PAKISTAN IS TILTING AT THE **WINDMILL BY REGULATING**

WE NEED SMART REGULATION NOT OVER REGULATION

PIDE P&R

PIDE'S GUIDE TO POLICY AND RESEARCH

NOVEMBER 2020

IN THIS ISSUE

Pakistan Institute of Development Economics
Spirit of Free Inquiry
1957
Islamabad

FRIEDRICH EBERT STIFTUNG

With the Support of FES

PAKISTAN INSTITUTE OF DEVELOPMENT ECONOMICS

Friedrich-Ebert-Stiftung (FES) is the oldest political foundation in Germany. The foundation is named after Friedrich Ebert, the first democratically elected president of Germany. The Friedrich Ebert Stiftung established its Pakistan Office in 1990. FES focuses on enhancing dialogue for mutual understanding and peaceful development in its international work. Social justice in politics, the economy and in the society is one of our leading principles worldwide. FES operates 107 offices in nearly as many countries.

In Pakistan, FES has been cooperating with governmental institutions, civil society, and academic organizations and carrying out activities;

- To strengthen democratic culture through deliberative processes and informed public discourse;
- To promote and advocate social justice as an integral part of economic development through economic reforms and effective labor governance;
- To enhance regional cooperation for peace and development

For more information about FES, visit us at:
Website: http://www.fes-pakistan.org
Facebook: Friedrich-Ebert-Stiftung, Pakistan
Twitter @FES_PAK

PIDE

ABOUT US

PIDE Policy & Research *is a guide to policy and research making. Each issue focuses on a particular theme, but also provides a general insight into the Pakistani economy, identifies key areas of concern for policymakers, and suggests policy action. The publication offers a quick orbit of the country's economy and is a hands-on and precise go-to document for the policymaker, businessperson, academic, researcher, or student that seeks to remain updated and informed. This issue is themed around PIDE's recent research efforts regarding the deregulation, markets and competition. We welcome contributions from within PIDE as well as from any external contributors.*

Pakistan Institute of Development Economics
Spirit of Free Inquiry
1957
Islamabad

Managing Editor:
Pervez Tahir

Contributing Editors:
Usman Qadir
Uzma Zia

Designer:
Mahed Ali

Photo and Sketches:
Wajiha Noor (WaNo's)

Conceptualized by:
Nadeem ul Haque
Durr-e-Nayab

For contributions and feedback, please reach us at policy@pide.org.pk

Disclaimer:

The views expressed by the contributors do not reflect the official perspectives of PIDE (or their respective organizations in case of external contributors).

Contact Us

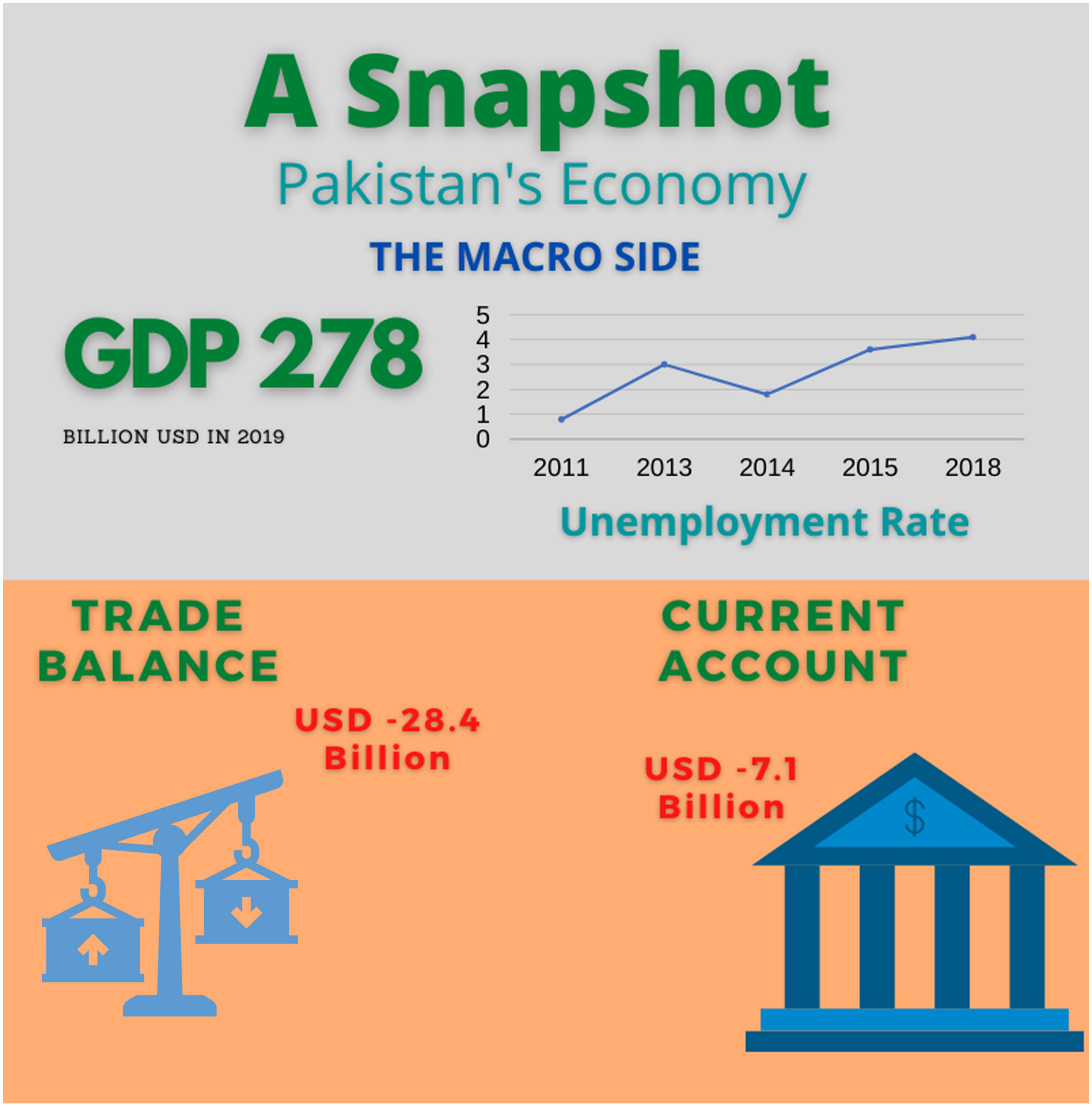
www.pide.org.pk
policy@pide.org.pk
92-51-942 8065
92-51-924 8051

IN THIS ISSUE

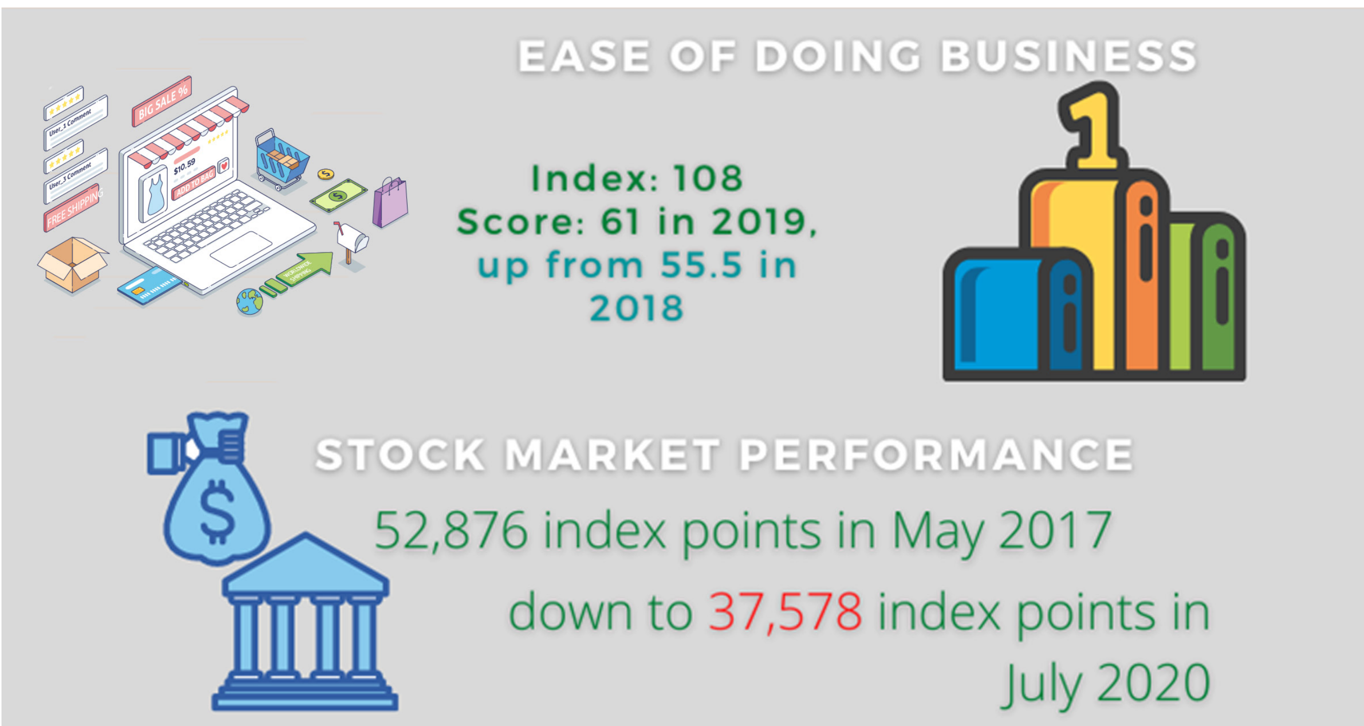
IN THIS ISSUE

IN THIS ISSUE

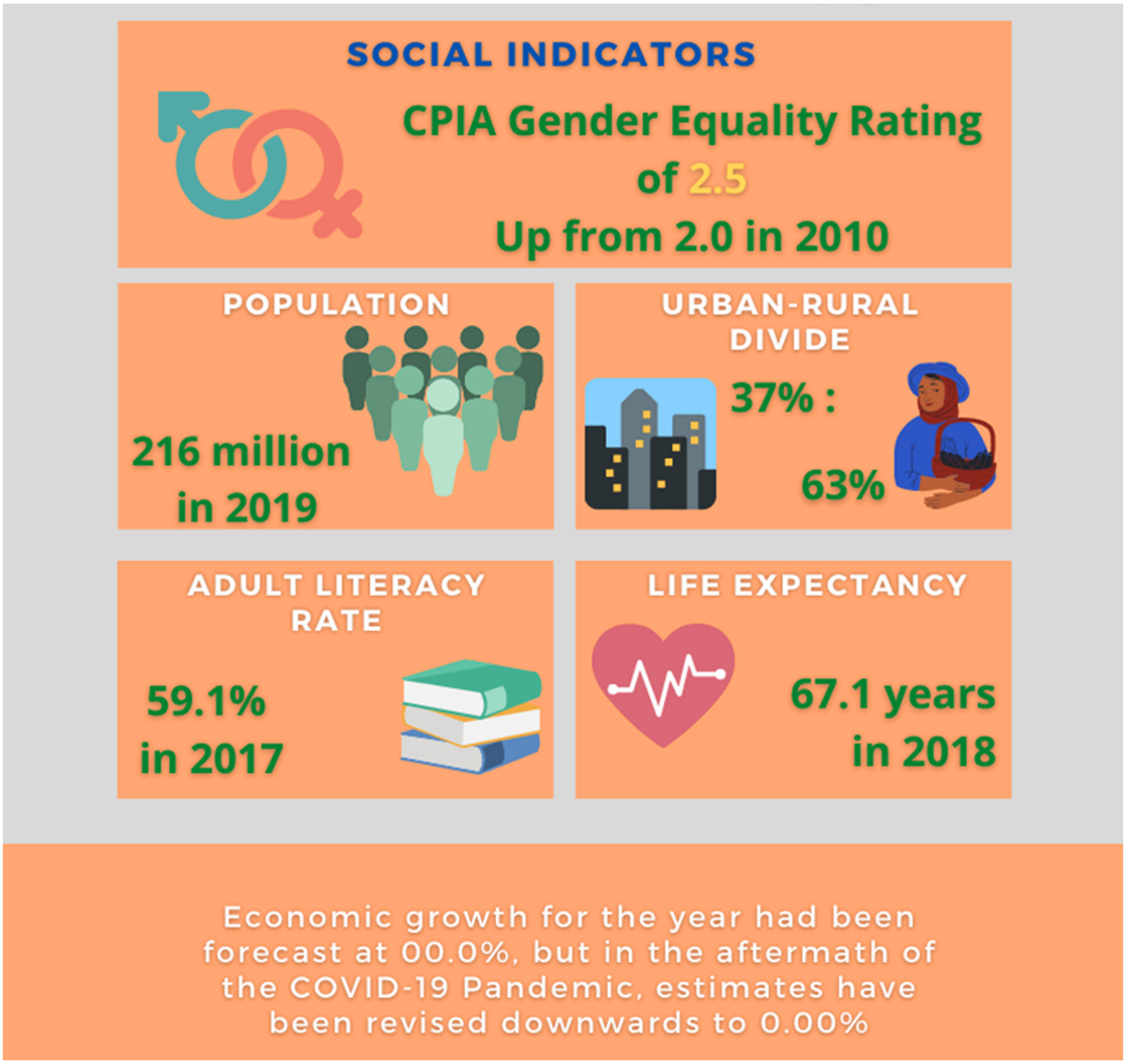
ECONOMY SNAPSHOT



ECONOMY SNAPSHOT



FEATURED SNAPSHOT



FEATURED ARTICLE

GROWTH AND DEREGULATION: PAKISTAN'S ECONOMY AT THE CROSSROADS

"DEREGULATION SET THE STAGE FOR AN ENORMOUS WAVE OF CREATIVE DESTRUCTION IN THE 1980S". **ALAN GREENSPAN**

ECONOMIC PERFORMANCE

When Pakistan gained independence from the British rule and partitioned from India under the Indian Independence Act of 1947, the nascent state was faced with the daunting task of rehabilitating the migrant Muslim population while at the same time building up a viable economic base from the weak infrastructure it had inherited. Compared to the neighbouring countries and a number of countries that started on the journey to development facing roughly similar initial conditions, Pakistan's growth performance has not been remarkable (Table 0.1).

Table 0.1: Decade-wise Annual Average GDP and GDP Per Capita Growth Rates

%

	Variable	Country	1960s	1970s	1980s	1990s	2000s	2010s
1	GDP	Bangladesh	3.89	1.52	3.22	4.80	5.81	6.37
2	GDP	India	3.91	2.93	5.69	5.73	6.93	6.70
3	GDP	Nepal	2.52	2.60	4.09	4.84	4.06	4.44
4	GDP	**Pakistan**	**6.79**	**4.84**	**6.86**	**3.98**	**4.64**	**3.56**
5	GDP	Sri Lanka	4.67	4.23	4.15	5.26	5.00	7.56
6	GDP	China	3.01	7.44	9.75	9.99	10.29	9.17
7	GDP	Korea	8.25	8.29	7.68	6.25	4.39	4.02
1	GDP per capita	Bangladesh	0.85	-0.65	0.50	2.57	4.34	5.16
2	GDP per capita	India	1.75	0.59	3.39	3.79	5.35	5.35
3	GDP per capita	Nepal	0.59	0.40	1.74	2.26	2.44	3.25
4	GDP per capita	**Pakistan**	**4.03**	**1.79**	**3.37**	**1.26**	**2.67**	**1.79**
5	GDP per capita	Sri Lanka	2.21	2.50	2.59	3.96	4.25	7.77
6	GDP per capita	China	0.89	5.34	8.19	8.75	9.62	8.64
7	GDP per capita	Korea	5.64	6.32	6.38	5.24	3.83	3.44

Source: World Bank (2014)

A commonly cited case is that of South Korea, which also embarked on its journey to development in the late 1960s. A combination of factors including a strong developmental state, national cohesion and a favourable political settlement arrangement (Amsden, 1989; Rodrik, 1999) enabled it to leapfrog ahead of Pakistan. Pakistan's neighbour, India, exhibited a sluggish performance compared to Pakistan in the 1960s, but managed to surge ahead in the 1980s. Both South Korea and India invested heavily in

FEATURED ARTICLE

human capital and infrastructure development, foregoing an immediate payoff in favour of reaping the benefits in later years from higher value added manufacturing output, thanks to a solid technological base. Pakistan underinvested in education compared to India, as is evident from the trends in Table 0.2.

%

	Share of Public Expenditure on Education						
	Decade / Years	in Government Expenditure			in GDP		
		India	Korea	Pakistan	India	Korea	Pakistan
1	1970s	-	18.73	4.88	-	2.95	1.97
2	1980s	-	24.57	6.03	-	3.94	2.29
3	1990s	12.64	17.34	7.34	3.56	3.61	2.66
4	2000s	11.14	15.34	10.51	3.43	4.37	2.45
5	2010-11	10.76	-	10.04	3.24	-	2.30

Table 0.2: Decade-wise Public Expenditure on Education in Selected Countries
Source: Bank (2014)

Historically, national defence has overshadowed the social sectors in terms of government expenditure. The shares of 31 percent for defence, 2.7 percent for Public Health and 7.3 percent for Education in Table 0.3 reflect the priorities of the state. The trend has somewhat improved in recent years, with military expenditures falling to 17.6 percent while Public Health and Education have increased to 3.6 percent and 10.1 percent respectively.

%

	Year	Military	Education	Public Health
1	1995	31.37	7.34	2.67
2	1996	28.20	7.12	2.86
3	1997	27.52	8.07	2.76
4	1998	27.19	-	2.41
5	1999	26.34	-	2.42
6	2000	23.42	-	2.40
7	2001	24.84	-	2.41
8	2002	24.95	-	2.95
9	2003	25.23	-	2.76
10	2004	28.49	6.42	3.00
11	2005	27.67	10.94	3.11
12	2006	24.69	12.18	3.47
13	2007	21.90	11.24	3.19
14	2008	18.39	11.15	3.16
15	2009	19.28	11.15	3.29
16	2010	18.53	9.93	3.42
17	2011	17.55	10.14	3.58

Table 0.3: Major Social Sector Expenditure versus Military Expenditure Shares in Pakistan (1995-2011)

Source: World Bank (2014)

FEATURED ARTICLE

In terms of per capita income, Pakistan's performance over the years has been quite respectable, averaging an increase of 2.5 percent in annual GDP per capita income growth from USD 220 to 802, but pales in comparison to the performance of a number of other countries in the region such as China, India and Sri Lanka. However, all countries in the South Asian region have exhibited a more consistent positive trend in the decade wise growth rate of per capita income.

The sectoral contribution to GDP growth in Pakistan has been the strongest from the manufacturing sector, averaging 6.83 percent (1961-2012), even though Pakistan is primarily an agrarian economy, with agricultural sector growth of 3.71 percent over the same period.

The sectoral contribution to GDP growth in Pakistan has been the strongest from the manufacturing sector, averaging 6.83 percent (1961-2012), even though Pakistan is primarily an agrarian economy, with agricultural sector growth of 3.71 percent over the same period (Table 0.4). The economy has undergone substantial structural transformation over the years, with the share of agriculture in GDP falling from over 46 percent in 1960 to 20 percent in 2012. To put this in a regional perspective, consider the fact that the corresponding share in India has gone down from 43 percent to 17 percent, in China from 22 percent to 11 percent and in South Korea from 38 percent to only 3 percent.

The share of manufacturing sector, on the other hand, has increased from over 14 percent to almost 19 percent over the same period, a shift that suggests the economy has become more resilient in recent years - less vulnerable to the seasonality of agricultural output driving GDP growth. This shift away from the agriculture sector has also been mirrored in the structure of labour employment, though it appears that rather than moving towards the industrial and manufacturing sectors, surplus labour force from the agriculture sector is starting to find its way to the services sector instead.

This is not a detrimental shift per se for the economy; rather it is worrisome in terms of the fact that spillovers of improved performance in the services sector are unlikely to have as great an impact on the general economy as that from the manufacturing sector, or even the agriculture sector.

While the share of agriculture in Pakistan has fallen from 46 percent in 1960 to 20 percent in 2012, the corresponding share in India has gone down from 43 percent to 17 percent, in China from 22 percent to 11 percent and in South Korea from 38 percent to only 3 percent. The share of manufacturing sector, on the other hand, has increased from over 14 percent to almost 19 percent over the same period, a shift that suggests the economy has become more resilient in recent years - less vulnerable to the seasonality of agricultural output driving GDP growth.

FEATURED ARTICLE

Table 4: Sectoral Contribution to GDP Value Added

(% of GDP)

	Sector	Country	1960s	1970s	1980s	1990s	2000s	2010s
1	Agriculture	Bangladesh	-	-	31.59	27.13	21.19	18.13
2	Agriculture	China	37.16	32.35	29.39	20.50	12.45	10.06
3	Agriculture	India	42.23	38.57	31.71	27.38	19.75	17.64
4	Agriculture	Korea	33.78	26.16	13.43	6.64	3.52	2.67
5	Agriculture	Nepal	67.88	67.44	56.02	43.49	36.31	37.01
6	Agriculture	**Pakistan**	**41.16**	**33.78**	**28.55**	**26.13**	**22.31**	**20.96**
7	Agriculture	Sri Lanka	30.32	28.97	27.23	23.64	14.09	12.45
1	Industry	Bangladesh	-	-	21.17	23.94	27.12	28.40
2	Industry	China	35.18	44.48	44.33	45.39	46.44	46.60
3	Industry	India	19.87	22.27	25.52	26.11	27.35	26.68
4	Industry	Korea	23.26	29.82	39.20	41.39	37.10	39.03
5	Industry	Nepal	10.21	10.11	14.20	20.92	17.97	15.35
6	Industry	**Pakistan**	**19.22**	**22.79**	**23.27**	**24.36**	**25.45**	**25.31**
7	Industry	Sri Lanka	20.69	26.08	27.02	26.37	28.89	29.66
1	Manufacturing	Bangladesh	-	-	13.76	14.87	16.59	17.75
2	Manufacturing	China	29.02	37.22	36.04	32.93	32.37	29.52
3	Manufacturing	India	13.82	15.24	16.03	15.80	15.31	14.26
4	Manufacturing	Korea	15.57	21.61	27.51	27.14	27.21	30.75
5	Manufacturing	Nepal	3.57	4.11	5.24	8.77	8.28	6.44
6	Manufacturing	**Pakistan**	**14.30**	**15.89**	**15.98**	**16.44**	**17.24**	**18.44**
7	Manufacturing	Sri Lanka	15.59	19.02	15.39	15.68	18.19	18.11
1	Services, etc.-	Bangladesh	-	-	47.24	48.93	51.69	53.47
2	Services, etc.-	China	27.67	23.17	26.27	34.11	41.11	43.34
3	Services, etc.-	India	37.89	39.16	42.77	46.51	52.89	55.68
4	Services, etc.-	Korea	42.96	44.02	47.37	51.98	59.38	58.30
5	Services, etc.-	Nepal	21.91	22.46	29.78	35.59	45.72	47.72
6	Services, etc.-	**Pakistan**	**39.62**	**43.43**	**48.19**	**49.50**	**52.24**	**53.73**
7	Services, etc.-	Sri Lanka	48.99	44.96	45.75	49.99	57.02	57.89

Source: Author's calculations based on World Bank (2014)

These results suggest that even though Pakistan has made substantial strides in generating growth, sadly it has been unable to sustain a high level of self-reliant growth due to a myriad of challenges faced over the years.

FEATURED ARTICLE

1.1.1.1. INFRASTRUCTURE

Infrastructure development plays a vital role in the development process of a country; without the road or railway links (at the very least) to get crops to the market, agriculture would collapse, and without adequate power generation and supply to today's highly mechanized manufacturing firms, the industrial sector would be hamstrung and unable to compete effectively. Poor infrastructure availability also harms quality of life and the wellbeing of the population of a country. Improved supply, quality and affordability of infrastructure is thus essential for stimulating growth and reducing poverty levels in a country.

Given the fact that the topography of the country is rugged with varied and significant mountainous regions, roads would be the preferred choice of transport. In fact by 2012-13, the road network in Pakistan was responsible for over 96 percent of inland freight traffic and 92 percent of all passenger traffic in the country. It is the veritable transport backbone of the economy. 263,415 km of roads are networked across the country, with 40 percent lying in Punjab, almost 31 percent in Sindh, a little over 16 percent in Khyber Pakhtunkhwa and 11.3 percent in Balochistan.

About 263,415 km of roads are networked across the country, with 40 percent lying in Punjab, almost 31 percent in Sindh, a little over 16 percent in Khyber Pakhtunkhwa and 11.3 percent in Balochistan.

The railway network which is considered essential for movement of freight has tended to be relegated to the back seat in terms of receiving funds from the state. Out of a total inventory of 515 locomotives, by June 2012 only 92 passenger locomotives and 8 freight locomotives remained in operation. The revenue of the state run Pakistan Railways has fallen by 25 percent while working expenses have increased by 33 percent, comprised for the most part of employee related costs and maintenance costs associated with operating overage infrastructure and rolling stock.

Adequate generation of power has created a bottleneck for development of the economy, which the state has attempted to alleviate in the short term by importing power from abroad, renting private power plants and making long term investments in nuclear and hydroelectric power projects.

Trends in growth of electricity generation suggest that the country lacks the capacity to generate sufficient power to meet its current needs, let alone those of the future. Losses due to transmission failures and theft have also placed a growing burden on the domestic economy while at the same time compromising the ability of the manufacturing industries to develop and grow. In fact, after the substantial investment made in installed capacity after independence, the rate of growth has been slowing down, except for a slight increase on account of the commissioning of Tarbela Dam in the 1980s.

FEATURED ARTICLE

Inadequate generation of power has created a bottleneck for development of the economy, which the state has attempted to alleviate in the short term by importing power from abroad, renting private power plants and making long term investments in nuclear and hydroelectric power projects.

Alternative sources of power, including wind and solar, are also being pursued. However, the demand for power continues to outstrip any additions made to the installed capacity from these alternative sources, and the technology involved is relatively new and costly, which impedes its operation in the economy. The continuing power brownouts and blackouts across the economy have prompted many firms to invest in independent generators and back-up power supplies to ensure production operations remain unhindered by the lack of this infrastructure component.

Table 0.5: Growth Rate of Installed Capacity and Generation of Electricity

%

	Decade	Installed Capacity (MW)	Generation (GWH)
1	1950s	21.50	21.75
2	1960s	13.83	20.00
3	1970s	7.75	8.97
4	1980s	8.61	9.59
5	1990s	8.23	5.88
6	2000s	1.89	3.87
7	2010s	4.00	0.00

Source: Government of Pakistan (n.d.)

CHALLENGES FACING THE ECONOMY

The discussion above has highlighted the trends in Pakistan’s economy as it has evolved since the time of independence for almost 65 years ago. Between 1949 and 2013, GDP growth has averaged 5.29 percent which compares quite favourably with other countries in the region. Despite a swift rise in population, per capita income has managed to more than triple since 1960, and the growth in GDP has been made possible due to substantial increases in output from the agricultural and industrial sectors. Production of wheat rose almost ten-fold from 2.4 million to 23.9 million tonnes, rice from 0.83 million to 6.9 million tonnes and cotton from 1.9 million to 12.9 million bales between 1953 and 2010. Maize witnessed a ten-fold increase from only 0.35 million to 3.5 million tonnes. Industrial production that began with only a textile mill and a cement plant, has since blossomed into a wide variety of food industries, cigarettes,

FEATURED ARTICLE

fertilizers, engineering and automotive, electrical and mechanical engineering, metallurgy, pharmaceutical and even ship building industries.

Despite a swift rise in population, per capita income has managed to more than triple since 1960, and the growth in GDP has been made possible due to substantial increases in output from the agricultural and industrial sectors.

Despite the quantum increases in agricultural crop yields, production in the sector is subject to weather conditions, and industrial firms are finding it difficult to break into the global market for their products. Unable to export products of any meaningful value addition means that import levels invariably exceed exports and this places an almost intolerable strain on the economy's foreign exchange reserves and has led to a mounting external debt. Traditionally, debt servicing has been the major component of the federal budget, followed by funds set aside for defence, with the result that only meagre amounts are set aside for investment in other areas considered crucial for successful development; infrastructure, health and education, to name a few. It can be concluded that the development of human capital is more of an afterthought than a national imperative, and the fruits of economic growth are not in evidence in the lives of the ordinary populace of the country.

Economic growth has clearly taken place, but the distribution of gains has been uneven, as evidenced by the persistent levels of poverty across the country. With a high growth rate of population, the country is on the brink of witnessing a demographic dividend; the proportion of able bodied, young persons is increasing by the day, and the pressure is mounting on the labour market which is ill-equipped to handle the increased levels joining the market.

The state is faced with a new challenge of effectively managing this demographic transition, a challenge that can be met by focusing on industrial sector development, but the outcome will be determined by the nature of political consensus in the country.

The state is faced with a new challenge of effectively managing this demographic transition, a challenge that can be met by focusing on industrial sector development, but the outcome will be determined by the nature of political consensus in the country.

Despite the bias towards promoting industrial sector development and the growing importance of the services sector, agriculture sector continues to be the mainstay of the economy to this day. This has implications for the consistency and sustainability of medium and long-term growth of the economy since it is painfully clear that agricultural output is subject to the vagaries of the weather.

FEATURED ARTICLE

Traditionally the industrial sector is tapped as the engine of growth in developing countries; as the sector most suited to absorbing and utilizing large pools of labour for productive means and generating the spillovers that will ensure that productivity in the other sectors of the economy also increases. Even though the industrial sector has shown the potential time and again to drive growth of the domestic economy, the state has failed to put forward a meaningful strategy and vision for long term development of the sector.

The lack of investment in infrastructure development, especially power generation and affordable rail transport has meant that firms have to allocate resources towards meeting their needs from private sources, which tend to be more costly. Not only that, the industrial sector as a result is also unable to realise its full potential due to the infrastructure bottlenecks.

Despite inheriting only a meagre industrial base at the time of independence, the state had the foresight early on to make significant investments in building the infrastructure required to industrialize successfully while at the same time directing the development of the local industrial sector and deepening of production capabilities through technology acquisition efforts. Later, both the internal and external environments have not been conducive to promoting economic growth and development.

Even though the industrial sector has shown the potential time and again to drive growth of the domestic economy, the state has failed to put forward a meaningful strategy and vision for long term development of the sector.

Lastly and most importantly, the incumbent government has focused on the issue of corruption as a major challenge for the economy and appears to be focusing on this from top down. Pakistan's ranking in recent years has worsened; rising from 2.5 to 3; an anomaly in the South Asia region. That is not to say that other countries are corruption free; rather the extent of corruption compared to the size of the economy is small enough for the economy not to be overcome by it. Markets still function relatively efficiently, productivity and competitiveness levels remain high and growth continues apace. The situation in Pakistan is different; markets are underdeveloped or non-existent, competitiveness appears to be the exception rather than the rule and we have a preference for regulations and bricks and mortar.

FEATURED ARTICLE

The focus in Pakistan is now on eradicating this menace to the economy, by catching and making an example of people believed responsible for it. However, no one appears to be focusing on the reason why corruption is taking place; why do people feel compelled to go for such an undesirable activity.

This excessive regulation and love for red-tape acts as a major deterrent for entrepreneurs already operating or thinking of operating in the economy.

But individuals by and large are not inherently dishonest; there has to be something pushing them to adopt such behaviour. Our hypothesis is that the business environment in the country is hamstrung and stifled by over-regulation. This is evident in the ranking of the World Bank's Ease of Doing Business Index; Pakistan ranks at the low level of 108! This excessive regulation and love for red-tape acts as a major deterrent for entrepreneurs already operating or thinking of operating in the economy. Who wants to spend hours upon hours dealing with various government offices to get their taxes sorted out? Interviews conducted by PIDE with key stakeholders in various industries have highlighted this fact . No doubt, this connection deserves to be explored further for other industries and sectors of the economy.

[1] See: Qadir, Din and Ghani (2019) "Competitiveness in Pakistan: A Case Study of the ICT Industry" PIDE Working Paper Series, No. 168; Malik, Ghani and Din (2017) "An Assessment of Pakistan's Export Performance and the Way Forward, PIDE Working Paper Series, No.153.

FEATURED ARTICLE

%

Country Code	Corruption Perception Index							EODB Index (2018)
	2005	2010	2011	2012	2013	2015	2018	
1 PAK	2.5	2.5	2.5	2.5	2.5	3	3	108
2 IND	3.5	3.5	3.5	3.5	3.5	-	-	63
3 BGD	2.5	3	2.5	2.5	2.5	2.5	2.5	168
4 LKA	3.5	3	3	3	3	3	-	99

Source: World Bank

CONCLUSION

The divergence of industrial development and by extension, overall economic growth trends, between developed and developing countries, and even among various groups of developing countries is a disturbing trend. The expectation had been that when late developers would accelerate their growth efforts the growth trajectories of all countries would converge.

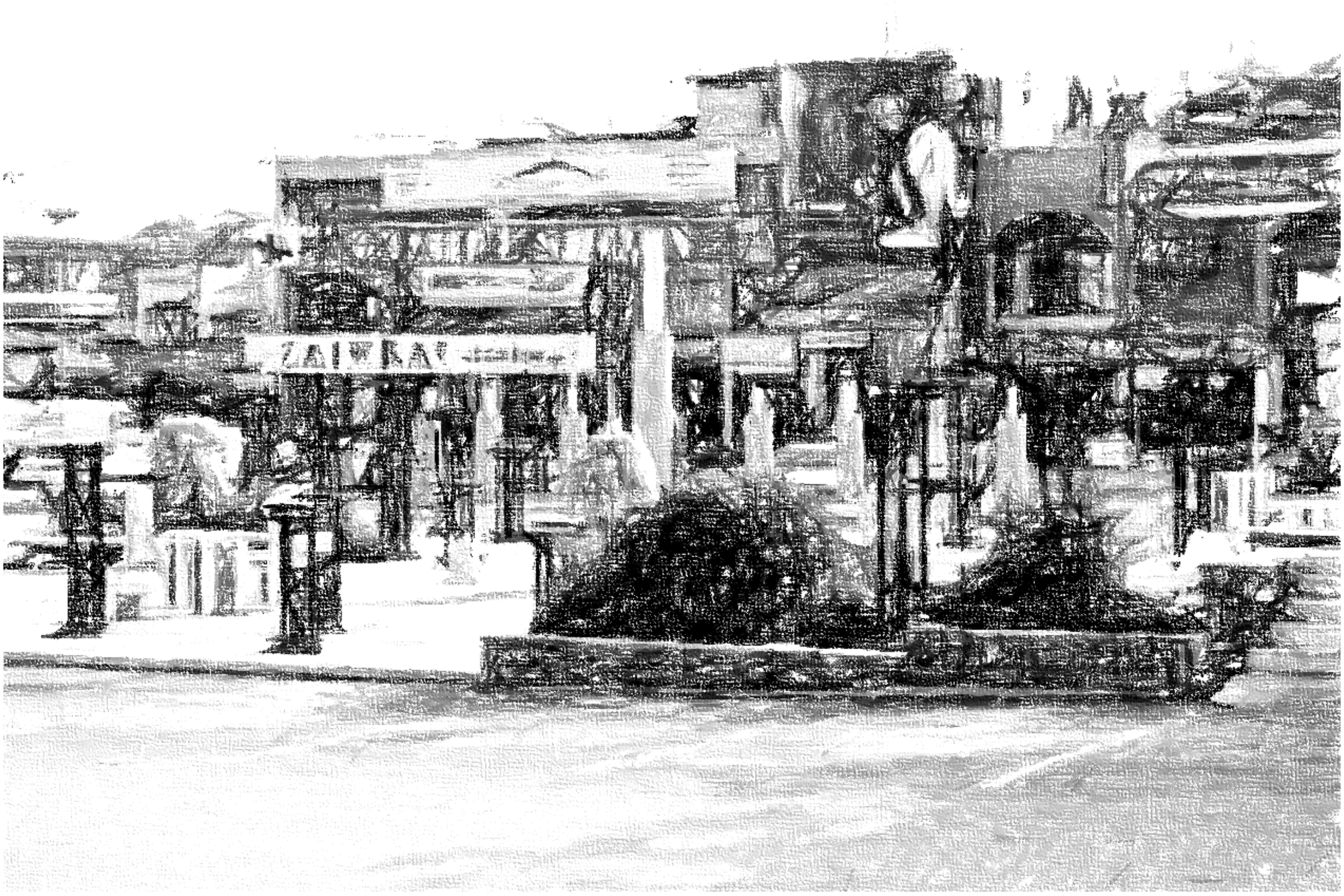
However, this has not turned out to be the case; a number of developing countries managed to close the gap but the majority languished behind, and this has rekindled interest in trying to identify the reason for this gap. Earlier explanations focused on openness, free markets and a minimal role of the state as the driving force of the success stories of development. Later explanations drew inspiration from the work on evolutionary theory to argue convincingly for the key role played by technological change and capabilities in driving competitiveness and growth.

We feel an underlying reason that plays a crucial role in explaining why growth is faltering rests in excessive or overburdened regulation in the economy.

MARKETS

My research showed that one needed to find a balance between markets, government, and other institutions, including not-for-profits and cooperatives, and that the successful countries were those that had found that balance.

Joseph Stiglitz, Nobel Laureate (Economics)



MARKETS

SUGAR CRISIS

Sugar Coated Sugar Crisis and Cartelization

By Uzma Zia

"See, if you look at the drug war from a purely economic point of view, the role of the government is to protect the drug cartel. That's literally true." ~ Milton Friedman

Introduction

In Pakistan, sugarcane is considered as a high value cash crop with value addition in agriculture of almost 2.9 percent. Sugarcane farming offers partial and seasonal employment to about 3.9 million individuals, which is about 12.14% of the total agricultural labor force. Since 2014-15, the production of sugarcane increased and an impressive target was achieved in 2017-18. In 2018-19, sugarcane crop production was observed to be lower by 19.4 percent (to 67.174 million tonnes) compared to 83.333 million tonnes in 2017-18 (Figure 1). The common reason for the decline was thought to be the shrinking of cultivated area (by 17.9 percent from 1,343 thousand last year to 1,102 thousand hectares). Likewise, low economic earnings dispirited the growers to bring more area under the cultivation of sugarcane crop. A surplus crop doesn't let farmers get a good price, therefore, they usually look at their specific paybacks.

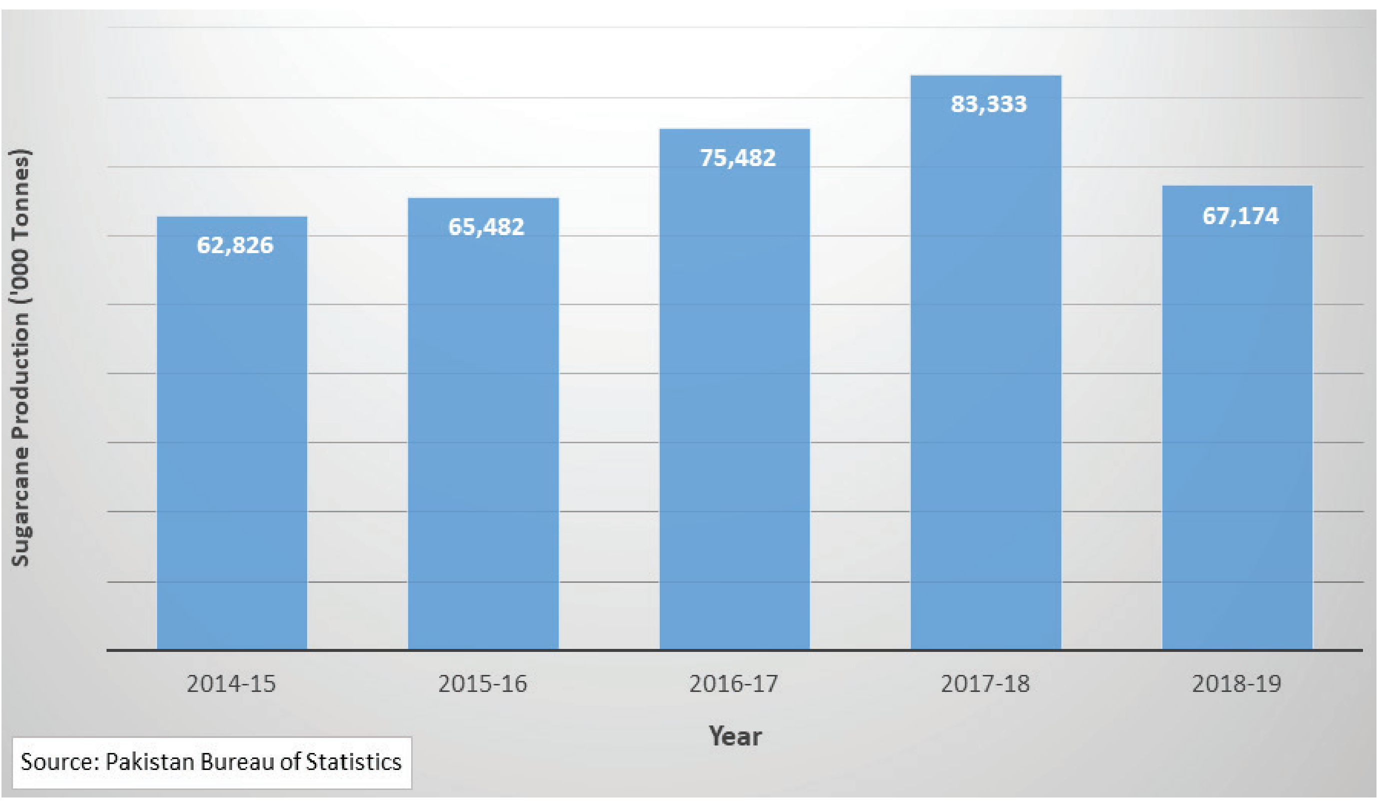


Figure 1: Sugarcane Production in Pakistan

MARKETS

Regulatory Market Structure: Policy or a Puzzle?

A SNAPSHOT OF THE SUGARCANE INDUSTRY

Sugar is an important byproduct of Sugarcane. Sugarcane is one of the most important cash crops of Pakistan, the main input for sugar production. Sugar industry is an agro-based industry and volatile worldwide. It contributes in the economy by providing employment to the rural population and being a source of foreign earnings. Pakistan is the 6th largest sugarcane producer in the world while ranked number nine in the world for sugar production. It is the 8th largest sugar consuming country in the world. There are over one million hectares of land used for sugarcane cultivation, which produces more than five million tons of refined sugar.

The government monitors the price of sugar and undertakes various measures to keep the prices stable. The retail price of sugar in Pakistan has become equal to the cost of producing sugar. At present, the cost is between 72-83 rupees while the retail price of sugarcane (including tax) makes it Rs 75 with tax. This is currently the highest GST on any item. If the price of sugar equals its cost then there is an unstable system and farmers don't get good price for supplying cane to mills.

SUGAR CRISIS & CARTELIZATION

In the past few years, the production of sugar was historically more than the local requirements (Figure 1). The production of sugar till 2017-18 was enough and it was exported. In the year 2018-19, sugar production decreased, exports continued and the country observed a shortage. The export of sugar was unjustified as producers expected sugarcane production to be low in harvesting season 2018-19 and with the export of sugar in Jan 2019, the price of sugar sharply increased locally. Exports play a major role in the economy but it is important to note that only the Punjab government provided the export subsidy. The financial outlay of subsidy was 3 billion rupees. Has the government prompted the sugar crisis by giving an export subsidy?

Sugar mills obtained an export-related subsidy for the year 2018-19. A few mill owners obtained maximum benefit during the crisis. Having multiple sugar mills, they availed export subsidies during 2015-18. Despite the emerging crisis, the Sugar Advisory Board failed to take a timely decision to ban the export of sugar. Why? This is an unanswered question. Six groups have been observed to have control over more than half (51%) of local sugar production in the country. These groups have developed the capacity to manipulate the market by joining hands in a cartel.

MARKETS

The exporters gained in two ways - they received a subsidy and hoarded sugar to make a killing by increasing sugar prices in the local market.

Out of six, three groups benefited the most as they took advantage of more than half of the total subsidy and sold their product in the local market after prices soared. The exporters gained in two ways - The exporters gained in two ways - they received a subsidy and hoarded sugar to make a killing by increasing sugar prices in the local market (the price increased from PKR 55.00 per kg in December 2018 to PKR 71.44 in June 2019, although GST increased from July 2019). They raised prices at the expense of taxpayers who had to buy sugar at prices over 50% higher than last year's prices. In this sugar cartel, sugar mill owners have colluded to raise prices by controlling supply, and they have benefited due to their political influence. The sugar stock hoarding was found to be completely illegal, as exposed by government reports and media. The overcharged prices of sugar during this period imposed a huge economic cost on consumers. No wonder, consumer-welfare losses were observed in the country.

In this sugar cartel, sugar mill owners have colluded to raise prices by controlling supply, and they have benefited due to their political influence. The sugar stock hoarding was found to be completely illegal, as exposed by government reports and media. The overcharged prices of sugar during this period imposed a huge economic cost on consumers.

Table 1: Timeline of Major Events

	Event	Time/cause
1	Increased sugar prices	PKR 55 per kg (Dec 2018) - PKR 71.44 per kg (Jun 2019)
2	Sugar price rise in local market	Sugar export allowed in Jan 2019
3	Major increases in sugar price	Jun 2019
4	GST raised retail prices increased by PKR 16/-	Implemented from Jul 01, 2019
5	Discrepancies in the amount of sugarcane produced and the amount of sugarcane crushed [1]	Tax evasion motive
6	PSMA's claims they paid excessive prices to farmers [2]	Prices 15% higher (due to speculation around low production)
7	Punjab Government provided subsidy [3]	PKR 3.0 billion subsidy provided
8	Mill owners benefitted from exports	Export subsidy led to huge profits
9	Millowners gained from local markets	Earned profits by raising price in local market
10	Sugar Mill owner's reaction	Cartel formed

MARKETS

Note:
[1] Mills buy, produce and sell sugarcane off the books
[2] Higher than the support price
[3] Punjab government provided subsidy for export of sugar when the price of sugar was increasing in the local market. (The Express Tribune, May 10, 2020)

CAUSES OF THE SUGAR CRISIS

The causes of the sugar crisis are important to note.

1-POLITICAL INFLUENCE AND LICENSES GIVEN TO SPECIFIC PEOPLE

In 2005-06, the Control of Industry Act in Punjab placed a ban on the establishment of sugar mills. But the sugar industry continued to expand in the last few years. Licences were given to establish sugar mills in Rahim Yar Khan and some key industrialists (mostly politicians) availed this opportunity and started grabbing a big market share. Those industrialists for whom there were no favorable incentives left; they had to shut down their industries. Currently, there are 85 sugar mills mostly licensed to political people. Sugar has become a political commodity. It has been over-regulated and profits have been substantial.

2-ABSENCE OF OPEN MARKET COMPETITION

In the year 2002, the highest capacity of sugarcane crop was witnessed in Faisalabad region. Specific licences were given and there was no open competition. Rather than attempting to compete, other competitors opted to shut down their businesses. By 2018, capacity utilization decreased in Faisalabad region as the government itself supported establishment of mills in Rahim Yar Khan. The problem from competition point of view as indicated by Khan (2020) is that all these mill owners, due to political status, are able to influence the government. They work outside of market forces and unite for their own benefit. The government ends up over-regulating domestic market, by intervening through prices, subsidies, export quotas, and import controls.

3-SUPPORT PRICE MECHANISM

The government of the PPP, the ruling political party in 2008, increased support price of sugarcane again and again. On the other hand, PML-N government increased support price only once, which proved to be a disincentive for farmers and the reason for the shortage of this raw material.

MARKETS

It is the responsibility of provincial governments to fix the procurement price of sugarcane from farm to mills. The government fixes price above the global market price and below the domestic prices (Khan, 2020). The mechanism didn't work well and farmers' exploitation started here with low and delayed payments. It was planned to be the price at which the mills would buy sugarcane from the farmers, but gradually it turned out to be a floor price. This policy instrument remained ineffectual and became a source of farmer's exploitation (PIDE Webinar, 2020).

4-TRADE CONTROLS AND INEFFICIENT POLICIES

As ruling party, the PML-N did not increase the price of raw material. In 2014-17, the government announced support and quotas only as policy tools. In 2018-19, the current government announced quota and subsidy of Rs 3.0 billion for all sugar mill owners, which was not a suitable policy option. The sugar mill owners availed this export subsidy. Hence it led to hoarding of excess sugar production, export and became a source of high revenues leaving others worse off. Untimely export created a shortage inside the country.

Sugar industry remained over-regulated in the past without any comprehensive policy. This is the time to get rid of inefficient sugar mills and political alliances.

Some more subsidies to sugar industry also exploited the country. Subsidies on canal water use, fertilizer/ inputs, electricity and credit also led towards the sugar crisis. In the same way, the government intervenes in the domestic sugar market and sets policy options for import or export decisions. In the wake of inefficient policies and trade controls, nobody bothers about domestic demand of sugar; it was shocking to see government approval for exports.

RECOMMENDATIONS

1- Sugar industry is availing multiple subsidies on water pricing, support price payments to farmers, export subsidy etc. In the current scenario, it would be a good option to break cartels formed by sugar mills.

2- Moving away from export subsidies in sugar industry is a prerequisite. Removing politics from policy making and implementation process is essential.

3- Sugar industry remained over-regulated in the past without any comprehensive policy. This is the time to get rid of inefficient sugar mills and political alliances. Price of sugarcane should be based on its recovery and an environment of open competition should be a priority.

4- As sugar export is a good source of foreign earnings, an efficient domestic sugar industry is required. Greater investment in R&D will lead to productivity and efficiency enhancements.

REFERENCES

Dawn (2020), Sugar crisis probe report leaves ruling alliance red-faced, April 05, 2020
Khan, K (2020) The Sugar Industry and inefficient Regulation, in Express Tribune.
PIDE webinar (2020) Sugar Industry in Pakistan, held on April 10, 2020.
The Express Tribune (2020) Forensic report on sugar crisis delayed, May 10, 2020

MARKETS

SUGAR CARTELIZATION

Why Sugar Cartelization Happened – A Survey

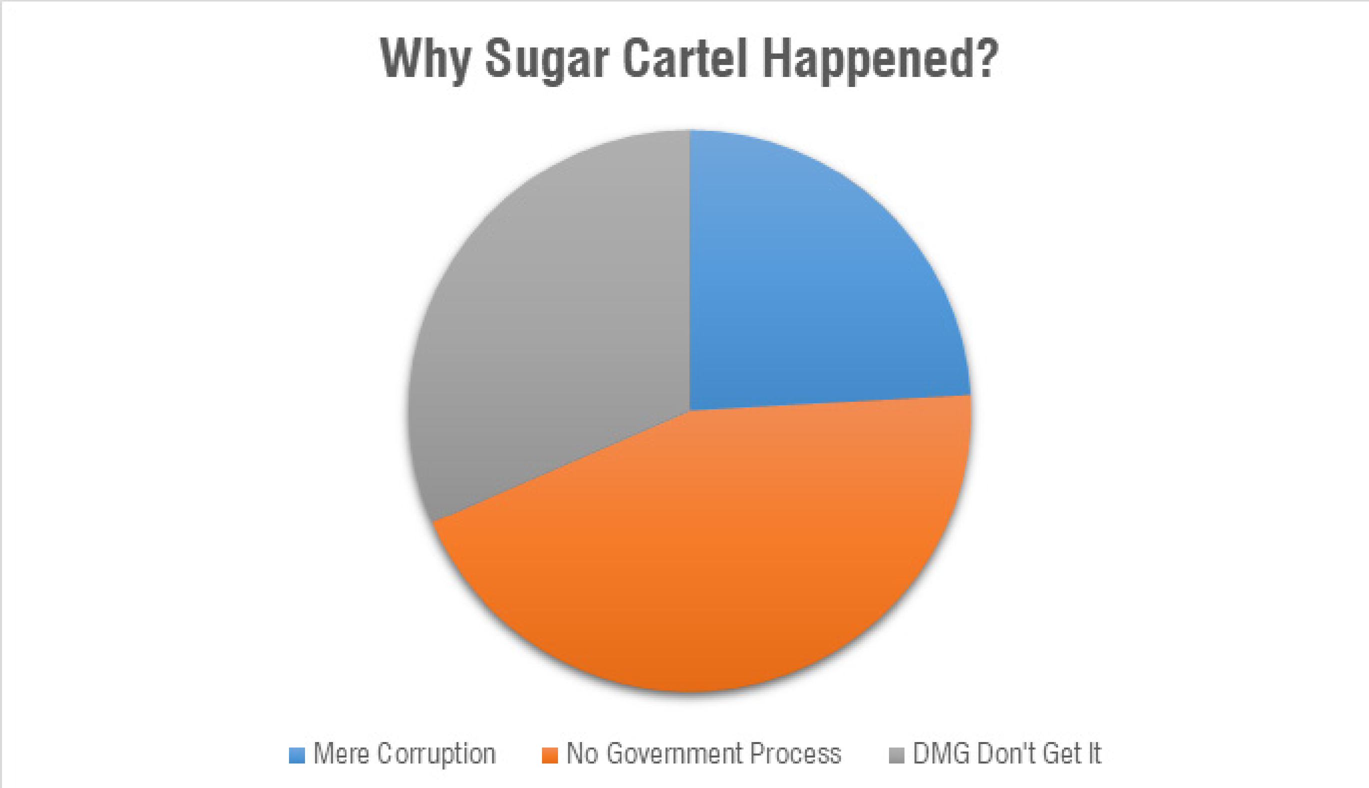
Despite serving as the backbone of the economy, agricultural sector has been facing chronic crises since the early days. Competitiveness in the agriculture markets has nearly been a myth due to the rooted cartelization and procurement crisis fueled both by provincial and federal governments.

The 2020 report on the industry confirmed the loss of billions of rupees in the name of an export subsidy. This subsidy led to a shortage and an upheaval of prices of sugar. The shortage or inappropriate usage of sugar is chronically linked with the political powers. The probe report has shown the linkages of the politicians of the federal ruling party as well as the opposition's party members in the realisation of subsided monetary benefits for their personal gain of approximately PKR 30 billion across the country through their owned mills rather than provision of benefits to the consumers for whom the subsidy was intended.

MARKETS

Even with increased yields of sugarcane in recent years these political affiliation and reaping of profit has led the country's economy into a lose-lose situation. It has caused a gap between demand and supply of sugar in the market along with export of sugar at a low price in international market.

A survey (by Dr Nadeem ul Haque) reveals the general public perspective regarding origins of the crisis. Most of the people selected the slow government process, which reflects the idea of missmanagement and weak law enforcement leaving the general public to bear the cost.



MARKETS

SUGAR INDUSTRY WEBINAR

Webinar on Sugar Industry in Pakistan

TAKEAWAYS

- *REPEATED SUGAR CRISES RESULT FROM OVER-REGULATION IN SUGAR INDUSTRY*
- *RECENT CRISIS HAS ROOTS IN GOVERNMENT'S SLOW RESPONSE TO TIMELY REMOVE EXPORT QUOTAS*
- *SUPPORT PRICE FOR SUGARCANE IS NOTIONAL*

Why do we have repeated sugar shortages? Is it smuggling? Is it hoarding? Or is it something even deeper? PIDE has stimulated an academic debate by taking a closer look at the recent sugar crisis during a webinar held on ??00, 2020. The purpose of the webinar was to assess the economic incentives or disincentives generated from over-regulation of the industry.

The case for regulation of sugarcane industry has been built on the premise that both buyers and sellers need protection from collusive behaviour. Sugarcane is non-storable and non-transportable, so Mandatory Crushing Laws and support prices are used to protect farmers' interests. A Licence Raj has been put in place to protect millers by securing their rights of access to sugarcane in their designated area.

These regulations are creating distortions in the market and increasing inefficiency and welfare loss. First by creating cartelization for millers because of the Licence Raj, second by ensuring that the competitive price mechanism does not work because of support price, and lastly by encouraging overproduction because of mandatory crushing law in the season of surplus sugarcane. Price and supply by structure, are not market determined so there can be surpluses and shortages of the product. Protection to the sugar industry in the form of high import tariff further weakens the competitive price signals.

MARKETS

Why such excess was produced in the first place was because the over-regulation of sugar and sugarcane industries does not let the supply and demand mechanism work efficiently.

The regulations are creating distortions in the market and increasing inefficiency and welfare loss.

Just as over-regulation of markets is killing the construction industry, the same is clearly being practiced in the sugar industry, and this will undoubtedly have important ramifications for us. It is due to the economic distortions that Pakistan, again and again, undergoes massive periods of subsidization for sugar. The politicization of the sugar industry is also an element to consider, but dysfunctionalities such as cartelization and sugar shortages have a foundation in too much regulation rather than in the political economy issues themselves.

Just as over-regulation of markets is killing the construction industry, the same is clearly being practiced in the sugar industry.

MARKETS

AGRICULTURE IN PAKISTAN

Agriculture in Pakistan: A Revisit

By Mahmood Hasan Khan

"The farmer is the only man in our economy who buys everything at retail, sells everything at wholesale, and pays the freight both ways." — John F. Kennedy

Introduction

Pakistan's agriculture sector is in a precarious state. I think the blame rests with the state, its policies and agents, more than the vagaries of nature. But on the bright side we can influence public policy far more than the moods of nature.

The challenges to the sector also offer fresh opportunities and incentives to make the agriculture sector a vibrant partner, if not leader, of the national economy. There are numerous policy issues given the multiple and competing interests of stakeholders. These include small and large landowners and livestock holders, landless tenants and labourers, private market intermediaries (traders, processors and manufacturers), consumers, not-for-profit private organizations, and the public sector departments and agencies. Four major policy issues that need to be addressed are:

Challenges Facing the Sector

- *Meet the changing consumer preferences and dietary habits induced by income growth and urbanization,*
- *Conserve land and water resources in the face of the not-too-certain but potentially serious consequences of climate change,*
- *Absorb the rapidly rising cost of inputs (particularly energy) and support farm profitability,*
- *Involve small farmers and livestock holders in a diversified and commercial agriculture,*
- *Open new investment opportunities in the rural non-farm economy to provide jobs to the landless rural labour, and*
- *Integrate into the global (and increasingly competitive) markets for food and industrial raw material.*

Four policy issues to address:

1. *Productivity and quality of land and water resources*
2. *Production and distribution of crop seeds and livestock breeds*
3. *Transfer and adoption of productivity-enhancing and profitable technology*
4. *Market structures (supply chains) and government regulations for markets of fruits, vegetables and livestock and their products*

A suitable policy framework is premised on three propositions. First, we should use a 'farming systems' approach, in which crops and livestock are viewed as two interdependent parts of the production regime adapted to the changing resource endowment and markets. Second, small farmers (landowners and tenants) and livestock holders are the key players—small-scale agriculture supports the livelihoods of a majority of the rural poor—

MARKETS

whose integration in the rapidly-expanding commercialized agriculture is an essential part of the transformation process. Needless to add, the economic survival of small farmers depends on their livestock and wage labor. Third, the agencies of the state should be in the business of protecting property rights that are well defined; investing in public goods (infrastructure and support services); regulating the marketplace for quality and safety for producers and consumers; maintaining an efficient and fair regime of taxation; and providing support (safety-net) to the disadvantaged and vulnerable individuals or groups by income, gender, age, or skills.

The business of state is not to throttle private initiative and innovation by myriad controls and distort the signals for efficient production and distribution of goods and services.

Some conditions must be taken into account in designing and implementing policies for an inclusive and sustainable process of agricultural growth:

1. National and provincial research systems need to produce, convert and adapt the best scientific knowledge that exists nationally and internationally.
2. The stock of tested knowledge and technology should be transferred to farmers and holders of livestock in packages that raise the efficiency levels of their resources and farm profits
3. Farmers should have an environment in which their rights to property and resources are well protected; they have fair access to well-regulated and competitive markets for buying farm inputs and services and sell their products; they are supported by the state
4. Fair access to resources and a plain (fair) playing field for participation in the marketplace for the small farmers and livestock holders that contribute large proportion of output to the sector.

Given the concern with issues of environmental degradation, food safety and health the world over and the more open and competitive international markets, it is absolutely essential to (i) wean the farmers away from dependence on input-intensive technology and wasteful management practices and (ii) put in place and enforce rules and regulations that maintain proper incentives for private initiative, innovation and investment, reduce space for rent-seeking and penalise perverse behaviour (pollution and free-riding). Price-distorting and inequitable (generalised) subsidies, which drain public resources with high opportunity cost, are not part of the emerging regime for international trade in agricultural goods.

Government policy must shift from providing subsidies on farm inputs to investment and support for research and extension services, market infrastructure and information, electrification, and value-addition

MARKETS

in crop and livestock products. The important issues for public policy to improve the performance of agriculture in Pakistan.

Agricultural Land

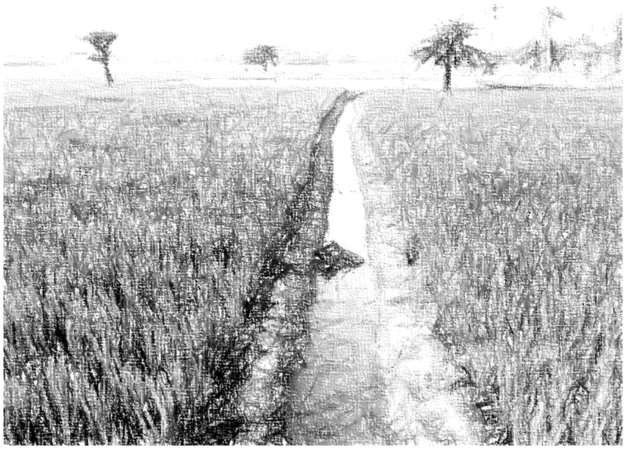
1. Good farmland should be protected from its less agreeable alternative uses, especially around the periphery or in close proximity of the urban centres, by proper and enforceable zoning regulations.

2. Legislate private right to the ownership of agricultural land and enter into official record the title of the legitimate owner. It is absolutely essential to involve all stakeholders in the land survey (using the GIS) needed to resolve the competing claims on land in the existing land record.

3. It is important to find out why the pilot projects on the computerisation of land record have not produced the anticipated results. What lessons have been learnt? Once the digitised land record is completed, do away with the 'patwari' system in the provinces.

4. Protection of land quality should be high on the policy agenda: change the distorted price signals and similar policies that encourage farmers to use the input-intensive technologies. We know that the zero tillage, green manuring, composting and crop rotation help improve the structure and fertility of soils.

Irrigation Water



1. Put in place a regulatory framework for the use of groundwater and enforce the rules to avoid overexploitation of the aquifer. Why not vest the ownership of groundwater with the state and give fair access to individuals on demand.

2. What lessons have been learnt from the farmer-controlled canal irrigation system and how they have been incorporated in the new canal command areas?

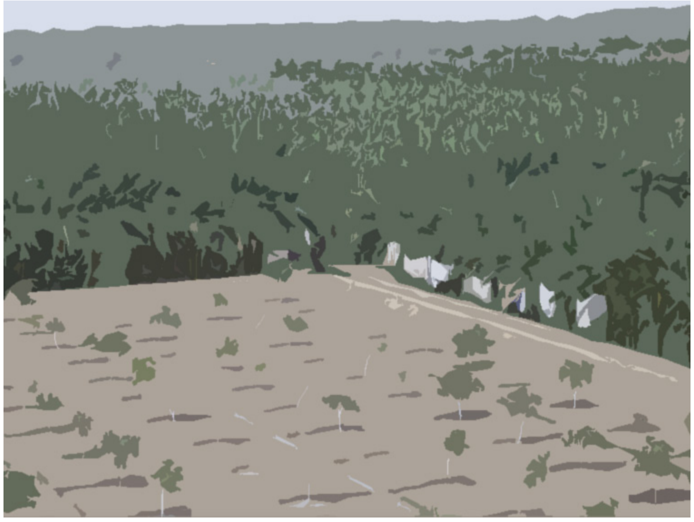
MARKETS

How does the new system compare with the government-controlled centralised canal irrigation system?

3. Introduce on a pilot basis a volume-based system of irrigation water supply starting at the tail-end of watercourses.

4. Management of water at the farm level must be improved by testing and disseminating technologies that take into account the economic and technical constraints of farmers and the small farmers in particular. Are the small farmers too far behind the large farmers in the adoption process? What are the major reasons? How can their constraints be alleviated?

Crop Varieties and Livestock Breeds



Given the importance of good seeds for crops and their limited use, the regulatory framework should create incentives for breeders in the private and public sectors and private suppliers of seed (produced locally or imported) and regulate the quality and safety aspects of seeds available to farmers in the marketplace.

Too many controls create plenty of room for perverse (rent-seeking) behaviour. Give incentives to the private sector to invest in the projects of breeding, feeding and veterinary services for livestock. Given the success of genetically-modified organisms in many countries, should we not focus the knowledge of biotechnology on crop varieties for higher yield levels, greater resistance to pests and weeds, better adaptation to climate change, and lower dependence on inputs and resources? In a similar way, this technology should be used to improve the breeds of animals for milk and meat.

Agriculture Research and Extension Services

1. Since good research and extension services are important for the growth of a productive agriculture and farm income, and given the widespread doubts about the effectiveness of the existing agriculture research and extension services, it would be interesting to estimate the rate of return on public sector investment in these activities. Has the service been worth the public money spent on it?

2. How can (or should) the universities, provincial research and extension establishments and the private

MARKETS

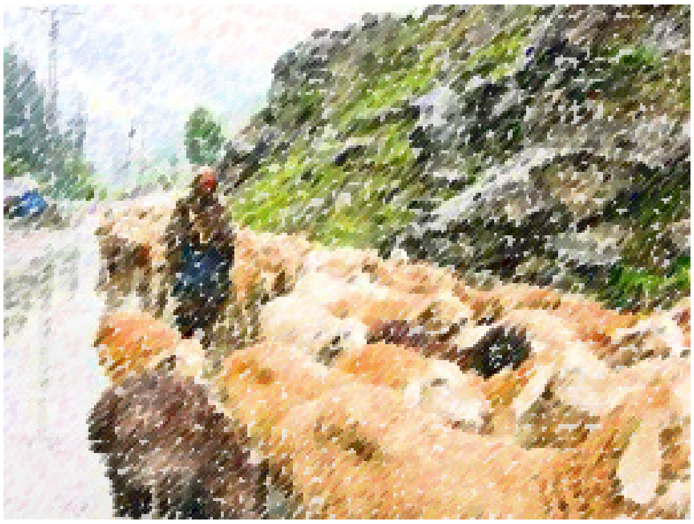
sector improve their collaboration to develop synergies?

3. The attempt to 'corporatise' the provincial research institutes should be done with great care because of the unresolved issues about the transfer of assets and liabilities and the selection of research staff.

4. Is the bifurcated system of extension service in crops and livestock the best way to transmit new technologies and messages to the farmer? Should the extension system not transform itself into a specialised service given by both the public and private sectors? Should the system not use a localised adaptive-research method in which the service interacts with the farmer through focus groups (e.g. Farmer Field Schools or Village Organisations) served by skilled professionals with the support of teams of research specialists? Why not move to a digitised information system between specialists and farmers?

Markets for Agriculture Products

1. The government's monopoly on markets (mandis) for agriculture produce (e.g. fruits and vegetables) should be terminated and the private sector be allowed to establish regulated markets to reduce the number of intermediaries and their margins. The government should concentrate on providing a fair playing field to the buyer and seller and regulate the quality, grades, and safety of the produce.



2. A similar approach is needed in the selling and buying of live animals and slaughter of animals. Government should not own the mandis for live animals and abattoirs, but regulate them well: let the private sector do its business. In fact, the government should give material incentives and facilities to the livestock holders and private investors to develop livestock pockets in the rural areas where the animals are kept by millions of small livestock holders.

3. Finally, governments should not be capping the price of milk or meat in the urban areas since it either raises the price, or reduces the supply, or encourages malpractices (adulteration, etc.).

MARKETS

Information and Data

1. Since government agencies collect and keep almost all of the information and data related to various aspects of crops, livestock and irrigation, it is necessary to improve their quality by involving other stakeholders in the planning, designing and collection processes. Data verification should be a continuous process.

2. Government should remove all legal and administrative barrier for access to information and data—make them available on demand—which are of public interest.

MARKETS

Retail Market

Retail Sector – Shared Growth through E Commerce

By Saba Anwar and Uzma Zia

The retail trade or retail sector is the spearhead of domestic economy. It is the front face of the manufacturing and drives the entire supply chain from consumer to manufacturer through price signals. Over the time the retail has bifurcated into two components: the organized and the unorganized component. The organized sector is brands and chain-stores with more organized business professionals. The unorganized part is where the poor and the middle class are hidden - the small shopkeeper, the rerhi walas, the unskilled labour. They are more than 90 percent of the entire retail trade.

Key Sector Statistics

- *Value (Retail plus wholesale): PKR 7 trillion (USD 150 billion)*
- *Share in service sector: 19%*
- *Growth (2017-18): 7%*
- *Labour force share: 16%*
- *Main segments:*
  - Grocery and Fast-moving Consumer Goods fashion retail consumer electronics

Source: Federal Bureau of Statistics

A bsence of Plans and Implementation

The presence of a huge unorganized or informal sector in retail, largely import based and primitive needs to be thought about. There are several reasons for it. First of all there is absolute absence of any plans or policy framework by any government for this sector as pointed out by Haque (2006) . The study calls for the Ministry of Commerce to take responsibility and unleash the potential of this sector. Sadly, today after fourteen years the state of domestic economy remains the same.

Integration in domestic manufacturing

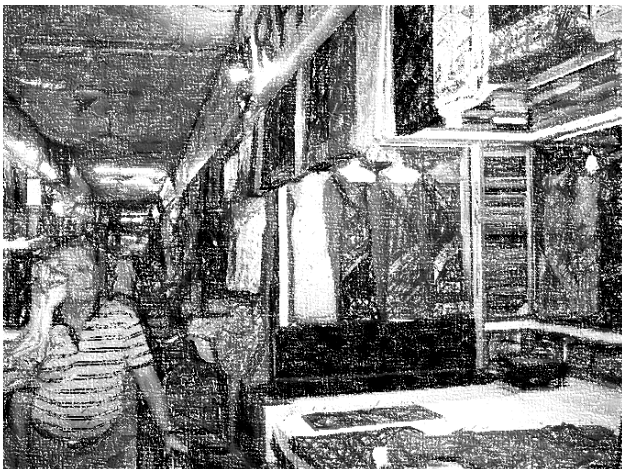
Secondly, despite persistent efforts Pakistan has not been able to break the low productivity and lower value addition-based manufacturing cycle. This has hampered the integration of domestic manufacturing in the retail sector. More value addition thus requires reliance on imports. The imported items offer better quality in Groceries and FMCG which is 40 percent of the retail in Pakistan. The ease of imports from China, at a price lower than the domestic cost of production further lowers the demand for domestic sourcing. This leaves behind little incentive to organize and execute domestic sourcing.

[2] Haque, N.U (2006), Awake the Sleeper Within: Releasing the Energy of Stifled Domestic Commerce!, PIDE Working Paper.

MARKETS

Tax Policy

Thirdly, there are so many barriers to entry in the retail sector because of issues on policy side. The policies are not supportive to retail industry. One of them is the erratic tax policy. Every year taxes are revised. The short-term targets and short-term goals of the tax machinery, corruption and harassment hurt the retailers and the businesses. The reactive and predatory tax policy failed to bring people in tax net specially the small corner shops. They prefer to stay in the unorganized segment of retail. The cost of keeping books is very high in Pakistan.



The policies are not supportive to retail industry. One of them is the erratic tax policy. Every year taxes are revised. The short-term targets and short-term goals of the tax machinery, corruption and harassment hurt the retailers and the businesses.

It takes an average of around 560 hours (highest in South-Asia) to comply with tax . The import based oriented businesses also face disparities in terms of duties, the grey channel of imports etc.

Commercial Space

Though demographics are conducive for the retail business, the poor urban policy management is creating bottlenecks. Thus little progress was observed in terms of the customer satisfaction with small show rooms and window shopping spaces. Pakistan had 35 shopping malls in last ten years still in terms of the historical development of markets as explained in Haque (2006) the unorganized sector is at second stage and the organized segment is at fifth or sixth grade. The cities could not accommodate the retailers and share the benefits of impressive 20% growth of this sector. The government continues to own large tracts of land in city centers for official residences, offices, training institutes and other non-commercial official purposes. This blocks productive city center development [Haque (2006)]. The lack of commercial space hay wired the supply demand matrix and the rentals started sky rocketing.

[3] Reforming Tax System in Pakistan (2013), Sustainable Development Policy Institute (SDPI).

[4] In the second stage improvements in convenience, margin, turnover, inventory and search costs over first phase as more competition develops but still market participants lack financial strength to truly benefit consumers.

MARKETS

The poor retailer in the unorganized segment lacks the capital to get into structured expensive retailing. So he is further marginalized and excluded. Unlike Bangkok, Hong Kong and Singapore, urban zoning allows no space for street vending through kiosks in city centres [Haque (2006)]. There are millions of khokhas in Indonesia. The land commercialization policy is a cumbersome procedure and involves payment of large fees as zoning does not favor the commercialization.

The Wholesale Sector

The wholesale is an important player in the supply chain of retail especially in case of textile and FMCG. In textile, the children wear, women wear and unstitched clothing have huge wholesale market. Again 90 percent of it lies in the unorganized sector because of lopsided policies. There are markets like Shah Almi from where it is bought in bulk. Billions worth stuff is bought from there untaxed, undeclared. It is distributed to the informal retail throughout Pakistan. This wholesale is efficient in terms of its reach to all Pakistan but contributes insignificantly to national economy.

On the other hand, in the organized sector it is difficult to find resources even for the textiles. Despite having an export-based textile industry specializing in denim, t-shirts etc, local retailers find it difficult to arrange supplies according to their wishes from well-established textile houses.

External Factors

There are geo-political, security and its related issues which are exogenous for the retailers. There is no doubt that retail depends on tourism. The war on terror had macroeconomic impacts on Pakistan. Pakistan lost in tourism at the time of peak terrorism. Pakistan has to open up its retail sector and support it to be competitive. Some of the leading brands have managed to establish

[5] Saba Anwar and Omer Siddique (2010), Is commercialization a sin? The Pakistan Journal of Social Issues. Vol 2.

MARKETS

The current model has changed and is moving from importable to domestic commerce. Boosting domestic industry first and then exporting is a preferable option.

themselves in foreign countries and having impressive profiles. Customer service issues need to be sought out and it is expected that the customer experience will be catching in the near future. There global SOPs must be followed as the country is learning the curve now. Few years back, imports were encouraged due to dollar appreciation, and non-tariff measures. In some cases, it was easier to order in china or any other country as our policy framework was not supportive. Factors that were exogenous were not in the hands of retail industry. Currently the model has to be changed and moving from importable to domestic commerce. Boosting domestic industry first and then exporting should be a preferable option.

International Experiences

The international experience is very enlightening (Box 1). The organized sector or the bigger brands are around 30-40 percent in East Asia or South East Asia. They offer better customer experience better product quality and have shopping malls. Most of the retail 60-70 percent runs due to tourism in Thailand, US, Dubai. Dubai alone has 100 million tourists. The presence of tourists automatically improves the customer services as retailers get used to that flavor of tourists coming in and demanding a higher level of service.

MARKETS

A tremendous progress on the tourism front by Pakistan in the last few years and was declared the world's third highest potential adventure destination for the 2020 by the British Backpackers Society (BBS). The US travel magazine also listed Pakistan as top tourist destination for 2020. Forbes ranked Pakistan as one of the 'coolest places' to visit in 2019. The "next big thing" might materialize in the post Covid 19 scenario if the global SOPs are followed.

An Opportunity Amidst A Crisis

The idea for e-commerce is that same products are online as they are in-store. Online commerce is not treated as the business it needs to be treated as; it should be treated as a larger chunk of business. It is only 1 percent of total retail in Pakistan, while in India it is over 5 percent. In terms of e-commerce, the big brands are focusing on promotion-led sales online. The idea is whatever you see in stores if you buy it online it will be cheaper.

Internationally, there is a benchmark on which international brands work. When e-commerce is launched, they want to be the number three store. In one year, they need to be the best performing store in the portfolio. In three years, 30-40 percent of the business needs to be online. This can be followed by investing in right technology to overcome the trust deficit of the consumers. Most of the large online presence in US is based in Pakistan. If Pakistan can provide customer support services to the rest of the world, surely we can use the technology for ourselves as well.

About 38.6% of the population in Pakistan uses an internet connection and smart phone penetration is 13.8 percent. As the digital landscape is developing, more?? dig ddigital apps need to be developed that link retailers with potential customers.digital apps need to be developed that link retailers with potential customers.

There are existing models that can be tweaked to meet indigenous requirements. 38.6% of the population in Pakistan uses an internet connection and smart phone penetration is 13.8 percent . As the digital landscape is developing, more digital apps need to be developed that link retailers with potential customers.

Conclusion

The retail sector has a huge potential to grow and share growth along the entire supply chain. At this time, there is more of a lack of the proper mindset which is required to develop this sector. If regulations can be dealt with effectively, the introduction of e-commerce through mobile apps and other technology can help unleash the energy within this sector.

[6]Pakistan Telecommunication Authority 2019.

MARKETS

Government Role in Markets

Exploring the Structure and Performance of Petroleum Retail Outlets in Pakistan

By Omer Siddique, Ahmed Waqar Qasim, and Hafiz Hanzla Jalil

Petroleum industry is one of the most important industries in an economy and Pakistan is no exception. Petroleum retail outlets which are commonly referred to as petrol pumps in Pakistan, play a very important role in keeping the proverbial wheels of the economy running for the obvious reason that they provide fuel both for the domestic and commercial transport activities. Petrol pumps have often been a subject of public debate in Pakistan, mainly because their margins are fixed and they demand for increase in those margins from time to time. The margins they receive from selling a litre of petroleum products are fixed by the government and they cannot charge higher prices (margins are a part thereof) than those declared by the government, which are determined by a government approved formula. Their argument is that margins they receive from the sale of a litre of MoGas and HSD are quite low, and therefore they cannot run the petrol pumps profitably.

This paper is first such attempt using primary survey data for Pakistan. The existing literature has focused on how the location of a petrol pump impacts its performance in terms of sales and profitability. In addition, since most of the literature is focused on developed countries, the impact of non-forecourt activities is also investigated. This is due to the fact in developed countries the petroleum industry is deregulated and because of intense competition, fuel retail businesses have to look for sources other than selling fuels to generate revenue. The literature on the performance of the petrol pump business indicates that both location and non-location factors are important determinants of the petrol pump business. Our results are also in line with the existing evidence on this topic.

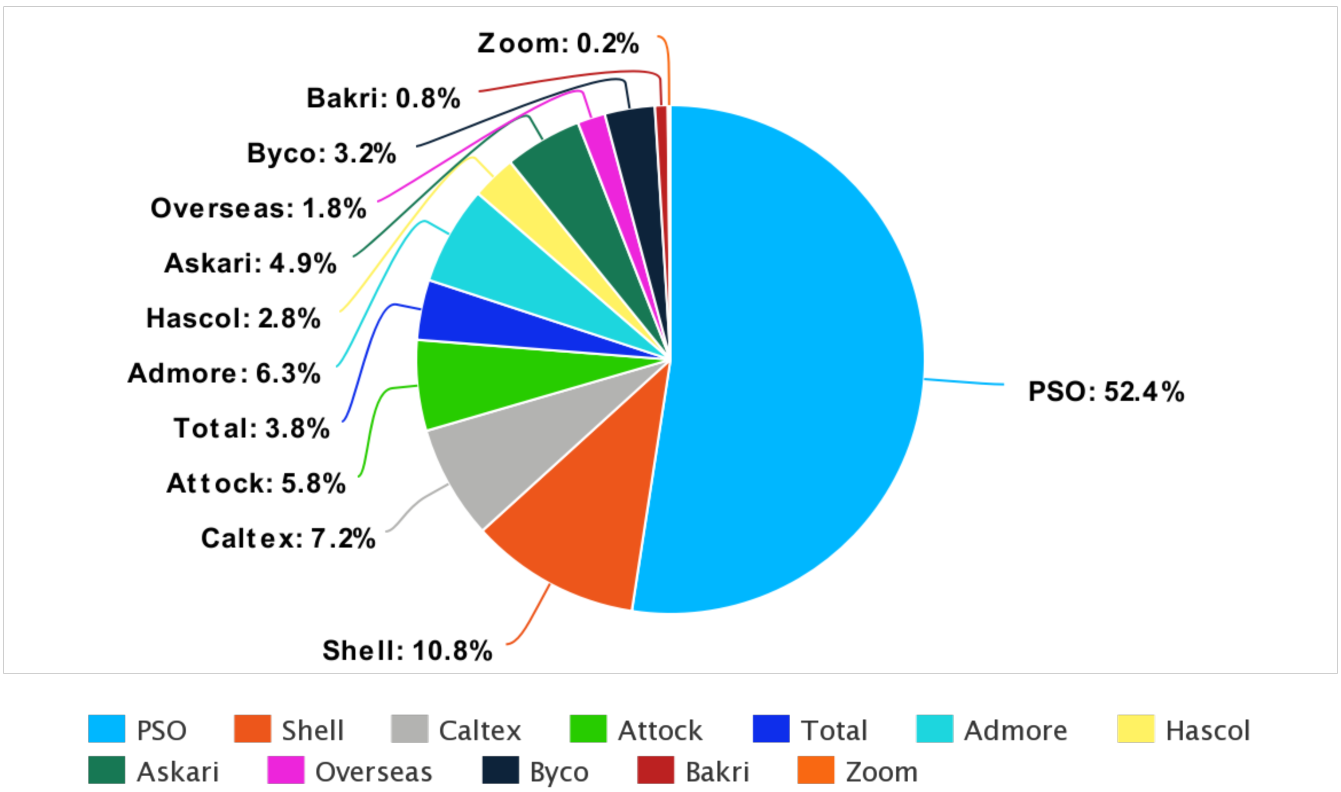
In developed countries the petroleum industry is deregulated and because of intense competition, fuel retail businesses have to look for sources other than selling fuels to generate revenue.

The results show that revenues and gross profits are higher for the petrol pumps situated in the urban areas. This is as expected because petrol pumps in urban areas have higher throughput. The reasons for higher throughput are many. One of the main reasons is that the population that have automobiles and higher incomes are concentrated in urban areas. At the same time, costs of running a petrol pump are also higher in urban areas. However, when costs are calculated on per-unit (i.e. per litre) basis, the results show that these are lower in urban areas. Because of higher throughput and lower per-unit costs, the petrol pumps in urban areas reap higher profits.

MARKETS

When the sample is broken down on the basis of highway and nonhighway petrol pumps, the results show that highway petrol pumps have higher throughput, lower costs, and higher profits. The existing literature [Chan, Padmanabhan, and Seetharaman (op. cit)] also shows that petrol pumps that are in close proximity to highways have higher sales. Since, according to our results, the highway petrol pumps also have lower per-unit costs, therefore, their gross profits are also higher. This is mainly because most of the heavy and intercity traffic runs on highways and naturally consume more fuel.

Figure 2: Oil Marketing Companies Shares in Pakistan – 2013



Source: Oil Companies Advisory Council

The analysis shows that the size of petrol pumps matters. Theoretically size is deemed to be an important variable in contributing to higher sales and gross profits simply because having higher number of bays reduces wait time for the consumers. Our results show that the size variable is highly significant in both the equations. The distance variable is also significant and positive. This could be an evidence that petrol pumps that are spatially differentiated are more profitable. The non-linear term of the distance variable is negative and significant, which could have important implications for potential entrepreneurs who wish to set up a petrol pump.

MARKETS

As far as the urban versus rural petrol pumps are concerned, although the region dummy that uses urban as the base category, is positive but it is not significant. Similarly, the urban/highway interaction term is also positive, hinting that the petrol pumps that are on highways in urban areas are more profitable. Our results also show that the PSO petrol pumps are the most profitable. Although, petrol is a homogeneous product, identity of the company is important, which is also the evidence found by Gagné, Nguimbus, and Zaccour (op cit.).

There are some limitations that must be kept in mind while interpreting the results. Although, most of the petrol pumps in our sample make positive gross profits, some handsomely so, it must be borne in mind that we could not get data on some of the financial aspects of the petrol pumps. Land is an expensive factor of production and the land on which petrol pumps are set up could have huge opportunity cost. Therefore, taking fixed costs into account could potentially change the picture. Similarly, the start-up cost of a petrol pump is high, which must be dug deeper into in future research.

As we discussed in the description of the sample, our ability to collect more in-depth data and larger sample was hampered by cost considerations. Although, our results are in line with the existing literature but to have a better understanding of the petrol pump business, future research should be based on a larger sample. The theoretical literature shows that why and where a retail business is placed is very important, therefore, the process of finding a location for petrol pump should be one of the focal points of the future research. The caveats notwithstanding, our results show that petrol pump is a lucrative business as all but eight petrol pumps in our sample had positive gross profits. Some petrol pumps even make profits to the tune of millions of rupees per month. This finding is contrary to what the normal belief is about the viability of opening and running a petrol pump, under the current rules and regulations.

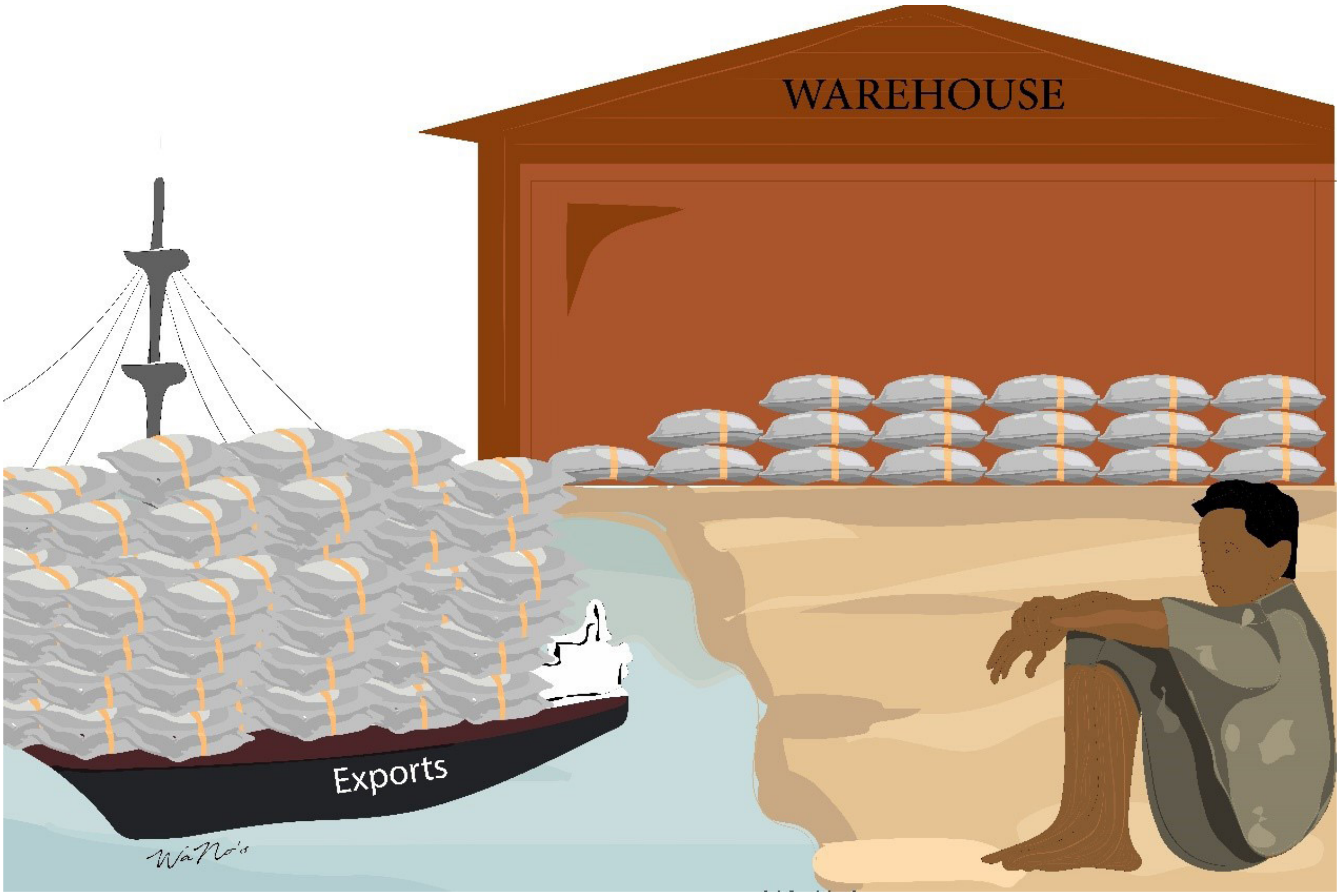
Government's Role in Markets: Should the Government be All Encompassing in the Wheat Market – A Survey

"Here's a farmer, that hanged himself on the expectation of plenty" - Shakespeare

Being the staple food as well as leading cash crop, the illegal storage of nearly 2-2.4 million wheat and jute bags makes one question the procurement process of the Sindh government. The leading report of falsification of procurement to meet the local demand of wheat to get the approval of export has shed light on the procurement decision process of the government. Provincial government could not procure wheat despite the presence of adequate stock, leading to illegal storage and price hikes in the market.

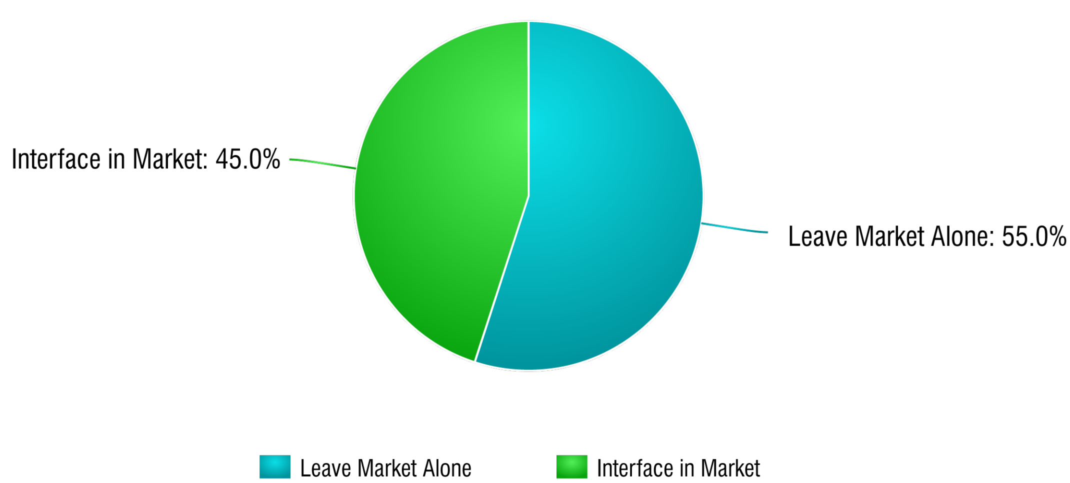
Institutions such as National Accountability Bureau (NAB), FIA are expected to carry out various actions against such mafias. But the question that arises by looking at the historical events; is why these institutions were not able to take steps against such mafias. All these events have clearly shaken the beliefs of the public that government can do better in this.

MARKETS



A twitter poll has been carried out by Dr Nadeem ul Haque at PIDE on the wheat crisis. The poll shows the clear low expectations of the public on role of the government amidst the wheat and sugar crisis in the country. Being severely affected by such events, now the citizens have least expectations from the government and its process.

Should the Government Intervene?



MARKETS

As a matter of fact, it is a crucial and essential need of the hour that government should intervene in such crisis. Prime Minister Imran Khan has declared that strict steps will be taken against all names involved in the scams; but clearly the government should also reconsider the procurement and trading decisions. Pakistan is producing sufficient quantity to meet the domestic demand. All country needs to do is to intervene at the right place and in an effective way in the market to reduce cartelization in markets of staple foods as well as other cash crops.

MARKETS

Financial Markets

Webinar on Financial Markets in the 21st Century

By Mr. Aqif Saeed, Mr. Samir Ahmed and Ms. Maheen Rehman

Takeaways

- *Why are financial markets so thin in Pakistan?*
- *What is the real reason behind thin financial market for Pakistan - low saving nation and relatively higher return from real estate/National Saving Certificates or something more?*
- *What role regulatory authority has in restricting our financial markets?*

During a webinar on financial markets of Pakistan in the 21st century, it was highlighted by the panelists that not only are listings of companies in our stock exchange very low, but the number of investors is falling as well. Moreover, there is a very narrow base for mutual funds with only a few individuals dominating these shares.

In contrast to Pakistan, Sri Lanka has a much broader financial market with not only small shareholders as a group dominating shares in big companies, but also a much larger size of the market along with a lot more activity.

These dynamics primarily revealed the constraints put by regulatory authorities as a key factor affecting Pakistan's financial market, with a low saving rate, a highly attractive rate of return in real estate market and National Saving Certificates scheme as the other major factors weakening our stock market.

Not only does the mandate of Securities and Exchange Commission of Pakistan (SCEP) appears to be questionable, but it has expanded beyond its initial role to include regulation of the capital market, corporate registry, insurance, and private pensions, then later the non-banking microfinance institutions and secured transaction registry. This is something unheard of in the financial world.

Dr. Nadeem ul Haque has challenged the notion that Pakistan is a consumption-oriented society. Not only that, putting the blame on higher returns and risk-free return from National Saving Certificates or much more profitable investment avenues in real estate is not the right explanation. This assertion is built in the light of US markets where despite the presence of high return on savings and a lucrative real estate market, one finds a booming stock market. Clearly, the defining factor that can explain the dismal condition of Pakistan's stock markets is over-regulation and on a lesser note a confusing tax policy that put together have killed the incentives to invest in this market.

REGULATION AND POLICY SPACE

A Spirited Debate

Regulation and Policy Space

REGULATION AND POLICY SPACE

A Spirited Debate on Competition and Markets

Dr. Nadeem Ul Haque's View (NUH): All markets face heavy government intervention.
Mr. Ikram Ul Haque Qureshi's View (IUHQ): Not all markets are facing heavy government intervention. But certain markets such as telecoms and electricity are perhaps being over-regulated. The government needs to reduce intervention where there is no sector regulator such as agriculture. Subsidies and support prices are destroying the agriculture. The government must focus on agricultural technology and gradually reduce subsidies and support price mechanisms.

NUH: Government likes to control markets and be an active player from agriculture to industry.
IUHQ: Pakistan has inherited most of its laws from the colonial regime such as anti-hoarding and profiteering law. They need to be abolished or at least reformed in a manner to leave the market on supply and demand and open and competitive bidding of products and services. Competition law is also one of the instruments which strictly prohibits imposition of any maximum or minimum resale prices. However, the fixing of resale price maintenance at minimum is considered lesser evil.

Pakistan has inherited most of its laws from the colonial regime such as anti-hoarding and profiteering law. They need to be abolished or at least reformed in a manner to leave the market on supply and demand and open and competitive bidding of products and services.

NUH: Market monopolies and dominance is given by policy such as protection exemptions.

IUHQ: The exemption under CCP law are granted to market players operating in the downstream markets such as supply chain. The example could be of franchisee and distribution. These exemptions are granted only when the supplier or distributor is able to prove that any restrictions will improve distribution and production process and standardization, and the supply chain would lead to economic efficiency and benefit the consumer eventually. The benefits of exemption are required to out weight the adverse effect of prohibition. This is well settled principle of competition law enforced in all countries.

NUH: On many markets, policy places direct price controls or regulates trade.

IUHQ: Direct policy control is not permitted. This is a wrong assumption. Regulating trade by prohibiting cartels/collusion among undertakings or abusing their dominant position by imposed unreasonable prices on consumer by a firm is prohibited under the Competition law being enforced in Pakistan. It is highlighted that dominance is allowed while abuse of dominance is prohibited. This practice is being followed almost all the countries including USA.

REGULATION AND POLICY SPACE

NUH: Investment is low because of the lack of market opportunities in Pakistan because of the dominance of government in markets.

IUHQ: Competition law is mandated to check if there is collusion to restrict investment or innovation under Section 4 of the Act. Section 4 relates to Prohibited Agreements. It is the duty of Federal or Provincial government and the Board of Investments to create an investment conducive environment. The role of Competition Law is limited as it should be i.e to prohibit abuse of Dominant Position, cartelisation, Deceptive Marketing Practices and merger control. The Competition Commission, at the best can issue Policy Notes or Opinions to the Governments to create investment opportunities by breaking the entry barriers etc.

NUH: Many investors are constantly involved in lengthy court cases because of this excessive government dominance over markets.

IUHQ: The cases are pending in the courts, however, no adverse order has so far been passed by the courts against any of substantial or procedural provision of the Competition Act, 2010. It is the duty and function of the courts to pass judgments on the pending litigation to bring certainty in the action of Competition Commission. The Competition Commission always pursued the cases without taking adjournments. The Government and the Attorney General in the past have supported Competition Commission before the Courts. The Competition Commission did get directions for expeditious disposal of cases but unfortunately the courts did not pass judgments despite of final hearing on various occasions. The delay is not on the part of Competition Commission.

NUH: What we needed was a deregulation commission like in several countries.

IUHQ: Deregulation commission and the privation commission of Pakistan have the same job as I have stated during the Webinar. Your question is terminology focused. What privatization commission has not done and what the deregulation commission could have done. There is no need for a separate deregulation commission. Rather the Competition Commission and other relevant agencies/Regulators need to collaborate with each other to improve the market function, reducing competition breaches and restricting anti-competitive behaviour/practices. It will result in an efficient and thriving economy by providing level playing field to all the players in their economic and commercial activities. These concepts are well placed in the Competition law in Pakistan as well as in all other competition jurisdictions. The effectiveness of competition regime and its importance for every country's economy may be appreciated.

NUH: As usual World Bank believes in the cookie cutter that all countries must have the same agencies. They gave us a competition commission in a country where competitive markets don't exist.

REGULATION AND POLICY SPACE

IUHQ: The World Bank may have floated the idea of establishing the Competition Commission, however, it is the legislature that understood the importance of establishing the Competition Commission. The Competitive markets exist in Pakistan such as telecom, banking, IT, construction, among others. However, the need to have competitive markets across the economic sectors is an ongoing process. This process needs to be strengthened by all the stakeholders including the consumer associations.

NUH: CCP has been looking for ghosts like monopolies and price gouging.

IUHQ: It is the duty of CCP to look into abuse of dominant position and that is quite different than what you have stated as looking for ghosts like monopolies etc. My suggestion is that an extensive reading and research on competition law including orders passed by the Competition Commission can only solve the conceptual difficulties.

> *Many new entrants have entered the Pakistan markets which has led to increased investment and innovation, primarily due to a robust merger and acquisition control regime.*

NUH: CCP has only increased the regulatory burden of investors not eased it.

IUHQ: Could you give any example? Many new entrants have entered into the Pakistan markets which has led to increased investment and innovation, primarily due to a robust merger and acquisition control regime. CCP is always supposed to work to enhance ease of doing business. Please read Article 18 of the Constitution. The Competition Commission is formed to ensure freedom of trade guaranteed by none other but the Constitution. Article 18 specifically allows to ensure freedom of trade through regulation. The Competition Act, 2010 is the regulation to eliminate anti-competitive practices that are harmful for freedom of trade. This is how simple it is as I understand.

NUH: CCP can't seem to get clarity on its role. It wants price controls through DCs. It wants used automobiles to not come into country and in some cases merely wants more regulation where more market is required.

IUHQ: Competition Commission is very much clear on its aims, duties and functions. They are to ensure free competition, curbing anti-competitive behaviours by undertakings (especially dominant undertakings or the undertakings who attain dominance by collusion). CCP has never suggested to increase regulatory burden and stop investment or imports in the automobile sector. Please give some examples, if you have. Kindly note that no investment is a good investment if it breaches the chapter II (prohibitions) provided under the Competition Act, 2010. I am of the view that import of vehicles should be allowed for creating competition in this relevant market. It is wrong on the part of Competition Commission to suggest barrier to import of vehicles.

REGULATION AND POLICY SPACE

NUH: With regulation and now CCP, the inky growth industry in Pakistan us lawyering. 12. Yes it has been shown a country where lawyers thrive the economy and others suffer.

IUHQ: That is the common problem in most of the countries, unless judiciary plays its role in a lucid manner. You will appreciate that everyone has the right to thrive in their profession. The lawyers are providing services to their clients. The courts are required to pass judgments to settle the competition related issues pending adjudication. The consumers are suffering by a decade long "injunctive orders" passed by the high courts, not by the Competition Commission. It was ordered for the Competition Commission to carry out adverse proceeding but not to take any adverse action. The questions of substantial, procedural and constitutional issues must be settled by the courts. It appears that the cartelists will enjoy freedom to breach competition law unless adverse orders are passed against them.

NUH: We still need PC to be the deregulation commission (get give off backs of business). and CCP to probably put in abeyance for next few decades until we reach per capita income of 10000!.

IUHQ: Privatization Commission is a robust agency and it shall continue. What difference would it make if we call it a deregulation commission now? Are there any substantive suggestions? During the last two decades, more than120 countries have adopted competition laws which are common around the world. All of such countries are unwise? Obviously not. The Australia has probably the biggest competition consume protection agency in the world. The role of CCP has nothing to do with per capita income. If you think it has, please provide some examples in an empirical manner.

IUHQ: At the end I would like to emphasise the fact that there is always room to develop an institution. Competition Act is an evolving creature as I understand. The list of Abuse of Dominant position or Cartelisation are non-exhaustive. The Competition Commission is free to introduce jurisprudence in the matter of all prohibitions. For example, a prohibited agreement is not only the signed agreement on paper but mere exchange of price sensitive information can very well lead to an agreement for increase in prices by eliminating competition. Another example could be the predatory price fixing. The newly established competition agencies are lucky to have precedents set by the US and EU jurisdictions. The courts in EU and US have been proactive making decisions to enhance the understanding of competition regime. The courts in Pakistan must examine such judgments for their considerations in order to pass judgments on the principles of competition law. The Competition Commission needs competition economists, as stated in the Webinar by Ms. Rahat Kaunain Hassan, former Chairperson. Ms. Rahat Hassan used to say "emphasise on the facts". If you come out with better facts corroborating the breaches with the culprits, there would be more and effective enforcement of competition law. Mr. Khalid Mirza used to say "competition commission is here and it is going to stay". Therefore, Deregulation Commission or no Commission, the Competition Commission is a fact in the economy of Pakistan.

REGULATION AND POLICY SPACE

It is my considered opinion after working with the Competition Commission for many years that without protection of competition in various sectors, a country cannot develop its economy. There won't be foreign direct investment in a country where there is no competition agency. Competition agency is a must for each country. Therefore, instead of asking questions on its existence, the consideration should be made how to strengthen it and how to make it more robust agency. That in my opinion would be beneficial for the stakeholders and the overall economy. This is the time where a country cannot survive without following the international best practices may it be in the shape of laws such the Competition Act, 2010.

This is the time where a country cannot survive without following international best practices may it be in the shape of laws such the Competition Act, 2010.

REGULATION AND POLICY SPACE

Regulatory Structure

Regulatory Structure of Key Markets in Pakistan

By Ms. Uzma Zia

Markets		Regulations
Trade Market (Import & Export)	1)	Food import is regulated by the Federal Government of Pakistan.
	2)	Food standards are regulated by the provincial government departments.
	3)	Food standards are tracked by Pakistan Pure Food Laws (1963) and administered by the provincial health departments.
	4)	Pakistan's Federal food import regulations are based on the assumption that if a product is sold in the country of origin, Pakistani standards should be maintained.
	5)	The Federal Government of Pakistan generally applies Codex standards / guidelines in regulation of imported food products. (For some products, U.S Food and Drug administration standards are used).
	6)	Permissible food colours are listed, updated annually. For animal products, Halal certification is necessary (slaughtered in accordance with Islamic Laws).
	7)	The Customs Department, Plant Protection and Quarantine are involved in the regulating food imports.
	8)	The Custom Department ensures imported food must be up to the Pakistan's labeling and shelf life requirements
	9)	The Custom Department ensures that items are not on the list of banned items. The appropriate import tariff is assessed.
	10)	Plant Protection and Quarantine department function ensures that bulk commodities and live animal shipment meet phytosanitary requirements.

REGULATION AND POLICY SPACE

Markets	Regulations
Agriculture Market (Fertilizer)	1) The government maintained control of the supply and allocation of natural gas to the fertilizer industry.
	2) The Provincial Essential Commodity Act (PECA) placed fertilizer production and marketing under the direct regulatory purview of the federal government.
	3) Provincial level: the Punjab Fertilizer (Control) Order of 1973 further strengthens the power of federal regulators by rendering provincial management of fertilizer subservient to PECA.
	4) Laws formulated/ executed under PECA provide complete powers to the Controller in the management of prices, imports and even the size of daily fertilizer transactions.
	5) Other policies include subsidies on fertilizer import and distribution, and sales tax exemptions on farmers' fertilizers purchases.
	6) Fertilizer research and development (R&D) previously undertaken by the Directorate of Soil Fertility in the Research Wing of the Agriculture Department of the Government of West Pakistan. Then converted into provincially separate soil fertility research institutes in each province.
	7) Economic policy related issues: concerning production, imports, pricing, subsidies, and regulations, were addressed by the National Fertilizer Development Centre (NFDC), which was established by the Federal Planning and Development Division.
	8) At the farm level, the Extension Wing of the Agriculture Department of the Government of West Pakistan was responsible for conveying recommendations for fertilizer use to farmers.
	9) Credit for fertilizer purchases was made available to farmers through a variety of formal and informal sources.
	10) Initial primary formal source of credit was the Agricultural Development Bank of Pakistan (ADBP) now known as the Zarai Taraqiati Bank (ZTBL), established in 1961 to provide affordable financial services to rural Pakistan.
	11) Commercial banks such as Habib Bank, Askari Bank, and Punjab Bank began providing agricultural credit at market rates beginning in 1972 (MNFAL).

REGULATION AND POLICY SPACE

Regulatory Structure

Key Highlights: E-commerce Policy

By Mir Muhammad and Aqsa Noor

With the rising trend of digitization of economies, e-commerce industry can be a major stimulator of economic development for both developed and developing nations like Pakistan. E-commerce markets with the adequate facilities and competitiveness can strive and bloom the economy within the country and in the international markets as well. Despite being at its early stages, the industry is already enhancing and growing at a very fast stage. In 2019, the total revenue generated by e-commerce market was US$2 Billion. Data reveals that in the first quarter of financial year 2017-18 the total registered e-commerce merchants were 964 which touched 1094 by the end of the very same year.

The fact of fast growing e-commerce markets cannot void the current hurdles that are staggering the achievement of steady growth. The low level of financial inclusion, lack of standardized and internationally used mode for payment PayPal, business within the country after importing goods, higher cost of logistic are slowing down the pace of development of e-commerce markets.

In order to overcome above written gaps of development, government of Pakistan launches its very first policy of e-commerce in October 2019. The policy was approved by the federal ruling party. The policy tends to strike major lagging areas of the economy. The policy major concern of the policy is to achieve holistic growth of industry as well as economy as whole by focusing on the areas; job opportunities, inter regional connectivity, enhanced and efficient domestic market to compete domestically and internationally as well, women inclusion in the economically activities through supporting small scales enterprises, adequate set up for market competitiveness.

The policy was made in the light of Pakistan's SDG-8 (Decent work and economic growth), SDG-9 (Industry, innovation and infrastructure) and SDG-12 (Responsible and sustainable consumption and production patterns). It tends to create a cost effective environment for the business digitally. The policy covers most of the problems like empowering youth to enhance market competition, financial inclusion and digital mode of transaction, regulation system by the launch of National Single Window system (National E-commerce Council) for increasing the working mechanism of exports, registration of e-commerce business for efficient check and balance of imports, provision of consumer protection, enhancement in taxation structure to generate revenue, efficient access of third party logistics 3PL through public and private sector.

REGULATION AND POLICY SPACE

Regulatory Structure

Our Need for a National Tariff Policy

By Usman Qadir

Pakistan's National Tariff Policy 2019-24 seeks to rationalize tariffs by continuing with some of the past practices such as cascading tariffs; protection of domestic industries and strategic protection. Given that the policy looks to move away from previous policy imperatives, it is important that to the extent possible, these policies are phased out over time. Given that past efforts have had limited success, the NTP should follow the trends prevailing in successful exporting countries.

Over the past several decades, tariffs were often raised to help local producers by artificially raising the prices of imported goods above domestic prices. It was expected that this rise in prices should encourage local production of otherwise imported goods. However, the experience was that these increases in tariffs made the local industry inefficient and unable to compete in the international markets.

The NTP specifically lists three principles which will be kept for the benefit of local industry. Each of these principles and how they can defeat the purpose of tariff reforms is discussed below.

Cascading: While the principle of cascading is important to promote domestic value addition, care must be taken to avoid providing too much protection to downstream industries. Previously, too much protection through cascading was provided to key sectors that failed to grow and stagnated with weak productivity growth because of weak incentives to become competitive.

A cascaded tax or tariff ends up being a tax on top of a tax. That being the case, a tariff cascade would have a compound effect, with the final rate being higher than the initial rate charged upstream.

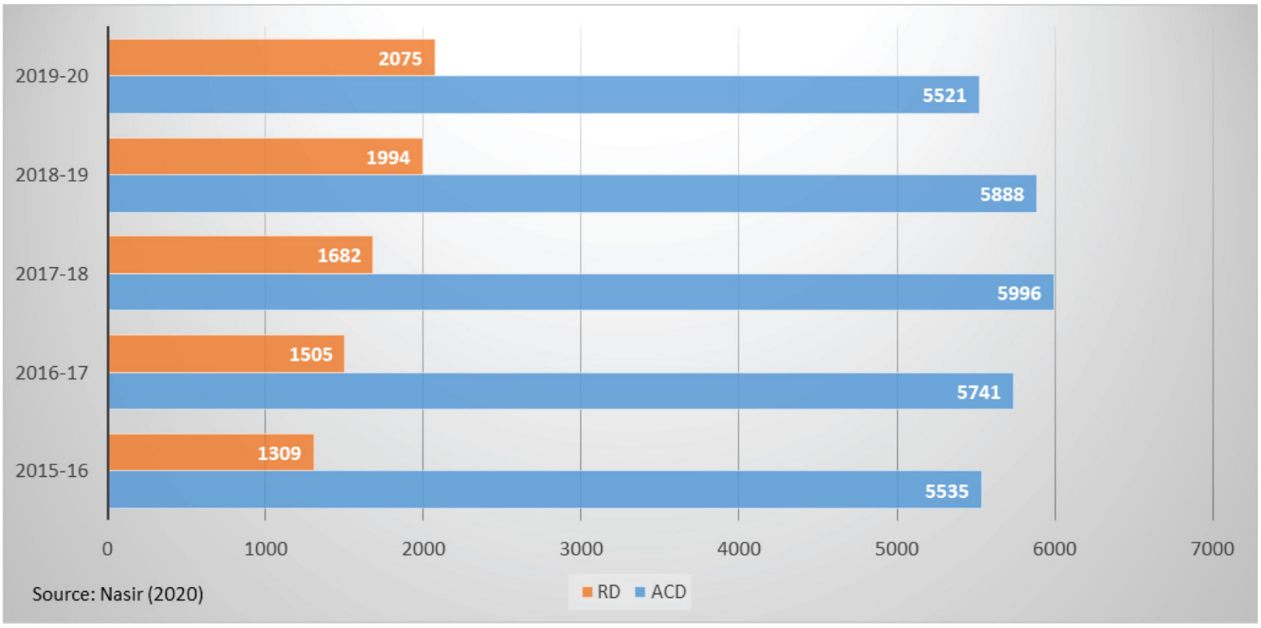
While the Pakistan Business Council (PBC), in its presentation to the government on Make in Pakistan, proposed cascading tariffs as necessary for reviving the manufacturing sector, this view clearly does not take into account consumer welfare. For this reason, the government should research the efficacy of cascade tax for not just the domestic industry, but also domestic consumers, in keeping with the objectives of the NTP 2019-24.
Thus, a cascaded tariff structure is not a panacea for boosting the domestic manufacturing sector. Rather, tariff cascading may promote rent-seeking, reduce productivity, and hurt consumer welfare by restricting market competition. It is thus important to rethink the imposition of a cascaded tariff structure and introduce a tariff policy that not only supplies the right incentives to producers but also promotes the interests of the consumers.

REGULATION AND POLICY SPACE

Quite often cascading creates other anomalies. Often finished product for one industry is a raw material for another. For example, if cascading principle is applied to the raw material of steel sheets and finished machinery, tariff rates on machinery would have to be enhanced. Another example is of paper which currently is subject to high tariffs. In terms of cascading, books made from paper would have to be subjected to even higher tariffs. High tariffs on essential goods such as machinery and books would create serious problems for other sectors. Thus, cascading principle does not work in most of the cases.

Other countries such as the East Asian Tigers also adopted protectionist measures early in their development, but these measures were for a short predetermined period. In case of Pakistan, once an industry is given protection for a certain period, it is not easy to lower the protection rates. As a result, such industries have remained infant for decades. They could only cater to domestic demand through high tariffs and not be able to export.

PROTECTION FOR IMPORT SUBSTITUTION: The level of protection to import substituting industries need to be properly rationalized to balance the interests of consumers and producers. Tariff reduction will have a benefit for consumers through lower price of imports and access to greater variety at lower prices, and this should be highlighted by the government. If the domestic market continues to be closed to imports by prohibitively high tariffs, it is likely that the tariff jumping investments would create wasteful excess capacity as has happened in the past. Such misallocation of resources hampers productivity and stunts overall economic growth. Pakistan's experience is that whichever industry was given high protection, it never became competitive. Auto. Sugar, Paper industries are some of the examples.



REGULATION AND POLICY SPACE

STRATEGIC PROTECTION: The policy mentions that strategic protection will be provided to domestic industries to protect them from foreign competition. It will be offered to industry in the infancy stage to lower the cost of doing business and is planned to be time-bound and phased out to encourage competition. However, our past performance in this regard is not promising. Industries are still receiving handouts from the government, and timelines are easily revised on some pretext or the other. Unless effectively implemented, this is going to create an added drain on our already limited resources.

Recommendations
• The policy must now be accompanied with a more concrete action plan that puts all on notice on how to go ahead.
• Policy has announced good intentions. But a lot needs to be done to make it happen. We have had tariff liberalization in the past only to be reversed. We should have a clear plan with timelines and a clear transparent immutable information plan.
• Openness is necessary for local competition. Our National Tariff Policy must be synced with our competition policy at home. This is an important exercise that must quickly be started and developed in concrete form.
• Our protection policy has never been clearly enunciated other than to say that it should be temporary. But it has never been as announced. We should now go beyond announcements and actually announce an implementation plan with timelines and with pre-commitment.
• Tax expenditures have not only worsened the fiscal problem but also led to local monopolies at the expense of domestic competition. This must be an important part of the NTP going forward. Tax exemptions should not happen!

It is not clear how domestic industries will be selected for protection. In this context, it is important to spell out at the outset clear guidelines on how and which industries will be provided strategic protection. Moreover, improving or at the very least maintaining quality must also be a requisite for protection. In the past, such initiatives have merely contributed to rent-seeking while not establishing a strong and competitive industrial sector.

Competitive import substitution is going to be encouraged under the policy, but again the policy document is light on the modalities of how it will all work, not to mention the fact that it becomes hard to justify how the tariff structure is being simplified and prone to less distortions. In the past SROs have been used in addition to tariffs to achieve protectionist goals. How will this work when certain industries are receiving strategic protection while others are receiving help from competitive import substitution, and all are going to be subject to different time bounds?

Various interest groups exert pressure on the government to impose added customs duty (ACD) and regulatory duty (RD) on imports to discourage competition. These duties introduce anomalies in the country’s tariff profile, and clearly do not work in the interest of domestic consumers. Instances of these abnormalities have increased in recent years, as evidenced by the increasing number of tariff lines subject to these duties.

REGULATION AND POLICY SPACE

POLICY PROCESS: The new policies of the government focusing on enhancing exports, encouraging foreign investment and Pakistan's integration into the global value chain must all stem from a common holistic view and approach so the most efficient and optimal outcome is achieved.

The Tariff Policy Board will only be successful if the Ministry of Commerce is given the pre-eminent role as has so far been enjoyed by the Ministry of Finance and FBR. Tariff should be set up to promote exports and making Pakistan a part of Global Value Chain. Role of tariff for collection of revenue should be limited as is the case in other successful developing countries.

Finally, there is a need for institutionalizing proper mechanisms for getting feedback from evidence-based policy research. In this context, it is important to include in the tariff policy board (TPB) relevant experts from the academic community and policy thank tanks who can provide research-based input into tariff policymaking. Also, inclusion of representatives from the private sector would create stake-holding among the relevant players leading to greater ownership by the market participants.

REGULATION AND POLICY SPACE

Cascading Tariffs Are Not A Magic Pill for Pakistan

By Usman Qadir

The new National Tariff Policy 2019-24 has four key goals, one of which is improving consumer welfare by reducing the burden of excessive protection. The policy in turn is based on five guiding principles; use of tariffs as a trade policy measure; simplification of the existing tariff structure; retaining cascading tariff structure; use of tariffs for strategic protection of domestic industries; and competitive import substitution. No doubt all five principles are of importance, but one stands out in the context of improving consumer welfare, and that is cascading tariff structure. The nexus of these features is a matter that should concern the public and should not be overlooked. Let's consider why it is important to research and consider this further.

First, what does tariff cascading mean and second, what does it imply for consumer welfare. Tariff Cascading is also referred to as tariff escalation in the literature and refers to a situation in which a country imposes tariffs in a way that the rate on import of primary or un-processed products or inputs is less than the tariff on relatively more processed products or inputs and even the final good that uses such products in the production process. This cascading nature that coincides with the degree of processing or value addition is where the tariff gets its name from. Or as defined by the WTO , tariff escalation is the instance of having higher import duty on semi-processed products than raw materials, and even higher duty on finished products.

This cascading or escalation in effect stifles competition and protects domestic processing industries since they can price their products cheaper than the imported product. The lack of competition is detrimental to the economy as it erodes the incentives for producers to improve productivity. It also reduces consumer welfare by restricting their choices. Furthermore, tariff escalation serves as a disincentive for countries that supply raw materials to develop industries to process those materials.

This is problematic for Pakistan on at least two counts; one, our own experience with protection has been very lackluster; only a handful (at best) of firms have emerged competitive while the rest have been hooked on seeking hand-outs. Do we really want to create a situation where more firms are taking hand-outs?

Second, given recent developments in the world trade system, it is highly likely our imports will also be subjected to cascading tariffs in retaliation. Given we are a developing country and we still export raw materials and semi-processed products, it is logical to assume our exports will suffer.

[7] WTO Glossary: https://www.wto.org/english/thewto_e/glossary_e/glossary_e.htm

REGULATION AND POLICY SPACE

The lack of competition is detrimental to the economy as it erodes the incentives for producers to improve productivity. It also reduces consumer welfare by restricting their choices.

Clearly, a cascaded tax or tariff ends up being a tax on top of a tax. That being the case, a tariff cascade would have a compound effect, with the final rate being higher than the initial rate charged upstream.

Coming to the matter of consumer welfare, cascading tariffs or tariff escalation will raise the final price of a product that the consumer purchases. The producer will pass along the higher cost of the tariff down the production chain till the consumer is faced with a higher priced product. Logically, this suggests that consumer welfare will be negatively affected. A significant number of countries have shifted to a GST or VAT in place of a cascading tariff structure which has resulted in lower prices being charged of consumers. VAT is a consumption tax, on the purchase and thus consumption of a product or service. Moreover, research on the welfare impact of cascading protection has suggested that cascading protection causes additional welfare losses and vertical linkages must be explored and taken into account when formulating trade related policies.

The notion of cascading tariff structure has been proposed a means of maintaining vertical consistency. An underlying, and apparently unspoken motivation appears to be encouraging productivity and competitiveness in the domestic manufacturing sector; however, the IMF has found such a structure as a major obstacle to expansion of exports. Moreover, there is no basis for this notion in economic theory and will create distortions in the economy . This makes it difficult to reconcile cascading tariffs with export promotion on the one hand, and enhanced consumer welfare on the other.

While the Pakistan Business Council (PBC), in its presentation to the government on Make in Pakistan, proposed cascading tariffs as necessary for reviving the manufacturing sector, this view clearly does not take into account consumer welfare. For this reason, the government should research the efficacy of cascade tax for not just the domestic industry, but also domestic consumers, in keeping with the objectives of the NTP 2019-24.

To sum up, a cascaded tariff structure is not a panacea for boosting the domestic manufacturing sector. Rather, tariff cascading may promote rent-seeking, reduce productivity, and hurt consumer welfare by restricting market competition. It is thus important to rethink the imposition of a cascaded tariff structure and introduce a tariff policy that not only provides the right incentives to producers but also promotes the interests of the consumers.

[8] Erbahar, Aksel and Zi, Yuan (2017) "Cascading Trade Protection: Evidence from the US", Journal of International Economics, Vol. 108, September, pp. 274-299

[9] https://www.imf.org/external/pubs/ft/fandd/2006/12/gupta.htm

[10] Pursell, Gary; Khan, Ashraf, and Gulzar, Saad (2001), "Pakistan's Trade Policies: Future Directions", International Growth Centre, Working paper, June 2001.

REGULATION AND POLICY SPACE

Competitive Import Substitution: Can Industry be Protected in Pakistan

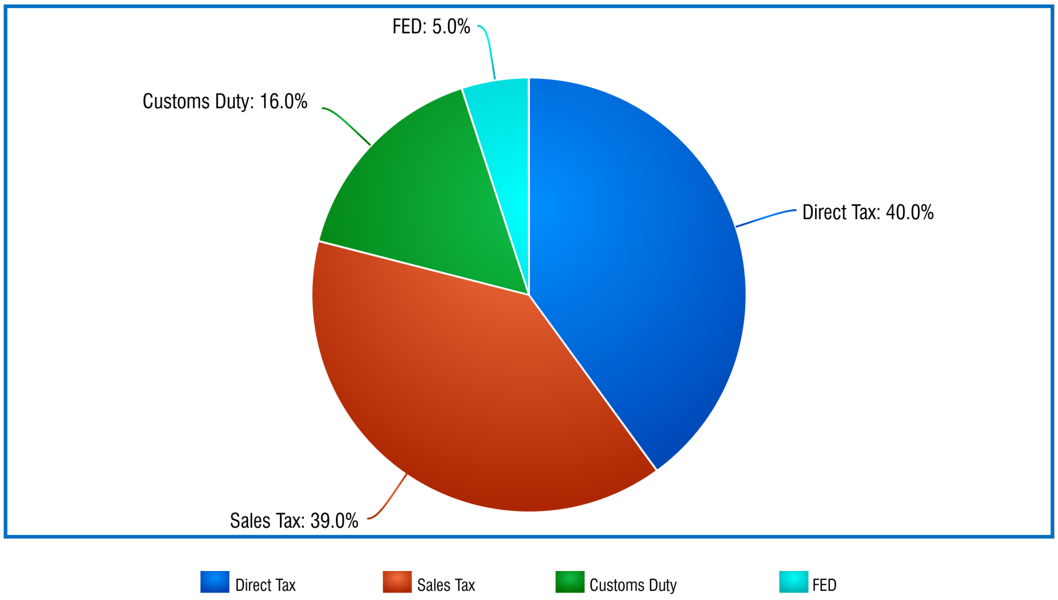
By Usman Qadir and Hafsa Hina

Pakistan has been designing different trade policies over the years whose goal is to maintains its balance of trade deficit, ensure the availability of necessary goods and protect the sectors that are national priorities from foreign competition. Protection to domestic industry has been achieved by restricting imports, subsidizing exports, and more recently by imposing tariffs structured in a way to discourage imports of goods produced locally. Protection has clearly been a key objective of trade policy. Protectionism can come in the form of tariffs, quotas, export subsidies, import licensing, and exchange rate controls.

Consider first the case of tariffs. A tariff is tax on the import of foreign goods in order to protect the domestic industry from foreign competition and with an additional benefit of generating revenue. Primarily, three different types of tariff are imposed; namely ad valorem tariff, specific tariff and composite tariff. Ad valorem is imposed in proportion to the estimated value of the product being imported, while a specific tariff is imposed as a fixed charge per unit of product imported. Finally, composite or compound tariff is a hybrid of ad valorem and specific rates.

Customs duty contributed 45 percent to the overall revenue in Pakistan in 1991-92. Since then, as a result of economic reforms, the percentage share of customs duty has declined to 16 percent in FY 2017-18 and presently direct taxes are the top source of revenue with 40 percent share.

Figure 1: Tax Category-wise Shares in Revenue (2017-2018)
Source: FBR Year Book 2017-2018



REGULATION AND POLICY SPACE

The government followed a policy of import substitution initially, which entailed a highly restrictive trade regime and high tariffs. Tariff reforms were initiated in early 1990s, at the behest of international financial institutions. As a result, the number of tariff slabs was reduced over the years. In the 1980s the total number of tariff slabs was 42, which were reduced to 10 in 1993, 6 in 2015, 5 in 2016 and 4 in 2017. This indicates that the process of adopting a more uniform tariff rate structure and liberalizing of trade was taking hold in Pakistan. The process of tariff rationalization started in the 1990s and continued till 2001, as evident from the fact that the top tariff rate was 120 percent in 1985 and decreased to 25 percent in 2001, and further reduced to 20 percent in 2016 (Table 1).

Table: Pace of Tariff Reforms: 1985 - 2001

%

	Year	Top Rate (percentage)
1	1985	120
2	1990	90
3	1994	65
4	1997	45
5	1999	35
6	2000	30
7	2001	25
8	2015	25
9	2016	20

Source: FBR

Note: rate structure of statutory tariffs is by categories/ Sector

Table: Details of Reforms in Customs Tariffs in Pakistan

		1989-90	1997-98	2000-01	2001-02
1	Simple Average Rate: All Products (%)	64.8	47.1	24.8	20.4
2	Industrial Products (%)	66.0	n.a	24.3	20.2
3	Agricultural Products (%)	57.2	n.a	28.0	21.8

%

		2002-03	2003-04	2004-05	2005-06	2015-16
1	Simple Average Rate: All Products (%)	17.3	17.1	16.8	14.4	14.8
2	Industrial Products (%)	16.9	16.7	16.6	10.4	13.2
3	Agricultural Products (%)	19.6	19.5	18.1	15.6	15.4

Source: NTC

REGULATION AND POLICY SPACE

Given this background, the question is why are we lagging behind our neighboring countries? Ideally speaking, protection should have allowed our industries the breathing space to become competitive while providing it with a captive market where products could be developed further, and brands established. So, is protection encouraging our industries to grow and compete internationally as designed, or is it making them more inefficient by encouraging rent seeking, and reducing market competition? Based on weak export performance characterized by static destination and product shares, this does not appear to have happened.

Whereas other countries such as the East Asian Tigers also adopted protectionist measures early in their development, their experience turned out to be more promising. Measures were introduced and withdrawn in a timely fashion, providing industry with the proper incentive to develop. In the case of Pakistan on the other hand, protection is harder to withdraw once given. Firms remain in their infancy stage for far longer and create a drain on the economy, not to mention the fact that they are unable to establish a foothold in the global market.

Two of the guiding principles of the recently announced National Tariff Policy 2019-24 are strategic protection and competitive import substitution. Strategic protection will be offered to industry in the infancy stage to lower the cost of doing business and is planned to be time-bound and phased out to encourage competition. However, our past performance in this regard is not promising. Industries are still receiving handouts from the government, and timelines are easily revised on some pretext or the other. Unless effectively implemented, this is going to create an additional drain on our already limited resources.

Two of the guiding principles of the recently announced National Tariff Policy 2019-24 are strategic protection and competitive import substitution.

Competitive import substitution is going to be encouraged under the NTP 2019-24, but again the policy is light on the modalities of how it will all work, not to mention the fact that it becomes hard to justify how the tariff structure is being simplified and prone to less distortions. In the past SROs have been used in addition to tariffs to achieve protectionist goals. How will this work when certain industries are receiving strategic protection while others are benefiting from competitive import substitution, and all are going to be subject to different time bounds?

In the past SROs have been used in addition to tariffs to achieve protectionist goals.

REGULATION AND POLICY SPACE

Non-Tariff Measures in Pakistan

By Ms. Uzma Zia

Currently, technical barriers to trade are prevailing worldwide and Pakistan is no exception to it. Non-tariff barriers to trade (NTBs) are trade barriers that restrict imports such as: anti-dumping measures and countervailing duties. NTBs impact the trade flows of Pakistan and other WTO members. With the exclusion of a few sensitive high tariff products, NTB are the tangible obstacle to international trade.

Non-tariff measures (NTMs) are policy measures other than a customs tariff. Enormously, tariff and NTMs are levied to protect home country's import competing industrial sector. Tariff are monetary (taxes) while non-tariff measures are non-monetary barriers (documentation requirements, technical or safety standards, and packaging requirements) used by importing countries. NTMs are a normal part of doing business for producers and can impose more restrictions for trade than actual tariffs. They can be applied in different ways and at different stages of the supply chain which include: regulations, rules of origin, and quotas. Tariffs and non-tariff barriers are typically set by regulatory agencies that are empowered by statutes passed in legislatures. Countries usually close their economy through domestic laws that endorse tariffs and NTBs.

NTMs have become common after the WTO rules reducing tariffs to significant extent. Sometimes non-tariff trade barriers are permitted in limited situations, when they are considered necessary to protect health, safety, sanitation, or to protect dwindling natural resources. In other forms, they are criticized as a means to evade free trade rules such as those of the World Trade Organization (WTO), the European Union (EU), or North American Free Trade Agreement (NAFTA) that restrict the use of tariffs.

NTBs in Pakistan:

In Pakistan, seven legal instruments have been used to form NTBs. They include: SROs, Import Policy Order 2009 (Ministry of Commerce), Export Policy Order 2009 (Ministry of Commerce), Mandatory standards and conformity test by the PSQCA, Pakistan Plant Quarantine Act, 1976, Seed Act 1976, and Drug Act 1976. Statutory regulatory orders (SROs) have been used the most, followed by the Import Policy Order 2009 and the Export Policy Order 2009.

Pakistan's Imports, NTBs & Regulatory Authority

Pakistan's key imports from India are cotton, tea and chemicals (polypropylene), which is used to manufacture plastics, ropes, auto parts and textiles; and p-Xylene, which is used in the production of polyester. Moreover, Pakistan's imports from China are telephone and radio equipment. Pakistan's non-tariff barriers are focused on agriculture, plant, and food-related products. Agricultural NTBs are more common and dominant.

REGULATION AND POLICY SPACE

Pakistan's non-tariff barriers are focused on agriculture, plant, and food-related products. Agricultural NTBs are more common and dominant.

In Pakistan, Ministry of Commerce of the Federal Government is mainly responsible for trade regulations. It controls the Trade Development Authority of Pakistan and several other agencies. The Ministry is authorized to regulate trade mainly from the Imports and Exports (Control) Act, 1950. Article 3 of the Imports and Exports (Control) Act entrusts the Central Government with the authority to prohibit, restrict or otherwise control the import or export of any goods.

The Ministry of Commerce is authorized to regulate trade mainly from the Imports and Exports (Control) Act, 1950. It regulates key practices and procedures involved in import and export. Applications for licenses, the grant, use, transfer, sale or cancellation of such licenses, the determination of the form, manner and period of any associated appeals and the fees charged in respect of any such matters falls within the domain of the same article.

It also regulates key practices and procedures involved in import and export. Applications for licenses, the grant, use, transfer, sale or cancellation of such licenses, the determination of the form, manner and period of any associated appeals and the fees charged in respect of any such matters falls within the domain of the same article. The Ministry of Commerce also uses its statutory authority to regulate trade by Statutory Regulatory Orders (SROs) as SROs are also used to restrict imports over time.

Picture Credits: Getty Images

REGULATION AND POLICY SPACE

Fact Sheet: A Glimpse of Tariffs in Pakistan

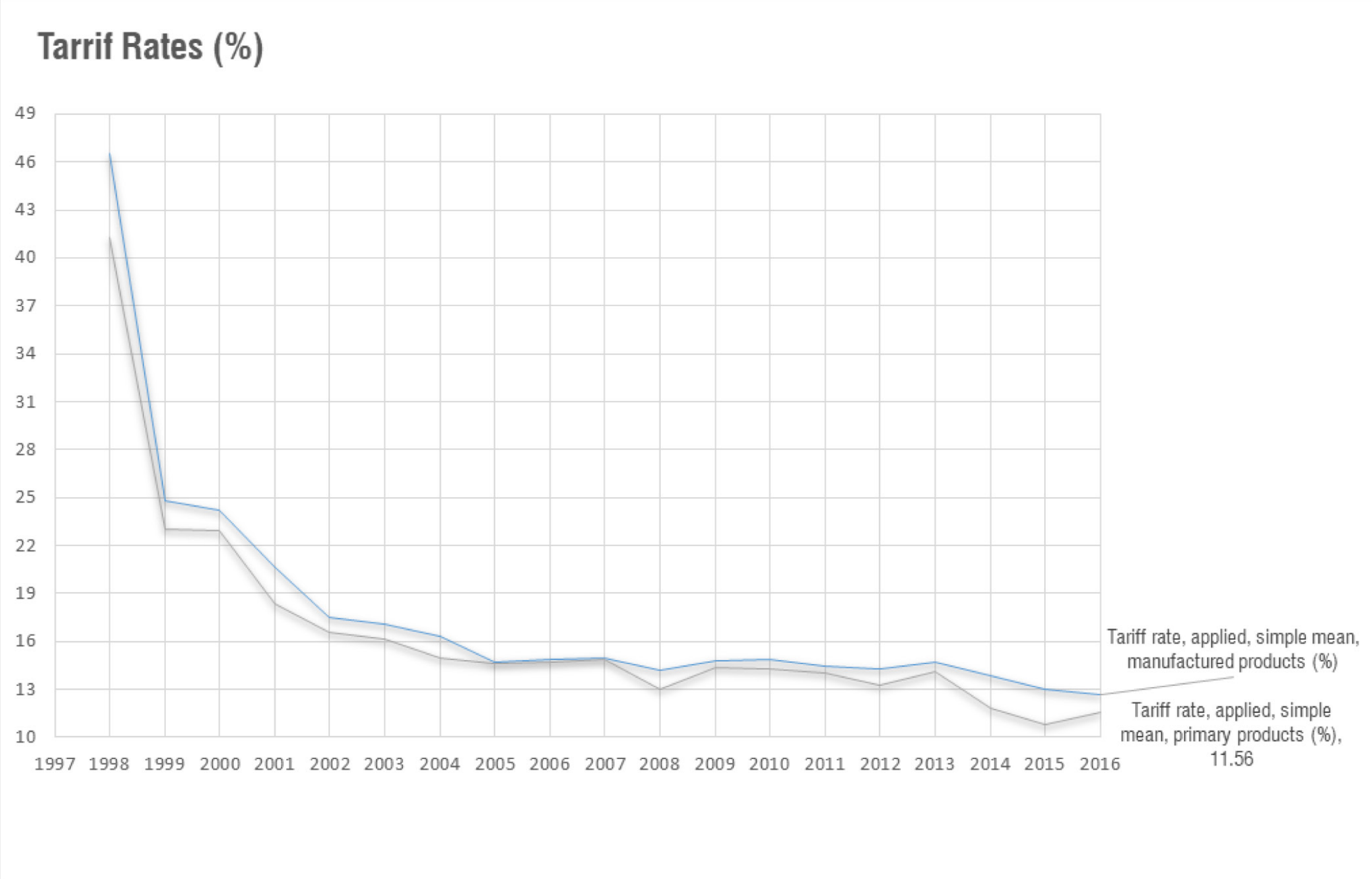
By Ms. Uzma Zia

Pakistan's Tariff rates of primary and manufactured products is shown overtime in graph. A gradual reduction in tariff rates is observed in primary products as well as in manufactured products. This confirms Pakistan is doing efforts to achieve export competitiveness by reduction in tariffs.

	Year	Regulatory duty	Tariff rate	Additional Duty levied	Custom duty
1	2017-18	Increased to 1500 tariff lines at HS 8 Increased (5-10)% on import of 570 luxury items	25% to 17.3% (vehicles excluded)	1% duty levied under SRO 1178(I)/2015, which was increased to 2%	Cascaded Tariff Structure (max rate: 25%; six slabs reduced to four slabs)
2	2018-19	Almost 236 Tariff Lines (TLs) of raw materials and intermediate products are reduced. A list of 40 TLs was incorporated in the Finance Bill 2019 (Supplement-I). In the second phase, tariff reduction plan has been approved for 12 sectors. The Regulatory import duty for the export-oriented industries have been reduced vide SRO 190(I) 2019.	The Finance Supplementary (Second Amendment) Act, 2019 offered tariff concessions to industries that can offer import substitution. lowered tariffs on the raw materials and intermediate goods		A duty of 50 percent imposed on items including imported perfumes, jewelry, glasses, beauty products, soaps, shaving kits and contact lens. A duty of 35 percent imposed on imported cigar and tobacco. A duty of 15 percent on imported coffee. A duty of 20 percent on imported ice cream. A 10 percent tax has been imposed on imported honey, mushrooms, tin-pack vegetables and fruit, butter, cheese, eggs, flour, and corn. About 20 percent tax to be charged on imported cocoa powder, chocolate paste, sugar, biscuits, cakes, almonds, roasted dry fruit, pastries and bread.

REGULATION AND POLICY SPACE

Pakistan's Tariff Rates of Primary and Manufactured Products



REGULATION AND POLICY SPACE

Imperial Democracy

By Dr. Nadeem ul Haque

“We find two great gangs of political speculators, who alternately take possession of the state power and exploit it by the most corrupt ends -- the nation is powerless against these two great cartels of politicians who are ostensibly its servants, but in reality dominate and plunder it.” ~ Friedrich Engels

Typically, ‘elected’ dynastic governments start to unravel by their third year thanks to a combination of incompetence and greed. It is then that the rumour of a technocratic setup starts and politicians start to fan it.

Recently, government officials came out with statements to the effect that the constitution does not allow for a technocratic setup and that there is no room for technocrats in Pakistan. The issue of technocrats really needs careful analysis here.

Why is there a demand for technocracy? People repeatedly see that elected governments are not delivering governance and good public service. Instead they slip into whimsical, ‘kitchen cabinet’ government style- where an inner circle of the unelected starts to take arbitrary decisions. The prime minister wants to run the country in imperial fashion and ministers close to him act like imperial lords by passing all laws. Rumours of corruption grow large. Dynastic ambitions reveal themselves in children being thrown into decision-making more readily than any heir apparent in medieval days.

People repeatedly see that elected governments are not delivering governance and good public service.

Democratic leaders are not known for their great appointments. Cronyism prevails as they seek to bring all institutions – even universities, hospitals and projects –under the control of the executive and his favourites. Losses and failures in public service don’t mean anything to the prime minister; what matters is power and control of the purse. Of course, this breeds rumours of misuse of funds.

Cabinets and parliaments, key institutions from which democratic leaders derive power, are weakened deliberately to strengthen the prime minister. Decisions are non-transparently made by prime minister and his people. All procedure is bypassed and most information on key issues is not revealed. Even lesser ministers and allies of the prime minister are isolated and ineffective, with no power or access.

Officials, heads of agencies and regulatory bodies are treated as court employees and shuffled at will. The power to transfer a colonial legacy is used liberally to ensure central control of the prime minister. The government becomes merely official pronouncements of every whim of the imperial prime minister.

REGULATION AND POLICY SPACE

By the third year of democratic rule the costs of this misrule start to show up. People are restless. Public services are not showing improvement despite claims by the government. The economy, patched up by aid, sputters along but the gains are not palpable. The opposition, seeing the increasing power of the executive, seeks to dislodge him through street agitation. With parliament incapacitated prime minister, they seek to mobilise mobs.

Some look for a non-democratic takeover. Furthermore, they look to technical solutions to the mess that has been made. Indeed, the army does promise this in every coup. And yes some part of the solution has to be technical.

True, dictators did make an effort to find professionals in the past. But was it mere rhetoric? It seems to me that they merely drew upon those that had cultivated them. No active search was conducted. This is obvious if you look at those selected – a few well-known writers of columns, oily bankers, businessman and retired bureaucrats. Hard to make a case of active professional team-building.

Even this romance with a seemingly technocratic governance lasts two to three years. Later, dictators become political and succumb to the charms of the 'fair-weather' politicians.

In reality, the invisible bureaucrat – the powerful mafia in control – has run all systems through both martial law and democracy even when occasionally a few technocrats are allowed into the periphery.

No one wants any professional management in government. Contrary to the rest of the world, it is widely believed in Pakistan that no specialised training is required to manage and make policy in education, health energy, railways, and all other technical positions in government and even outside.

No one wants any professional management in government. Contrary to the rest of the world, it is widely believed in Pakistan that no specialised training is required to manage and make policy in education, health energy, railways, and all other technical positions in government and even outside.

People elect representatives to frame laws and influence policy in line with mandates obtained in elections. Representatives have no right to rule whimsically, signing foreign deals at will, initiating projects as they like, spending public money without check, and gifting state land and contracts to favourites.

Consider how a corporation is run. Shareholders elect a board of directors to oversee the running of the company. The board hires the best professional managers to execute approved policies. Policies seldom come from the boards; only directions and suggestions. Mostly, management and staff present well-

REGULATION AND POLICY SPACE

researched proposals for board consideration and approval.

Elected parliamentarians and cabinets are governing bodies like board members. Their role is oversight and decision-making, not running the government. Cabinets and parliaments review reports and policy proposals arising from agencies. Ministries merely monitor and develop reports on public service provision and occasionally propose required policy changes. Service provision and regulatory agencies lie beyond both politics and ministries in their daily working. Policies guide them. Agencies should not be controlled through arbitrary personnel changes and transfers.

Such checks and balances and specialised roles lie at the heart of good governance. And our imperial democracies run into trouble because of this refusal to accept these principles of good governance.

Continuous attacks on professionals must be understood as a means to preserve the status quo of arbitrary rule. The spectre of martial law assisted by technocrats is raised merely to preserve an imperial executive and democracy.

As I have argued in my book, ‘Looking Back: How Pakistan Became an Asian tiger in 2050’, fine tuning democracy to accept these checks and balances, and assign technical governance and policymaking a proper role will truly allow Pakistan to achieve the development we covet.

Source: https://www.thenews.com.pk/print/244439-Imperial-democracy

REGULATION AND POLICY SPACE

Technocracy with Democracy

By Nadeem ul Haque and Malik Ahmad Jalal

Our public-sector enterprises are bleeding cash at a rate of c Rs1.5 trillion a year. In the energy sector alone, we have lost Rs5.5 trillion.

Foreign investment contracts are bungled – Reko Diq and Karkey arbitrations alone resulted in a penalty of $7 billion. The investigative committee reports have shown a policy capture in sugar that costs billions annually to the taxpayers.

In 2018, Pakistan had the most failed Asian Development Bank projects of any country – totaling seven out of twelve. This inability to perform has a direct financial hit and also an opportunity cost of lower growth rate, which has led us to fall behind countries like India and Bangladesh.

Every government blames this mess on past corruption. Despite several purges, the state-owned enterprises leakages and policy capture merely pile up. So where is the problem?

> *Recognize that complex services such as energy, water provision, railways or urban development require a high degree of non-political professional management.*

Some argue that the issue is the choice of the democratic system. A parliamentary government where ministers lack technical or sector-specific knowledge is not as efficient as a presidential one, which allows appointments of best-available technocrats regardless of electability. However, there is no guarantee that the president will not appoint cronies. Argentina changed to a presidential system in 1994, and even after 25 years the improvement in governance has been marginal.

In any case, changing the structure of the constitution is virtually impossible. What we need is to fine-tune the way the government is run to deliver better public-sector performance.

Recognize that complex services such as energy, water provision, railways or urban development require a high degree of non-political professional management. Note that pre-privatization British Rail, US telecoms AT&T or within the public sector, such as NHS and FEMA, have all been technocracies. They have career professionals at the highest level, who exercise administrative powers to operate the services; importantly, these persons have the requisite education and expertise to actually run such operations. Bureaucracies that 'run things' are technocracies.

REGULATION AND POLICY SPACE

Therefore, if bureaucracies are to exercise administrative power, what is the function of ministers?

In Pakistan, we associate power with administrative authority, which is seen as the ability to hire or fire. Therefore, all centres of authority, including the cabinet, demand administrative authority over their respective departments since this represents power. In advanced economies, the role of the ministers and cabinet is policy formulation and maintaining oversight.

Ministers have a disdain or ideas or strategy as tools to influence change. Processes and performance evaluation systems are harder to use than direct control and ordering about. Hence, ministers seek direct power by exercising administrative authority to re-shape technocratic departments primarily through political appointments, depleting the bureaucracy's technocratic capability to deliver services. This has destroyed public service delivery organizations such as PIA, Pak Railways, irrigation etc.

Good governance requires the separation of ministries from regulation and service delivery. All three are separately and autonomously staffed with professionals. The ministry must professionally monitor regulation and service delivery and report to the minister, and through her the cabinet and parliament. All direction to the regulation and service delivery should be through policy and performance evaluation. Politics, especially politically motivated hiring, should not be allowed into any of the technocratic areas.

In the proposed framework, ministers are not CEOs, rather acting as chairpersons of their departments, setting and communicating strategy, overseeing implementation through evaluating performance of the management. When ministers wield the administrative authority of a CEO, as they currently do, it creates the dysfunction of a non-technocratic parliamentarian taking decisions on operational matters which require technical expertise and knowledge.

If ministers' purpose is to provide guidelines as per cabinet decisions and undertake performance evaluation of the bureaucracy, then ministerial technical domain expertise becomes redundant. In support, many board members of global well-run corporates do not have relevant industry expertise, yet discharge oversight extremely well.

Parliament envisions the policy direction by enacting laws. The cabinet and it's committees like the ECC, ECNOC, CCoP are responsible for strategy setting. The background technical work and oversight of these decisions have to be done by ministries through collection and reporting of data on regulation and service delivery. The website of no ministry has such reports because everybody is busy running things.

Allocating the scope of authority as per principles of good execution avoids a scramble for administrative power by different segments of the government, which creates dysfunction and leads to the inefficiency of the parliamentary system.

REGULATION AND POLICY SPACE

According to Harvard Professor John Kotter, 70 percent of change projects fail to achieve objectives. Transforming our governance system to the presidential form does not guarantee change. Doing nothing is also not an option.

The least disruptive way forward is to implement in spirit our well-defined Rules of Business, which lay out the boundaries of authority and responsibilities for each arm of the government. This is done by following the principle that democratic representation of parliamentarians does not automatically translate into an authority to make administrative interventions and can be better utilized through their strategy setting, oversight and performance management of technocratic bureaucracies. Then our state organs can have the clarity and capability to deliver good public-sector performance that is demanded by its citizens.

REGULATION AND POLICY SPACE

CCP Slumbered while Consumers Short-Changed?

By Joseph Wilson and Khalid A Mirza

The Competition Commission of Pakistan (CCP) was established, in October 2007, with the objective to "maintain and enhance competition." This brief, simple mandate is enshrined in the preamble of the Competition Act, 2010 ("the Act"). It is, therefore, reasonable to expect that every action of Commission must be geared to achieve its sole objective of maintaining and enhancing competition. The consequential effect of competition is to enhance economic efficiency in all spheres of commercial and economic activity and to protect the consumer from anti-competitive behavior, which is what the Act aims to provide.

What is competition? Why is competition so important? How is competition maintained and enhanced? Handling these questions with clarity and focus is fundamental to the work of all concerned within the Commission. To state the obvious, when we talk about competition in reference to the functioning of the market, we mean the rivalry amongst economic agents to secure a larger (or largest) share of the market. A market is called competitive, when there are a large number of market players, products are fairly homogeneous, buyers have perfect information, and there are no unreasonable barriers to entry or exit from market. A competitive market, on the supply side, induces innovation, higher quality and lower prices, and on the demand side, it offers information, choices in products and services of higher quality at competitive prices. All of this may be summed up as "consumer welfare," which is ultimately achieved by promoting, maintaining and enhancing competition. "Consumer" is the main protagonist in this entire internet of things.

With this backdrop, it is quite disconcerting and our jaws drop when it is noted that some recent decisions of the Commission are chilling competition, instead of maintaining and enhancing it. For instance, the Commission's Order of 30 March 2018 in the matter of Kamyu.pk, the concerned two-member bench gave an incongruous interpretation of Section37(2) of the Act and held that an inquiry could not be initiated upon a complaint by a consumer. The bench took pains to highlight that since the word "consumer" is not defined in the Act, the consumer is deprived of any capacity to file a complaint ignoring the obvious fact that a consumer could always draw the attention of the Commission to an alleged wrong-doing and the Commission could take 'suo motu' notice to proceed further in the matter in accordance with law.

Devising effective regulatory measures to capture the non-viable firms in the marketplace, regulators can generate larger space for the more productive and small-medium enterprises (SMEs) to access the credit.

REGULATION AND POLICY SPACE

The superior courts in Pakistan favour purposive interpretation that is in line with the spirit of the law so as to further its aim and not to stifle it. Contrary to this view, as a consequence of their questionable interpretation, the bench members went ahead to upset the entire applecart holding that an inquiry could not have been initiated in this case under Section 37(2) thereby obviating any subsequent proceeding under Section 30, and therefore, both the Enquiry Report and the SCN [show cause notice] were set aside." Not satisfied with this, the bench from its high pedestal went further and also took the opportunity to reprimand the "concerned Head of Departments of the Commission" warning them to ensure "future compliance with the explicit provisions of the Act." By doing this, the bench sabotaged a significant part of the Commission's work since effectively it would not be possible for the Commission's officials to entertain consumer complaints and conduct enquiries under Section 37(2).

We remain in awe, as to how a proceeding under Section 30 of the Act can be initiated unless "the Commission is satisfied that there has been or is likely to be a contravention" which in many instances is possible only after holding an enquiry under Section 37. Clearly, before any action is taken or authorized under Section 30, the Commission has a sacred duty to first satisfy itself that, prima facie, there has been a contravention or the likelihood that a contravention has occurred. This is a non-delegable duty. It is really surprising that the adjudicating members did not recall that the Commission as a whole, of which they were an integral part, had actually authorized the proceedings based on the findings of the Enquiry Report submitted to the Commission. For the bench to then reprimand the officers concerned seems unconscionable and not possible to defend. Engaged in technicalities, and that too incorrectly, members of the bench, through this inexplicable decision, clearly wasted the time of the Commission's officers, and their own time, all of which was paid by the public exchequer, and the complainant ended with no remedy!

Slumber: Another decision by the Commission that makes us shake our heads was issued on 16 December 2019 in the matter of Pakistan Flour Mills Association (PFMA) pertaining to cartelization by the flour mills. The Commission found that the PFMA had engaged in cartelization and slapped the Association with a penalty of Rs. 75 million. While the decision may be right, this case illustrates the well-established legal axiom "justice delayed is justice denied." Here the denial of justice is again to consumers, who have been ripped off by flour mills that colluded and charged inordinately high monopoly prices. The timeline of events, as documented in the Order, loudly proclaims the snail's pace at which the Commission proceeded in this matter, in fact seems to be sleep-walking throughout! This case shows that efficiency in processing and disposal of cases is not a priority of the Commission and shows remarkable apathy or lack of concern for the welfare of the consumer which is a significant part of the raison d'etre underlying the Commission's existence.

REGULATION AND POLICY SPACE

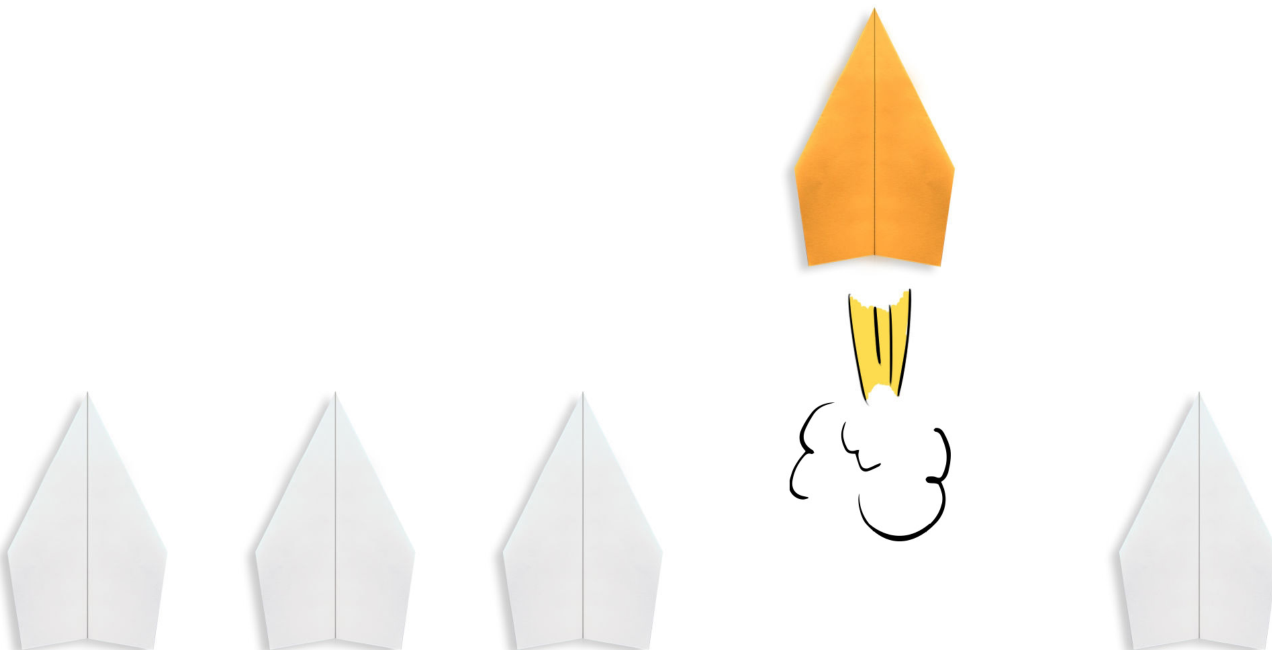
While the Commission first took notice of cartelization on 28th June 2015, it took fifteen months for the Commission to take a decision to raid, or inspect by surprise, the offices of PFMA, which occurred on 4th October 2016. Thereafter, the officers concerned spent ten months to prepare an inquiry report, which they submitted to the Commission on 1st August 2017. It then took the Commission six long months to read the inquiry report and authorize the issuance of a Show Cause Notice, which was issued on 22nd February 2018. The first hearing was conducted on 29th March 2018, and then there was a long hiatus of seventeen months to resume the hearings on 20th and 29th August 2019, subsequent to which the Commission took another three-and-a-half months to issue the order. Thus, from June 2015 till December 2019, it took four years and six months for the Commission to conclude a case, while in the meantime flour mills kept on ripping off consumers with impunity.

While two members and the Chairperson who adjudicated in the three cases mentioned above have since been removed from office, it is important that the Commission be re-constructed and re-oriented to ensure that consumers get the protection they have the right to expect under our competition regime. It is such cases that have, inter alia, given rise to questions being raised regarding the efficacy of the system embodied in the Act as well as the plea that this system be jettisoned and, if at all, possibly replaced by a regime suited to our circumstances, whatever that may be! We are pinning our hopes on the two remaining members - after the recent removal of three members - both of whom seem focused and committed to doing what is right, and on the Government filling the vacancies with persons that are not only highly competent but also, above all else, are persons of unimpeachable integrity.

COMPETITIVENESS

You become what you export.

—Ricardo Hausmann and Dani Rodrik



COMPETITIVENESS

Tracing the Zombies: Unproductive Capital in Pakistan

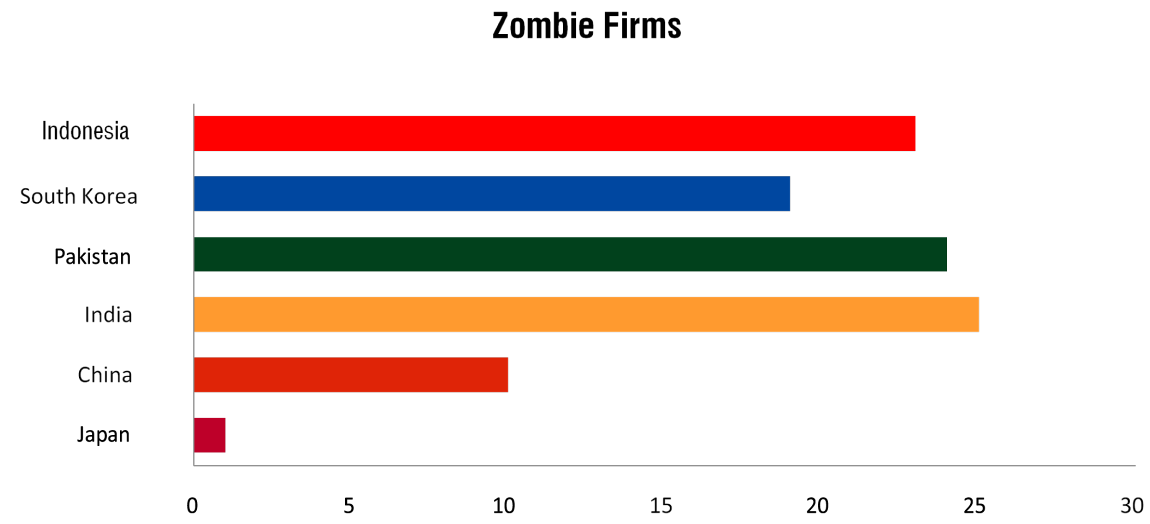
By Naseem Faraz

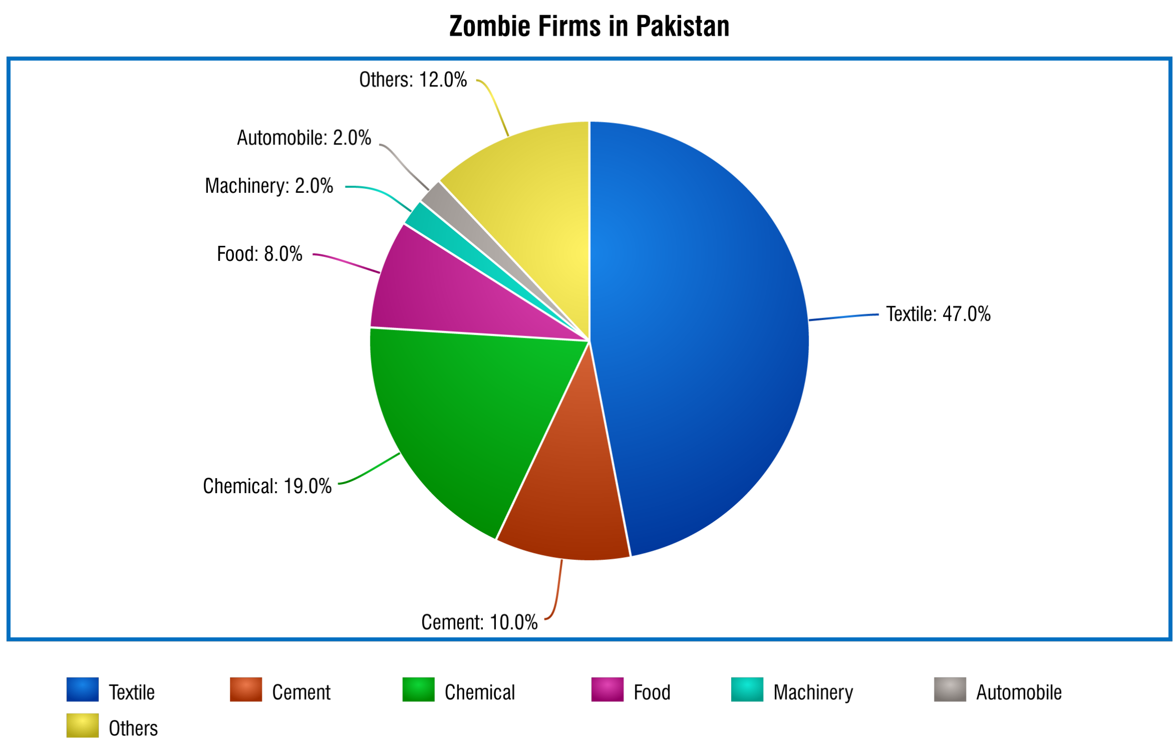
The efficient allocation of capital plays a key role in development by nurturing innovation and increasing industrial productivity. However, the reallocation of capital towards less productive firms at the expense of more productive firms harm the growth of the industries. Recently economists discuss the existence and the rise of the Zombie firms which slowed down the growth in several countries including neighboring India. Zombie firm – a loss-making firm that lost the ability to generate enough profits to cover their interest payments. They survive only by repeatedly refinancing their loans. In the competitive market, Zombies have to either exit or restructure. If Zombies congestion rises, it potentially crowds-out growth opportunities for more productive firms.

The term Zombie firms first time had been applied to Japanese firms during the period of the Lost Decade (1991-2000 - the period of economic stagnation in Japan). In that period, Japanese banks were kept injecting new loans to unprofitable firms to keep them alive. The Japanese economy did not begin to recover until this practice of misallocation of capital had ended. Recently literature revisits this connection and shows that misallocation of capital is emerging as a vital explanation of the fall in productivity in several OECD and Asian economies.

Rarely discussed, but the concentration of the Zombies is the real challenge for industrial growth in Pakistan as well. The misallocation of capital to these unprofitable firms indicates that credit reallocation is not always to the healthier, innovative, and more productive firms in Pakistan, this perhaps crowd-out the growth opportunities for the productive firms. Using balance sheets of the listed firms, we estimate the share of these unproductive firms in the marketplace. Our estimated value suggests that approximately 25 percent of firms show up as the Zombie firms in Pakistan. Our calculations show that roughly 47% of these nonviable firms exist in textile, 19% in chemical industries, 10% of them walk in the cement sector as the Zombie firms in the marketplace in Pakistan. The concentration of these firms is not limited to any particular sector. They exist both in the private and public sectors. Our estimates suggest, roughly \$3 billion short term bank credit flows to these firms annually, the efficient allocation of this credit could improve the performance of industrial sector.

COMPETITIVENESS





RHS figure — Author's calculations for Pakistan;

LHS figure — Based on information from NIKKIE Asian Review August 11, 2019 (plus our calculations for Pakistan)

What are the potential sources of the prevalence of the Zombie firms in Pakistan? One driver is the tendency for banks to make evergreen loans to nonviable firms. This practice allows them to avoid show losses on their balance sheet, and if they show the losses, they have to create provisions to balance their sheets. Second, the meager interest rate is another potential factor that reduces the pressure on creditors to clean up their balance sheets, which encourage the banks to make evergreen loans these firms. Third, public sector enterprises appear as Zombie firms as well, which again a big challenge to banks because the public sector (PSEs) firms have faced high levels of debt or overcapacity. These firms have created a debt cycle, as they are often forced to borrow from banks to repay the interest payments. Banks lend to them because they come under the government guarantee, banks keep lending even having nonperforming loans.

The support to Zombie firms to stay alive impairs the market competition. In this situation, banks let these unprofitable firms to distort competition in the economy. They depress the market prices and increase congestion of the less productive firms in the market that results in less credit availability for healthy firms. The Zombie's distortion also impacts the overall productivity of the industry and the job creation that more productive firms could generate. The survival of the unproductive firms for an extended period may crowd out the investment opportunities, employment generation, and the overall productivity of the industry that more productive firms could generate.

This debate should not distract from the contribution of the banks in a hard time to support firms. However, the role of regulators is the key to break this ongoing debt cycle. Devising effective regulatory measures to capture the non-viable firms in the marketplace, regulators can generate larger space for the more productive and small-medium enterprises (SMEs) to access the credit. Priority in credit access to productive firms, as well as small-medium and innovative enterprises, would improve the health of financial markets and may reap the higher investment and employment generation in the country.

Devising effective regulatory measures to capture the non-viable firms in the marketplace, regulators can generate larger space for the more productive and small-medium enterprises (SMEs) to access the credit.

COMPETITIVENESS

Competition and Markets

By Muhammad Mobeen Ashraf

Markets are the most important in every economy because through markets competitive environment is created and revenues are generated. In Pakistan markets are regulated by government. In fact, government is interfering in every market and be an active player from agriculture to industry.

Agriculture market is deregulated, but government gives subsidies and fixes prices which is against the competitive law. Investment is low because of lack of market opportunities due to dominance of government, many investors are constantly involved in lengthy court cases because of this excessive government dominance over markets. We have competition commission, purpose of setting of the competition commission was to have proper markets, as we have moved from a nationalized economy to private sector economy but with the weak implementations and the regulations. Due to government intervention these markets could not become competitive.

The purpose of setting of the competition commission was to have proper markets, as we have moved from a nationalized economy to private sector economy but with the weak implementations and the regulations. Due to government intervention these markets could not become competitive.

Although on one hand competition commission plays their role in the form of enforcement of law against the powerful players and break the cartels but court cases are big hindrance for achieving the results. Competition commission formed after the 1970 monopoly act, there are few problems in them and to address those shortcomings competition commission is formed. Early law was a truth less law there was no penalties of the violation of that law. It does not allow the dominance, the monopoly is illegal and in the new law dominance is allowed but the abuse of dominance is not allowed.

The "stick and carrot" approach of the competition commission offers punishments and waivers. The leniency program under that competition commission provide 100% of immunity but that occurs under certain conditions that 100% waiver these includes the amount of evidence the entity provides the other cartel participants. They have informant program that can be availed by anyone who have concrete information about the existing of a cartel and they have incentives up to five billion Pakistani rupees to the informant. Moreover, competition commission doesn't allow any firm to do anticompetitive practices after merger. If the firms do that the competition commission will open the case within a year and disapprove the merger.

On the other hand, competition commission has also increased the regulatory burden to investors as it also wants to control prices of commodities through deputy commissioners and in some cases, it wants more regulations where more market is required. In Pakistan we give auto sector manufacturers lot of

COMPETITIVENESS

Regulatory barriers are one of the entry barriers for development of the markets but there are other structural barriers as well which are not connected with the regulations.

protectionism that is against the competition, competitive commission wants used automobiles should not come into the country. The competitive commission has a clear role and serving with its full capacity.

In Pakistan we don't have deregulation commission along with competition commission; perhaps what we needed is a deregulation commission too. In Pakistan we have competition commission in the country, but we don't have competitive markets. Regulatory barriers are one of the entry barriers for development of the markets but there are other structural barriers as well which are not connected with the regulations. Sometimes there is a cartel in the market they don't enter any other in the market through different means, sometimes there is a dominant player in the market who does not enter any other in the market. Only competitive commission can address those type of barriers, so the deregulatory commission and competition commission both have their own importance and are required for markets and competition in the markets. Government also ensure that markets run themselves because they need neither a competition policy nor a completion law.

COMPETITIVENESS

Does Pakistan Need A Competition Commission of Pakistan – Yes!

An interview with Professor Khalid A. Mirza, ex-Chairman CCP, on the genesis of theCompetition Commission of Pakistan and its role in the economy.

PIDE: CCP was borne out of the realisation of limitations in the 1970s Monopolies and Restrictive Trade Practices (Control and Prevention) Ordinance' (MRTPO). What were those limitations, and do you think the CCP mandate addresses those adequately?

KAM: Monopoly Control Authority (MCA) was established to enact the MRTPO and it tried to register agreement and enterprises that were likely to impinge upon what this law prescribed but it didn't have the authority to act at the enforcement level. For example, it could only impose a maximum fine of PKR 100,000, and if it was a continuing fine it was about PKR 10,000 per day till the offence continued.

It was not a very effective way of acting against restricted trade practices. First of all it was a very normative law and it was also very difficult to determine unreasonably restrictive trade practices. What it had essentially done was that it created auction lines for example If the enterprises were together and had more than 33% of the market, all the law required you to do was come below it and not cross the 33% line. If unreasonable monopoly power is there and do not remain within the limit, all it is, is a violation of this law in terms of undue concentration of economic power and unreasonably restricted trade practices. It has power also, in section six which add to the different aspects. But it wasn't effective in implementing and achieving a robust anti-trust regime.

One other problem was that the civil servants were untrained and not equipped to do this sort of work. This was a huge issue and then what happened was that there a drive to nationalize organizations and industries. Nationalization brought a lot of economy outside the preview of this law, since the law did not allow the MCA to act against the government.

Our law now is actually a very modern form, it is a state-of-the-art law and what is does is it sets the agency, the Competition Commission of Pakistan to take a very progressive approach. What they say is we are not against companies becoming big.

COMPETITIVENESS

We are not against size, what we are against is anti-competitive behavior like we are against cartelization, we are against collusive behavior, we are against abuse of dominance, we are against deceptive marketing practices. The law enables the CCP to act against such practices and such behaviors. Now that is the role of the commission, where right from the beginning there were people who make it ineffective in the first few years. It actually worked quite well latter on but the government of Pakistan didn't support the funding that this institution needed. There was pressure of the people who were against this whole antitrust regime that it became ineffective.

PIDE: Competition commission provides advocacy support and is responsible for the competition culture in the domestic economy. What are the best ways to protect competition and innovation in a small economy like ours?

KAM: In the economy like ours, there is large part that is controlled from commanding heights, so it is either the government determine the prices and it is intervening in the market process. On that area the Commission can do very little because it (the Commission) can only act in that part of the economy that is left free. The Commission supports the market, and it makes the market works effectively. If no markets there, the Commission will not work. If you talk about the market-based economy, you have to ensure the rights of all economic agents are protected in a fair manner and they are able to compete with each other on a level playing field.

> *In an economy like ours, there is a large part that is controlled from commanding heights, so it is either the government determineing the prices or it is intervening in the market process.*

CCP was very effective in the early years. It was regarded as the number one anti-trust agency in the developing world, the other two agencies that were effective that are Egypt and Mauritius. A group of OECD convene regularly for an international competition network meeting. I was actually there for a meeting in Istanbul in 2010 because this group usually takes few countries of the developing world as observers and Pakistan was placed at the top, when comes enforcement law in policy, India was not included.

As we had enforced competition law and policy very effectively, it had been recognized globally in OECD. So much so that I was even asked to represent Pakistan and preside over a one day session about the whole business of corruption in the public procurement.

In this area whether anybody recognizes this or not within Pakistan, but actually we have achieved quite a lot. For example on the enforcement side despite all the problems, we have moved very quickly against cartelization, collusion, abuse of dominance, unacceptable concentration and against deceptive marketing practices. We have made an impact around the globe.

COMPETITIVENESS

Within Pakistan it had a visible impact on how business community acted as a consequence of our enforcement, and advocacy.

PIDE: How does CCP acts against cartels or abuses of market power?

KAM: Whatever part of the market is left free by the government, it is the purpose of competition law in policy to get the market to work. The Commission acts against cartelization (i.e. collusive behavior part of market agents), it acts against abusive dominance, you don't mind anybody big, you don't mind anybody come through normal competition, there is no problem there till you become dominant. Once you become dominant you must not abuse your dominance and must not try to exploit. There are some abuses which are defined in the law; predatory pricing, discriminatory pricing etc. That abuse is something that the Commission acts against because that abuse is the one that actually acts against the market and weakens it. The other important one is deceptive marketing practices (you have somebody that is actually deceiving the public in their advertisements). The purpose of law into policy is to provide the basis of getting the market work.

The Commission acts against cartelization (i.e. collusive behaviour part of market agents), it acts against abusive dominance, you don't mind anybody big, you don't mind anybody come through normal competition, there is no problem there till you become dominant.

There are some abuses which are defined in the law; predatory pricing, discriminatory pricing etc. That abuse is something that the Commission acts against because that abuse is the one that actually acts against the market and weakens it. The other important one is deceptive marketing practices (you have somebody that is actually deceiving the public in their advertisements). The purpose of law into policy is to provide the basis of getting the market work.

PIDE: There are many cartels formed in Pakistan. How does CCP detect cartels? Or is it the consumer's hue and cry that indicates a problem for the CCP to investigate and report on?

KAM: Somethings are very clear, they come to knowledge. The other things are suspects when you see a movements of either prices or behavior on the part of large number of economic agents in a particular sector that gives you an indications that they are cartelizing. Then you do your investigation and you find out about them; you get the proof and then you proceed against them. When I was there we did competition impact assessments of different sectors; the sugar sector, the auto mobile sector. What we tried to achieve by doing these studies was to find out (it is not economic study) where are the vulnerabilities? You see in some sectors there is a kind of pattern the way in which bids have been awarded to that sector, then you investigate to find out. It doesn't mean that there is abusive behavior or any violation of the law, but it give you indication that you need to watch this act. Then there are complaints; there are people who come and tell you, then you investigate. So every time there is a whistle blower. We have rewards scheme, and we have given between PKR 4 to 5 million to informants/whistleblowers.

COMPETITIVENESS

The sugar companies started cartels and we started an investigation, we proceeded against them, we determined their guilt, we then prodded judicially with our own judicial proceeding. The sugar companies went to Sindh High Court and got a stay order, so we went to Supreme Court and got the stay order partially vacated. The Supreme Court ordered the High Court will decide within one month. The second thing they said the commission should complete its hearings, write out its order and file the order with the High Court. We did exactly that and fined the sugar mills association PKR 50 million. After that we were going to proceed against 20 sugar mills because we got the evidence that they have cartelized, but between that day and today that case was not heard; God knows what happened and what the High Court did about that.

PIDE: Once a fine is imposed by CCP on an illegal activity, do firms abide by the law and does it alter behaviour in the future (e.g. as happened in case of stock exchange)

KAM: There are large number of fines which were imposed by the Commission. In the case of the cement industry it was PKR 6.4 billion alone. Only one or two people paid the fine the rest of them went to court. How does one make oneself effective; I make myself effective by become a somebody with great moral authority so when I say something that is what matters.

Will you see the thing is that in under our law we don’t have criminality this is a civil wrong but not criminal as is I think recently England has made cartelization a criminal act. USA had made that from a long time ago.

PIDE: As the CCP has a “carrot and stick” approach; do firms try to avail the carrot in one way or another if they are found guilty?

KAM: We have 2 tools the MCA did not have; (i) we have the ability to do what we call surprise inspection, we have ability to do a raid. (ii) there is grant of leniency, when there is a cartel if any one party or any one cartelist comes to the commission and presents evidence of what is being cartelized, that party goes scoot free under grant of leniency. An example of this is the leniency granted in the cement industry.

There are lots of flexible powers that the commission has which the MCA did not have; the whole approach of the Commission is far more progressive then a MCA. The commission is not modern as our competition law is. Theere are certain behavioral norms that’s you must follow if you don’t follow those behavioral norms then you copy it. Cartelization is a very serious offence; the supreme evil of antitrust. What cartelization is it is conspiracy against the public that businessmen engage in. Do you know that in Rome; Ancient Rome, in the far eastern Roman Empire, what that constitution provided was that if you cartelized and collusively fixed prices, collusively fixed production or divided territories then they were liable to be exiled from the empire, and the place of exile was what is now Great Britain.

COMPETITIVENESS

PIDE: The structure of the CCP appears to be composed primarily of lawyers; there are no economists in senior management. Is that by design? Why?

KAM: We have very good economists, but competition enforcement needs good sense; the skills you need in competition law and enforcement are the following: you need the law first, secondly you need a knowledge of economics because its helps when you investigate and it helps when you actually do an assessment of a sector, so you need micro economists, not macroeconomists. I have never lead a competition agency that doesn't have economists. The economists are very essential part of enforcement of competition law and provide input in policy. A prime example is the policy of abuse of dominance. Thirdly we need forensic accountants; they determine the motive and who is doing what, and to whom. They study the accounts of a company and determine what is really going on, so you need all these skills over there in the CCP.

PIDE: The CCP has many feathers in its belt. Do you think the economy has responded well to the CCP actions in the manner intended? Could you provide some examples?

KAM: This is something I set up; it is not there in many countries. I don't know any country in which it is there. When I took this agency, I found that I must have a coalition of support so how I built that, I supported advocacy. I was talking to media, I was issuing these reports, I was talking to government, issuing policy notes to the government, all that was there but I was need support for intelligence here in Pakistan.

The people that mattered was the regulators, I needed them to know what I was doing, to give me suggestions, to give me feedback as to what I have done right and what I have done wrong; their view. I wanted them to be my agents to propagate what I was doing. I was sanitizing and trying to get feedback try to pushing something, putting an idea and see that how they react. For this reason I set up a Competition Competitive Group; it was comprised essentially of regulators, top businessmen in Pakistan, intellectuals from academia (about 15 to 18 people). I met them once a month to tell them what I am doing and seek their reactions; toss things to them that this what I am doing, what you think and asked them to tell me what should I be doing?

You talked about where I got to know about cartels, a lot of things I got there in consultative groups, lot of hints, ideas that which I should investigate this or that, then the regulators I tell them I am here to help you whenever you have competition issue you come to me I will help you. These regulators have their provisions of competition but they were incomplete and they are not able to implement them. I said all you do if there is an issue of competition in your sector, refer it to me and I will deal with it. This group I setup and I had no less than in the three years (in which I was there) I think 25 meetings and every time we issued a press release also. It was very successful and the advocacy we are doing through a variety of meeting the association meeting the chamber talking to the press. I was always in the news and the way in which we got the Competition Act projected.

COMPETITIVENESS

PIDE: CCP has many feathers in its belt. Could you provide some examples?

KAM: I think the best example would be the comment I received from a US consultant when he came and stayed here. He said in a public meeting there are two areas in which Pakistan's Competition Commission can provide technical assistance to the US; one was on advocacy and second is the way you actually go about the initial part of your investigation. We had taken advocacy to a new high level. In the early days we had success, we made a mark, globally, and there was a clear effectiveness from the rection we got from the market.

PIDE: Do you think that deregulating the economy; i.e. reducing red tape and bureaucracy, will lead to an uptick of commercial and manufacturing activity?

KAM: When I was there, there was lot of red tape its didn't bother me because we were independent, we were outside from the government bureaucracy, we had our own rule and procedures which we were doing independently. The monopoly control authority from where I inherited the staff, I just send them back to the ministry of finance, so it was a completely changed institution. There were a lot of changes in management that we had. We had our own rule procedure processes, there was no file moving, assistant director send a file straight to a chairman. It is within his authority and he needed my advice on something he come straight to me. If somebody didn't exercise the authority, so as I was concerned, he was a failure thats the approach. If it is beyond your authority, you send it up, if it is with in your authority you take your action.

PIDE: Once a fine is imposed by CCP on an illegal activity, do firms abide by the law and does it alter behaviour in the future (e.g. as happened in case of stock exchange)

KAM: The Commission imposes a fine but the fine is not the only thing that it does. It also gives a speaking order with details of what the offence is, and it does what is called naming and shaming. The extent of the fine reflects the extent of egregious behavior. I don't have concern about the fine because in courts of law things will get tied-up, but how can it be effective. It can't be effective if I rely on payments of fines because the courts system does not work effectively. So I had to climb up high get more authority so that with the moral authority when I call somebody, it should matter. I don't care what the court said if the high court or any tribunal had said. I am concerned that once I issue my order they alter their behaviour. As my orders were out on the CCP website because that is the punishment, the punishment is what the orders says about you, not the fine. The fine only reflects the gravity of the offence and what really happens. In Pakistan nobody paid any fine so this it is complete ineffective. We were effective because of the high moral authority. Later on, the Commission became ineffective when they lost that moral direction. When you lose the moral high ground, you've lost everything.

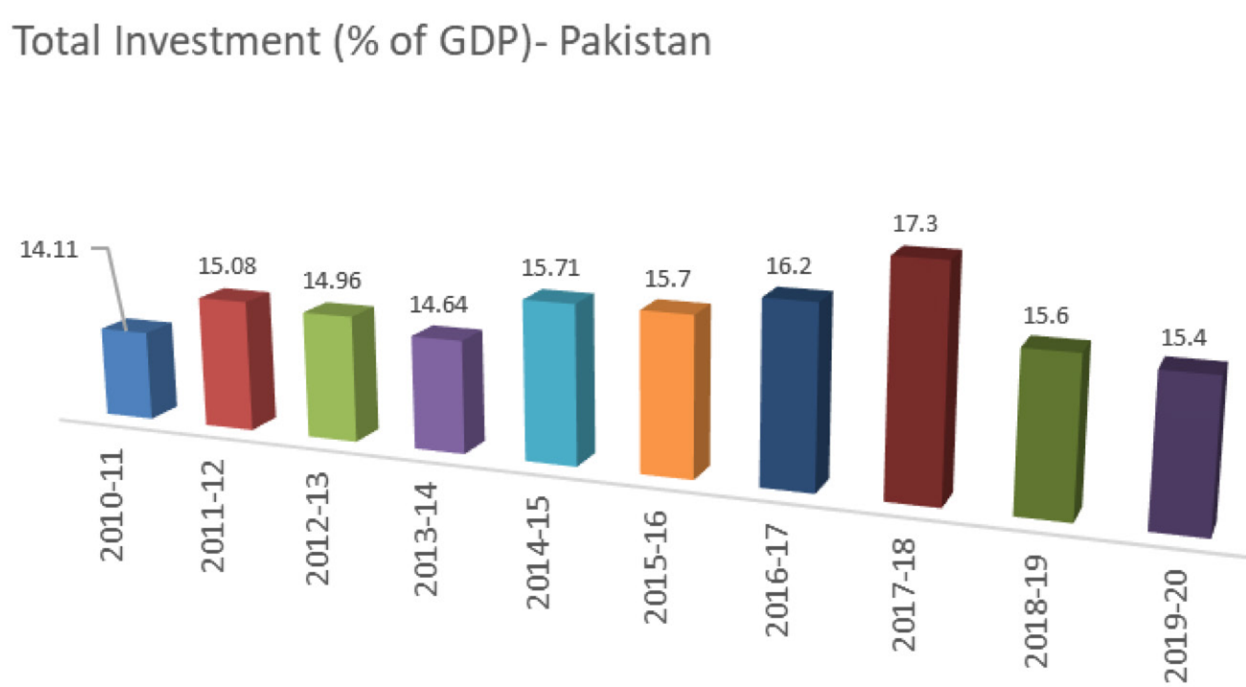
COMPETITIVENESS

Trust Deficit and Low Investment Levels in Pakistan

By Uzma Zia, Amena Urooj and Usman Ahmad

Pakistan's economy is faced with several macroeconomic issues including low GDP growth rates, balance of payment issues, low investments and budget deficit. The economy couldn't maintain reasonable growth rate and ended up with negative growth this year. Ongoing recessionary phase worldwide and COVID-19 was another nail in the coffin of growth in the country.

A major concern is the trust deficit of investors. From time to time the government of Pakistan tried to focus on public and private sector investment and attracting FDI in the economy to increase competitiveness. Board of Investment and provincial BOI are working since 1997 but the investment position is distressful in the country. The short-lived business growth cycles are not driven by public private investment. In fact, there are multiple factors adding to the situation. Total investment in Pakistan is at 15.4% of GDP in 2019-20 (see graph below). It stands at the lowest levels in comparison to other countries of the region like China having total investment at 45% of its GDP. In GCI ranking, Pakistan stands at 107th in year 2018 and in EDBI ranking the country stands at 147th position in 2018.



Economic Survey of Pakistan, various Issues

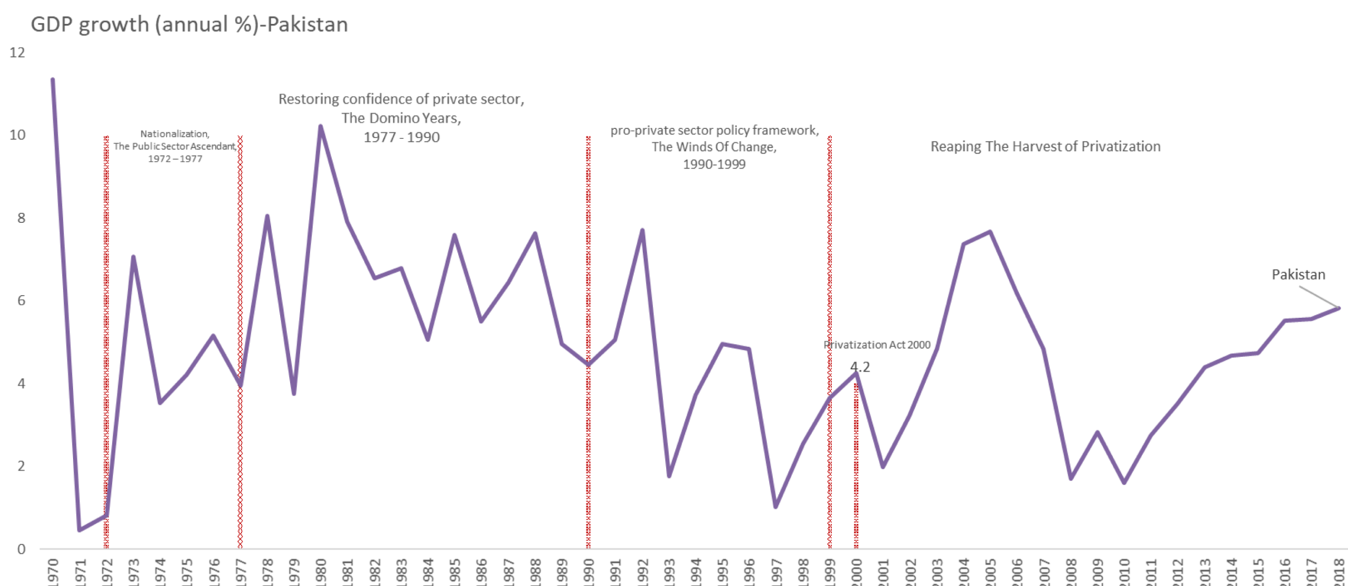
Some impressive economic performance was observed between 2002-07 but the country is in troublesome condition since last few years. Currently being under IMF programme, their interventions, and recent COVID-19 devastation the country is encountered with volatile policy structure. Pakistan has

COMPETITIVENESS

also lost its advantage in international trade by continuing to depend upon low-tech products. Lack of diversification in commodity composition is also there. Private sector players have attuned themselves to the new realities of global markets and are engaged in lobbying for rent seeking. Globalization through trade openness and investment can contribute well in growth dynamics. The technical hitches in revenue and tax system created trust deficit for the businesses, public deficit has made policy more volatile and fueled the issue while keeping the country in low investment levels.

Volatile policies- a source of trust deficit & low investment

In Pakistan, the nationalization phase in the past harmed the business attitude as business became a sign of control. Due to fragile policy environment business sentiment is at the lower end and the country will never grow until it become core value from top to bottom. Policies do not sprout in Pakistan as it has become a victim of manifestation of the system and non-conducive work culture. Businesses are running in an environment where business community is forced to take actions for their existence in the market not on growth. Current situation of economy shows Pakistan now fall lowest in investment and maintaining the lowest credit to GDP ratio which is 18% for Pakistan, 47% for Bangladesh, while 50% for India.



Most large companies in Pakistan are government owned or multinationals which are not growing well. Market capitalization, being an important indicator, is in the hand of 5 top companies (OGDC, MCB, NESTLE, PTCL, ENGRO) but in reality Pakistani companies/businesses are growing at slower pace.

Low FDI Inflow in Asia

Comparing the FDI inflow in Asia, India has the leading role while Pakistan and Bangladesh stand lower. For Pakistan most of FDI inflow coming from Hong Kong and China and power, finance and oil sector have almost 70% share of the total FDI in country. Pakistan has a grim vacuum of policies as no conclusive

COMPETITIVENESS

growth policy, industrial policy, and export policy exist. Pakistan unfortunately failed to demonstrate big investment transaction in last several years like RECODEC, and KARKEY, Bahawalpur solar project. There are structural flaws and disconnections between institutions at federal and provincial level. Unfortunately, FDI has always been quite low in Pakistan and remained below 4% of GDP. The reasons of low domestic investment are volatile policies, businesses do not grow in Pakistan, retail is primitive, stock market is weak, stabilization does
not work and construction activity is not supported (PIDE Webinar).

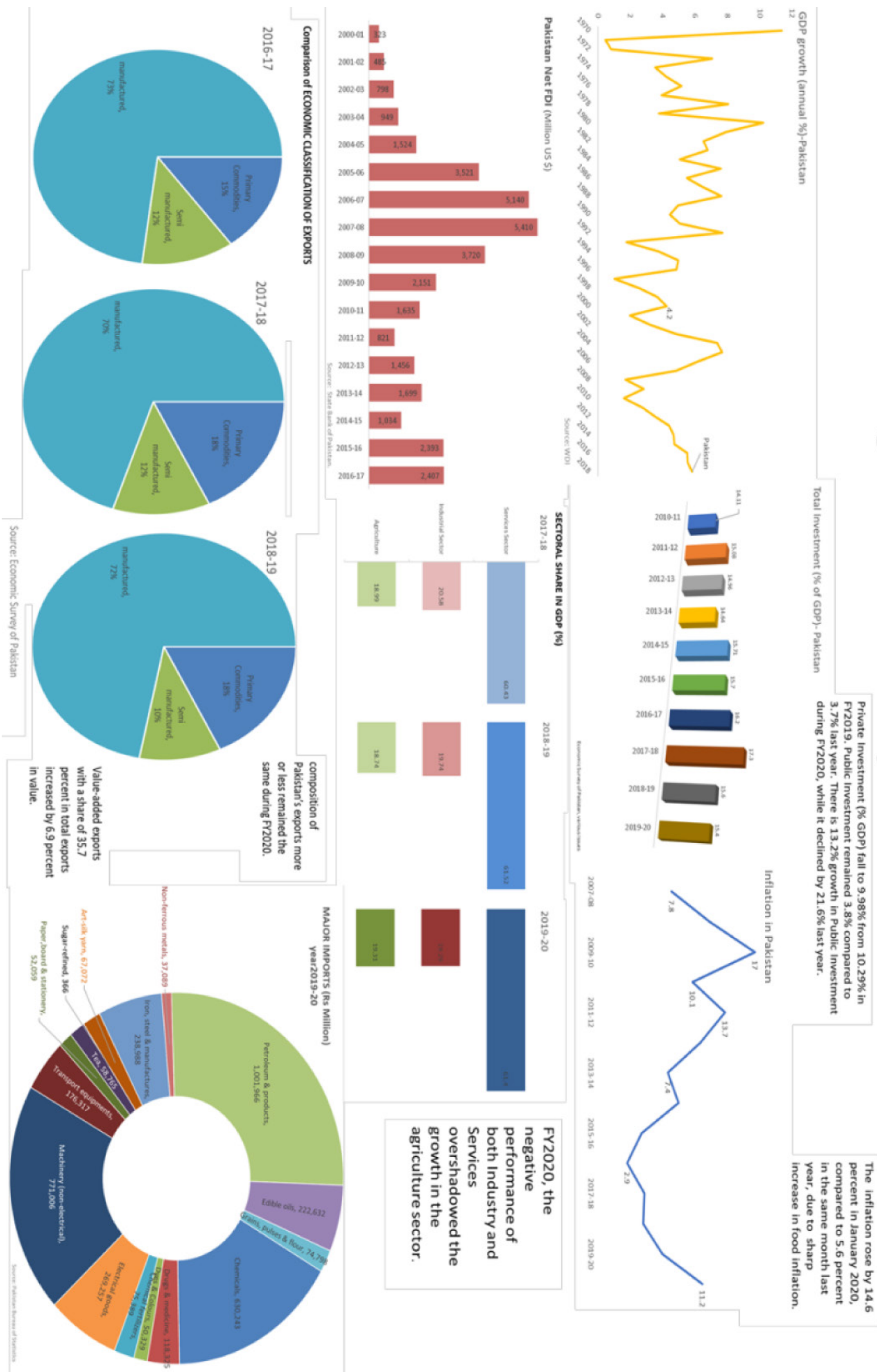
This is worrisome that macroeconomic stability in Pakistan is quite far away and economy has to restore confidence of domestic, international investors and financial institutions. The complex tax system and budget deficit created lack of trust of businesses in public policies. Trust deficit is at its peak keeping country at low investment levels. The eventual solution is to rely on private sector to run some economic zones which is important to attract foreign investors. To restore trust of investor the economy should take viable steps to improve tax structure and encourage investments.

To restore trust of investor the government should take viable steps to improve tax structure and encourage investments.

NOTES

Pakistan's Major Economic Indicators

By Amena Urooj



PAKISTAN INSTITUTE OF DEVELOPMENT ECONOMICS

CONTACT US

www.pide.org.pk
policy@pide.org.pk
92-51-942 8065
92-51-924 8051

pidepk
PIDE Official
PIDEislamabad