Azeem

Cities have historically been engines of economic growth, fostering innovation, cultural development, and human progress.[70] However, in Pakistan, cities like Islamabad and Lahore have become victims of state capture and urban sprawl, preventing them from reaching their full potential as drivers of economic prosperity. This brief presents a reflective analysis of Pakistan Institute of Development Economics-PIDE's discourse on state-captured land in Pakistani cities. It explores the insights and implications of PIDE's findings, examining how state control over urban land affects development and economic growth. Based on findings from the PIDE, it is evident that state-controlled real estate and inefficient governance are key factors stifling urban development and innovation.

The current economic discourse in Pakistan, as argued by Dr. Nadeem ul Haque, tends to rely on macroeconomic figures while ignoring deeper systemic problems, particularly those relating to governance inefficiencies. I resonate with this critique. Our economists, while busy advocating for taxes and subsidies, often fail to address fundamental issues like reckless government borrowing, unsustainable fiscal policies, and most notably, the ineffective

governance of cities. The superficial focus on balance sheets without addressing productivity, innovation, or reform within urban environments keeps our cities stagnant. This stagnation is reinforced by policies that are reminiscent of the colonial era, as noted in PIDE's discourse on the need for decolonizing urban spaces.[71]

The term "Plotistan" often used in PIDE to describe Pakistan, highlights a troubling issue: the controversial practice of allotting subsidized land to bureaucrats, judges, and other government officials.[72]Nonetheless, the behaviour of citizens is found to be the same as anyone who earns money, prioritizes a plot to purchase at first. This exposes a deep-rooted malpractice in Pakistan's governance. It's shocking that, in a country where most people struggle to afford a piece of land to build a home, prime plots are handed out to a privileged few at absurdly low prices. This practice, reminiscent of colonial-era favoritism, is not only unjust but perpetuates inequality.[73] The dominant form of housing in Pakistan, the kothi structure—single-family homes on large plots—has also contributed to the stunted growth of cities.

The colonial legacy in city planning has severely restricted space for commerce and investment, prioritizing elite suburban living while neglecting the development of modern urban infrastructure. The colonial state, followed by the bureaucracy and military, preserved these exclusive colonial habitats, hindering organized density, commerce, and mobility in city centers. This restrictive zoning forced urban growth into informal sectors through encroachments, leading to cycles of litigation and demolitions. While suburban sprawl expanded for the elite, city centers remained dominated by mansions and clubs rather than the mixed-use, high-rise development seen in global cities, contributing to the unmanageable sprawl of modern urban areas.[74]

## UNLOCKING STATE CAPTURED REAL ESTATE – CASE STUDY OF ISLAMABAD

The most glaring example of urban inefficiency is Islamabad, where vast amounts of valuable land are underutilized. According to a PIDE report, prime urban spaces are captured by government housing for bureaucrats, which locks up immense economic potential. This inefficient allocation of land comes at an enormous opportunity cost amounting to PKR 31,712.4 billion (USD 114.9 billion) which is approximately 34% of Pakistan's GDP. The opportunity cost of such land use is staggering. If rezoning and monetization of these spaces were pursued, PIDE estimates that Pakistan could unlock investments worth PKR 16,228.8 billion (USD 58.8 billion) and generate rental incomes and taxes of approximately USD 1.7 billion each. These numbers highlight just how much potential is locked away under bureaucratic inefficiencies and elite privileges. The current state of Islamabad's land use highlights a broader national issue—our cities are not functioning as they should, primarily due to the mismanagement of resources and the protection of elite interests (Haque. N. U., Aslam. A. M. & Qasim. A. W., 2024). The statistics observed are found to be significant and are compiled below.

[70]See. Haque. N. U. & Nayab. D., (2020). Cities - Engines of Growth, PIDE Publications.
[71]See. Haque. N. U, (2023). Decolonising the City for Sustained Development: Land, Commerce, and Real Estate. PIDE's Discourse Magazine 2023, page 209-213.
[72]See. PIDE's webinar brief 88:2022 Plotistan Subsidized Land giveaways and Public Land Management in Pakistan.
[73]See. Mehmood. S., (2021). PAKISTAN OR PLOTISTAN? Originally Published in DAWN on September 24, 2021.
[74]See. Haque. N. U., (2020). CONTEXTUALIZING PAKISTAN'S CITIES. Pakistan Institute of Development Economics, Writings of Nadeem ul Haque, Edited by Zoya Ali, The Opportunity of Dead Capital, Pg. 36-40.

Figure 1. Tariff Increase and Increase in Financial Losses

| Category | Indicator (type) | Value | Area (Acres) | Other Metrics |
|---|---|---|---|---|
| Public Housing Units in Islamabad | Total Units | 17,469 units | 1,325 acres | 47.7 million sq. ft. |
| | Market Value (PKR) | 2,577.6 billion | - | |
| Minister Enclave, Parliament Lodges, Provincial Houses | Market Value (PKR) | 648.0 billion | 238 acres | 8.5 million sq. ft. |
| Islamabad Club Area | Market Value (PKR) | 2,507.8 billion | 425 acres | 18. million sq. ft. |
| Monetization Estimates | Additional Cost to Federal Government (PKR) | 135 to 741 billion annually | - | - |
| Potential Investment with Rezoning | Investment Potential (PKR) | 16,228.8 billion | - | - |
| Rental Income and Taxes | Estimated Annual Rental Income | - | - | Roughly USD 1.7 billion in taxes |
| Job Creation | New Jobs | - | - | More than 351,000 jobs |
| Opportunity Cost of State-Captured Land | Total Opportunity Cost (PKR) | 31,712.4 billion | - | ~34% of Pakistan's GDP |
| Area Occupied by Government Employees' Accommodations | Total Area | - | 1,325 acres | 47.7 million sq. ft. |
| Area Occupied by Islamabad Club and Official Residencies | Total Area | - | 1,988 acres | 71.5 million sq. ft. |
| Market Value of Land for Govt. Employees' Accommodation | Market Value (PKR) | 2,577.6 billion | - | - |
| Market Value of Land for Islamabad Club, Minister Enclave, and Parliament Lodges | Market Value (PKR) | 3,156 billion | - | - |
| Proposed Grade-wise Monetization for Housing | BPS 1 & 2 (PKR) | 19,933 to 68,444 | - | - |
| | BPS 3 to 6 (PKR) | 33,221 to 114,073 | - | - |
| | BPS 7 to 10 (PKR) | 33,221 to 114,073 | - | - |
| | BPS 11 to 13 (PKR) | 39,866 to 136,888 | - | - |
| | BPS 14 to 16 (PKR) | 46,510 to 159,703 | - | - |
| | BPS 17 & 18 (PKR) | 73,087 to 250,961 | - | - |
| | BPS 19 (PKR) | 86,376 to 296,591 | - | - |
| | BPS 20 (PKR) | 119,597 to 410,664 | - | - |
| | BPS 21 (PKR) | 146,174 to 501,923 | - | - |
| | BPS 22 (PKR) | 166,107 to 570,367 | - | - |
| Cost of Proposed Monetization | Monthly Cost (PKR) | Median Rents: 11,325 million | Average Rents: 18,556 million | Highest Rents: 61,751 million |
| | Annual Cost (PKR) | Median Rents 135,896 million | Average Rents: 222,667 million | Highest Rents: 741,011 million |
| Opportunity Cost of Underutilization of State-Captured Real Estate | Total Opportunity Cost (PKR) | 31,725 billion | - | - |

Source: Haque. N. U., Aslam. A. M. & Qasim. A. W., (2024). Unlocking state-captured real estate the case of Islamabad, PIDE Publications[75]

[75] Information in Table 1 retrieved from https://file.pide.org.pk/pdfpideresearch/rr-unlocking-state-captured-real-estate%E2%80%93the-case-of-islamabad.pdf

PIDE's report on Islamabad's real estate highlights a missed opportunity to unlock prime land for urban development, as vast areas are tied up in state-controlled housing for government employees. This underutilization not only wastes valuable space but also prevents potential economic growth. If these lands were repurposed for commercial and residential high-rises, they could generate massive revenue, create jobs, and attract investment. I strongly believe that this issue isn't unique to Islamabad—Lahore and other cities face similar challenges. If we conducted research in these cities, we'd likely find the same pattern of inefficient land use stifling their growth. The opportunity cost is staggering, and freeing up this land could transform our urban centers into thriving hubs for development, jobs, and investment. PIDE's suggestion to develop high-rises and mixed-use urban planning that integrates educational, cultural, and commercial activities, rather than prioritizing the needs of a small elite.

## AN OVERVIEW OF STATE-CAPTURED REAL ESTATE - THE CASE OF LAHORE

Being a citizen of Lahore, I see firsthand how similar, if not worse, the situation is compared to what PIDE exemplified for Islamabad. In old Lahore, where four-story townhouses once thrived, the norm has shifted to one-plus-one housing, and any attempt to build beyond this requires a costly and bureaucratic commercialization process, often subject to neighbors' vetoes. Only cantonment areas escape this inefficiency. As a result, Lahore, like other cities, remains stuck in a feudal mindset, with large swaths of underutilized land and unmet demand for commercial, leisure, and community spaces. Mixed-use developments are almost nonexistent, and without them, our cities will never be manageable or modern. State-owned lands in Lahore, which could serve as economic catalysts, instead sit idle, benefiting only a select few. My frustrations with this misuse are based on PIDE's extensive research on land utilization, which underscores the significant losses our cities face.[76]

PIDE has pointed out the absurdity of these planning decisions. For instance, Lahore, a city with five polo fields[77]and six golf courses[78], each consuming vast amounts of land, has only three public libraries, two of which are relics of the colonial era.[79] This misallocation of urban space reflects the priorities of an elite class that continues to shape the country's urban landscape in its own image, to the detriment of broader economic development.

To unlock the true potential of Pakistan's cities, we must rethink how we use "dead capital." This includes the vast amounts of valuable real estate currently held by the government for non-commercial purposes. Prime examples include the governor houses (The Governor's House in Lahore is spread over 700 Kanals and features a mansion surrounded by expansive lawns and gardens) occupying tax-free city center spaces, which could be converted into high-end hotels, generating billions in revenue and thousands of jobs.

[76]See. Nadeem Ul Haque, Lubna Hassan, (2024), Reinventing Cities as Catalyst for growth: A Collection of Work at PIDE, Sprawls Without Commerce and Investment Space, Pg. 35-36
[77](i) Lahore Polo Club – Polo Club, Golf Land, G.O.R. — I, Lahore, Punjab, (ii) Jinnah Polo Fields – Lahore Ring Rd, DHA Phase 8, Lahore, Punjab, (iii) Polo Riding Club – GC4F+MVM, Ring Road, Cantt, Lahore, Punjab, (iv) Lahore Garrison Saddle & Polo Club – Masood Anwari Rd, near CSD, Cavalry Ground, Lahore, Punjab, (v) Zacky Farms Polo Club – Barki Rd, Lahore, Punjab
[78](i) Defence Raya Golf & Country Club, (ii) Lahore Garrison Golf & Country Club, (iii) Lahore Gymkhana Golf Club, (iv) The Oasis Golf & Aqua Resort, (v) Royal Palm Golf & Country Club (vi) PAF Skyview Golf & Country Club
[79](i) Government Punjab Public Library, (ii) Quaid-e-Azam Library, (iii) Government Model Town Library are main libraries in Lahore.

Similarly, the city center properties currently used for government housing could be privatized and transformed into revenue-yielding commercial developments. PIDE estimates that converting areas like Mayo Gardens and the three GORs in Lahore could generate $4 billion and create around 8,000 jobs. Other underutilized spaces, such as government training institutes and stadiums, could also be repurposed for commercial use, contributing to GDP growth and job creation.[80]

Lahore's Government Officers' Residences (GORs) represent another example of inefficient use of highly valuable, prime land within the core of the city. According to some of the estimations taken from online sources including Google Maps, I found that GOR-I alone spans a massive 577.5 acres.[81] This is the largest GOR, hosting government offices, lodges, and residences, but hardly contributing to the city's economic dynamism. Other GORs, collectively cover an area that could be used for countless productive purposes, as compile in a table below based on estimations using Google Maps.

Table 2 GOR's in Lahore, total covered area

| Location | Area (Acres) Approx. | Area (Marlas @225 sq. ft) Approx. |
|---|---|---|
| GOR-I | 577.5 | 92,404 |
| GOR-II | 75 | 12,500 |
| GOR-III | 203 | 32,538 |
| GOR-IV | 14.1 | 2,270 |
| GOR-V | 33.75 | 5400 |
| GOR-VI | 14.1 | 2,729 |

Source: www.graana.com & Google Maps estimations. 2024

Despite recognizing existing issues, the government remains committed to expanding the GORs in Lahore. The former Punjab Caretaker Chief Minister, Mohsin Naqvi, laid the foundation stone for the GOR-9 project in DHA Phase 9, Lahore, on January 10. This new project will establish 29 Type-A houses for grade 20 officers on 56 Kanals of land. The initiative aims to address the housing shortage for government employees, with construction expected to be completed within 15 months.[82] Despite ongoing concerns over underutilized prime land in existing GORs, the government is proceeding with this expansion. The project includes high-tech, smart house designs and is part of a broader plan to mitigate the shortage of official residences in Lahore.[83]

[80]See. Nadeem Ul Haque, Lubna Hassan, (2024), Reinventing Cities as Catalyst for growth: A Collection of Work at PIDE, Begging to Preserve 'Dead Capital? Pg. 30-32
[81]See. https://www.graana.com/area/1260/gor-1/
[82]See. Associate Press of Pakistan (APP), (10, January 2024). CM lays foundation stone of GOR-9 project at DHA phase 9. Retrieved from https://www.app.com.pk/domestic/cm-lays-foundation-stone-of-gor-9-project-at-dha-phase-9/
[83]See. Communications Department, Infrastructure Development Authority of Punjab (IDAP), (2024). Construction of New GOR Near DHA Phase IX, Lahore. Retrieved from https://www.idap.pk/portfolio-details/construction-of-new-gor-near-dha-phase-ix-lahore

Another significant example of state-owned land being repurposed is the CBD (Central Business District) Quaid project. While I won't probe into its specifics, I appreciate the government's recognition of the issue and the decision to develop high-rise commercial buildings on this long-neglected, barren land. Spanning approximately 105 hectares[84] (260 acres or 11.3 million square feet, 50,220 Marlas, or 2,511 Kanals), this land had remained unutilized for decades, effectively serving as dead capital. Though the decision came late, it's a good one, and now we'll see how well the government can attract investment and execute the project. I sincerely hope it results in a mixed-use high-rise development. However, it's worth pondering how much earlier planning could have benefited us, potentially incentivizing surrounding areas to also adopt high-rise development.

Figure 1 Central Business District, Quaid, Lahore Map


Source: Punjab Central Business District Development Authority (PCBDDA), Government of Punjab 2024[85]

## Housing in Public Sector Universities; inefficient land-utilization

It's not just about the amount of land, but how it's being used. Pakistan's universities, particularly Quaid e Azam University (QAU) in Islamabad and the University of Punjab (PU) in Lahore, further exemplify this land-use inefficiency. QAU, for example, devotes a staggering 50 acres to house just 412 staff members. To put this into perspective, Harvard University in the U.S. uses its 5,000 acres to host restaurants, shops, museums, libraries, and more, creating a vibrant and commercially sustainable environment. Pakistani universities, in contrast, are locked into a pattern of reserving vast lands for low-density staff housing, missing out on opportunities to monetize these assets through high-rise developments and commercial ventures.

[84] Covered area of CBD obtained from https://eproperty.pk/lahore/cbd/#:~:text=The%20site%20spans%20across%20105,Road%20on%20the%20South%2DWest

[85] Image retrieved from CBD Official website, Punjab Central Business District Development Authority (PCBDDA), Government of Punjab 2024, accessed from https://www.cbdpunjab.gov.pk/

Table 3 Summary of PIDE's work on Housing in Public Sector Universities

| Institution | Total Endowment | Endowment Return (%) | Total Area (Acres) | Number of Restaurants | Number of Shops/Malls | Number of Museums/Th | Number of Libraries | Number of Outdoor | Residential Units | Housing Details | Opportunity Cost of Housing (1 Kanal House) |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Harvard University | $50 billion | 2.9% | 5000 | 50 | 20 | 10 | 70 | N/A | N/A | N/A | N/A |
| Princeton University | $34.1 billion | 10.5% | 690 | 22 | 16 | 28 | 29 | N/A | N/A | N/A | N/A |
| Yale University | $40.7 billion | 1.8% | 1075 | 11 | 31 | 6 | 12 | 12 | N/A | N/A | N/A |
| Quaid-e-Azam University (QAU), Islamabad | N/A | N/A | 1700 | N/A | N/A | N/A | N/A | N/A | Approx. 50 acres (412 houses) | A & B Type: 16 houses (1 kanal each), A & B Type: 21 houses (1.3-2 kanal each) | Rs. 30 crores (Islamabad) |
| University of the Punjab (PU), Lahore | N/A | N/A | 1800 | N/A | N/A | N/A | N/A | N/A | Approx. 100 acres (497 houses, 97 apartments) | Family suites: 21, Independent rooms: 28 | Rs. 25 crores (Lahore) |
| University of Peshawar | N/A | N/A | 1050 | N/A | N/A | N/A | N/A | N/A | 180 acres (280 houses) | N/A | Rs. 10 crores (Peshawar) |
| Opportunity Cost of Housing Colonies | Rental Value (Rs. Lakh/month): Islamabad: 1.5-3, Lahore: 2-2.5, Peshawar: 1.4-3 | | | | | | | | | | |

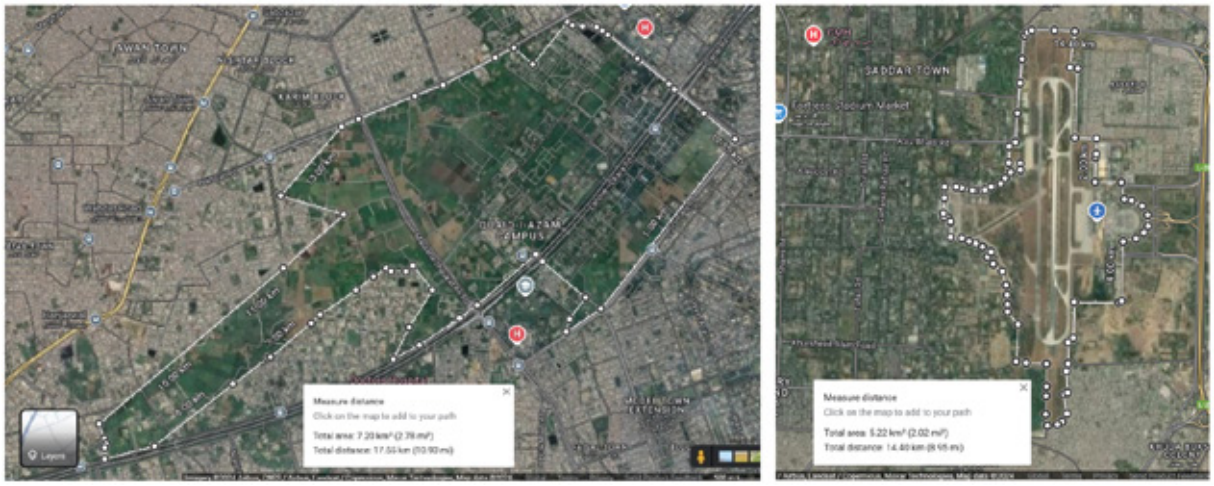
Source: Haque. N. U., Khan, M. J. & Nadeem. I, (March, 2024). GORs Everywhere, University Land for Public Housing. PIDE Publications[86]

[86] See. https://pide.org.pk/research/gors-everywhere-university-land-for-public-housing/

The table compares various institutions and universities, detailing their endowments, facilities, and housing opportunity costs. It is clear that Pakistani universities prioritize housing opportunities, whereas some international universities focus more on commercial activities, such as restaurants and shops.

The extensive land holdings of the University of the Punjab are strikingly evident when compared to the Allama Iqbal International Airport in Lahore. The University of Punjab spans 1,800 acres,[87] surpassing the airport's coverage of 1,364 acres.[88] This vast expanse of underutilized land in such a prime area of Lahore raises concerns about its effective use and potential missed opportunities for development and urban growth.

Figure 2 University of the Punjab (L) vs. Allama Iqbal International Airport (R), covered areas



Source: Google Maps, 2024

Moreover, Aitchison College sits on a 200-acre campus, educating 3,000 boys from junior to senior level classes on a glorious 200-acre campus, further educating 800 boys and girls attending two Campus High Schools within the College, from nursery upwards, and share many facilities. These schools are fully funded charity schools charging no tuition fees.[89] While institutions like the University of Central Punjab (UCP), a privately owned university, manage to educate 15,000 to 19,999[90] on a mere 10-acre campus.[91] The comparison is staggering, revealing the inefficiency and privilege that perpetuate the misallocation of state-owned land.

[87]University of Punjab covered area, retrieved from https://pu.edu.pk/page#:~:text=It%20is%20located%20on%20the,-Doxiadis%20who%20also%20designed%20Islamabad
[88]Allama Iqbal International Airport covered area, retrieved from https://lahoreairport.com.pk/About/About-Introduction.aspx-#:~:text=It%20is%20joint%20user%20facility,and%2022%20Aircraft%20parking%20positions
[89]Aitchison College Lahore covered area, retrieved from https://www.aitchison.edu.pk/school/about-us#:~:text=Aitchi-son%20College%20educates%203%2C000%20boys,a%20glorious%20200%20acre%20campus
[90]Number of students at UCP, retrieved from https://www.4icu.org/reviews/10813.htm#:~:text=Student%20En-rollment,it%20a%20large%2Dsized%20institution
[91]University of Central Punjab (UCP) Lahore covered area, retrieved from https://ucp.edu.pk/blog/just-reasons-cust-best-choice-under-graduate-education-psychology/

## Rethinking Urban Governance and Land Utilization

The core issue behind Lahore's urban stagnation lies in governance. The state and its institutions control vast territories of urban land, especially in prime areas, yet fail to use these assets for broader economic and social development. Instead, they remain grossly underutilized. A more efficient, commercially minded approach to land use is critical. Public institutions like universities, which currently function as isolated enclaves for the elite, should align with global best practices by transforming their properties into multi-functional spaces that serve both economic growth and social inclusion.

The current discourse around smart cities highlights contradictions in our urban planning strategies. While organizations such as the PIDE advocates for integrating technology into urban systems, this narrative often ignores the governance issues that plague cities like Lahore. Technology cannot be a panacea for inefficient land use and state capture; what is needed is a bottom-up approach that emphasizes citizen engagement in urban governance. By empowering residents to participate in planning, cities can address governance challenges and unlock their true potential.

At the heart of Lahore's urban challenges is the underutilization of state-owned land in prime areas, which could be repurposed for commercial and mixed-use developments. Such developments would unlock significant economic value, benefiting the broader public rather than just the elite. As long as public land is squandered on oversized government residences and inefficient campuses, the city will remain trapped in unrealized potential.

Lahore's sprawling public-sector lands are a testament to how poor governance has obstructed development. True urban growth is not merely about occupying space; it is about maximizing space's economic and social potential. By transitioning to commercially viable, mixed-use developments and involving citizens in the decision-making process, Lahore can evolve into a city that benefits all socioeconomic groups.

## Elite Control of Urban Spaces

The prioritization of elite recreational spaces, such as golf courses and leisure clubs, over inclusive urban development is particularly troubling. Public-sector lands, spanning over 10,000 acres in Lahore, could be transformed into high-rise, mixed-use projects that would stimulate economic growth. PIDE estimates that redeveloping just 4,000 acres could attract $17.5 billion in investment and create hundreds of thousands of jobs. Yet, the stranglehold of elites on urban land continues to block these opportunities.[92]

For Lahore to live up to its potential as an economic engine, we must prioritize efficient, inclusive urban development over preserving elite-controlled spaces. The time has come to break free from this elite stranglehold on urban space.

[92] See. Nadeem Ul Haque, Lubna Hassan, (2024), Reinventing Cities as Catalyst for growth: A Collection of Work at PIDE, Unlocking Dead Capital, Pg. 37-38

## The Governance Failure and Urban Exclusion

The governance structure in Pakistan's cities is characterized by centralized control and rent-seeking, which stifles growth, innovation, and competition (Iqbal, N. & Daly, V., 2014). Reforms are essential to decentralize resources and provide city administrations with the autonomy needed to manage urban spaces effectively. These reforms must go beyond rhetoric, tackling zoning laws and urban development models to create inclusive spaces for all citizens.

Historically, street vendors and small-scale entrepreneurs played a crucial role in Pakistan's urban economy. However, as elite-driven suburban models gained prominence in the 1980s, car-centric infrastructure and exclusionary urban planning pushed out these entrepreneurs. Cities like Lahore have sidelined the needs of the poor in favor of elite-friendly planning, thereby erasing a vital component of the urban economy[93].

Urban planning failures also manifest in housing policies. Zoning laws restrict high-density, affordable housing in central areas, forcing the urban poor to live on the city's outskirts. Meanwhile, elite preferences ensure that prime urban spaces remain reserved for recreational purposes, further marginalizing the poor. This exclusionary model widens the socioeconomic divide, leaving vast swathes of land for leisure clubs and elite institutions, while the poor rely on informal economic activities.[94]

## Breaking the Cycle of Elite Capture

Pakistan's urban planning reflects a colonial legacy of tight control over growth, benefiting the privileged few at the expense of the majority. Cities like Lahore must break away from this outdated model and embrace high-density, mixed-use development that supports the needs of all socioeconomic classes. Redeveloping central areas into vibrant commercial and residential hubs could unlock immense economic potential.[95]

The statistics provided by PIDE are not just numbers; they underscore the failure of Pakistan's urban governance. Reforms such as liberalizing zoning laws, increasing the floor area ratio (FAR), and encouraging high-rise developments are essential for creating inclusive, dynamic urban spaces. Allowing market forces to operate freely in city planning, while curbing state overreach, can help cities grow organically into engines of growth and social mobility.

## The Path Forward: Reforming Urban Governance

PIDE's findings underscore that well-managed urbanization could add as much as 4% to Pakistan's economic growth.

[93]See. Nadeem Ul Haque, Lubna Hassan, (2024), Reinventing Cities as Catalyst for growth: A Collection of Work at PIDE, Why Not Khokhas Everywhere? Pg. 21-23
[94]See. Nadeem Ul Haque, Aimen Shakeel Abbasi (Editor), Cities 3: Why are Cities so over-regulated? Pg. 207, Conceptualizing State, Society & Economy,
[95]See. Nadeem Ul Haque, Lubna Hassan, (2024), Reinventing Cities as Catalyst for growth: A Collection of Work at PIDE, Commercial Property Development Not Allowed, Pg. 27-28

Yet, the civil service—composed largely of generalists without proper skills in city planning or policy development—continues to block the necessary reforms. As a result, cities like Islamabad and Lahore remain stifled by restrictive height limits, poor land use, and a lack of infrastructure for high-rise developments.[96]

The solution proposed by PIDE under the Reform Agenda emphasizes reducing the excessive involvement of the government in economic matters, which currently stifles the sustainable development of cities. To address the challenges faced by state-captured cities, a fundamental reimagining of government's role is essential. The government's overreach through regulation and direct market intervention must be curtailed, shifting instead toward creating competitive markets that attract investment and entrepreneurship. Rather than engaging in low-value projects, the focus should be on fostering a transaction-friendly governance framework that supports economic growth. To make cities more inclusive and promote construction activities, Haque and Khurshid (2020) recommend several measures: halting restrictive master plans, revising rigid zoning laws to enable access to necessary facilities, and permitting commercial activity near residential areas. In addition, city centers in major cities like Lahore, Karachi, Faisalabad, and Peshawar should encourage the development of high-rise and mixed-use buildings, adapting to evolving market conditions. Generous floor area ratios (FARs) should be allowed to let market forces operate freely, and building codes should apply to areas rather than individual properties. Moreover, the costly permission regime must be reformed to allow property owners greater autonomy in developing their land, fostering a more dynamic and responsive urban environment[97].

The solution lies in deregulating our cities to boost total factor productivity and reforming civil services.[98] As discussed above, doubling the Floor Area Ratio (FAR) and removing height restrictions, allows cities to grow vertically, which is essential for reducing urban sprawl and creating more inclusive spaces. Reforming zoning laws would also encourage competition and mixed-use developments, which are critical for fostering entrepreneurship, attracting investment, and creating jobs[99].

Colonial-era zoning practices, which were designed to keep the elites in airy suburbs while confining the general population to densely packed, poorly resourced urban centers, remain a significant problem. This model has been adopted and reinforced by Pakistan's modern-day bureaucracy, army, and judiciary, leading to inefficient land use, limited mixed-use development, and sprawling cities. The lack of organized, high-rise developments in central business districts, like Mall Road in Lahore, is a direct consequence of these outdated regulations. If just 4,000 acres of Lahore's land were developed for high-rise, mixed-use projects, it could drastically improve the economic landscape and provide long-term employment, yet the bureaucratic resistance remains strong.

[96] See. Nadeem Ul Haque, Aimen Shakeel Abbasi (Editor) How to fix the Pakistan Economy, Conceptualizing State, Society & Economy, Pg. 191-193.
[97] See. PIDE's GROWTH COMMISSION report, Reforms for Accelerated Prosperity and Inclusive Development (RAPID), (April, 2021). Chapter 07 The Opportunities in Cities, Pg. 50-58.
[98] See. PIDE's GROWTH COMMISSION report, Reforms for Accelerated Prosperity and Inclusive Development (RAPID), (April, 2021). Box 5.4. Principles for Reform of Civil Services, Pg. 43 and PIDE's stance on total factor productivity, Pg. 20
[99] See. Lahore's Urban Dilemma and the lack of planning, Pg. 196-97, Conceptualizing State, Society & Economy, Nadeem Ul Haque, Aimen Shakeel Abbasi (Editor)

## Concluding Remarks

PIDE's research paints a clear picture: unlocking the potential of state-captured real estate is essential for Pakistan's urban future. The inefficient use of prime land in cities like Islamabad and Lahore represents a significant economic loss, one that we can no longer afford. As someone who cares deeply about the development of our cities, I firmly believe that we must adopt PIDE's recommendations. By repurposing these lands for both commercial and residential development, we can turn our cities into engines of growth, creating jobs, attracting investment, and unlocking the true potential of urban Pakistan.

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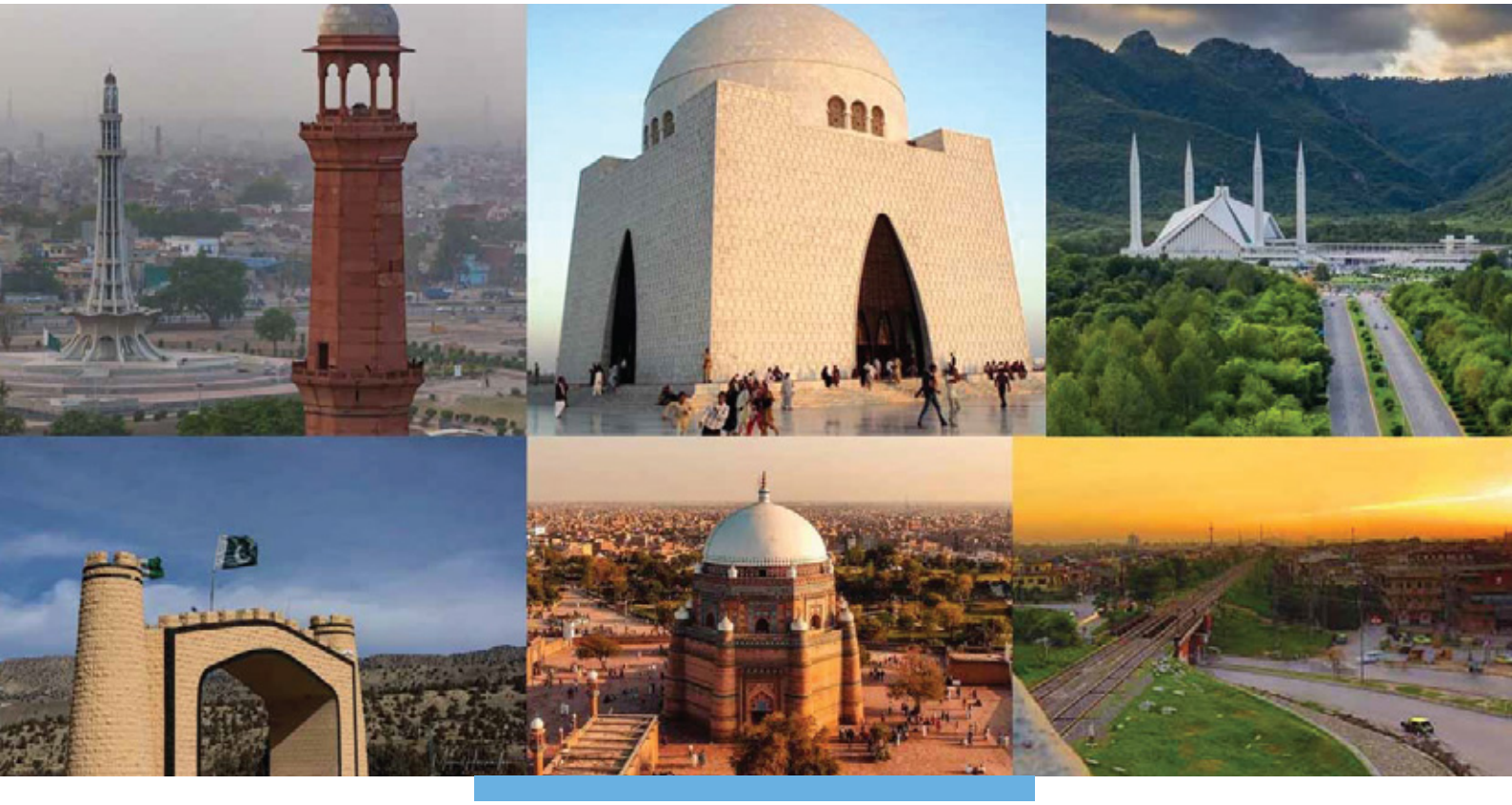
# RESHAPE CITIES INTO ECONOMIC MACHINES



Saddam Hussein

Cities mark one of the most critical junctures in the human history, signifying a monumental shift from the transient nomadic existence to the permanence of settled agricultural societies. This began when early humans realized that settling in one place, cultivating food, and establishing communities around surplus production could lead to significant advancements. As people embraced this new way of life, the first cities began to emerge, laying the foundation for complex social structures and economic systems in the centuries to come . This transition from wandering to settlement, catalyzed a profound change in human activity, sparking the specialization of labor. Individuals could now focus on specific trades such as pottery, metalworking, or administration, fostering a rich tapestry of economic exchange. Thus, these early cities became hubs of innovation, driving economic growth and development through their vibrant marketplaces and burgeoning networks of trade.

Hence, for next many centuries, cities across the planet had been the epicenters of socio-political, scientific, technological, and economic progress. These served as breeding grounds for new ideas, where advancements in governance, technology, and infrastructure took root. From the grand structures of ancient Rome to the bustling trade routes of medieval cities, urban centers have continuously evolved, reflecting and shaping the course of human development.

In modern times, cities have now transcended their traditional roles as mere marketplaces or commercial hubs. Modern urban centers are dynamic ecosystems of innovation and creativity, where entrepreneurship thrives and new ideas flourish. These are no longer just places where goods are exchanged but have become vibrant centers for the rapid dissemination of information, cutting-edge technological advancements, and business ventures.

Fast forwarding, today's cities are characterized by their diversity and adaptability . They have embraced roles beyond economic exchange, acting as crucibles for cultural, intellectual, and technological progress. In essence, cities continue to be at the forefront of human advancement, driving the evolution of society through their vibrant, ever-evolving landscapes of innovation and enterprise. What does this all tells us? It tells us that cities, with all its dynamics and dimensions have always proved to be the engines of growth.

## In The Beginning

The rise of early cities was driven by several key factors. Firstly, as agriculture advanced, early communities began producing more food than necessary for immediate survival, creating an agricultural surplus. These surplus allowed individuals to move beyond mere subsistence farming and engage in specialized activities such as craftsmanship, trade, and administration. This shift was crucial in developing the first division of labor, where people could focus on specific trades like pottery or metalworking, thus fostering economic growth and innovation.

Secondly, early cities typically arose at strategic locations such as the fertile river valleys of Mesopotamia and the Nile  or along crucial trade routes. These locations were ideal for long-distance trade, which not only brought wealth but also facilitated connections between distant regions. For instance, the cities of ancient Mesopotamia benefited from their position along the Euphrates and Tigris rivers, which allowed them to trade goods like grains and textiles with neighboring regions, thus integrating them into broader economic networks.

Thirdly, the accumulation of wealth and people in these urban centers required organized defense to safeguard against external threats. Many early cities, such as those in ancient Egypt and Mesopotamia, were fortified with walls and supported by military forces, which helped ensure the stability, necessary for economic activities to flourish.

Fourthly, governance became a critical element in managing resources, distributing surplus, organizing labor, and resolving conflicts. As a result, urban centers evolved into political and administrative hubs, controlling economic flows and implementing taxation. For example, ancient Sumerian cities like Uruk  had established administrative systems to oversee trade and resource distribution, further supporting their economic systems.

Fifthly, permanent marketplaces emerged as central hubs for economic activity within these cities. They functioned as venues where goods were exchanged, information disseminated, and new products introduced. These markets attracted traders from various regions, boosting economic prosperity. For example, the Agora in Athens  was a bustling marketplace that played a crucial role in the city's economy and social life.

Sixthly, infrastructure development was another key factor in promoting economic activity. Early urban centers invested in constructing roads, ports, and irrigation systems, which facilitated trade and transportation. The construction of the Roman roads, for instance, greatly enhanced the connectivity of cities across the empire, linking agricultural areas with urban markets and establishing cities as central nodes of economic activity.

It is obvious now that, right from their inception, cities have been the pulse of economic drive. Governance, regulations, defense, and infrastructure all erected in parallel with one underlying purpose - to boost commerce and drive development .

## The Tale of Pakistani Cities

Now coming to Pakistan, its old cities such as Lahore, Peshawar, Karachi, and many other, have been avenues of trade and commerce for centuries, literally being at the crossroads of history, where culture and economy have intertwined to shape the identity of the region. Lahore is always a city beyond words: it is the "Heart of Pakistan," and for centuries, it has been one of those grand porte cities along the Grand Trunk Road that was initiated in the Mughal period. It has been an artery of commercial routes connecting South Asia to Central Asia and through the dynamic streets of Lahore, wave after wave of merchants, wanderers, and narrative tellers passed . The oldest surviving market in South Asia is renowned for Anarkali Bazaar, which remains a vibrant marketplace even today and was originally known for the trade of spices, jewelry, and textiles. Similarly, Liberty Market is based on the modern nucleus but retains the rich culture of Lahori business and craftsmanship that has attracted merchants to Lahore from all over for generations.

Moving up north, Peshawar, one of the oldest continuously inhabited cities in the world, sits at the gateway to Central Asia. It has been a crucial stop on the Silk Road, with traders from Persia, China, and beyond passing through its historic Qissa Khwani Bazaar , a marketplace once filled with the voices of travelers and storytellers sharing their tales as they exchanged goods from distant lands. This city's strategic importance as a trade route has long made it a vibrant melting pot of cultures and economies, weaving together the threads of the East and West.

Then comes Karachi - often known as the 'Mother of the Poor', as it accommodates most of the people that takes shelter in the city for bread and butter - is Pakistan's largest metropolis as well as the country's largest port city . Its economic power has been traced to the British colonial period, when Karachi became an important port to connect India with the Middle East, Africa, and Europe. Saddar Bazaar and the now-famous Empress Market were hot spots of trade, where merchants from all corners of the world would gather, and Karachi's coastal position allowed it to grow rapidly into the sprawling megacity it is today, widely referred to as the backbone of the Pakistan economy.

Another city, Faisalabad, often called the "Manchester of Pakistan," also has a rich history as an industrial and commercial hub. Originally known as Lyallpur , it was established during the British colonial period as an agricultural market town. However, its rapid transformation into an economic powerhouse came with the development of its vast textile industry, which continues to drive the city's economy today. And yet, the story doesn't end here.

Cities like Multan - the City of Saints, also played a critical role in economic exchange, famous for its bazaars filled with vibrant colors of handwoven textiles and ceramics, which attracted traders from across the globe. Likewise, Quetta, located near the Afghan border, acted as a key trade route for Central Asia, with bustling markets that traded fruits/dry fruits, carpets, and precious stones. Even the historical city of Hyderabad in Sindh was a flourishing center of commerce under the Talpur dynasty, with its Shahi Bazaar being one of the longest markets in Asia, stretching over two miles.

These cities weren't just geographical points on a map; they were living, breathing entities fueled by commerce. The bazaars and markets were the heartbeat of economic life, where goods, ideas, and cultures converged. Whether it was Peshawar's traders bringing silk and spices from the East, Faisalabad's craftsmen weaving tales through their textiles, or Karachi's ports linking Pakistan to the global economy, the thread that bound all these cities together was their role as bustling centers of economic activity. These cities weren't just local hubs; they were known far and wide, famous for their commerce and their role in connecting the region to the outside world. From the Mughal Empire to British rule and beyond, it was the economic vibrancy of these cities that made them known to the world, securing their place in history as beacons of trade and culture.

## The Urban Puzzle: What Went Off Track?

If one is curious that despite such a rich urban history, what went wrong with our cities, "Contextualizing Pakistan's Cities" by Dr. Nadeem Ul Haque is a must-read . This collection of sharp insights on urban governance and development reveals a critical truth: the difference between wealthy and poor nations often lies in the productivity of their cities.
For centuries, cities have been the engines of innovation, growth, and progress, evolving from traditional trade hubs into modern powerhouses of entrepreneurship and technological advancement . Today's cities thrive on diversity, learning, and networking, offering fertile ground for creativity and development . Dr. Haque brilliantly answers the burning question: Why do some cities fuels national prosperity while others lag behind?

The answer lies in how cities are structured. Dynamic, inclusive urban centers boost individual productivity and social organization, fostering inclusive growth without discriminating by age, gender, or class. Well-managed cities balance historical legacies with modern needs, creating spaces for commerce, innovation, and conflict resolution.

Yet, in Pakistan, urban policies are trapped in outdated frameworks. Cities are sprawling horizontally, gobbling up valuable agricultural land, while housing remains in short supply for growing populations. Zoning is poor, commerce stifled, and governance fragmented into multiple layers of inefficient bureaucracy. Large tracts of government-owned land sit idle, blocking critical economic opportunities.In fact, cities have turned into a resource for rent-seeking and protecting the privileged. Zoning and the misuse of public land have become key tools for distributing rents. Pakistan's lack of transparent laws, clear property rights, and effective city administration has only fueled this issue. Centralized and opaque processes have not only stifled economic growth but also spurred rampant speculation.

Dr. Haque doesn't hold back till here. He calls for a radical rethink: fiscal federalism, urban policies centered on development, smarter building regulations, and more professional, accountable urban governance. Commerce, not government, must become the heart of city function. In the lines to follow, I will be analyzing some of the factors in detail that PIDE's research is been echoing for long.

## Anchored in Colonial Antiquity?

Early development policies in Pakistan, rooted in colonial bureaucracies, focused on industrial growth through industrial estates outside the city. This approach expanded the power of policymakers, who controlled development through licenses, subsidies, and protectionism. Unfortunately, this outdated model still persists, limiting economic innovation . Our policymakers remain fixated on old planning methods, toggling between industry and agriculture, while neglecting domestic commerce, services, and construction.

However, contemporary cities foster innovation, entrepreneurship, and creativity by bringing people together to exchange ideas, goods, and services. Research shows that thriving cities are dense, walkable, and feature high-rise, mixed-use centers. Sadly, Pakistan's cities remain sprawling, with colonial estates and vast open spaces, devoid of the development seen elsewhere.

Construction, a key indicator of growth, is the backbone of economic development, as seen in cities worldwide filled with tower cranes. In contrast, Pakistan's cities rarely witness such dynamic growth, stifled by colonial zoning laws that resist density and high-rise development. Without real urban development and a booming construction sector, expecting accelerated growth in Pakistan remains a distant dream.

## Cities for Cars Only

PIDE is of the view that Pakistani cities are being built more for cars than for people . Walking and biking, once a regular part of life, have been pushed aside by a car-obsessed culture. Highways, flyovers, and underpasses now dominate the landscape, making it nearly impossible to walk or bike safely. Sidewalks have disappeared, and bike lanes are nowhere to be found. Crossing the street feels like an exhausting climb, even for the fittest among us. Public transport, too, is being moved to elevated platforms, leaving less and less space for pedestrians and cyclists.

This car-first approach comes at a heavy price - traffic is a constant headache, pollution is on the rise, and so much time is wasted stuck in traffic jams. The more our cities grow, the less these car-centered solutions seem to work. Cars, rather than improving mobility, are making it worse. Expanding roads and building more underpasses won't solve the problem, as the space needed for cars and parking will always outstrip supply. It's clear that cities need to rethink their priorities and shift toward transportation that serves everyone, not just car owners, by focusing on sustainable and inclusive mobility solutions.

## The Reluctance to Rise

The city planners in Pakistan still refuse to embrace vertical growth, unlike cities like Dubai, Seoul, or New York, where skyscrapers symbolize progress . Instead, Pakistan has clung to sprawling, low-rise development rooted in colonial-era ideas and capacity limitations. This obsession with single-family homes and two-story limits has created a 'Plotistan' - a term coined by Dr. Nadeem Ul Haque - of housing societies riddled with delays and scams, while cities become congested, underdeveloped, and car-dependent.

The reluctance to allow high-rises prevents the expansion of crucial spaces like playgrounds, community centers, and pedestrian-friendly areas . High-rise development would not only rejuvenate old, cramped neighborhoods of old bazaars , but also offer much-needed housing solutions. By allowing buildings to rise by just a few floors, cities could unlock investment, create jobs, and address the growing housing crisis.

All of this is leaving Pakistani cities without vibrant downtowns or central hubs. Instead of creating dense, mixed-use districts where people can live, work, and play within a walkable space, cities are spreading out endlessly. This unchecked expansion is also swallowing valuable agricultural land, much of it sustained by costly irrigation, all for the sake of sprawl.

Vertical growth is not just about building upwards - it's about making cities livable, inclusive, and sustainable. City planners need to prioritize people over cars, remove the outdated two-floor restriction, and embrace the potential of urban verticality to transform Pakistan's cities for the better.

## The Unwarranted Collateral Damage

It appears that our misguided urban policies have resulted in a collateral damage of khokhas/dhabas/chabri walas – the street vendors. Street vending is a timeless and legitimate avenue for the underprivileged to earn a living. Historically, street vendors - from kiosk owners to mobile vendors - have thrived in cities worldwide, offering everything from fruit to unique collectibles. In Pakistani cities, these vendors were once a vibrant part of local life, providing affordable goods and personal touches that larger stores couldn't match .

However, the rise of suburban development in the 80s led to the erosion of these vital vendors. Streets were widened for cars, and vendors were pushed out, often left destitute. The shift towards an American suburban model - favoring cars and single-family homes - meant less space for the vendors, who were increasingly removed from urban spaces.

Despite numerous poverty alleviation programs, such as cash transfers and skill development initiatives, many of which fail to address the fundamental issue: where can the poor set up shop? Without designated spaces, their entrepreneurial spirit is stifled.

Street vending is not just about survival; it's a vibrant part of city life that enhances community interactions, offers diverse goods, and promotes price competition. It's high time Pakistani cities, especially the new developments within cities, embraced street vending, integrating it into their urban fabric. Instead of pushing vendors out, cities should develop

thoughtful policies that balance cleanliness and aesthetics with the need for entrepreneurial space. If global landmarks can accommodate street vendors, why not our own cities? It's time to give the poor a fair chance to thrive, not just handouts.

## The Factor of Non-Inclusivity

Pakistani cities, despite their few positives, exhibit pronounced deficiencies in inclusivity that undermine their social and economic fabric. The landscape of urban development is often characterized by a glaring divide between the affluent and the underprivileged. Expansive suburban projects, driven by the allure of American-style residential models, prioritize the construction of gated communities and luxury developments at the expense of traditional neighborhoods and informal settlements. This shift not only marginalizes lower-income residents but also erodes the historical and cultural significance of areas once bustling with local businesses and street vendors.

The urban planning model frequently prioritizes car-centric infrastructure over pedestrian-friendly environments. The focus on broad avenues and high-speed thoroughfares contributes to the disenfranchisement of those who rely on public transportation or non-motorized means of travel. This imbalance exacerbates social segregation, isolating lower-income populations from economic opportunities and essential services.

Affordable housing is another critical area where inclusivity falters . The scarcity of low-cost housing options forces many individuals into informal settlements on the outskirts of cities, where access to basic amenities and infrastructure is limited. These areas often lack the necessary public services, such as healthcare, education, and sanitation, which further perpetuates cycles of poverty and exclusion.

Moreover, the urban environment often fails to accommodate people with disabilities or other marginalized groups, highlighting a significant gap in the inclusivity of public spaces. The absence of accessible facilities and services limits the participation of these individuals in the city's social and economic activities, further entrenching their marginalization .

The cumulative effect of these factors creates a fragmented urban experience where the benefits of economic growth and development are unevenly distributed. To foster genuinely inclusive cities, there must be a concerted effort to integrate affordable housing, support informal economies, and create accessible public spaces that cater to all residents. Only through such comprehensive measures can Pakistani cities hope to bridge the gap between different socio-economic groups and cultivate a more equitable and vibrant urban environment.

## Cities Without Soul

Pakistani cities, once rich with cultural and historical significance, face a profound challenge as rapid urbanization threatens to erode their heritage. The contemporary urban development often disregards these cultural treasures in favor of modernity and expansion. The relentless drive for progress has led to the demolition of historic buildings, the displacement of traditional markets, and the loss of culturally significant neighborhoods.

Ironically, while Pakistani cities grapple with the erosion of their cultural and historical identity, contemporary cities around the world are actively creating and preserving their own heritage. Cities like Dubai and Singapore, despite being relatively young, have invested heavily in crafting distinctive architectural styles and cultural landmarks to establish their own sense of history and identity . They have adopted strategies to integrate their modern infrastructure with cultural elements, thereby creating an artificial yet cohesive narrative of progress intertwined with heritage.

In contrast, the erosion of Pakistan's historical sites and cultural hubs reflects a disjointed approach to urbanization, where the past is sacrificed at the altar of development. This not only diminishes the cities' cultural richness but also impedes the potential for tourism and economic benefits that stem from preserving heritage. The loss of these cultural assets means losing a critical connection to the past, which could otherwise offer valuable lessons and a sense of continuity.

To reverse this trend, there must be a renewed focus on integrating heritage preservation and contemporary establishment of heritage into urban planning. This involves protecting and restoring historical landmarks, supporting cultural institutions, and promoting policies that balance development with conservation. By valuing and preserving the cultural and historical dimensions of their cities, Pakistan can safeguard its unique identity while continuing to evolve in a manner that honors its rich past.

## Conclusion

PIDE believes that there is a sense of urgency to transform Pakistan's cities into economic machines. For that, a bold reimagining that cuts through bureaucratic red tape and hands the wheel to commerce and entrepreneurship is needed. Outdated master plans should be replaced with flexible guidelines, while zoning needs to simplify into clear distinctions between city centers and suburbs. A unified authority should oversee urban management, allowing high-rise buildings by relaxing floor area ratios and nurturing a thriving rental market. Revolutionary car policies, including congestion tolls and separate parking sales, must complement an efficient public transport system that serves every corner, especially congested areas. Legalizing and establishing street vending zones can revitalize local economies, and unlocking government-owned land will optimize city resources . Designing cities as 15-minute hubs, where essential services are within a short walk, will boost economic activity by concentrating people in vibrant, vertical spaces . Integrating these modern strategies with a renewed focus on preserving cultural and historical landmarks will ensure Pakistan's cities evolve while cherishing their unique heritage. This blend of innovation and tradition promises to create dynamic, resilient urban environments that honor the past and embrace the future.

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# PEOPLE VERSUS CARS: RETHINKING PAKISTAN's URBAN MOBILITY

By Mohammad Shaaf Najib

## Setting the Stage

Mobility in simple terms refers to the ability to be mobile. Urban Mobility therefore, is the ability of the society in urban areas to travel between two separate locations or points. This mobility could be for various reasons including employment, education, leisure etc. while bringing into use any different forms of transport or mobility services.

Later this year, Brazil's city of Curitiba will be celebrating the golden jubilee of the initiation its first ever Bus Rapid Transit system. This was not just a landmark achievement for Curitiba or Brazil. Instead, this was also the first time in the world that any city was introducing a BRT system for urban public transport under the leadership of its mayor Jaime Lerner. Lerner envisioned a high-density population settlement around the BRT route with significant employment opportunities close to the public transport network while ensuring that areas of city not serviced by the BRT had efficient and dense feeder routes available to connect with BRT and create an integrated public transport network in the city. Lerner rightly deserves the credit for metronising the bus transport system in cities i.e. high capacity, high speed and high frequency road transport service for the public.

Since then, approximately 200 cities have introduced BRT public transport systems of different types, sizes and operating mechanisms[1] . This includes a handful of Pakistan's urban cities as well where in the past decade some portion of the cities have been provided with a BRT public transport system and a limited feeder route system. Mobility though remains a significant challenge for a large proportion of the people in Pakistan even today raising a big question mark over the target of city designs and policies in Pakistan: The People or Cars?

## Smart Cities and Mobility

The 20th and 21st century have seen the world grow and develop at an exponential rate, seeing an increase in migration to urban centers while also the development of many smaller towns, villages etc. into urban hubs. The rapid urbanization, with continues to further increase, brings new challenges as the United Nations expects as much as 66% of the world's population to be living in urban areas by 2050, a 12 percentage points increase from 2014 . [2]

Yin et al. (2015) highlights the rise in challenges faced by rapid urbanization and the need for understanding the concept of smart cities better to deal with the issues associated with increased urbanization. Yin et al. (2015) identify the use of ICT driven strategies with help of city centric research and development to adapt an adequate strategy with the purpose of improving the quality of life available to the residents within a city. Smart cities are often referred to as digital cities as well due to the effective digitization of a city for improved networking, and use of data to improve the access of information to public, enhance resource utilization, environmental conditions, and socio-economic indicators. Silva et al. (2018) state that smart cities are in fact an efficient application of Internet of Things (IoT) to find innovative ideas and ways for better handling of rapid urbanization while limiting the possible adverse impact of environment, maintaining citizen lifestyles and continuing effective governance of cities.

Batty et al. (2012) further explain what constitutes a smart city by identifying seven major components along with defining the difference between a smart city and a city otherwise. Batty et al. (2012) states that a smart city is the integration of ICT into the traditional infrastructure and set up of cities through coordinated use of latest digital technologies. Among the seven major components of a smart city, Batty et al. (2012) holds transport among the prominent components. With continuously increasing urbanization, it is essential to plan smart cities not for today but for the future. Batty et al. (2012) identify that transportation in today's world is hampered in cities by congestion resulting time and fuel wastage. In a smart city for the future, however, this must be changed by eliminating congestion through introduction of new sustainable transport modes integrated with each other and hence able to generate adequate revenues for the city administration. Batty et al. (2012) highlight the efforts of few cities such as Stockholm in Sweden where dynamically priced congestion charges are being used to manage congestion which have reduced inner city traffic by 25% and hence emissions by 14%. Consequently, improving mobility services in a city are a key component for the smart cities of the future.

[1]www.brtdata.org

[2] World Urbanization Prospects: the 2014 revision. By United Nations Department of Economic and Social Affairs

## Pakistan's Mobility Dilemma

Haque & Nayab (2020) emphasize on the need to see cities not just as a place of residence but in terms of the economic opportunity they provide. Haque and Nayab (2020) term cities as the engines of growth. Cities, if designed properly, have the potential to invigorate significant economic activity by exploiting the opportunities stored in them. However, Haque & Nayab (2020) further argue is possible only if the cities are designed adequately. Vertical development, high density residence, street economy and efficient mobility services are just a few of the factors that can contribute to igniting economic growth through cities. The concept explained hereof, is on the same terms as of smart cities talked above earlier though with a more economic lens than just a demographic angle.

Hadi (2020) argues that people move to cities in order to pursue better opportunities including education, employment, or just a better living standard. The urban spaces, therefore, are built with the aim of provision of maximum services in limited amount of space. This is possible only through the key components of cities as expressed by Haque & Nayab (2020) essential for exploring the economic potential of cities.

In order to effectively utilize city resources, city designs are supposed to limit the need of mobility while city authorities' focuses on developing integrated mobility services in the city to facilitate residents' movements. Pakistan's cities, however, under bureaucratic controls have gone in an opposite direction to the rest of the world.

At the time when the world is practicing urban regeneration; a concept of rezoning and redesigning cities to increase population density singular areas and provision of employment, education, leisure and other essential services nearby; cities in Pakistan continue to spread horizontally. The urban sprawl or the horizontal expansion of cities in the country has resulted in taking over land marked for agricultural purposes and now being used to develop housing societies to house the rapidly urbanizing population in two story bungalow houses.

Hadi (2020) identifies four basic forms of mobility: walking, cycling, public transport, personal vehicles. He argues that under current urban sprawl, walking is an infeasible activity as most of the destinations are not in walkable distances for the majority of public while the activity itself is harmful and dangerous due to the onslaught of high speed vehicles and consequent environmental pollution. Bicycling has also been excluded among mobility options for the city population of Pakistan due to the absence of cycle lanes despite continued expansion of road network in the major cities. Public transport is unavailable, inaccessible and limited to only a few areas in the handful cities in the country. As a result, the public is forced to resort to car ownership and use for travelling in urban centers of the country.
Secondly, with continued expansion of the urban centers, travel times and distances have increased while provision of a well-integrated public transport network has become an impossible task for the city authorities.

Moreover, cities in Pakistan continue to encourage use of personal vehicles for intra-city mobility. Construction of signal-free corridors, flyovers and underpasses to facilitate high speed no stop travel of vehicles in cities is a repeated admission of cars being the priority of mobility policy in the cities which lack any adequate alternate mobility means. Khan (2021) notes that the opportunity cost of flyovers is high while they do not always solve congestion issues, and in some cases add to road congestion as more cars start using the route due to

removal of signal stoppage. Furthermore, the construction of flyovers has severe environmental impacts as well that continue to remain ignored in Pakistan where the decision makers and city authorities seem to have a clear flyover obsession.

Besides, no parking charges are another subsidy given to the car owners with huge economic costs forgone to facilitate the small proportion of population. In a country with just six percent car ownership, the car centric policy focus is rather deplorable to say the least.

While the focus of policies seems to be cars and not the people, owning a vehicle in Pakistan has been turned into yet another seemingly unattainable wish for the common people of the country. Qadir et al. (2024) note that the country's automobile industry has not evolved in over half a century and lags at least two to three decades behind the world in terms of technological adoption. The vehicles available in the Pakistan automobile market are high cost poor quality vehicle lacking the features of a modern car while car delivery delays, price fluctuations and black market premium are some of the common features of the industry in Pakistan.

Qadir (2024) further explains the weak institutional set up and the proliferation of clientele groups facilitated state's compromise on industry beneficial policies that could have contributed to long term economic growth and instead allowed flourishment of rent seekers in the industry. At a time when the world has moved towards developing a global value chain of the automobile industry, Pakistan's localization focus has restricted its entry into the GVC on account of poor technological capabilities and low production volumes among others.

## PIDE on Mobility

The Pakistan Institute of Development Economics (PIDE) over the years has provided extensive insights regarding the pertaining issues of urban mobility in Pakistan and the possible way forward. Before anything else, PIDE emphasizes over a complete shift of urban transport policy focus from car centric to a people centric model. In order to achieve this, the city administrations requite a complete rethink of the urban mobility and transport policy.

Haque & Rizwan (2020) press upon the need to recognize that urban mobility is a lot more beyond just cars, and an effective transport policy for the urban areas must focus on all forms of mobility including walking and cycling. Haque & Rizwan (2020) argue that the focus of transport policy for urban centers must be proactive instead of reactive and thus planning for the future. This will require an efficient use of ICT tools and data to forecast future trends and evolutions of city development. A well-integrated public transport system is the backbone of an urban transport policy, limiting use of private vehicles and developing a transit-oriented transport network.

They also further explain the importance of differentiating among road types such as expressways, arteries, collectors and local streets while identifying and constructing the correct road type as per the need. Road categorization is an essential traffic management strategy along with efficient monitoring and violation tracking, which is not possible without employing the required technological tools.

In addition to developing an urban transport policy, (Khawaja et al., 2023) underscore the importance of developing a parking policy for the cities as well. Free parking is a subsidy to car owners while a social cost for the society encouraging use of personal vehicles for intra-city travel. Consequently, Khawaja et al. (2023) present a conceptual model for developing a parking policy in Islamabad Capital Territory along with introduction of alternate mobility means with public transport being the top priority. Adoption of these strategies shall go a long way on better traffic management and congestion mitigation in the country. The model presented by Khawaja et al. (2023) is a data-based financially self-sufficient model that along with helping manage congestion in the city will also facilitate significant revenue generation for the city administration.

It is important to understand that Khawaja et al. (2023) or PIDE in general, have not criticized the use of personal vehicles for mobility in the city, however, the key message from the study is to not subsidize the use of city resources for a single group, especially when they form less than a tenth of the country's entire population. Instead, a fair charge for use of common spaces in form of parking fee will enable an efficient use of public spaces along with curbing congestion and managing traffic.

In actuality, PIDE has continually put emphasis on the need for policy reforms in the automobile industry to make the automobiles attainable for the general public. Qadir et al. (2024) suggest deep reform in the automobile industry in order to increase competition within the industry and encouraging firms to enhance production for meeting the local demand for vehicles as well as targeting export markets by improving firm competitiveness, product quality and achieving economies of scale to compete on prices as well.

Developing an efficient automobile industry and market in the country that allows a larger proportion of population to purchase and own vehicles is essential while promoting the use of public transport through provision of a well-integrated transit oriented system in cities and enforcing a parking policy. After all, all forms of mobility are important for cities.

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