

# PIDE Knowledge Brief

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## PIDE'S CHARTER OF ECONOMY

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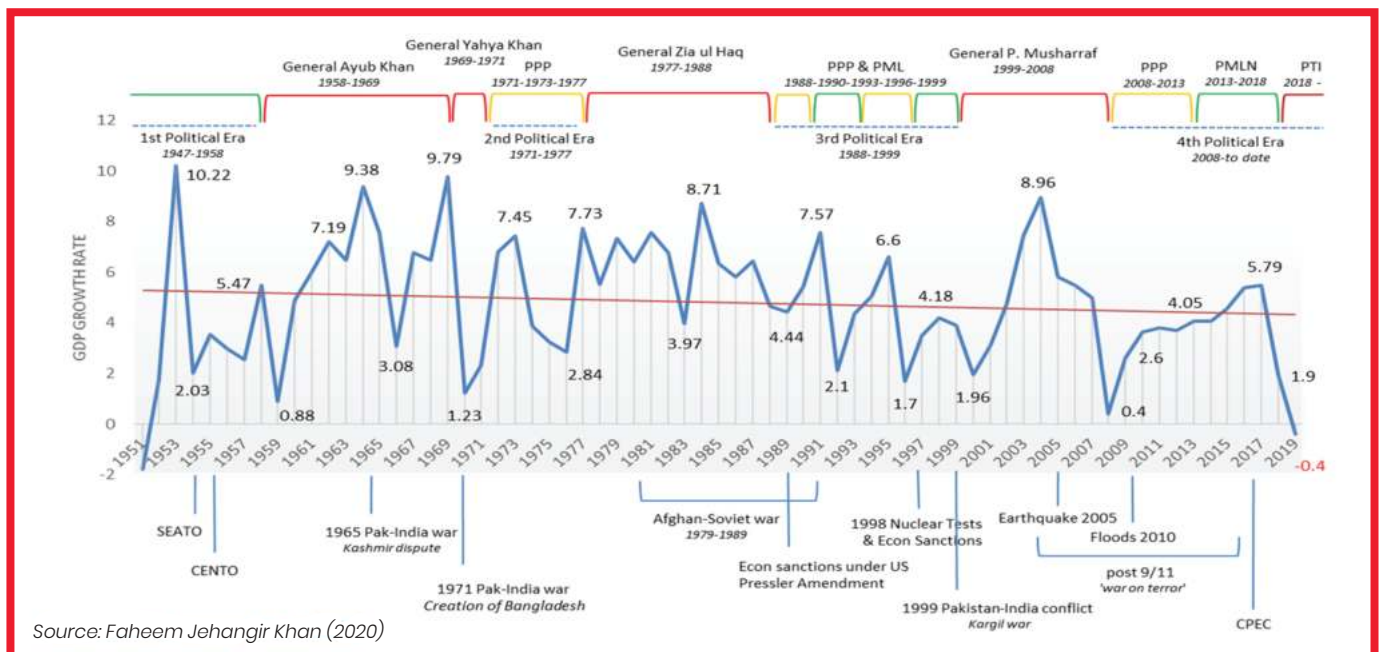
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### Background

Despite experiencing extreme economic and political instability, Pakistan has still been unable to break with the ramshackle of its unstable development enigma. Pakistan's economic indicators over the last seventy-two years have fluctuated widely: the sixties, the eighties, and a significant part of the 2000s registered high growth episodes (over 6.0 per cent), with low growth observed in other periods. In the last twelve years (2008–20), growth averaged 3.25 per cent annually, crossing 5.0 per cent just twice (see Figure 01) Why so much volatility? Why does the economy rudderless and lacking direction?

Figure 01: Pakistan Growth Pattern



Likewise, the total factor productivity grew at a rate of 1.62 per cent during 1972–2019. However, the long-term trend, similar to the trend of GDP growth, exhibits a decline (see Figure 02). Investment as a percentage of GDP is also declining, and Pakistan's investment rate is also less than the neighboring countries (see Figure 03).

Figure 02: TFP Growth Rate and GFCF (% of GDP) 1972 – 2019

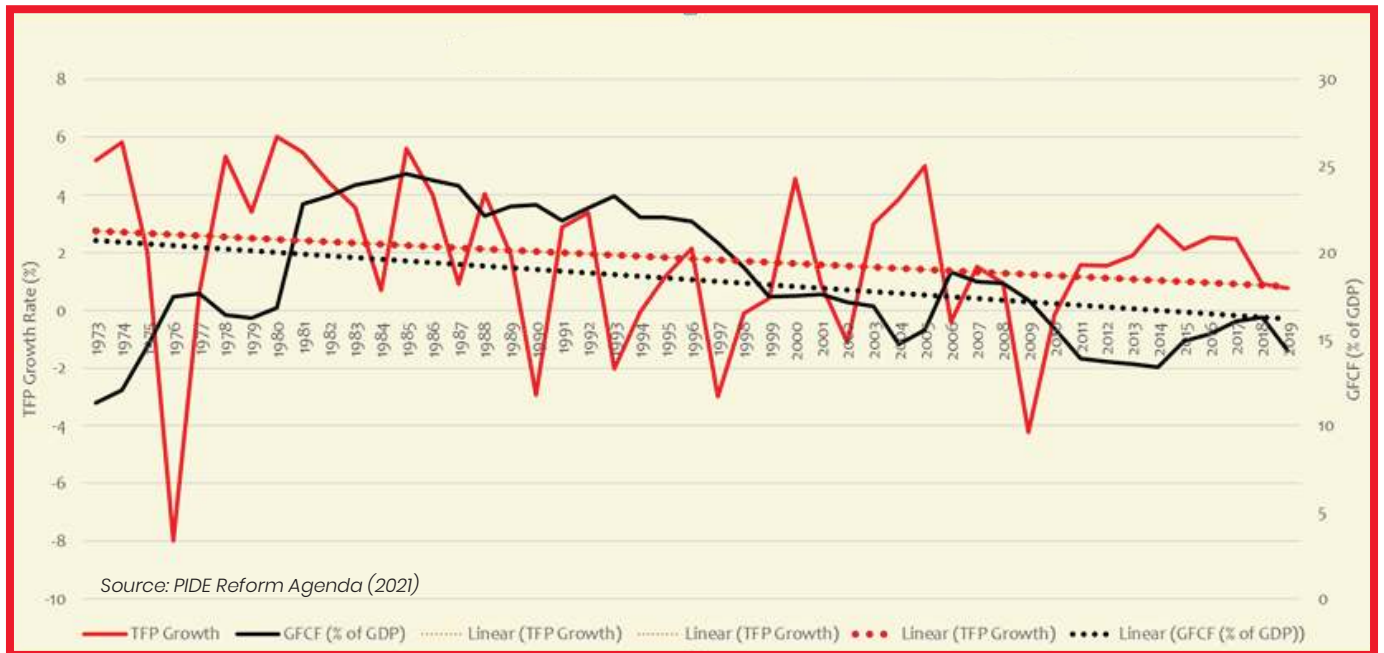
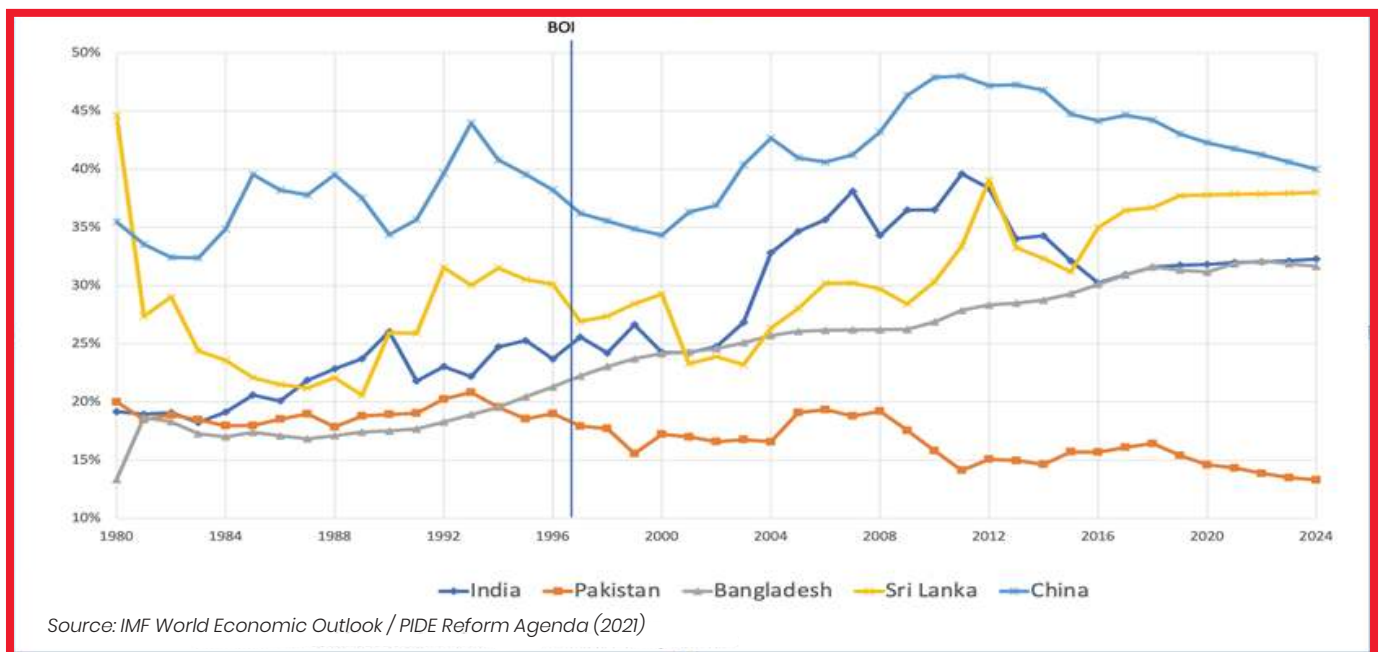
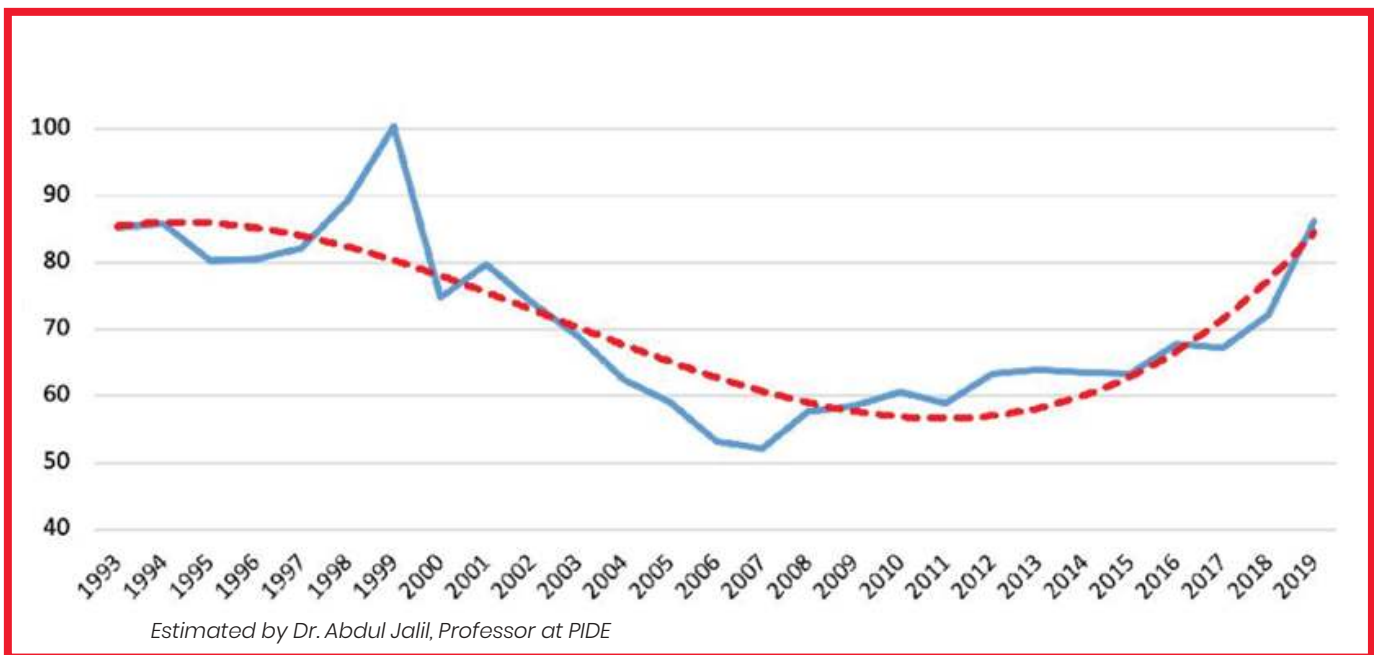


Figure 03: Pakistan Investment vis-à-vis Neighboring Countries



Another grave concern is that Pakistan's debt to GDP ratio has continuously been rising over the last decade (see Figure 04). Research says there is a negative linear association between debt and economic growth regardless of the types of debt and the countries' income levels. Moreover, since 1965, Pakistan has approached International Monetary Fund (IMF) twenty-two times; the recent engagement with IMF makes it for the 23rd time.

Figure 04: Debt to GDP Ratio



Another grave concern is that Pakistan's debt to GDP ratio has continuously been rising over the last decade. Research says there is a negative linear association between debt and economic growth regardless of the types of debt and the countries' income levels. Moreover, since 1965, Pakistan has approached International Monetary Fund (IMF) twenty-two times; the recent engagement with IMF makes it for the 23rd time.

To put it bluntly, Pakistan has been a fixture in the emergency ward of the IMF. The question arises, is IMF the solution to what ails Pakistan? In the short term, perhaps. In the long run, definitely no. So, what is the solution? There has to be a long-term solution as short-term approaches have not worked. The only way out of the debt difficulties that Pakistan has been stuck in for the last 40 years has to be sustained, accelerated growth.

In parallel, the working-age population (15-64 years) is growing at a greater rate than the growth rate of Pakistan's total population. These increasing numbers entering the labour force will yield dividends for the country. If unemployed, this demographic window, or dividend, could be destabilizing. Over 2.5 million new entrants of the working ages are expected in coming years. Applying current labour force participation rates to this number yields 1.5 million new jobs to be created in the economy for another two decades. With an increasing number of females entering the workforce, and if the goal of increased female participation is to be achieved, the labour force will have to expand by 2 million or more jobs a year for the next 20 years. The estimates developed using employment elasticity suggest that the economy must grow at least 7-9 per cent if it provides gainful employment for future entrants into the labour market. Again, increasing growth and productivity is the only way to cope with the changing demographics and reap its dividend.

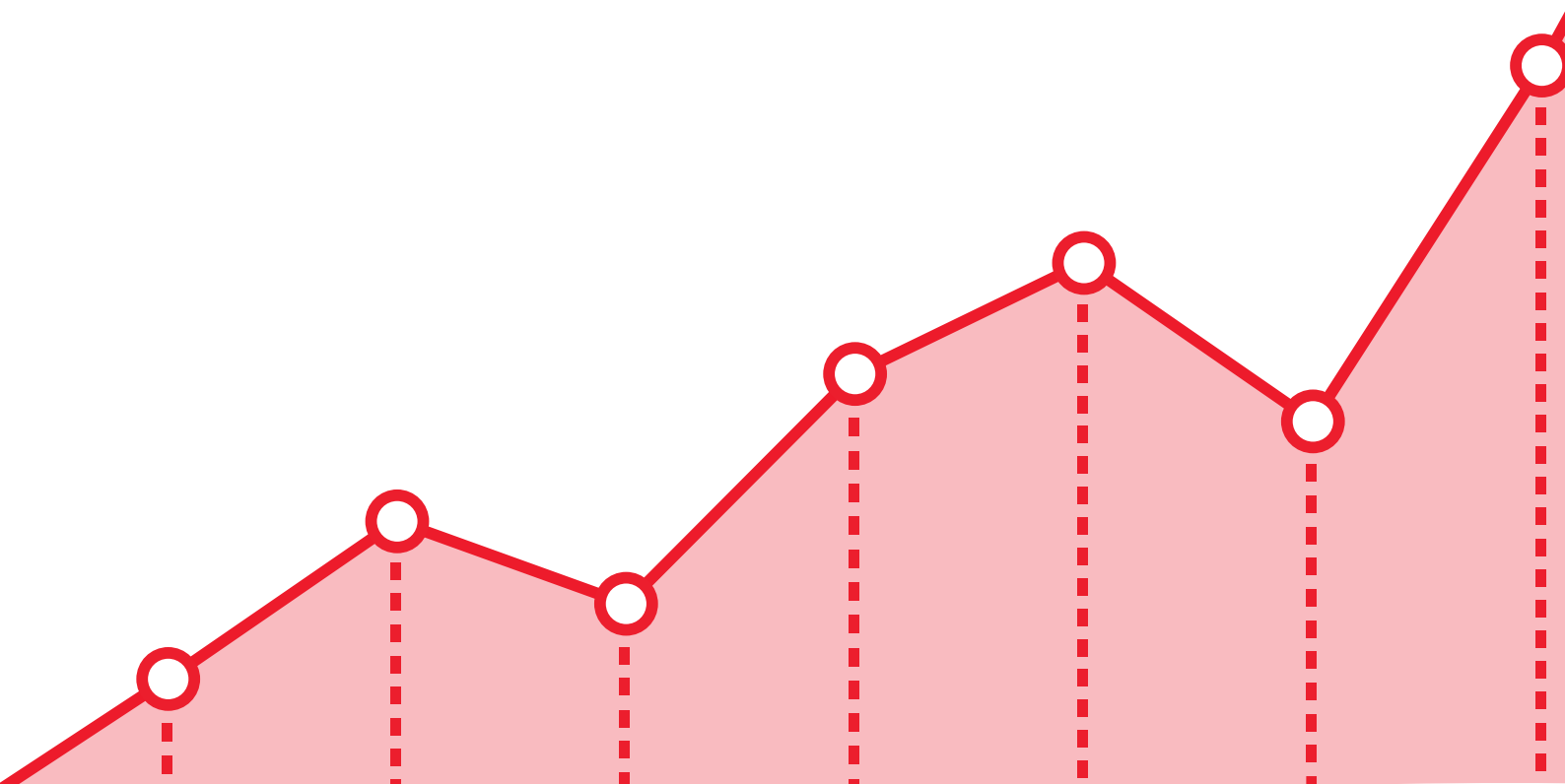
The PIDE Reform Agenda shows that investment and productivity are key drivers of growth in any country. Both are not only pretty low in Pakistan but have been in a downward spiral over the years. The real test then is to raise the investment rate and productivity substantially. Research has amply demonstrated that the state of institutions is a key determinant for long-term growth and development. Realizing Pakistan's resource limitations, this study emphasises reforming institutions (laws, rules, procedures and processes) to raise productivity and investment. Thus, the focus is on altering the software of growth to improve public and private investment productivity.

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The recurring question is that why has nothing worked so far? The answer lies in a lack of understanding of the construction of the social order in Pakistan, a matter of prime importance. The interactions of agents in society, whether economic or political, are based on personal relationships grounded firmly in kinship. No matter the system, these kinship links and systems of power and patronage will persist.

Pakistan's development conundrum and political economy cannot be sufficiently unraveled without understanding the dynamics of its social order. To better understand these dynamics, we must start with the concept that there are broadly two types of social order across the world, i.e. limited access order and open access order (see Box 01). Only a limited class or dominant coalition can access opportunities in the former case, and in the latter, everyone has access to opportunities indiscriminately. Through its research, PIDE has urgently advocated for ensuring access to opportunity across the board for Pakistan to prosper. It is high time to say goodbye to colonial legacies that still serve the interests of the few.

The crux of the matter is that Pakistan has to transition from limited access to an open access order for long-term and sustainable growth and development. For this growth to happen, the rules of the game must change. PIDE explains how.



## Box 01: Limited Access Order & Open Access Order

**Limited Access Order** is a type of setting in which political system manipulates the economic system. In simpler words, it can be said that limited access order means that political or economic opportunities are only limited to privileged class. Entry of a common citizen to avail these economic and political opportunities are deliberately restricted by the elite groups. Creation of rents are essential to sustain order in this system; political system uses rents in this order to put limits on access to form organizations, rights to do certain kind of businesses.

**Whereas, in Open Access Order;** political, economic and other forms of competition help sustain the order. In this type of social order, political and economic opportunities are open for everyone and not restricted to any particular class. It has the provision for all the people or citizens to form organizations. Open access order not only creates and sustains both political and economic competition, but also have a rich civil society; so there is a large array of different kinds of organizations.

## Making the Case

Without a doubt, Pakistan is on an economic tailspin and swiftly spiraling downwards. The country needs an instant economic roadmap to escape the current bedlam. The chaos is partly due to political mismanagement. If politics negatively impacts the economy, we are going in the wrong direction. Politics and economics must be delinked if we are to take on the path of economic growth and development in the real sense of the word. Politics is messy everywhere, but developed nations and many developing now have taken a principled stance to separate politics and economy into mutually exclusive domains. Hence, a charter of the economy is the need of the time across the board. Political consensus over this point is of critical importance. Implementing this charter in letter and spirit seems highly unlikely without a broad-based political consensus.

PIDE has been the flag bearer of this approach through its different research products (see References' Section). In particular, it has conducted dozens of webinars engaging renowned national and international economists, generating debate around the subject. The current economic crises and exceedingly high inflation have sent ripples across the country, with every Pakistani concerned about the economy and where Pakistan is heading. Hence, there is a demand for an economic roadmap – a.k.a Charter of Economy. First and foremost, pre-requisite of this is policy consistency for at least next 15 years. Once there is a political consensus, there should be no off-tracking from the set direction, whatever the case may be.

Thus, PIDE now presents its advocacy as a “Charter of Economy”, to serve as a live document and a blueprint for future economic growth and development.

# PIDE's Charter of Economy





## **Set the Cabinet to 10 Members**

Cabinet size matters; the number of top positions available affects the greater political game, with larger cabinets helping satisfy the ambitions of more politicians. The size of the cabinet also has fiscal implications. Ancient forerunners of the then cabinets were councils of trusted advisors around the ruler. These advisors could be non-specialized, with titles such as Royal Cupbearer. In contrast, modern cabinet members tend to be in charge of specific branches of administration. Their motivation is to expand the staff and expenditures, increasing their power. So, larger cabinets produce larger governments. This eventually impacts fiscal policy and may contribute to the deficit. Hence, a ten-member cabinet is proposed.



## **A Police Service, not a Police Force**

A police force is essential for efficient and effective crime detection, prevention, and public order maintenance. Hence, enabling a conducive environment for economic activity, Foreign Direct Investment (FDI) in particular. Pakistan's police departments are notorious for the strings attached. Patron-client relationship and politicization are primarily responsible for the existing state of Pakistan's police. The political elites have always used the police as a tool of subjugation and to supplement their political objectives which has ultimately politicized the police as a whole. For this reason, equal treatment of all the subjects by the police is out of the question. Therefore, to accomplish the requirements of the rule of law, it is binding on governments and state authorities to ensure that the police is a-political, autonomous, accountable, and professional community service. In short run, Police Order 2002 must be implemented. Lastly, in the long run, Pakistan's police should transition from the mindset of a police force to that of police service.



## **Establish an Independent Planning Commission (IPC)**

An effective planning and development apparatus is essential for the economy's overall health - helping unlock productivity, employment generation, creating dynamic, livable cities, optimal resource allocation without creating regional disparity, and so on. Almost the opposite has been happening in Pakistan, which calls for establishing an independent Planning Commission (IPC). It should be headed by a seasoned economist with a fixed tenure of service - for instance, six years at the minimum. A robust, independent IPC would strengthen the planning system by minimizing the risk of corruption or undue political influence. This IPC must have public and open processes where all parties can have their say. Setting up an IPC would help build public confidence and trust in the planning system, even though individuals may disagree with specific outcomes. The IPC would also inherently ensure policy consistency in the long run - a must for a business-friendly ecosystem.





## Merge Intersecting Ministries under the IPC

It is proposed that overlapping ministries such as finance, commerce and textile, industries and production, planning and development, energy, maritime affairs and water resources should be fused with separate wings under the IPC. Such a step would robustly enhance coordination and result in synchronized planning, optimal resource allocation, and better outcomes.



## Establish an Autonomous Budget Unit

The budget process in Pakistan is primarily off-track and takes a detour via the bureaucracy. In contrast, some developing countries have established an independent agency, the Parliamentary Budget Office (PBO) – a sovereign office that looks at the budget and national economy from a perspective that is dissimilar from that of the executives and provides an honest picture to the parliamentarians. Various parliaments across the globe also have autonomous budget units; the Philippines established its Congressional Budget Office in 1990, Mexico in 1998, Uganda in 2001, Canada in 2006, and lately, Afghanistan in 2007. Such units provide an independent, non-partisan view of the budget to parliamentarians and help significantly in reviewing the budget and developing an opinion on it. In this context, the Pakistani Parliament could also establish a Parliamentary Budget Office, comprising experts who can provide impartial budget analysis. This should then lead to an autonomous Budget Unit, comprising top experts from across the country, who would be engaged in focused, comprehensive budgeting of the country the year round, without any political influence. The budget proposed by this unit and the one approved should both be posted online for public scrutiny



## Make Public Investment Effective

Adopting a result-based management framework to boost the effectiveness of public investment. Brick-and-mortar projects should be shunned in favour of projects and initiatives involving software of the society. These may include investing in Research and Development (R & D), developing human capital, universal access to the internet, imparting technical education, encouraging entrepreneurship etc. However, it must be ensured that project preparation and approval are informed by research, preferably undertaken at local universities.





## Reimagine Cities

There is a sense of urgency to reimagine the cities of Pakistan as engines of growth. For that, we have to curb the bureaucratic machinery of the city, with commerce and entrepreneurship should take the driving seat. For this to happen, some interventions must be made to reform the overall functioning of the cities. Some of these are as follows: rigid master plans of cities should give way to loose guidelines; zoning should merely differentiate between city centres and suburbs; a city to be managed by a single authority; relax floor area ratio to allow high-rise buildings; develop the rental housing market; development of a car policy with salient features such as congestion tolls and paid street parking; apartment parking sold separately from the apartment; an efficient public transport that serves most parts of the cities especially congested areas; street vending zones – street vending should be looked at as a legal activity and establish street vending across the city; unlocking dead capital of the cities which includes most of the government land and put it to optimal use; develop proper downtown of cities and develop cities on the lines of a 15-minutes-city, where most of the essential utilities and facilities are available at 15 minutes walking distance. More people in little yet adequate space in vertical cities means more opportunity and demand, which would induce more supply and transactions; hence, more economic activity at the aggregate level.



## Ensure Universal Internet Access

Universal, and cheaper internet access is the need of the hour. The impact and the subsequent positive spillover effect make it an extremely urgent measure. Greater internet access would help raise the literacy rate through online education to deprived communities, providing health advice remotely in far-flung areas, enabling farmers and handicraft manufacturers to connect wholesalers and retailers directly in cities without intermediaries, and providing freelancing opportunities to many more, accelerating e-commerce. The advances in Artificial Intelligence (AI) and technology are triggering a full range of benefits that are difficult to calculate at this stage. Thus it is proposed to make the internet universally and cheaply accessible – consider fully funding fast internet access across the country till the end of 2025. For this, the sale of spectrum (i.e. frequency) to telecom firms should be considered in terms of internet access rather than revenue generation.



## Tax Reforms is a Must

Tax reform design and implementation should be based on four key areas. First, make the tax system more progressive and remove the tax breaks and concessions to the upper-income groups. Second, achieve a more straightforward, more transparent and friendly tax system. Third, build a more revenue-yielding and buoyant tax regime. Fourthly, establish mechanisms to check tax evasion and corruption.



## **Reforming Bureaucracy is Inevitable**

Bureaucracy is the backbone of a country. If the bureaucracy is dysfunctional, one can assess the overall picture very well. That is why reforming bureaucracy – the Civil Service of Pakistan – must not be avoided at any cost. Reforming the civil service would require concrete steps, not just optics. First, the generalist colonial exam to recruit for a lifetime should be scrapped. If desired, university performance and achievement, intelligence, and psychological testing are adequate. Second, no lifetime and career guarantees are to be given. Instead, continuous recruitments at all levels without any guarantees to specific groups should be plugged in. Third, no service hierarchies as in the current system, with guarantees to any group to be in controlling positions. Fourth, continuous training of public servants to be conducted at universities in specialized fields, so civil servants are well acquainted with global events, changing dynamics and contemporary approaches for better service delivery. Fifth, no transfers across government to allow any single group to control all activities, especially given the costs incurred. Sixth, compensation to be generous on market terms (based on private-sector competitors) but purely in cash. The colonial system of perks, plots, privileges, ex-officio appointments, and arbitrary allowances to be discontinued. The resources released will have a huge growth impact. Lastly, while past pensions are overburdening the government and have to be met, the pension should be fully funded and invested. Moreover, to allow and encourage mobility, pensions should be portable, and mobility between the private and public sectors must be encouraged.



## **Performance-based Government Employment**

All agencies and levels of government are to be monitored by the HRM ministry, which would then prepare annual reports – comparing practices, salaries, and state of public service. In parallel, all agencies, levels of government, and departments to make annual performance commitments for the coming three years and prepare reports on recent performance. The individual performances within the purview of departments and agencies would be subject to review by the ministry of HRM.



## **Make an Autonomous Debt Agency**

Establishment of an autonomous debt agency that would perform all functions and operation related to debt, in a technical manner, delinking it from the political narratives and influence. This agency would submit a report to parliament every quarter for review and discussion on the floor. This report would also be open for public discussion/public hearing for two days to incorporate diverse views. All the proceedings to be made public.



## **Make the Authorities Independent**

The Prime Minister or Chief Minister should not make top appointments by hand-picking a few people of his/her liking. This will limit his personal biases or perceptions and not compromise merit, deliberately or unintentionally. Every authority or department's head should be appointed on merit; give them full authority, so they can function independently, to implement their vision. However, this should be complemented with checks and balances. In addition, all the heads of public sector agencies must submit biannual reports to the Parliament. Short-term targets to be outlined by the heads themselves for six months. Any head of the agency failing to meet the target below 60 per cent twice in a row should be fired.



## **Establish a Growth Commission**

PIDE views economic growth at the pivot, for most of Pakistan's ills. Thus, for sustained growth, there must be an independent Growth Commission. The Commission should comprise experts; no political appointments. It would perform all the functions and give informed policy advice related to promoting growth, in a technical manner, delinking it from politics. The Commission would submit a report to parliament bi-annually for review and discussion on the floor. This report would also be open for public discussion/public hearing for two days to incorporate diverse views. All the proceedings to be made public.



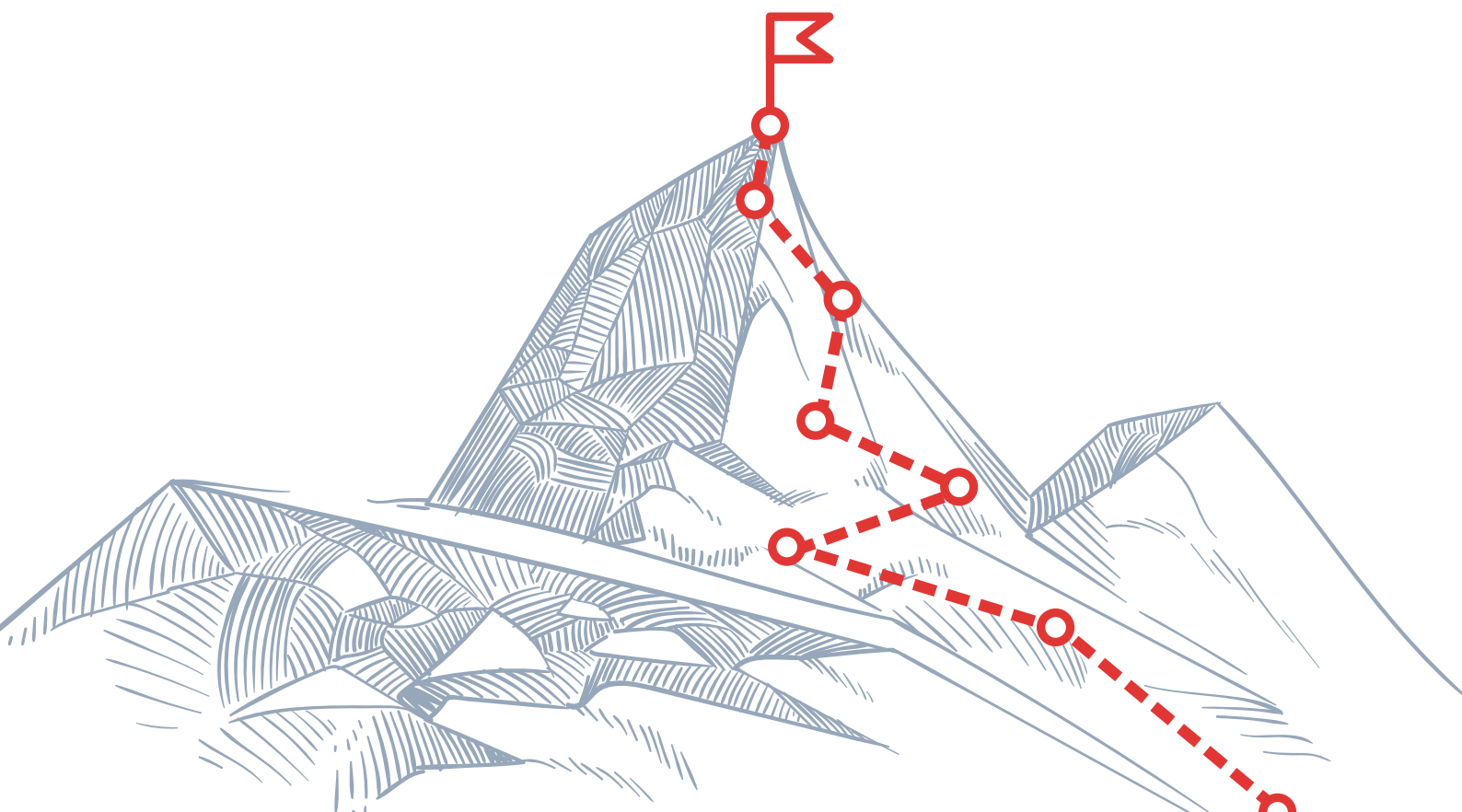
## **Clarity of Vision regarding Exports**

A comprehensive long-term export policy, reinforced by a well-chalked-out industrial policy that brings all stakeholders together, under the IPC, without which Pakistan's exports are unlikely to grow and diversify sustainably. A fifteen-year Export Policy – where mechanisms would be fixed, with other things might constantly change according to the fixed mechanisms – owned and monitored by an “Export Cell” at the independent Planning Commission, would give export s priority. This policy It is pertinent to note that the policy should be targeted to enhance competitiveness rather than spoon-feeding and must alter the mindset of the bureaucracy from control to empowerment.



## Public Sector Enterprises (PSEs) – the White Elephant?

Public Sector Enterprises' losses cannot be allowed indefinitely. The best option is to privatise these entities. Another option could also be the transfer of management (but not equity) of PSEs to qualified experts in the private sector for a prescribed period on a profit and loss improvement arrangement in the proportion of 80:20, with the dominant beneficiary being the government. At a subsequent pre-agreed time, such entities could be privatized. The management agreement can be made conditional to safeguard on involuntary reduction of headcount and prevent asset stripping. If restructuring or management transfer are options, then it would be necessary for the government to provide statutory legitimacy, authority and empowerment for: exemption from PPRA rules on procurement; exemption from Public Sector recruitment regulations and give the board the authority, within a prescribed framework of due diligence, to appoint and reward people; remove such entities from the direct control of line ministries and fund the restructuring and deficit financing needs as per agreed plans.



# Reform Markets







## Agriculture Market

Reduce the footprints of the government in the input markets, such as fertilizer, water, and extension, by letting the markets operate efficiently. The government should gradually exit from wheat and sugar markets – no fixation of minimum support price and no purchases by the government from farmers. Moreover, the mandated registration of seed supply firms through the Seed Act must be made a priority, and seed supply firms must be bound to label their products to cover any information gaps appropriately. Also, the approval process of new varieties needs to be revisited to reduce the government footprint. Likewise, adequately pricing irrigation water to encourage an efficient cropping pattern, along with developing a regulatory framework for groundwater use.

## Real Estate Market

First of all, development by housing societies and cooperatives should be abolished. Developing and building should be a business of bonded licensed builders. In parallel, the government must encourage real estate agent associations in various cities and regions on a self-policing and licensing system, agent responsibilities, and codes. Moreover, a system of open, transparent electronic titles to property through greater digitization should be established, with little or no paperwork involved. Also, Deputy Commissioner (DC) rates should be eliminated; buyers and sellers must be allowed to negotiate the price. The government to enjoy the right to buy at a declared price (this will keep buyers from declaring low prices).



In addition, brokers' groups must develop an online listing service, with no transaction/sale allowed without appearing on a listing service. Settlement attorneys to handle transaction paperwork electronically to complete the sale in a week. Title agents to search and guarantee title against a fixed fee. Lastly, rental laws must be amended to allow Pakistan's rental investment industry to thrive.



## Energy Market

The focus of the restructuring must be on renewables for electricity generation, as this distributed generation could offer a solution to retail competition and supply electricity to those areas where the national grid is not feasible. The electricity supply should shift to a pre-paid model using smart metering technology. The government should also seriously consider leasing out the difficult retail areas to the private sector for a certain period, while contracts should be awarded based on best performances. The government footprint in the state-owned DISCOs and tariff determination must be reduced.

## Natural Gas Market

Firstly, outsource retail management to control theft, and install high-quality measurement devices to address the issue of Unaccounted for Gas (UFG). Secondly, elimination of 'Return on Assets' for allowing gas distribution companies to profit; the profits should come from operational efficiency. Thirdly, a single consumer tariff based on a cost-of-service should be implemented. Fourthly, revisiting long-term LNG agreements to unlock some of the gas volumes and allow purchase by other parties





(third-party access) on short-term contracts or in the spot market. Lastly, achieving convergence between the price of piped indigenous gas and RLNG.



## Fuel Oil Market

The role of government in pricing and allocation should be minimal, with petroleum prices determined weekly on a cost of service basis linked to international oil prices. Ex-refinery prices to be based on international practice – the regulator to set an upper limit based on the weighted average of the import prices of all OMCs. Enhancement of oil trading and vessel chartering expertise of the PSO. Outsource oil procurement based on performance contracts.



# Conclusion

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In conclusion, let PIDE tell you a story. Have you ever imagined what the real problem with Pakistan is and what is the way out? Have you ever seen a rich man asking about the prices of vegetables? No, he doesn't bother, as inflation is not his problem. Have you ever observed an affluent person whining about load-shedding? No, as he can install a generator or alternative energy source. Have you ever seen a wealthy individual complain about contaminated drinking water? No, as he can buy bottled water. The list goes on. The crux of this anecdote is that if you have enough money, the prices of most of the things won't bother you. Pakistan's predicament is similar. The issue relates to growth. Everything else would fall in place. Therefore, PIDE proposes that Pakistan must grow at 7-9 per cent, other crucial issues would settle down through the spillover as well as the ripple effect of that much growth. How it will grow at this rate; the roadmap has already been explained above: Reform, facilitate, privatize, digitize, de-regulate are the few buzzwords as key take-away.

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