



AGENDA FOR THE INCOMING GOVERNMENT

Pakistan Business Council

The Pakistan Business Council (PBC) believes that the primary purpose of any reforms in Pakistan should be to improve the quality of life of its people. A policy framework that maximises the potential of business to contribute to the country's uplift is a means, not an end. The resultant improvement in human capital will create the conditions for business to thrive. Pakistan lags behind South Asia in virtually every social measure. The second important objective is to restore its solvency and autonomy which has been affected severely by recurring external and fiscal account deficits, leading inevitably to the 24th IMF Programme. Last, but not the least important, is the need to create resilience to climate change. We saw how the recent floods of biblical proportions disrupted life.

Investment in social development will entail mobilisation of substantially higher resources and cutback in non-development public expenditure. This in turn will call for significant reforms in the country's tax system, fundamental changes to stem the build-up of energy circular debt, courageous restructuring and privatisation of state-owned enterprises and the right-sizing of the civil service. Without a reliable supply of energy at a competitive cost, it is unrealistic to expect industry to create jobs, grow exports and for the country to become less reliant

on imports. The country has prematurely de-industrialised. Pakistan's share of world exports has declined, the export basket is narrow, as is the geographical dispersion. Security uncertainty is leading to rationing of orders by overseas customers. Value-addition is low and exports lack pricing power. Energy availability and cost is also a factor in manufacturing for the domestic market. Cascading import duties and limited time, performance-linked incentives for import substitution need to be considered to help balance the external account. However, this cannot be allowed to indefinitely impact consumer choice and value. Realistic, market-based exchange rates will support the external account.

The country's agriculture potential remains unrealised, with the result that our growing population is threatened by food insecurity and inflation, whilst at the same time imports are increasing and the exports are below potential. Population growth and urbanisation is leading to encroachment of agricultural land and undermining most other socio-economic development parameters. The investment climate is poor, with FDI and local investment on hold, awaiting transformation of business environment and positive feedback from existing investors.

Pakistan's economic policies are at the best unpredictable; sound planning and good alignment between stakeholders for sustainable and inclusive growth is over-ridden by short-term, knee-jerk, revenue-seeking changes that undermine confidence. Federal ministries are fragmented, often pursuing conflicting and silo objectives. There is also fragmentation between the federation and provinces. The current National Finance Commission Award needs to be reviewed to achieve a more optimal sharing of resources and responsibilities. Pakistan's debt obligations cannot indefinitely be left unaddressed.

Though Pakistan's emission levels are low, it is amongst the most vulnerable to climate change. So, an incoming government would need to accord climate change mitigation and adaptation the highest priority.

In a rapidly evolving digital world, Pakistan needs to reposition itself in a global economy in which cheap labour will not be a sustainable competitive advantage.

The incoming government will also have a challenging task to continue on the work of the caretaker government to stabilise the economy. It would also need to reprofile debts, negotiate the 24th IMF Programme and undertake painful, but essential reforms. The first two to three years of its tenure should be spent on economic stabilisation, tackling decades-high inflation and carrying out deep reforms. An uncertain geopolitical environment will not make this task easy. We have yet to see any political party's clear economic agenda. These recommendations are for their consideration.

PBC's Economic Agenda has been developed to guide an incoming government to set Pakistan on a strong and sustainable growth trajectory. It has deliberately been kept concise and directional in nature and confined primarily to key enabling actions and to mobilise resources to uplift the quality of life and to stabilise and kick-start the economy. The PBC recognizes that business can only thrive in an environment in which important factors such as education, skills, health care, water, sewage & waste disposal and law & order conditions are supportive of business. It also accepts that there are organisations and stakeholders who are better placed to comment and contribute more extensively on these matters. Two aspects that every citizen of Pakistan must accept and address are the urgent and connected needs to manage the impact of climate change and preserve the dwindling water resources.

The people-centric objectives listed below can only be delivered through the economic imperatives for which PBC's recommendations are summarized below and covered in more detail later.



Social/Human Development Objectives	Key Economic Imperatives	PBC's Enabling Recommendations
<ul style="list-style-type: none"> • Lift Pakistan from bottom of South Asia in socio-economic measures; • Slow down population growth and the rate of urbanisation and encroachment upon agricultural land; • Ensure food availability and affordability; • Supply clean drinking water and provide good sanitary conditions; • Address malnutrition and stunting; • Secure affordable and reliable utilities; • Provide easily accessible healthcare free of cost; 	<ul style="list-style-type: none"> • Deliver on commitments for the remaining term of IMF's Stand-By Arrangement; • Secure a 5-year, reform centric, 24th IMF Programme; • Create breathing space by reprofiling debt; • Gain long-term solvency by balancing the external account in a sustainable manner; • Reduce domestic borrowing by curtailing non-development expenditure, broadening the tax base, stemming the burden of State Owned Enterprises, conducting fundamental reforms of the energy sector and renegotiating the National Finance Commission Award; 	<ol style="list-style-type: none"> 1. Long-Term, well-aligned plans 2. Mitigation and adaption plan to deal with climate change 3. Equitable and broad taxation; formalisation of the economy 4. Fundamental reforms of the energy sector 5. Restructuring and privatisation of SOEs 6. Deregulation and civil service reforms to cut non-development expenditure
<p>People-centric objectives</p> <ul style="list-style-type: none"> • High quality education, especially in STEM subjects, universally available; • Impart technical skills that are in demand to improve productivity; • Jobs with living wages; • Law and order through effective policing and speedy justice • Promote & facilitate employment of women; • Provide efficient public transportation; • Widely available, affordable & reliable internet & cellular connectivity 	<p>Key Economic Imperatives</p> <ul style="list-style-type: none"> • Mainstream climate change resilience and integrate actions with interrelated national policies and budgets • Step-change agricultural productivity to ensure availability, affordability and positive impact on the external account; 	<p>PBC's Enabling Recommendations</p> <ol style="list-style-type: none"> 7. Review of the National Finance Award 8. Agriculture reforms for food security, affordability and reduction of impact on the balance of trade 9. Exports 10. Time-bound and performance linked incentives for import substitution 11. Future-proof Pakistan

LONG-TERM, WELL-ALIGNED PLANS

In the absence of well aligned long term plans, federal ministries operate in silos with short-term, knee-jerk measures to achieve their narrow (and often conflicting) objectives, which lack long-term economic or social rationale. Additionally, fragmentation between the federal and provincial governments confuses and delays actions. Whilst forums like the Economic Coordination Council (ECC) and National Economic Council (NEC) exist to review the economic rationale of proposals, absence of a long-term framework hampers their work. It is essential to revive the 5-year plan process, resource the Planning Commission adequately and restore the Ministry of Planning's authority and importance, which has been hijacked by the Ministry of Finance to achieve near-term goals. Often, summaries presented to the ECC are for urgent issues.

SPECIAL INVESTMENT FACILITATION COUNCIL (SIFC)

The creation of the SIFC is recognition of the need to bring all key decision-makers on the same table. However, the SIFC too needs to rely on long term economic plans, which is the remit of the Planning Commission and the Ministry of Planning.

Investor confidence is shattered by the absence of policy consistency and predictability. Since both 'transactions' and 'transformation' are SIFC's roles, its attention to long term policy reforms should help restore investor confidence.

IMF TARGETS, DEBT MANAGEMENT AND REPROFILING:

As the Ministry of Finance is the focal point of engagement with the IMF, due to the country's sub-optimal and often delayed delivery of agreed programme objectives, it is unable to seek long term, reform centric goals. As a result, IMF's prescriptions address the symptoms rather than the fundamental causes of the problems and we continue to face recurring crises. Longer term reform-centric targets should be derived from long term, well aligned and economically justified plans. A significant gap also exists in the management of government debt. A long-term plan can help bridge this gap. Sovereign debt advisors can advise on reprofiling debt, advice which the government should not shy in obtaining.

POOR PLANNING:

Major examples of poor planning, misalignment and execution are:

- the strategically important Gwadar port was built without adequate transportation links with the rest of the country and with China, despite its importance to the CPEC transit corridor;
- the economically significant Thar coal mines and coal-based power plants lack transportation and sufficient transmission capacity;
- renewable energy projects in the south were approved without adequate transmission lines to the north
- contradiction between contractionary monetary policy and expansionary fiscal policy, with unchecked government spending, heavy borrowing at high cost, crowding out private sector

CLIMATE CHANGE:

The major objective of long-term planning must be environmental sustainability. Fragmentation between the federation and the provinces poses a challenge that needs to be overcome and resources found and deployed in a coordinated manner. Climate adaptation plans need to be in place to attract appropriate donor and investor attention. We were not prepared with these when the floods came in 2021.

The authors are affiliated with the Pakistan Business Council, a business policy advocacy platform.