BUSINESS
RECORDER
Monday, 11th September, 2017

Challenges to economy spelled out

MUSHTAQ GHUMMAN

ISLAMABAD: Finance Ministry has indicated that the country's total public debt would rise above 60 percent from existing 59.3 percent as percentage of Gross Domestic Product (GDP) after adding figures of second quarter, well informed sources in Finance Ministry told Business Recorder.

At a recent briefing to the federal cabinet meeting presided over by Shahid Khaqan Abbasi, Secretary Finance, Shahid Mahmood shared country's economic situation including economic challenges ahead in the backdrop of USA's new South Asia strategy for the region.

Mahmood reportedly recognized that balance of payment, fiscal deficit, debt sustainability, resurgence of circular debt and emerging geo-political situation are major challenges before the incumbent government.

According to Secretary Finance the economy is facing following challenges: (i) Balance of Payments which includes widening of current account deficit, widening of trade deficit, slowdown in remittances, financing of balance of payment gap; (ii) fiscal deficit; (iii) debt sustainability; (iv) resurgence of circular debt; and (v) emerging geo-political situation

He shared the following details with the federal cabinet.

b) ECONOMIC INDICATORS

While briefing on the key economic indicators, the cabinet was informed that except decline in exports and increase in Current Account Deficit, all the economic indicators had fared well in comparison to FY 2012-13.

GROWTH PERFORMANCE AND OUTLOOK

The Cabinet was informed that: (i) GDP growth started picking up in FY 2014 and remained above 4 percent. It reached 5.3 percent (highest in 10 years) in FY 2017; (ii) domestic demand got fillip due to higher infrastructure spending by the government and low interest rates; (iii) Industrial performance improved due to improvement in energy supply;(iv) projected growth target in FY 2018 had been set at 6.0% keeping in view all key sectors of the economy coupled with Reform Agenda, which primarily focused on improving governance and fiscal sustainability;(v) economy was under pressure due to adoption of expansionary mode by the government which was backed by pro-growth policies resulting in pressure on fiscal and external accounts; and (vi) real sector growth had improved perceptibly since 2012-13 and forecast augurs well for the sector.

SUSTAINING GROWTH

The Secretary stated that the government had taken the following steps to sustain growth in future: (i) 10,000 MW of electricity generation and 1,500 mmcfd of gas would be added to the system by 2018; (ii) significant increase in investments under CPEC in energy, rail & road infrastructure and related sector; (iii) expectations had encouraged private investors to contribute their share in accelerating growth; and (iv) growth target of 7% had been set for FY 2020 and onwards.

INFLATION (CPI)

The Secretary also briefed the cabinet about the arrest of inflation in detail. He stated that: (i) CPI inflation had reduced to 2.91% in July 2017, while FY 2016 witnessed lowest inflation in 47 years; (ii) measures like effective monetary policy, prudent expenditure management, monitoring of prices/supply of commodities, timely pass-through of decline in oil prices to the consumers had contributed to reduction of inflation; and (iii) inflation target for FY 2018 had been set at 6.0% by the Government keeping in view all other economic indicators.

CREDIT TO PRIVATE SECTOR

The Cabinet was informed that credit to private sector had increased from Rs. 748 billion in FY 2017 compared to contraction of Rs.7.6 billion in FY 2013. Positive development was seen in both working capital and fixed investment.

FISCAL CONSOLIDATION

The government took following steps for fiscal consolidation: (i) improved revenue collection and prudent spending; (ii)significant reduction in deficit from 8.2 percent of GDP in FY 2013 to 5.8 percent in FY 2017; (iii) though fiscal deficit had reduced, yet Federal PSDP had increased three folds since FY 2013; and (iv) fiscal deficit could have been 4.3%, but due to over draft of nearly Rs.35 billion by the Provincial Governments, agricultural package and increase in petroleum products, the deficit had risen to 5.8%.

TAX COLLECTION

While appreciating the performance of FBR in revenue collection, the Cabinet was informed that: (i) tax collection had increased by 73% since FY 2013; (ii) elimination of concessionary regime, had enhanced the collection by Rs 300 billion; (iii) tax-to-GDP ratio had increased from 9.8% in FY 2013 to 12.5% in FY 2017; and (iv) in July 2017, the collection by FBR had increased by 30% over the corresponding month last year.

WORKERS' REMITTANCES

During his briefing, Secretary Finance revealed that Saudi Arabia, UAE, USA and UK were the principal sources' of remittances. However, drop in oil prices, which in turn caused economic slowdown in Middle East, more stringent financial regulations in USA and post Brexit effect, led to a decline in remittances by 3.1% in FY 2017. However, workers' remittances bounced back and recorded 16% growth in July 2017 compared to same month last year.

FOREIGN DIRECT

INVESTMENT (FDI)

As regards FDI, the Secretary stated that: (i) the bulk of FDI came in Power, Oil & Gas Exploration, Communication, and Financial sectors; (ii) China, U.A.E, United States, Hong Kong, United Kingdom and Italy were the major contributors; and (iii) government had set the target of $ 4.1 billion for FY 2018.

FOREIGN EXCHANGE RESERVES

During his presentation, Mahmood said that on August 24, 2017, the reserves were $20.0978 billion as compared to $11.0196 billion in FY2013.

BALANCE OF PAYMENTS

Secretary Finance said that Current Account Deficit in FY 2017 had widened since second quarter due to: (i) increase in trade deficit by 39%; (ii) decline in remittances by 3%; (iii) rise in imports particularly of machinery and petroleum products on account of increased economic activity'; and (iv) slowdown in exports due to globally weak demand, lower commodity prices.

However, he mentioned that the situation had started to improve due to export package, uninterrupted energy supply and positive global outlook. Exports in July 2017 had increased by 21% over July 2016.

PUBLIC DEBT (AS % OF GDP)

The Cabinet was informed that Total Public Debt was 59.3% of GDP after the first quarter, but would rise above 60% after adding the figures of second quarter.

PROFILE OF PAKISTAN STOCK EXCHANGE (PSX)

Mahmood said that Pakistan Stock Market was performing well and total Market Capitalization was $99.62 billion on May 24, 2017 as compared to $51.30 Billion on May 11, 2013. However, due to domestic uncertainty and USA's new South Asia strategy, Pakistan Stock Market had lost $16 Billion in the last 15 days.

After the briefing by the Secretary Finance, the Cabinet discussed the issue at length. Following is the gist of the discussion:

Members appreciated the efforts of the Finance Division for steering the economy from troubled waters to stability. Businesses had lost competitiveness due to higher cost of demo business, which should be examined and comprehensive strategy be put in place. Large Scale Manufacturing (LSM) sector had been outdated and negligible investment has been made in this sector.

Cabinet members proposed that Government should give priority to Agriculture Sector, because in the shortest possible time, the sector could enhance productivity and contribute to economic growth as farmers had the capacity to deliver. Farmers did not need subsidy but rather help through reducing the cost of production in the form of reduction in taxes pertaining to the sector. Government should increase the amount of loans to farmers and private banks should be bound to lend to farmers as presently they were shy of lending. After the 18th Amendment, the subject had been devolved to Provinces, which had not paid requisite attention to the sector. The Federal Government should devise a strategy in consultation with all Provinces to give boost to the sector.

Cabinet members were of the view that government had very limited choices. Efforts should be made to enhance productivity, increase exports, increase tax collection and decrease imports.

It was proposed that committees be constituted, one for indicating options for increasing exports and another for enhancing the agricultural productivity in the shortest time frame.

The cabinet maintained that the problems identified were known to all and that all should work hard on solutions. Relevant ministries should come up with concrete solutions to problems.

BUSINESS
RECORDER
Monday, 11th September, 2017

THE RUPEE : Stable trend

RECORDER REVIEW

KARACHI: The rupee managed to gain modestly against the dollar, whereas, the national currency, fell sharply versus the euro on the money market during the week, ended on Sept 9, 2017.

Marketmen said that smooth supply of dollar helped the rates to recover modest ground.

If dollars' supply improves, the rupee may manage to move up marginally in terms of the dollar in coming days, they added.

OPEN MARKET RATES: The rupee rose by 30 paisas in terms of the dollar for buying and selling Rs 105.70 and Rs 105.90, at the same time, the rupee fell sharply versus the euro, losing Rs 1.25 to Rs 126.50 Rs 128.00.

INTER-BANK MARKET RATES: The rupee traded within the band of Rs 105.39 and Rs 105.41 in terms of dollar.

INTER-BANK MARKET RATE: On Monday, the all financial markets were closed due to Eid-ul-Azha holidays. The rupee traded almost within the range of Rs 105.39 and Rs 105.41.

OPEN MARKET RATES: On Sept 5, the rupee did not move any side in relation to the dollar for buying and selli9ng at Rs 106.00 and Rs 106.20.

The rupee dropped by 50 paisas in terms of the euro for buying and selling at Rs 125.80 Rs 127.30.

On Sept 6, the rupee was unchanged against the dollar for buying and selli9ng at Rs 105.90 and Rs 106.10.

The rupee, however, lost 75 paisas versus the euro for buying and selling at Rs 124.75 Rs 126.00.

On Sept 7, the rupee shed 10 paisas versus the dollar for buying and selli9ng at Rs 106.00 and Rs 106.20.

The rupee also lost 55 paisas in relation to the euro for buying and selling at Rs 125.30 Rs 126.60.

On Sept 8, the rupee picked up 20 paisas in relation to the dollar for buying and selli9ng at Rs 105.80 and Rs 106.00.

The rupee, however, lost 70 paisas in terms of the euro for buying and selling at Rs 126.50 and Rs 128.00.

On Sept 9, the rupee managed to sustain overnight levels, picking up further 10 paisas in relation to the dollar for buying and selli9ng at Rs 105.70 and Rs 105.90.

The rupee also gained 60 paisas in terms of the euro for buying and selling at Rs 126.00 Rs 127.50.

OVERSEAS OUTLOOK FOR DOLLAR: In the first Asian trade, the yen gained against the dollar and other currencies in early Asian trade on Monday, as investors trimmed their exposure to higher-risk assets after North Korea conducted its most powerful nuclear test.

The dollar fell to as low as 109.22 yen in early trade and last stood at 109.87 yen, down 0.3 percent from levels seen in late US trade on Friday. The euro was 0.2 percent lower at 130.59 yen, having fallen to 129.65 earlier.

The yen almost always gains when investors try to reduce exposure to risk because the currency is often used as a funding source to buy riskier, higher-yielding assets.

Japan is also the world's largest net creditor nation and at times of uncertainty, traders assume Japanese repatriation from foreign countries will outweigh foreign investors selling of Japanese assets. The yen has continued to behave as a safe-haven currency despite Japan's proximity to North Korea.

The dollar was trading against the Indian rupee at Rs 64.030 and the US currency was at 6.548 in terms of the Chinese yuan.

In the second Asian trade, the dollar slipped against the Japanese yen and Swiss franc on Tuesday as global tensions simmered amid signs that North Korea could conduct more missile tests.

The US currency was down 0.4 percent at 109.335 yen, nearing a low of 109.220 hit the previous day in a knee-jerk reaction to North Korea's hydrogen bomb test on Sunday.

The Swiss franc advanced 0.2 percent at $0.9548 franc per dollar, adding to gains from Monday, when it rose 0.7 percent.

Geopolitical tensions flared anew after North Korea conducted a powerful nuclear test on Sunday. The region has remained nervous, bracing for more ballistic missile tests amid perceived signs of activity by Pyongyang ahead of Sept. 9, when the country marks its founding day.

The dollar was trading against the Indian rupee at Rs 64.130, the greenback was at 4.266 in terms of the Malaysian ringgit and the US currency was at 6.541 in terms of the Chinese yuan.

Inter bank buy/sell rates for the taka against the dollar on Tuesday: 80.70-80.70 (previous 80.70-80.70).

In the third Asian trade, the dollar edged down against the yen, pushed back toward a recent 4-1/2-month low by simmering tensions on the Korean peninsula and by comments from a Federal Reserve official about subdued US inflation.

The dollar fell 0.1 percent to 108.72 yen and touched a low near 108.50 yen in Asian trading. That brought it back close to its Aug. 29 nadir of 108.265 yen, its weakest since mid-April.

The dollar was available versus the Indian rupee at Rs 64.233, the greenback was at 4.244 in terms of the Malaysian ringgit and the US currency was available at 6.538.

Inter bank buy/sell rates for the taka against the dollar on Wednesday: 80.70-80.70 (previous 80.70-80.70).

In the fourth Asian trade, the euro held firm ahead of a European Central Bank policy decision, with the focus on what the ECB might say about the currency's recent strength and how that may influence the policy outlook.

The euro edged up 0.1 percent to $1.1925, still some way off last week's high of $1.2070, its highest level since January 2015.

The common currency has lost some momentum since hitting that 2-1/2 year peak, weighed down by rising expectations that a stronger euro could slow the ECB's plans to rein in its bond-buying stimulus.

Only 15 of 66 economists polled by Reuters expect the ECB to announce a reduction of its monthly asset purchases at Thursday's ECB policy meeting—a sharp reversal from a month ago when slightly over half of respondents expected such a move.

The dollar was trading against the Indian rupee at Rs 64.020, the greenback was at 4.214 in terms of the Malaysian ringgit and the US currency was available at 6.523 against the Chinese yuan.

Inter bank buy/sell rates for the taka against the dollar on Thursday: 80.70-80.70 (previous 80.70-80.70).

In the final Asian trade, the euro reached a 2-1/2-year high versus the dollar, as a meeting by the European Central Bank gave bulls cause for short-term optimism and did little to support the beleaguered US currency.

Asked when the central bank will decide on potential policy tapering, ECB President Mario Draghi said on Thursday the bulk of these decisions will probably be taken in October. That was enough to make euro bulls upbeat on the single currency's near-term outlook.

But Draghi also said the ECB must take into account the weakening of inflation owing to the strong euro, with the central bank having opted to lower some of its inflation projections to reflect a firming common currency.

The dollar was trading against the Indian rupee at Rs 63.885, the greenback was available at 4.184 versus the Malaysian yuan and the US currency was at 6.460 in relation to the Chinese yuan.

At the weekend, the US dollar hit a more than 2-1/2-year low against a basket of major rivals on reduced expectations for another Federal Reserve rate increase this year, while the euro hit multi-year highs in the wake of a European Central Bank meeting.

The dollar was last set to drop 2.2 percent against the yen for the week to mark its biggest weekly percentage decline in about 13 months.

The dollar index, which measures the greenback against a basket of six major rivals, hit its lowest level since January 2015 of 91.011 and was set for its biggest weekly decline since late June of 1.6 percent.

The euro rose as much as 0.6 percent to its highest since January 2015 of $1.2092. While the euro pared most of its gains, leaving it roughly flat against the dollar at $1.2027, it was on track for a weekly gain of 1.4 percent, putting it up more than 14 percent this year against the dollar.

BUSINESS
RECORDER
Monday, 11th September, 2017

Banking, modern sciences:
President for launching joint projects

ASTANA (Kazakhstan): President Mamnoon Hussain Sunday proposed the members of the Organizations of the Islamic Cooperation Organization (OIC) to launch multilateral joint projects in the fields of space technology, banking, astronomy, glaciology and water management.

Addressing the working session of the OIC's first summit on science and technology here at Kazakh capital, the president said the launch of such a joint projects would help member states benefiting from one another's research works cost-effectively.

The president, who arrived here on a four-day visit, earlier also addressed the opening session of the summit.

He said Pakistan was planning to send teams of scientists to Antarctica for research and offered the Islamic states to join the project.

During the working session, the leaders from Afghanistan, Indonesia, Bangladesh, Azerbaijan and others deliberated over the theme: Emerging relations between science and society in 21st century."

The president hoped that the OIC summit would provide the member states an opportunity to take advantage of one another's expertise.

He told the gathering that Pakistan had devised a comprehensive long-term Vision 2025 Plan to achieve multifaceted agricultural production and the government had extended all out support to the entities enforcing the plan.

President Mamnoon said in the second phase of the plan, links would be established among the educational and research organizations so that both the sectors could perform well in a coordinated manner.

He said COMSTECH development plan called STI 2026 would help formulation of comprehensive policies for sustainable development and building industrial infrastructure. The plan which would be presented before the House today also covered the actions to eliminate poverty, ensure food security, endemic and epidemic diseases, and climate change.

He said besides adopting the STI 2026, an effective mechanism for financial and administrative assistance of COMSTECH was also required.

He said to make other Islamic states benefit from the outcomes of Pakistan's Vision 2025, the government would grant scholarships to 100 students of Intermediate to PhD from OIC states in the disciplines of engineering, medicine and agricultural education.—APP

BUSINESS
RECORDER
Monday, 11th September, 2017

Labour export losing steam

Pakistan has had a phenomenal growth in officially recorded labour exports. The ongoing decade alone has seen average annual labour exports grow more than 150 percent. But latest data released by Pakistan's Bureau of Overseas Employment shows that growth is slowing down.

According to the statistics released by the bureau, Pakistan's labour exports in the first seven months of CY17 averaged about 43,300 per month, as against a monthly average of 70,000 and 79,000 in CY16 and CY15 respectively.

A comparison with other labour exporting economies reveals that the market is being gradually chipped away by Bangladesh and India. Detailed country-wise annual labour export statistics for India are not publicly available, but anyone who has been frequenting the UAE knows very well how Indian labour – especially in the white collars and blue collar skilled category - has been elbowing out Pakistani workers.

In Bangladesh's case for instance, her labour export to the Kingdom of Saudi Arabia (KSA) – which boasts half of Pakistan's officially recorded labour exports to date – stood at 143,913 in the year 2016. In just the first seven months of CY17, however, Bangladesh exported 341,294 workers to the kingdom. Pakistan, however, managed to export only 89,624 workers in 7MCY17 (averaging 12,803 per month) to KSA as against 462,598 in 2016 (averaging 38,549 per month).

While it is true that low oil prices have had a negative impact on overall labour demand in KSA, the main reason why Bangladesh has been able to chip away Pakistan's share is the recent lifting of ban Bangladeshi workers imposed in 2008. During the period of the ban, only 139,587 Bangladeshi workers proceeded to KSA; whereas Pakistan exported 2.07 million workers to KSA during the same period.

After the lifting of the ban that followed the visit of Prime Minster of Bangladesh to KSA in June 2016, Saudi investors have entered an agreement with Bureau of Manpower and Employment and Training (BMET) in Dhaka, Chittagong, Manikganj and Mymensingh.

Bangladesh and KSA have also signed a labour pact due to which 500,000 Bangladeshi domestic workers would proceed to KSA. For this purpose, 1000 recruitment centers are operational for processing of these workers. The recruitment of these workers would be processed through online portal called Musanid Platform, according to Pakistan's bureaus report.

These efforts are similar to those made by Indian premier Modi who (as previously flagged in these columns) has been wooing the UAE for India labour exports amongst other bilateral investment deals.

The future for Pakistani labour exports appears uncertain. The UAE and KSA alone account for about 84 percent of Pakistan's total labour exports to date, which means since 1971 to July 2017. With oil slowing down amid gradual maturity towards service sector in these economies, Pakistan can only be expected to face tough times ahead.

Oil and gas firms in the GCC are in the process of downsizing, whereas construction sector is also slowing down. The sectors demanding expat labour included the likes of health, hospitality, recreation, entertainment, human resources, automotive industries, sales, accounting, finance, procurement and information technology, the last of which is expected to witness a spike in demand in the ensuing years.

As is the case of goods exports, Pakistan's labour exports also lack value addition. To date, 42 percent of Pakistan's labour export is unskilled, and 9 percent is semi-skilled, and barely 6 percent are in the highly qualified and highly skilled category, made by Pakistan's bureau of overseas employment.

While there have been some improvements in lower skill spectrum (unskilled to skilled) of Pakistan's labour export in recent years, the country still sends barely a handful of 'highly qualified' and 'highly skilled' category labour – whereas it is these sectors that are in high demand in the GCC and KSA. Given the importance of worker remittances, labour exports warrant a closer attention by policymakers and other stakeholders alike.

BUSINESS

RECORDER

Monday, 11th September, 2017

Taxes on energy

It is extremely unfortunate that successive Pakistani governments have steadily increased their heavy reliance on taxing the energy sector because of the ease of collection while remaining unconcerned about the fallout of such reliance not only on the productive sectors but also on households. Last fiscal year, the government generated one trillion rupees from the oil and gas sector – 11 percent higher than what was generated in 2015-16 with a collection of 912 million rupees; and this rise in collection was almost equivalent to the rise in total revenue collections by the government last year in comparison to the year before.

The fallout of such heavy reliance has been higher input costs relative to other countries that, in turn, have increasingly disabled our exporters from competing internationally; and, equally disturbingly, has rendered our productive sectors – industrial as well as agricultural – unable to compete domestically on a range of products given the scale of smuggling on our large extremely porous borders with India, Iran and Afghanistan. As if this was not enough of a source of concern, the Abbasi administration recently decided that domestic gas supply to the industrial sector would be curtailed from 35 percent to 28 percent effective 1st September, much to the chagrin of the textile sector as it would be diverted to the domestic sector given the rise in demand due to the onset of winter in the upcountry areas.

The captive power plants run by many a textile unit on domestic gas (available at 600 rupees MMBTU) would now have to be run on Liquefied Natural Gas (available at 1000 rupees per MMBTU) as per Pervaiz Malik, the new Federal Minister for Commerce and Textiles. The Economic Survey 2016-17 notes that cotton and manufactures contributed 59.6 percent to total exports in 2016-17 and a decline in the exports of these items are the major factor in lower export earnings. In other words, with declining exports, rising imports and a worsening in the balance of payment position the government would be well advised to take cognizance of the impact of any policy shift on the economy rather than focusing on the fallout of a gas shortage on the political fortunes of the PML-N in the elections scheduled for 2018.

It is relevant to note that collections from the energy sector account for around 26 percent of total collections cited as tax revenue. Out of the total collections, 304 billion rupees was not collected by the Federal Board of Revenue (FBR) and includes dedicated funds, for example, the Gas Infrastructure Development Cess and Natural Gas Development Surcharge as well as Petroleum Levy, airport tax and other taxes. Additionally, at least 60 percent of taxes collected as direct taxes in the revised estimates of last year (around 827 billion rupees) were collected as withholding taxes which are largely in the sales tax mode (on services and products); or in other words, indirect taxes whose incidence is greater on the rich than on the poor. These figures reflect the urgent need to not only reform the country's tax structure which is heavily skewed in favour of indirect taxes but also to reform the FBR and improve its governance.

The FBR sadly has been able to resist all measures to improve its governance including technical assistance extended by multilateral donor agencies as reflected by the failure of the World Bank administered Tax Administration Reform Programme. In a report titled "Implementation, Completion and Result Report", the World Bank noted that "the current narrow-base of general sales tax (GST) in Pakistan remained almost entirely unchanged throughout 2005-2012, despite efforts to overhaul the indirect taxation structure by introducing a reformed GST featuring few exemptions and wide coverage of goods and services."

Subsequent Pakistani governments have shied away from taking far-reaching decisions that would improve FBR's performance and increase revenue collections and have instead relied exclusively on further taxing existing taxpayers or more recently have made itself a subject of global ridicule through applying different tax rates on filers and non-filers (and thereby tacitly approving non-filers to retain their status).

To conclude, the need to reform the tax structure as well as improve FBR governance was acknowledged decades ago but unfortunately remains pending. One can only hope that the new administration focuses on this issue and takes some long-awaited decisions.

BUSINESS
RECORDER
Monday, 11th September, 2017

The sanctity of statistics

Anjum Ibrahim

Senator Kamran Michael took oath as the Minister for Statistics, the first ever to hold this portfolio, on 4 August 2017, three days after Shahid Khaqan Abbasi was sworn in as the country's Prime Minister.

The reasons for giving the elevated status of a ministry to the Statistics Division, previously under the control of the Ministry of Finance, vary. Pessimists maintain that the decision to considerably increase the Cabinet, with over 50 members at present, is due to Nawaz Sharif's need to appease disgruntled, hitherto ignored back benchers and bring them on board for the purpose of amending Article 62 (1) (f) of the constitution; and given that in Nawaz Sharif's cabinet Dar's 'empire' was the most comprehensive therefore breaking it down to accommodate more federal ministers made political sense.

Optimists, however, argue that macroeconomic data manipulation reached its peak during the past four Dar-led Finance Ministry years – a peak reflecting a steady rise in the implausibility index of the data released by the Pakistan Bureau of Statistics (PBS) with its sustained failure to rationalize data with other government departments and credible industry sources. By presenting a false macroeconomic picture, Dar ignored all the danger signals that have by now reached critical levels for example the worsening balance of payment position, the high debt to GDP ratio, etc. Thus by taking statistics division out of the Finance Ministry's administrative control the Abbasi administration may have been focused on making the PBS output more credible.

There is little doubt that the four-year questionable data, which was accepted without question by the then Prime Minister Nawaz Sharif, accounts for the continuation of four appallingly ill-advised policies. First, industry suffered during Dar's four years for a host of reasons that include higher input costs than those of our regional competitors due to a steady rise in reliance on taxes on imported oil and products/electricity (which raised input costs and thereby contributed to declining exports and increase in smuggled items into the domestic market through our porous borders with Afghanistan, India and Iran), failure to release sales tax refunds that further raised input costs, an overvalued rupee that not only made exports uncompetitive but also made imports attractive. Dar also focused on total revenue instead of reforming the tax structure which led to overburdening the existing taxpayers that include not only the salaried class but also the productive sectors.

Second, a flawed agriculture policy that accounts for making sugarcane sowing more attractive relative to cotton leading to imports of raw cotton thereby burdening the foreign exchange reserves position. The focus of the PML-N remained on easy loans which were hijacked mostly by the rich landlords with a yield per hectare remaining lower than neighbouring countries particularly India.

Third, Dar relied heavily on foreign borrowing inclusive of equity debt (with Eurobonds totalling 5.6 billion dollars by 2017 as per the Survey which were issued at well above the market rate even in comparison to heavily indebted Greece), and 4 billion dollars of commercial loans from foreign banks with very short amortization period and a high rate of interest.

And finally, Dar focused on reducing the budget deficit, which had reached unsustainable level of over 8 percent during the tenure of the PPP led government; however, he did it at the cost of growth through increasing taxes on existing taxpayers. He perhaps lacked the understanding of economics to find the balance between deficit reduction and pro-growth policies.

Dar also began redefining/repositioning budget components, for example, he shifted non-revenue items like Gas Infrastructure Development Surcharge and Gas Infrastructure Development Cess to "other taxes" (to show a better performance of tax collections while ignoring the decline in non-tax revenue) and overstating revenue sources for example the non-tax revenue sourced to the coalition support fund - 170.7 billion rupees was budgeted in 2016-17 while only 74.5 billion rupees was realized - and with little

BUSINESS
RECORDER
Monday, 11th September, 2017

expectation of any further releases under this account he has budgeted 141.7 billion rupees under this head for the current fiscal year.

Comparing the Dar years with the Zardari years is like comparing apples and oranges. The Economic Survey 2011-12, the last full year of the tenure of the PPP-led coalition government, gave total external debt and liabilities for 2011 as 60.1 billion rupees and for three quarters of 2012 (July-March) at 60.3 billion dollars – non-provisional data. March-June 2012, the caretakers desisted from contracting new foreign loans and by early June, Dar was appointed as the Finance Minister.

The Economic Survey 2012-13 finalized by Dar, made two very disturbing and inexplicable amendments to the Survey of the previous year: (i) for 2011, 2012 and 2013 the data provided was cited as provisional; and (ii) total external debt and liabilities for 2011 was raised to 63.8 billion dollars, for 2012 to 63.4 billion dollars and for 2013 reduced to 58.5 billion dollars. In effect, the difference between 2011-12 and 2012-13 Surveys with respect to total external debt and liabilities was a whopping 3.7 billion dollars; and for 2012 the difference was 3.1 billion dollars. Unless the caretakers borrowed this amount between March and end May this amount remains inexplicable. Additionally foreign debt to GDP was also manipulated but through over stating the GDP with actual debt estimated today at closer to 70 rather than the 61.3 percent of GDP Dar claimed for last year.

So with Statistics Division out of Dar's purview, is there going to be more credible data from now onwards? This is highly unlikely because with general elections due in less than a year admitting the true state of the economy would have severe negative political implications on the ruling party

DAWN
Monday, 11th September, 2017

Businesses want tension with US to ease

Afshan Subohi

Can the trajectory of the United States and Pakistan's economic relationship be immune to renewed diplomatic bitterness?

The government and leaders of the business community do not expect instant economic fallout owing to souring diplomatic relations. But American companies in Pakistan differ.

"The acrimony, if allowed to persist, will certainly hurt the economy of Pakistan," an executive feared. "The recovery is too fragile to withstand economic headwinds. The return to IMF at this point looks imminent."

Moreover, "a hostile US can increase the difficulty level of negotiations with lenders when we go knocking at their door for a bail out," he said.

Last month US President Donald Trump talked tough on Pakistan, accusing the country of harbouring terrorists through its 'safe havens'. He hinted at punitive actions but stopped at a warning.

Pakistan's reaction was constrained. It rejected the allegations and blamed the US for making Pakistan a scapegoat for its own policy failures in Afghanistan, but did not bring up the question of the logistic support it extends for routing NATO supplies through its territory.

For most Pakistani business leaders President Trump's stance was not surprising as the cold vibes from the US, they say, were evident even before Mr Trump assumed office.

Prime minister's special assistant on economic affairs says he doesn't see current diplomatic stress spilling over to hurt Pakistan's trade relations with the United States

They want the tension between the two unequal partners to ease even though they do not expect an immediate spillover effect of the verbal spat on Pakistan's trade or economy.

Zubair Tufail, president of the Federation of Pakistan Chambers of Commerce and Industry, said that thus far no disruption in the two-way trade has been reported by members.

"Our exports to US are not based on duty relief or concession. We competed and penetrated the market. Still, a hostile state has the power to create difficulties without breaking the relevant laws," he warned.

Majyd Aziz, president of the Employers' Federation of Pakistan, was candid in his opinion. "You need the right set of friends to watch out for you in Washington and other capitals. To expect anyone to voluntarily defend your interest is absurd.

"The government can't do it alone. The private sector of Pakistan needs to learn marketing tricks from their Indian counterparts," he commented.

Shabir Ahmed, a leading bed linen exporter, hammered the need to manage economic affairs professionally for better results. "My partners are perfectly satisfied. I do not foresee a problem in the near future," he said over the phone.

Pakistan is currently US's 57th largest goods trading partner with $5.5 billion in total two-way trade during 2016, according to the Office of the United States Trade Representative. Our imports from the US totalled nearly $2.1bn while exports were $3.4bn during the year.

There were phases in history when the US very generously provided economic assistance to the country.

When approached for input, the American Business Council (ABC), a powerful group of over five dozen US companies in Pakistan, was reluctant.

In an email response to Dawn, it said, "The current slide in US-Pakistan bilateral relations will, for sure, have a negative impact. We have some market intelligence for our few specified products where our clients are exploring options for sourcing products of non-US origin. They fear that extreme measures such as sanctions might disturb their business."

The US companies, commenting on the contours of the next IMF package, said, "It might have a direct effect on the country's tax policies."

According to information on the ABC website, the collective total investment in Pakistan was recorded at over $750 million and cumulative annual revenue is around $4bn. The total contribution to Pakistan's treasury in direct and indirect taxes has not been quantified.

Miftah Ismail, special assistant to the prime minister on economic

DAWN
Monday, 11th September, 2017

affairs, was concerned but optimistic.

"I do not see current diplomatic stress spilling over to hurt Pakistan's trade relations with the US," he said. "Yes, the situation is unfortunate and we wish to ease it quickly. We know that high sustainable growth target is difficult to achieve in an adverse diplomatic environment."

He said the government was keen to have friendly relations with all countries, including the United States, which is Pakistan's major trading and investment partner.

"The benefits of this economic cooperation are mutual," Mr Ismail said. "Pakistan offers a hospitable business environment to big US brands such as P&G, IBM, Coke, Pepsi, etc. Their presence in the country is not for compassion but for business".

DAWN
Monday, 11th September, 2017

Devaluing rupee isn't worth a dime

Hussain H. Zaidi

In the face of a massive trade deficit, the government is under pressure to let the overvalued domestic currency depreciate against foreign currencies.

To what extent can the rupee's depreciation or devaluation be instrumental in containing the trade deficit? And what are the potential costs of such a decision?

Like most other countries, Pakistan maintains a managed floating exchange rate regime. The exchange rate is largely determined by the supply of and demand for different currencies. However, from time to time, the central bank intervenes in the foreign exchange market to keep the rate stable.

Thanks largely to such interventions the rupee has maintained its value in relation to foreign currencies, particularly the dollar.

This fact itself shows that the domestic currency is overvalued, because an economy facing a substantial current account deficit — which shows that the foreign demand for its goods and services is less than the domestic demand for foreign goods and services — must see its currency depreciate.

Rupee depreciation, the argument goes, will have a double impact: Pakistan's exports will become cheaper while imports from its trading partners will become expensive. Thus, depreciation will encourage exports and at the same time discourage imports, which will reduce trade and current account deficits.

What are the potential costs of such a decision?

This is what depreciation, or devaluation, in theory is supposed to accomplish. But whether in reality such an outcome comes about is contingent upon quite a few factors.

Take the likely impact on imports. In the wake of depreciation, the domestic prices of imports will go up. The import bill, however, is a function of both prices and import volume. The effect of devaluation on the volume of imports depends on import elasticity of demand.

In case the demand is inelastic, the price increase will not significantly reduce import volume. The elasticity of import demand depends largely on the availability of substitutes. If domestic substitutes are available, imports will go down.

For Pakistan, the likely impact of depreciation on import volume can be estimated by looking at the country's import profile. According to the State Bank of Pakistan, the country imported goods worth $48.58 billion in 2016-17.

Of this, the biggest share was that of petroleum products, which was $10.60bn (21.82pc of the total), followed by machinery and equipment $7.87bn (16.20pc), and raw materials and inputs $7.12bn (14.65pc). This means that three product groups account for 52.67pc of Pakistan's total imports.

Petroleum products are necessary as they are used by both industrial and final consumers, while the import of machinery and equipment as well as raw materials and inputs is essential for a developing country like Pakistan.

Besides, the substitutes for these products are either not available or they are available in a crude or substandard form. In other words, the right substitutes for most of Pakistan's imports are not available, which makes the import demand inelastic.

An increase in prices of imports as a result of devaluation will not significantly reduce total import volume. There is even the possibility that the final import bill may go up due to the increase in prices of imports for which the demand is largely inelastic.

Now take the likely impact on exports. Increase in exports following depreciation will depend on the price elasticity of demand for the products concerned in foreign markets.

Let's suppose that the demand for Pakistan's exports is price elastic. Therefore, foreign buyers will increase orders for Pakistan's exports. The important question, however, is whether Pakistan has the excess capacity to respond to the increased orders.

For a country which is facing severe supply-side constraints — a narrow manufacturing base, energy shortage, lack of commitment to product quality, and production inefficiencies — it is difficult to answer the question in the affirmative.

Even if we assume that depreciation will drive up

DAWN
Monday, 11th September, 2017

Pakistan's exports, we need to bear in mind that depreciation, like most other policy measures, is a double-edged sword.

In the first place, it reduces real incomes of the residents by raising prices of a number of items. In case of Pakistan, given the import basket and dearth of substitutes, the impact on real income is likely to be large.

Secondly, the cost of foreign debt servicing also goes up. Again, the impact will be substantial for Pakistan, where external debt servicing forms a sizeable part of the government's expenditure.

Thirdly, a fall in the value of the domestic currency increases aggregate demand; therefore, the success of depreciation depends on the ability to hold domestic demand in check through restrictive fiscal and monetary policies.

In the absence of excess manufacturing capacity, the increase in aggregate demand may result in inflation and increased demand for imports thus offsetting any benefits that devaluation may bring.

Pakistan's problem is that restrictive fiscal and monetary policies will slow the pace of economic growth, which the government can hardly afford.

DAWN
Monday, 11th September, 2017

Technocrats are a double-edged sword

Dilawar Hussain

Technocrats—usually non-career politicians considered experts in their field—are often seen to be jostling for a place in caretaker governments.

Neutral, non-partisan advisers in a technocratic government enjoy the limelight and are able to add a glorious title, often 'Minister of State', to their name.

Many experts suggest that far from just personal motives, many advisers in caretaker governments join to do good and often find more leeway in putting their expertise in various fields to use for the benefit of the country.

"Technocrats are good only if they are willing to carry out the painful reforms which political governments fear to implement for loss of public vote," said a political science expert.

Unlike the loyal leaders of an election winning political party, who are well-known candidates for seats on one or the other ministries, technocrats and advisers are usually the dark horses who, when appointed, inspire a mixture of wonder, envy and jealousy among others, sometimes regarded as equally competent in those fields.

A person in the know of things admitted that there is lot of backstage diplomacy for securing advisory posts. Suddenly expectants begin to be seen more often in print and electronic media, ostensibly as a reminder of their presence and to exhibit their expertise and knowledge.

"Technocrats are good only if they are willing to carry out the 'painful reforms' which political governments fear to implement for loss of public vote" says an expert

Shaukat Tarin, finance minister in the Yousuf Raza Gilani-led government in 2009-10, told this writer that often in a military government, technocrats are inducted early on in large numbers so they may have the space to exercise some reforms, but going forward due to political exigencies, such governments have also to include people representing political parties.

However, technocrats are double-edged swords. Inducted for a short term, they put their best for a reform-building exercise. Yet, when they are faced with hurdles from politicians and the bureaucracy, technocrats are not bound to stay and can quit and make public disclosure of loopholes in the system.

Mr Tarin said that even in political governments when party stalwarts have to be given ministries, they should be ideally accompanied by technocrat advisers who could keep the ministries on track.

Shabbar Zaidi, a senior partner at A.F. Ferguson & Co and former finance minister of Sindh in the caretaker government of 2013, believes that it is the underlying system that necessitates change.

"It is the cost of governance and not the cost of doing business that is escalating," he asserted. The whole idea of tiptoeing on the footprints of the British rulers of the subcontinent was flawed, he said.

"We are given to exercise just the two options: the UK model where the prime minister exercises all the powers, or the less likely option of the American system where the president is the all-powerful head of the government," he said.

But there was a third option as well, Mr Zaidi said and referred to the semi-presidential system of government that characterises France, where both a president and the prime minister share executive powers. The president appoints the members of the cabinet after the prime minister proposes them.

"The president of France is the supreme commander of the military and holds the four major portfolios of foreign affairs; defence; economics and communications," he said.

The premier appoints ministers on all other portfolios, which could include technocrats. "Technocrats, where appointed, should also be empowered to bring about change," he stressed.

Prof I.A. Zeeshan, who teaches political economics at a local business school, says that technocratic governments were a worldwide rage earlier this century. Among others, Italy and Greece named economists as prime ministers.

He recalled that of all the 24 prime ministers who have held office in Pakistan since 1947, the National Assembly elected 18 while six served as caretakers. Prominent heads of caretaker or technocratic governments were Moeenuddin Qureshi,

DAWN
Monday, 11th September, 2017

Muhammad Mian Soomro and Shaukat Aziz.

Moeen Qureshi was an economist as well as a former senior vice-president of the World Bank. Muhammad Mian Soomro, besides being the scion of a Sindhi feudal politician, was also a career banker. Shaukat Aziz, perhaps the most talked about of all, descended down from Citibank in the US to hold the post of prime minister in the Musharraf regime.

Prof Zeeshan reminded that since those were technocratic governments, experts in various fields found their place in the cabinet and on advisory posts.

While there is scarce work available on comparison of performances there is little doubt that politicians are averse to technocrats.

In January 2013 when the political climate was heating up and cleric Tahirul Qadri made the declaration of a long march to Islamabad, Qamar Zaman Kaira, the federal minister for information and broadcasting at the time, famously said: “There is no room for a technocrat caretaker government because politicians can better manage the affairs of the country. Pakistan was created by politicians.”

Employers’ Federation of Pakistan President Majyd Aziz believes that caretakers and advisers had scant time to bring about change. “How can they take on the bureaucracy in the couple of months of the caretaker period?” he asks.

He believed that advisers appointed in the military rule were greatly empowered. He reckoned that the underlying system required change with the culture of good governance inculcated. But such a change was required to start from the upper layers of power.

“As they say the fish rots from the head,” he reminds.

DAWN
Monday, 11th September, 2017

The one thing our economy needs the most: a direction

Shahab Nafees | Zahra Anum

A MAN wakes up in the morning, takes a bath, combs his hair, leaves home and gets on the first bus that comes his way.

This is how an economist described the state of our economy — nobody knows where it is headed.

In a recent conference to discuss the prospects for Pakistan in a changing world, speakers agreed that our economy needs one thing the most: a direction.

The three key speakers were Masood Ahmed, president of the Centre for Global Development and former director of the IMF's Middle East and Central Asia department; former State Bank of Pakistan governor Ishrat Husain; and Kaiser Bengali, former adviser to chief ministers of Sindh and Balochistan.

Mr Ahmed said it's time we learnt from successful economies, which have three things in common: they have macroeconomic stability, they create conditions to sustain growth, and they try to achieve a social consensus on a broad economic strategy.

"Our focus as a country has to move from day-to-day management of the economy ... to thinking about what kind of big changes are coming that we have to be prepared for," he said.

One of the key major trends of the global economy is the impact of technology on economic development, something we in Pakistan don't seem to appreciate enough, he said. "Technology is going to affect the way manufacturing works, the way in which services work. It's in the early phase. People are still trying to figure out how much impact it will have."

In the United States, for example, it has been estimated that technological advances — robotics and automation, additive manufacturing, big data, the Internet of Things — are going to affect half of the jobs that are being done today.

"Our focus as a country has to move from day-to-day management of the economy ... to thinking about what kind of big changes are coming that we have to be prepared for," says Masood Ahmed

As for developing countries, the World Bank has estimated that 70 to 80 per cent of the jobs will be radically redefined over the next 10 to 15 years by technology.

A case in point is Bangladesh. "Some people now think that in 10 years they won't need to produce textiles in Bangladesh at all because everything that can be produced there can be produced by robots more cheaply in the country where the products are consumed," Mr Ahmed said.

"So, if all the jobs disappear, for many countries the traditional role of development — which is to go from agriculture to light manufacturing to more advanced manufacturing — will change," he said.

Now, what we can do (apart from panicking) is to go beyond dealing only with the immediate problems, and plan for the future as well. The changes Mr Ahmed is talking about may not be just around the corner, but sooner or later we have to make a quantum leap from the Flintstones to the Jetsons.

The paradoxes

Dr Husain in his speech bemoaned the fact that the country's governance was full of paradoxes.

He said there's too little governance in areas where the government should be actively working, such as sanitation, education and health. At the same time, there's too much governance in areas where the government needs to allow space to the private sector to focus on new product development, innovation and exports.

Moreover, there's too little coordination and too much centralisation. "Each ministry is working in a silo, protecting its turf and not talking to each other," he said. "You have a beautiful education policy which has no linkage with the labour policy. So the labour policy is going in one direction and the education policy in the other, leaving you with an oversupply of unemployable graduates."

And lastly, there's too much confrontation and too little collaboration. In successful countries, Dr Husain said, the private sector and the government sit together and discuss how issues can be dealt with.

DAWN
Monday, 11th September, 2017

But in our case, “the gap between performance and policy arises because we don’t have a tradition in this country of working together,” he said.

We must adapt

Dr Bengali then took the discussion forward, stressing the fact that we should own up to our mistakes instead of passing the buck. And our favourite whipping boy, he said, is the IMF.

“I’m not a supporter of neoliberal ideology. I’m a socialist. But I have always defended the IMF because my argument has been that a bank will always work to make sure that its money is safe. If you don’t want to accept the condition, don’t go to the bank.”

His statement may well be added to Dr Husain’s list of paradoxes, but that’s beside the point.

Dr Bengali’s assertion was that if we have our balances right we won’t have to go to the Fund, whose loans always come with strings.

Building on the point stressed by Mr Ahmed, Dr Bengali said the world is changing rapidly in terms of technology. And here we are, exporting just three things for the past 70 years: rice, leather and textiles. “But if don’t adapt, we won’t be a part of a global economy,” he said.

So what does the future hold for us?

We can only hope our man on the bus will have some sense of direction when he gets up the next morning.

DAWN
Monday, 11th September, 2017

Trying to kick-start the investment car

Mubarak Zeb Khan

The PTI-led coalition government in Khyber Pakhtunkhwa has drafted the first-ever investment policy 2017-2025 to facilitate the investors in the province. They will be aided through a one-window operation and incentive-based investment schemes.

The policy is primarily oriented around three stakeholders: the investor, KP government and the federal government as a regulator for a number of subjects under federal jurisdiction. The provincial government has already established a dedicated Board of Investment and Trade, which was created for ease of doing business.

The new policy has identified eight priority areas for the next eight years to lure investment: hydropower, oil and gas, mines and minerals, tourism, industries, agriculture, information technology, and youth (as agents of change).

Secretary Planning and Development, Shahab Ali Shah, said the investment policy will offer legal protection as well as strategic guidelines to investors.

Mr Shah said feedback from all sectors will be included in the policy and it would be presented to the cabinet and provincial assembly to pass through an Act of the Assembly.

Under the said policy, the government commits to ensuring a string of additional incentives for investors.

The provincial government will provide on site dedicated security for one year free. The facility will be extended, upon payment of official dues. Within a period of 60 days, the government will ensure clean land title.

A dedicated team of two young professionals as investment facilitators will be provided for one year to help with provincial and federal clearances/licensing. Moreover, credit lines with national and international finance institutions on a commercial basis will also be ensured.

Unlike past, 10 per cent after-tax profit from the investment will be equally transferred to the three tiers of local governments—districts, tehsils and neighbour/village councils.

At least 25pc of job opportunities will be offered to KP inhabitants. Such jobs would have vertical mobility over five years and be gender balanced.

The two major issues related to leasing land and public-private partnerships have already been handled by making amendments to relevant laws.

As part of the policy, a committee will be constituted to oversee, review and revisit laws, regulations and procedures that are obstructive.

The committee will also provide first stop for investor’s grievance redressal. The KP government is working with the provincial judiciary to set up an alternate dispute resolution centre at Peshawar. Currently, such centres are working in Karachi and Lahore.

However, former president of Khyber Pakhtunkhwa Chamber of Commerce and Industry Zahid Shinwari was not happy with the consultative process. “We have not been approached or consulted at any stage of the developing of the policy,” Mr Shinwari said.

He went on to say that the policy might not help resolve issues the businessmen in the province are currently facing. He suggested the focus of the policy should be to mobilise local investors first and then focusing on international investors in the second phase.

Further the investment policy offered incentives already available under the national investment policy.

According to a federal Board of Investment study, KP emerged as the least business-friendly province in the country. Multiplicity of taxes, multitude of collecting agencies and availability of infrastructure are amongst major issues for prospective investors.

CEO of KP Economic Zones Development Company Syed Muhammad Mohsin told this writer that the issue of infrastructure was resolved through the availability of plots in new economic zones.

He said the construction of factories has already been started in the Jalozai special economic zone. The energy issue will be resolved in the short term through the provision of gas-based supply of power and solar panels.

He said the KP government has already signed a memorandum of understanding with the Canadian government for an investment in a solar power project up to 1,000 megawatts for providing cheaper and uninterrupted power supply to 17 industrial zones. In the first phase a 50MW solar power project will be in place in the Hattar special economic zone.

DAWN
Monday, 11th September, 2017

Need to promote agriculture SMEs is growing

Mohiuddin Aazim

SMALL and medium enterprises (SMEs) producing and processing farm products are doing well in Pakistan. We can also add to this list those SMEs that provide agricultural inputs and that are involved in the wholesaling and retailing of agricultural products.

"But we don't see a good number of SMEs that are exclusive providers of agricultural technology or those that exclusively cater to logistics, trade and distribution services in agriculture. These areas offer a lot of scope for growth to agricultural SMEs," says a senior executive of one of the top five banks.

In cotton and rice sectors, SMEs enter at ginning and husking stage. In the livestock sector, cattle breeding and the processing of milk or meat remain separate or at least both functions are not run by SMEs. Some large milk processing companies get supplies from well-knit networks of milkmen, whereas two leading meat processing companies boast of their own cattle farms.

The trading of fertiliser, pesticides and insecticides is carried out chiefly by manufacturing firms through their agents. But some SMEs also trade farm inputs, both local and imported.

Edible oil extraction and the manufacturing and trading of leather and its by-products are largely in the hands of SMEs. Carpet weaving is almost entirely the business of SMEs across the country.

SMEs can be divided into three broad categories: trading, manufacturing and services. There's no separate classification for agriculture and non-agriculture SMEs. It could be beneficial for entrepreneurs and policymakers alike if relevant institutions can compile separate data on SMEs operating in the value chain of agricultural products.

The need to promote agriculture SMEs is growing with changes in demographic and economic dynamics of the country. The average annual growth rate of the rural population of Pakistan between 1998 and 2017 stood at 2.23pc against that of urban population's 2.7pc, according to provisional results of the latest census.

This indicates a looming shortage of rural workforce, more so because labour wages in rural areas are far less than that in urban areas. Besides, a higher growth rate in urban population is also an indicator of accelerated pace of urbanisation between 1998 and 2017.

So, in order to decelerate urbanisation (that is putting too much pressure on urban infrastructure) and to promote job creation in rural areas, we must have a detailed mapping of job markets in rural areas.

There are many opportunities for small and medium enterprises in technology upgrading and innovation, agricultural knowledge transmission and application, and transportation, wholesale, retail, online marketing and sales

"Segregating agriculture-based SMEs from the rest can be a beginning of this process," says an official of Sindh's Planning Commission.

Such important developments like the China-Pakistan Economic Corridor and Chinese interest in our agriculture sector, politico-economic changes in our traditional food export markets in the Middle East, new prospects of economic growth opening up fast and Pakistan's efforts to accelerate e-commerce call for new policy initiatives in SMEs-led growth in the agricultural value-addition.

For that to happen, a physical survey of the SME sector is a must. "Such a survey can help identify which SMEs fall in the agricultural value-chain and the existing gaps that can be filled in by promoting subsector-specific SMEs," says a central banker.

Take, for example, the huge economy of sacrificial animals which is transforming, but no big policy initiative has been taken to identify the room available for the growth of regulated SMEs.

Individual farmers breed sacrificial animals with funding from investment-hoppers, middlemen, online sellers of sacrificial animals and cattle farms that put on display pricey animals during Eidul Azha.

"If groups of individual farmers are encouraged to set up SMEs to run the business of cattle breeding, farmers will get far better economic returns," the banker said. "Monitoring the developments in, and even predicting price trends of

DAWN
Monday, 11th September, 2017

sacrificial animal markets, will become easier. The interaction of other SMEs like those in transportation, animal feed manufacturing and allied businesses with cattle-breeding SMEs will become natural and it'll help us in documenting the Eidul Azha economy."

Officials of the Small and Medium Enterprises Development Authority (Smeda) say that benefited by some pre-feasibility reports (prepared in collaboration with the International Finance Corporation), a lot of SMEs have sprung up in the agricultural sector in recent years.

These SMEs doing apple gardening, waxing and packaging, apple treatment, dates and fresh fruits processing, fruit dehydration, grapes farming, greenhouse farming of cut flowers, off-season vegetables farming, olive and strawberry cultivation and olive oil extraction, seed processing and hay farming.

The officials, however, stress that there is a need to expand the network of agro-based SMEs as they are concentrated mainly in Punjab and Sindh. Moreover, clusters of agro-based SMEs in inland fish farming, animal breeding, milk and meat processing, wool processing and carpet weaving should be set up to expand their sub-sectoral network.

A senior Smeda official said there are many opportunities for SMEs in technology upgrading and innovation, agricultural knowledge transmission and application, and transportation, wholesale, retail, online marketing and sales.

In the previous fiscal year, banks lent Rs82.3bn to SMEs, which was 11.7pc of their total lending to the private sector.

However, the total stock of SME loans accounted for only about 8pc, or Rs379.7bn, of the total stock of private sector loans as of June 2017, according to the data compiled by the State Bank of Pakistan.

Unless SMEs' share reaches and stay at 20pc of the total private sector loans, they cannot overcome their financial constraints and no breakthrough is likely in terms of skill enhancement and technology innovation, Smeda officials say.

DAWN
Monday, 11th September, 2017

Investigating behaviour of Pakistan's exporting firms

Nasir Jamal

With its foreign shipments dropping by almost a quarter — from over $25 billion to above $20bn in three years — Pakistan's exports have been going under for a number of reasons.

The declining exports are bringing enormous pressure on the external sector with the current account deficit expanding from $4.8bn in 2015/2016 to more than $12bn last fiscal year, triggering calls for immediate policy interventions and cash support.

"Key to making export-friendly policies from the government's side is to better understand the nature of exporting firms in Pakistan," says a recent report – Trade Costs and Trade Composition: Firm Level Evidence from Pakistan – authored by Salamat Ali, a senior trade associate at The Commonwealth's Trade Division, for the International Growth Centre.

The study investigates the impact of trade costs on the composition of Pakistan's exports and the behaviour of its exporting firms.

The study documents key characteristics of export-oriented businesses, including their prevalence, the proportion of their exports relative to imports, their longevity, and their destination markets.

It finds the distribution of Pakistan's export-oriented firms to be highly skewed: the top one per cent of firms handle around 46pc of exports and the top five per cent mediate around 76pc because exporting is a costly activity and only more productive firms enter into export markets.

The number of exporting firms is highly skewed towards a single market as more than half the firms export to only one destination; while overall export volume is skewed towards multi-market firms. These large firms are two-way traders, and they export multiple products to multiple markets.

Most small firms appear to export a single product to a single market. This predominance of small exporters indicates a huge potential for reallocation of resources across firms

Alongside this universe of large firms, the study notes, the economy has a large number of small exporters whose combined contribution to overall exports is relatively small: these constitute around 95pc of the cohort but their contribution to exports is hardly around 25pc.

Most of the small firms appear to export a single product to a single market. This predominance of small exporters indicates huge potential for reallocation of resources across firms.

Information barriers, supply-side constraints, infrastructure or lack of competition in the domestic market could be preventing small firms from entering other export markets.

As in most developing countries, it reveals, "exporting is quite a rare activity in Pakistan. Of the total universe of 50,518 firms in the year 2012/13, only 17,258 (or 34pc) entered into exporting. This proportion further drops to 6,699 firms (or 13pc) if small occasional exporters (10,559) are excluded from the analysis.

Moreover, around a third of these firms are engaged in two-way trade (export and import) and appear to be major drivers of overall exports, constituting 32pc of the population of exporting firms but dealing with 81pc of overall export volume.

This concentration of large export volumes in the two-way traders implies these firms may face lower trade costs, as they may possess superior information about the foreign markets and international trade procedures.

"Pakistan has the potential to become a major exporter. But high trade costs and an unsupportive policy environment keeps that from happening.

"Policy interventions could invigorate this sector but they need to be informed by a deep understanding of how Pakistan's exporting firms work," notes Ghazan Jamal, a Pakistan country economist at the IGC, in a blog he has co-authored with Ali for the Consortium for Development Policy Research. The study, which defines trade costs as the costs associated with transporting the product from the factory to its destination, shows as trade costs increase, exports go down.

A regional breakdown of the same indicates that Pakistan's

DAWN
Monday, 11th September, 2017

trade costs are lowest with North America and East Asia and these correspond to two major destinations for Pakistani exports as well.

On the other hand, Pakistan's trade costs are highest with Southern Africa and the Caribbean and these correspond to some of the lowest export destination for Pakistani products.

In 2015, Pakistan's border-related costs associated with exporting and importing a 20ft container was much lower than some other countries in the region like India and Bangladesh. However, bilateral trade costs are comparatively much higher, putting exporting firms at a disadvantage.

"The concerning trend for Pakistan is that as there is a clear downward trend in bilateral trade costs globally as well as in the cases of India and China. In the case of Pakistan trading costs have fluctuated without much improvement, showing policy inconsistency and lack of a concerted effort to improve export regime.

"These high costs mainly pertain to relatively large input tariffs on imports of intermediate inputs used for manufacturing for exports, poor transport network to connect manufacturing regions in the North with seaports in the South and high costs of other inputs such as electricity and natural gas," according to the study.

Due to the high cost of exporting and a lack of competition in the domestic market, on average, even exporting firms sell 70pc of their output domestically.

The study also reveals a very low export intensity of existing exporters and large untapped potential of non-exporters.

"It appears that supply is not a major constraint but the challenge is to increase the export intensity of existing exporters and incentivise non-exporters to engage in international trade. Export promotion strategy and policy has to focus on market entry of firms and products, rather than quantity of subsidy."

DAWN
Monday, 11th September, 2017

Vietnam to build customs bond system

News Desk

The Global Alliance for Trade Facilitation will help Vietnam to establish a customs bond system — part of the country's efforts to modernise and reform administrative procedures relating to import and export.

The GATF and the Vietnam Private Sector Forum (VPSF) launched their joint project on customs bond last Friday, aimed at facilitating customs clearance in Vietnam. A customs bond is an agreement that ensures that any importer will pay all fees and taxes paid as well as operate according to all laws and regulations.

This is the start of the GATF's Technical Assistance Project with the Government of Vietnam to help the country implement its World Trade Organisation (WTO) commitments, as well as implement the Government's Resolution 19 on improving the national competitiveness and business environment.

Vietnam is the first country in Asia and the first developing country in the world to be selected by donor countries in the WTO to receive technical assistance under the agreement on WTO Trade Facilitation, in effect since February 22, 2017 when 112 countries ratified it.

The scheme will be co-ordinated by the PM's Advisory Council for Administrative Reform, whose standing agency is the Government Office.

Customs bonds are designed to streamline importers' process for bringing goods into the country. Anyone that is importing goods or transporting them locally is required by the customs agency to purchase a bond from a surety company. If an importing company fails to pay fees or follow regulations, Customs can file a claim against the bond. The surety company would then pay to make restitution, but in the end the importing company is required to pay back the surety company.

According to the advisory council, a customs bond is a trade-facilitating mechanism widely used in countries such as the US, Australia, Sweden, New Zealand, UK, Singapore, Malaysia, the Philippines, Thailand and South Korea.

Vietnam is the first country in Asia and the first developing country selected for technical assistance under the newly ratified agreement on WTO Trade Facilitation

Basically, the mechanism is meant to separate the releasing of goods at border gates and the preparation and submission of required customs documentations to facilitate the export or import into the country.

Once importers or exporters have customs bonds, they are guaranteed to fulfil their tax obligations before their goods arrive in the country, so the goods can undergo faster customs clearance.

GATF director Philippe Isler said that the GATF would provide Vietnam feasible solutions to implement WTO commitments, increase national competitiveness and improve business climate.

Foreign experts from WTO member countries will assist with administrative procedure reforms, reviewing and amending the legal framework as well as monitoring Vietnam Automated Cargo and Port Consolidated System/Vietnam Customs Information System (VNACCS/VCIS).

A customs bond system would be a breakthrough in facilitating trade in Vietnam, he said.

Nguyen Viet Nga, vice head of International Affairs Department under Vietnam Customs, said that in Vietnam, customs clearance operations consumed up to 72 per cent of required time for goods to be released from border gates because of cumbersome procedures relating to specialised inspections of goods.

Dao Huy Giam, General Secretary of Vietnam Private Sector Forum, said that the customs bond has helped enterprises, surety companies and customs effectively monitor import and export processes and save time in customs clearance.

An official from the Insurance Supervisory Authority under the Finance Ministry told thoibaotaichinhvietnam.vn that over 30 non-life insurance companies in Vietnam provided insurance guarantees but none of them offered customs bond.

Surety companies face major difficulties such as a lack of information about insured companies or the risk of losing money that they paid to make restitution.

Vietnam has climbed 9 spots to 82 from 91 on the World Bank's Doing Business 2017 ranking, and moved 15 spots up to 93 from 108 for improved border-trade indicators related to import-export operations. Time needed to handle customs procedures was cut from 138 hours to 108 hours.

Vietnam wants to cut down the required time for customs procedures from 108 hours to 80 hours by 2020.

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Missing workforce

By Ihtasham ul Haque

Pakistan is unlikely to avoid crunch time if it does not ensure strict financial discipline along with increasing exports, cutting non-essential imports and greatly enhancing the diminishing manpower export.

Since the Trump administration does not seem to be softening its inflexible attitude towards Pakistan despite unanimous resolution adopted by the National Assembly last week, the Prime Minister Shahid Khaqan Abbasi is being urged to take cognizance of the possible US sanctions that appear to be around the corner.

One of the major areas that need to be discussed and taken up urgently with the Gulf Cooperation Countries (GCC) is the shrinking manpower export, which, it is said, could easily be doubled to $32 billion within next 12 months, provided some serious efforts are made by the prime minister and his finance minister.

Now, when the government has failed to restrict its import reaching $52 billion - an all-time high, and exports have gone down to $21 billion while home remittances declined by $1 billion, increasing manpower export could help remove Pakistan's dependence on foreign loans and bilateral support from various countries.

Renowned economist Dr Ashfaque Hasan Khan and PML-N stalwart Senator Enver Baig have advised the government to formulate a strategy to avoid possible US sanctions by immediately taking up the manpower issue with the GCC governments. They were of the view that home remittances could substantially be enhanced by reaching out to the GCC bloc, which was currently ignoring Pakistan and preferring manpower from India, Bangladesh, and Sri Lanka.

"I really do not know why did the ousted prime minister (Nawaz Sharif) ignore manpower issue with the Gulf countries," asked Dr Khan.

He was of the view that the new prime minister should visit GCC countries urgently and inform their leaderships about the declining Pakistani manpower in their countries. "Although the economies of GCC bloc are still suffering on account of low oil prices, our friends like Saudi Arabia, Kuwait, Qatar, and UAE can still help us by importing manpower from Pakistan and this is how we can fight with impending US sanctions," Khan said.

However, he was of the view that non-essential imports, including $600 million annual fruits and chocolates must be discouraged by the government to save precious foreign exchange. "Then we need to correct our taxation system," he said, regretting that tax rate has been increased while no tangible relief was given to the people on account of reduced international oil prices.

"Our economy is not performing as fiscal deficit is touching new heights notwithstanding taking so-called austerity measures including by withholding Rs300 billion sales tax refunds of the exporters."

Senator Enver Baig of PML-N said the only way Pakistan could compete with possible sanctions was if manpower to Arab countries was substantially increased. "It pains me a lot to know that the former prime minister Nawaz Sharif did not use his personal influence in GCC states to increase our manpower export there."

"Out of $19 billion annual home remittances, $16 billion come from GCC bloc and it can easily be doubled only in 12 months provided our leaders take a genuine interest," Senator Baig claimed.

He said home remittances were a vital area which needed to be considered by the prime minister Abbasi to enhance foreign exchange reserves and thus avoid piling of foreign loans now touching $80 billion marks.

"This is the time to act and seek working visas for our people in the Arab world where Indians, Bangladeshi and Sri Lankans are currently making their monopoly due to our carelessness," he said, and added that despite so-called lifting of ban on Pakistani manpower to Kuwait, there was no follow up to address the issue.

The new premier who has apparently cut to size his finance minister needs to stop the appointment of cronies to the strategic positions to avoid further damage to the ailing economy.

How would the new prime minister dispel the impression that economic data had been manipulated and doctored to such a large scale about which the IFIs have also started talking quietly? Is it wise to only rely on Chinese investment and whether the new prime minister would look into it? Is this not a matter of worry that the private and foreign

THE NEWS
Monday, 11th September, 2017

investment is not picking up while the GDP growth is actually standing at 4 percent against the official claims of 5 percent plus?

Industrial growth is declining due to non-availability of electricity and gas on competitive prices while agriculture continues to face problems despite comprising 23 percent of the country's GDP. Fiscal deficit is still close to seven percent against the claims of 4.5 percent to 5 percent.

With rising unemployment, increasing mass poverty, falling exports and increasing imports, trade deficit continues to widen while current account deficit is fast becoming a serious problem. Part of the problem is that the economy could not be revived due to shrinking private investment. Unfortunately, private investment continues to decline in spite of the cut in the discount rate of the central bank. Since there is no plausible investment by the private sector, foreign direct investment (FDI) could not be attracted except close to $60 billion Chinese investment in China-Pakistan Economic Corridor (CPEC).

Many people believe though the economy was kick-started by the PML-N government, it remained unsustainable owing to flawed policies and that the new prime minister would be taking fresh corrective measures during the next nine months of his government.

Since the issue of structural reforms particularly in the energy and revenue sectors could not be addressed during the last four years, there is no real economic turnaround that is essentially needed for growth in the country.

More importantly, the prime minister has to take short term measures to increase foreign inflows aimed at augmenting reserves that are depleting fast because of decline in home remittances, exports and FDI including that of portfolio investment made in the stock market.

Is the government ready to float euro bonds and improve its falling foreign exchange reserves? In recent times if Argentina which defaulted eight times and still fetched $2.75 billion while Iraq can raise $1 billion despite fighting a long war against terrorism, why cannot Pakistan do that.

It is time to drastically cut non-essential imports, enhance exports and increase the much-needed home remittances through manpower export. But it requires a vision and a will that has to be demonstrated at the top without which the country will continue to suffer while the elite will thrive at the expense of the poor nation.

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Tax system and radiant Pakistan

Muhammad Nadeem Bhatti

Government of Pakistan collect taxes from its people in order to spend the collection on the welfare of its people which includes national defence, debt servicing and other welfare related issues. While designing the tax policy a country should account the equity and justice for its people because a system is most effective when it is designed on the bases of equal and fair treatment of each tax-payer. But in case of Pakistan the situation is bit different, as a nation we are in debt by the foreign and domestic lenders which is due to our extra expenses incurred due to recent war on terror, our habit of corruption at national and international level and we are also tax averse society in which we don't feel ourselves responsible to pay taxes.

Our current tax collection system is very weak which comprises of loopholes in the system accompanied by the corruption of Federal Board of Revenue (FBR) officers which speaks about the justice and equity of our government officials for their people. After analysing the height of corruption, special favour given to government officials or their friends, (their detail of corruption will be discussed later on with their names). Initially the foreign lenders did not set any targets for us because they somehow believed in our commitments and also felt that we will pay them back their money as per the signed agreement but after the several failures of debt servicing, lenders started to analyse the root cause of this issue in which they found our tax collection system complied with old methodology of taxation ie General Sales Tax (GST) in which all the tax collected at the last stage which makes them aware of the fact that as a corrupt nation and low tax net economy it will become more difficult for them to collect their lent amount from us which lead IMF to set targets for us.

The Indian economy is the 2nd fastest growing economy of the world and 12th largest in term of exchange rate. Although, India does not have impressive track record in the growth of revenues, rising from 6.8 percent of GDP in 1950's to 10.3 percent in 1990's and maximum of 12.9 percent in 2009. But the important thing is that the tax-to-GDP ratio is increasing constantly from 2004 onward. On the other hand, tax-to-GDP ratio in Pakistan has a declining trend from peak 13.2 percent to 8.9 percent in 2009. Sri Lanka has been facing a worsened law and order situation since early 1880's and economy of Sri Lanka showed a very low GDP growth. Although, tax revenues as compared to GDP has decreased in Sri Lanka but still they have high rate of 14.3 percent which is higher than Pakistan. Sri Lanka has coped with the problems in economy by focusing on its tea exports, tourism sector. Furthermore, their government has also tried to improve the revenue collection. Sweden is considered to have highest tax-to-GDP ratio in the world. Tax revenues in Sweden have touched a highest level of over 50 percent of GDP. The personal income tax rate is highest in Sweden which is about 56.4 percent. Tax rate is progressive for the personal income in Sweden while in Pakistan we are facing a regressive taxation.

There are several reasons why we are unable to collect the tax. Corruption is one of the important aspects which are casting great hindrance in taxation system. Other important reason is low literacy rate, which is very low as compared to many countries in the world. Demography of a country also plays an important role in the tax-to-GDP ratio. Pakistan has about 36.7 percent population which is 14 years of age or below. Hence working class is not growing to generate taxes. Terrorism, law and order situation, poverty and unemployment are also playing important role in low tax collection. Tax base in Pakistan is stable at 1 percent. On the other hand, tax base in the US is about 24 percent and it is 20 percent in Malaysia. Tax policy is also not suitable in order to generate taxes and to extend the tax net. Another problem that we are facing is documentation of economy; nearly 52 percent of our economy is undocumented. Audit and enforcement is so weak in Pakistan that the audit agencies themselves are involved in corruption. Looking at different sectors, we can see agriculture has above 20 percent share in GDP but tax collected from this sector are only 1 percent of total tax collection. In this way contribution of different sectors is not properly distributed. Political influence is also a big hurdle in the taxation system. (According to sec 38) departments are molesting the respect of the person which are paying taxes.

One of the reasons Pakistan has not been able to progress as much as other emerging countries is because of the lack of proper infrastructure, low

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Monday, 11th September, 2017

quality of education, and lack of government's ability to spend on public welfare. Almost all of the tax collected by government is spent on either defence or on debt servicing. The stage has come when Pakistan needs loan to pay its loan payments. With VAT the state would be able to collect more taxes with which Pakistan will be able to repay its loans sooner. Once Pakistan pays off all the loans it will be able to spend on infrastructure and improve quality of education. Better infrastructure and education would attract foreign investments which will increase GDP and eventually increasing the tax base; there has been a decrease of more than $3000 million from fiscal year 2007-2008 to 2009-2010 in FDI. According to VAT law there is no difference between retailers and wholesalers. It also does not define manufacturer or manufacture. Every person, who is part of the production supply chain, is required to get registered with VAT if he/she is engaged in carrying out business activity of making supplies of taxable goods/services. Under GST only some of the industries are charged tax. For example, cellular services account for more than 80 percent of the total GST collected, rest of the country's industries pay less than 20 percent of the GST revenue. Now one problem could be that organisations tend to avoid taxes especially when VAT is practiced in the economy. But with the negative effects, payment of taxes has positive consequences as well; paying taxes improves the credibility of organisation. People tend to purchase from organisation that are ethical enough to pay its due taxes, it is most beneficial for small companies. If small organisations mention on their sites that the company is a regular tax payer, it will not just improves its credibility but will also enhance its ability to compete with larger firms.

Tax refund is also a major problem under GST regime, VAT, however has a solution to it. Under VAT system refunds will be paid through speedy Refund Payment System. The system has already been set-up for exporters from the tax period April, 2010 onwards. Under this upgraded system electronic refund payments will be made directly in the bank accounts of the taxpayers. This new refund system will be expanded to cover all other classes of refund claimants in due time. Thus, VAT is the most appropriate tax system for Pakistan as it has the ability to deal with tax refunds without taking much time, its ability to track un-registered business entities, and its ability to increase government revenues and reduce tax gap.

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