Center for Research & Security Studies

Rule of Law - Security - Governance

RETHINKING PAKISTAN'S ECONOMY

Putting the House in Order

CONTENTS

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LIST OF ABBREVIATION

IMF	International Monetary Fund
cc	cubic centimeters
EFF	Extended Fund Facility
SBA	Stand-by Arrangement
PDL	Petroleum Development Levy
FBR	Federal Board of Revenue
CPI	Consumer Price Index
OECD	Organisation for Economic Co-operation and Development
LNG	Liquefied Natural Gas
GDP	Gross Domestic Product
IT	Information Technology
PBS	Pakistan Bureau of Statistics
PIDE	Pakistan institute of Development Economics
FDI	Foreign Direct Investment
STEM	Science, Technology, Engineering, and Mathematics
R&D	Research and Development (R&D)
SOEs	State Owned Enterprises (SOEs)
PIA	Pakistan International Airline
SROs	Statutory Regulatory Orders
IFIs	International Financial Institutions

SETTING THE CONTEXT

Within the intricate fabric of Pakistan's economic landscape, a number of pressing issues present formidable challenges to the nation's progress. Exogenous shocks arising from natural disasters, geopolitics, security challenges and events like the unprecedented impact of the COVID-19 pandemic disrupt the smooth flow of economic activities, leaving a trail of uncertainty in their wake. Concurrently, high inflation rates add to the complexities, faced by the policymakers and citizens. The depreciation of the Pakistani rupee against the major currencies casts its shadow on imports, trade balances, and overall economic stability, necessitating careful monetary management. Likewise, despite the best intentions of the State Bank of Pakistan, the effectiveness of monetary policy is hampered by the government's reliance on borrowing from the central bank. The delicate interplay of interest rates and money supply as instruments to control inflation can be constrained by the impact such measures may have on business and government borrowing, potentially affecting economic activity.

Furthermore, a pair of daunting twins - the current account deficit and the fiscal deficit - looms as persistent challenges to Pakistan's economic growth. The former speaks of imbalances in trade and foreign transactions, while the latter reflects the government's struggle to maintain a healthy balance between its revenues and expenditures. Both deficits require prudent management and concerted efforts to achieve sustainable economic equilibrium.

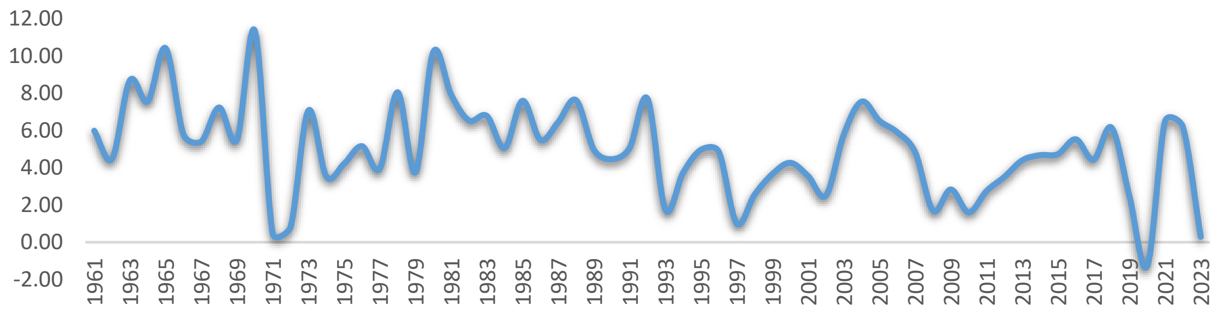
A crucial factor impeding progress lies in the absence of a successful industrial policy as well. The inability to implement a coherent plan has hindered the growth of exports and limited the domestic supply of goods and services, impacting overall productivity. Addressing this gap is vital to unleashing the true potential of Pakistan's economy. Perhaps the most profound aspiration for the nation's economic well-being is the pursuit of sustained growth. Over the past two decades, historical growth rates, fluctuating around 4%, have fallen short of the demands of a growing population and the imperatives of national development. A yearning for consistent and robust growth resonates through the corridors of policymaking, as it holds the key to poverty reduction, job creation, and the transformation of lives.

With aspirations of growth comes a delicate dance with external financing. While foreign capital, investments, grants, and loans can provide temporary respite and fuel short-term growth, the overreliance on such sources may leave the nation vulnerable to external factors beyond its control. Balancing the use of external financing while promoting domestic savings, and investment is a paramount challenge. Addressing these multifaceted issues demands synchronized efforts from the government, the central bank, and all stakeholders. Effective policies to control inflation, promote exports, attract investments, and strengthen fiscal management, must be deftly woven into a comprehensive strategy. With resolve and unity, Pakistan can set sail on the path of progress, navigating these challenges with subtlety and fortitude, as it embarks on a journey towards a brighter and more prosperous future.

1. PAKISTAN'S ECONOMIC ODYSSEY

Pakistan's enduring struggle, with economic and political instability has left it entangled in the perplexing enigma of unstable development. Over the past seventy-two years, Pakistan's economic performance, has been marred by extreme volatility. Notably, periods such as the 1960s, 1980s, and a significant portion of the 2000s, witnessed episodes of robust growth, surpassing 6.0 percent. However, these periods of prosperity were juxtaposed with phases of sluggish growth in other eras. The most recent twelve-year span from 2008 to 2020; for instance, saw an average annual growth rate of 3.25 percent, with only two cases surpassing the 5.0 percent threshold (historical trend shown in Graph 01 below). The fundamental question that arises from this pattern of volatility is twofold: What lies behind these fluctuations, and why does the Pakistani economy seem adrift, lacking a clear direction?

Graph 01: GDP Growth Rate of Pakistan (1961 - 2023)*



In parallel, it is disconcerting to observe a downward trend in investment as a percentage of GDP. This decline in investment undermines the country's potential for economic growth, and development. Moreover, compared to neighboring countries, Pakistan's investment rate falls short, further exacerbating the disparity in economic performance and hampering its ability to compete on a regional level. These trends highlight the urgent need for policy interventions aimed at; revitalizing investment activity, enhancing productivity, and fostering an environment conducive to sustainable economic growth. Addressing the factors contributing to the decline in total factor productivity and reversing the downward trajectory of investment are crucial steps toward steering Pakistan's economy onto a more stable and prosperous path.

Another pressing concern that demands immediate attention is Pakistan's persistent rise in the debt-to-GDP ratio throughout the past decade. Extensive research consistently highlights a negative linear relationship between debt levels and economic growth, irrespective of the types of debt or the income levels of countries. Thus, the mounting debt burden poses a significant hindrance; to Pakistan's economic progress and stability.[1]

Compounding this issue is the disconcerting fact that Pakistan has resorted to seeking assistance from the International Monetary Fund (IMF) on a staggering twenty-two occasions since 1965,

* The data is extracted from the World Bank databank. Figure of year 2023 is taken from Ministry of Finance.

with the recent engagement marking the twenty-third instance. This recurrent dependence on external financial support not only underscores the challenges faced by Pakistan in effectively

managing its economic affairs but also emphasizes the urgent need for comprehensive and sustainable economic policies and reforms to break free from this cycle[2].

To ensure a prosperous future, Pakistan must take decisive measures to address its escalating debt burden. By adopting; prudent fiscal management strategies, reducing reliance on external borrowing, and promoting domestic resource mobilization, the country can chart a course toward fiscal stability and sustainable economic growth. Embracing proactive measures that enhance revenue generation, encourage investment, and prioritize fiscal discipline will pave the way for a more self-reliant and resilient economic trajectory.

Pakistan's presence within the corridors of the International Monetary Fund (IMF) has become a sight, all too familiar. One cannot help but ponder: does the IMF truly hold the key to Pakistan's predicament? While it may offer temporary relief, it fails to provide a lasting solution for the nation's woes. The time has come to explore alternative paths, for the short-term remedies have proven ineffective. The remedy lies; in cultivating a sustainable and vigorous growth trajectory[3].

Simultaneously, Pakistan is confronted with a demographic shift that demands our attention—the working-age population; expanding at a rate surpassing the overall population growth. These burgeoning numbers entering the labor force harbor immense potential for the nation. However, the absence of gainful employment opportunities threatens to disrupt this demographic window of opportunity[4].

In the years to come, we anticipate over 2.5 million new individuals joining the working-age bracket. Calculating the current labor force participation rates necessitates the creation of 1.5 million new jobs within the economy over the next two decades. Furthermore, as more women enter the workforce and in our pursuit of greater female labor force participation, the labor force must expand by 2 million jobs annually for the next 20 years. Employment elasticity estimates indicate; that the economy must grow around 10 percent to provide meaningful employment prospects for future labor market entrants. Thus, the crux of the matter lies; in fostering robust growth and enhancing productivity as the only means to; effectively respond to shifting demographics and harness their potential dividends.

Let us acknowledge in the realm of economic stagnation, the responsibility for its existence is a complex interplay between various actors. Political leadership, while ideally an enabler and regulator, can sometimes veer into excessive involvement, leading to unintended market

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[2] Haque, N. U., & Hussein, S. (2022). PIDE'S Charter of Economy (Policy). The Pakistan Development Review (PDR). https://doi.org/10.30541/pdr.v61i3

[3] This part of analysis is extracted from the in-depth interviews with the subject experts (profiles are given at the end of this report).

[4] Nayab, D. E., & Siddique, O. (2020). National Transfer Accounts for Pakistan; Estimating the Generational Economy for Pakistan. Pakistan Institute of Development Economics. https://econpapers.repec.org/paper/pidresrep/2020_3a1.htm

failures. Examples of government intervention, like price controls in sectors; such as pharmaceuticals and food commodities, have left their mark on Pakistan's economy.

IMF programs, with their mix of measures, impact the economic landscape, but even beyond them, the government's role in shaping policies cannot be ignored. Meanwhile, the contributions of businesses, particularly the textile industry, play a significant role in the nation's economy, benefiting from government support and lobbying for perks. However, a reliance; on government incentives and rent-seeking behavior can create an uneven playing field. A shift from protectionism is essential for promoting competition, but the transition, must be managed carefully.

Shared responsibility lies at the core of this economic narrative. A balanced approach, where political leaders, business magnates, and the populace work together, can pave the way for a prosperous future. Let us embark on this journey of collaboration aiming; for sustainable economic growth and a brighter horizon for Pakistan.

2. BUDGET 2023-24 AT A GLANCE

The federal government has yielded to the International Monetary Fund's (IMF) five demands and enacted the provisions delineated in the Finance Act 2023. Under this act, additional taxes totaling Rs 415, have been levied. Specifically, the income tax rate for individuals earning above Rs 200,000 per month or Rs 2.4 million per annum has escalated by 2.5%, to settle at 22.5%. Moreover, those with an annual income of Rs 2.4 million will also be subject to a fixed income tax of Rs 165,000.

Similarly, the Finance Act 2023 has raised the income tax rate by 2.5% to 27.5% for individuals earning up to Rs 3.6 million annually, with an additional fixed income tax of Rs 435,000 imposed on individuals earning Rs 3.6 million. Likewise, individuals with an annual income surpassing Rs 6 million will face a 2.5% increase, resulting in a 35% income tax rate and a fixed income tax payment of Rs 1.1 million.

Moreover, non-filers will incur a 0.6% income tax on banking transactions exceeding Rs 50,000. Additionally, the government has augmented the petroleum levy from Rs 50 to Rs 60 and introduced an extra super tax on income. However, the threshold for this super tax has been elevated from Rs 300 million to Rs 500 million, entailing a 10% super tax on annual incomes exceeding Rs 500 million, though banking companies will be subject to a 10% super tax on an annual income of Rs 300 million.

The sectors subject to the 10% super tax encompass petroleum, gas, pharmaceuticals, sugar, textiles, fertilizer, iron, steel, LNG terminals, oil marketing, oil refineries, airlines, automobiles, beverages, cement, chemicals, cigarettes, and tobacco. Companies with an annual income ranging from Rs 400 million to Rs 500 million will bear an 8% super tax, whereas those earning between Rs 350 million and Rs 400 million will face an increased rate of 6% (up from 4%). Super tax rates of 3%, 2%, and 1% apply to companies earning Rs 250 million to Rs 300 million, Rs 200 million to Rs 250 million, and Rs 150 million to Rs 200 million annually, respectively. Companies earning below Rs 150 million are exempt from the super tax.

Furthermore, a 5% federal excise duty has been imposed on fertilizers, generating an additional revenue of Rs 35 billion. The government has augmented the tax on property sales and purchases by 1%, yielding an additional Rs 45 billion in revenue. Consequent to the act's implementation, the tax on each 200gm pack of formula milk for children, previously priced at Rs 500, has been raised from 5% to 6%. Additionally, the sales tax on taxable items provided to unregistered individuals has increased from 3% to 4%. Notwithstanding, the government has granted a tax exemption on the supply of wheat bran, effective retroactively from July 2018. Similarly, companies registered under the Drug Act of 1976, including pharmaceutical suppliers, are exempted from taxes.

Also, the government has heightened excise duty on vehicles equipped with engines surpassing 2000 cubic centimeters (cc). Cars with 2100cc to 2500cc engines will now face a fixed tax of 6% of their value, while those with 2501cc to 3000cc engines will pay 8% of the vehicle's value as duty during registration. Similarly, cars with over 3000cc engines will incur a duty of 10% of the vehicle's value during registration[5].

In crux, budget is myopic. The target is revenue maximization. No reforms are in sight. Rent-seeking and extractive mechanisms remain embedded. With that, another mini-budget seems to be in the pipeline. So, nothing more than old wine in a new bottle; even the bottle seems old this time[6].

3. THE IMF FACTOR

Pakistan, after a prolonged delay and marathon meetings, has ultimately concluded discussions with the International Monetary Fund (IMF) in the last hours of June 2023. Unfortunately, the negotiations for the Extended Fund Facility (EFF) did not reach a successful outcome. Nevertheless, the IMF, acting as the lender of last resort, will extend a lifeline of $3 billion to Islamabad through a Stand-by Arrangement (SBA). As with many things in the present hard times, the SBA and its implications have become subjects of intense polarization. One faction argues that it is the most beneficial development for Pakistan amid the prevailing economic challenges. Conversely, others perceive it as an indication of the dire state of the economy. However, the reality likely resides in the middle ground, encompassing a more nuanced perspective.

Encouragingly, the SBA brings a much-needed respite to the economy and diminishes immediate uncertainties. Moreover, this arrangement clears the path for additional capital inflows, including from amicable nations and other international creditors who had tied their support to the finalization of an agreement with the IMF. The duration of this nine-month accord also grants

[5] Pakistan’s Federal Budget Document 2023-24 (2023). Ministry of Finance, Government of Pakistan. https://www.finance.gov.pk/budget/Budget_2023_24/Annual_Budget_Statement.pdf

[6] This part of analysis is extracted from the in-depth interviews with the subject experts (profiles are given at the end of this report).

ample time to an incoming government - assuming constitutional adherence to scheduled elections - to engage in negotiations with the IMF and forge a fresh EFF. It is a positive development as it offers a favorable opportunity for a future administration to promptly enact measures that demonstrate a commitment to reforms while concurrently engaging in talks with the IMF and other creditors until the conclusion of 2023[7].

Nonetheless, the SBA deal is not something like a nosh from heaven. It comes with its inherent heat. The country's economic prospects loom somber amidst an enduring crisis fueled by unresolved structural dilemmas. To secure the SBA, the government enacted substantial modifications to its budget, bolstered the Petroleum Development Levy (PDL), escalated interest rates, and evinced a commitment to heightening energy tariffs. Moreover, the government has committed to ensuring complete market determination of the exchange rate; a measure previously approached with hesitancy[8].

Consequently, the approaching months shall witness an era of austerity. Subsequent caretaker administrations with newly elected governments would feel restricted in wanting to uphold policies while walking on a tightrope, rendering the delivery of sought-after relief by politicians implausible. Also, tax increments, heightened energy tariffs, and fiscal restraint shall become indispensable, for failure to undertake such measures would aggravate an already dire predicament.

As part of this framework, the government set forth an ambitious objective of increasing tax revenue by nearly PKR 500 billion in the fiscal budget 2023-24, culminating in a substantial target of 9.3 trillion rupees for the Federal Board of Revenue (FBR) to collect. Notably, the existing taxation regime already subjects businesses and individuals to a burdensome and predatory environment, further exacerbating their challenges.

If the past is to provide a guide for future performance, there is little reason for optimism that the latest program or the one following it will do much to navigate Pakistan out of the debt trap. As has happened with several earlier programs, ambitious performance targets set by the Fund are enthusiastically agreed to by the government, and innumerable plausible and implausible excuses are then found to flout the agreement.

The IMF's failure to create conditions for poverty reduction and sustained inclusive growth in Pakistan, despite prolonged lending, may be attributed to a lack of consideration for the country's complex political and societal realities. It may also be due to the difficulty of monitoring and ensuring compliance with program requirements, considering the informal methods that the borrower can employ to not adhere to the program's fundamental tenets.

Gazing forward, Pakistan's economy confronts formidable challenges, relegating ordinary citizens to a state of desolation. Successive governments have willfully disregarded the inevitability of

[7] IMF Country Report No. 23/260 (2023). International Monetary Fund. https://www.imf.org/en/Publications/CR/Issues/2023/07/17/Pakistan-Request-for-a-Stand-by-Arrangement- Press-Release-Staff-Report-Staff-Statement-and-536494

[8] This part of analysis is extracted from the in-depth interviews with the subject experts (profiles are given at the end of this report).

relinquishing the existing status quo - an inequitable system characterized by corruption and the unjust amassment of wealth.

4. INFLATION BOMB

Inflation, a phenomenon characterized by a sustained increase in the overall price level of goods and services within an economy over time, finds its origins; in the imbalance between supply and demand. As the force of globalization and market industrialization has taken hold, domestic and global factors; have played a role in creating inflationary pressures. Recent years have witnessed a culmination of events that have further intensified these pressures, including the Russia-Ukraine war, disruptions in the global supply chain, congested ports, logistical challenges, and a robust demand for merchandise.

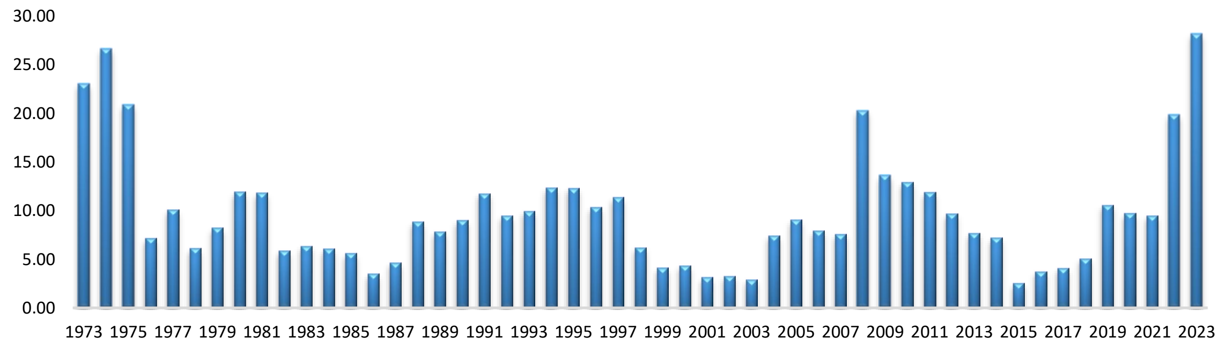
The year 2022 brought a notable surge in inflation across numerous countries worldwide. Particularly striking were the inflation rates experienced by the United States and the United Kingdom, reaching levels unseen in decades: 9.1 percent in the US (June 2022) and 11.1 percent in the UK (October 2022). Moreover, countries such as Iran (53.4 percent in February 2023), Turkey (43.7 percent in April 2023), Egypt (30.6 percent in April 2023), and Argentina (109 percent in April 2023) also registered alarming increases in inflation. With recent declines in food and fuel prices in the global market, the general price level remains significantly higher compared to the pre-pandemic and pre-war (Russia-Ukraine) era[9].

The impact of declining prices has not been even as the appreciation of the US dollar has caused the currencies of many developing nations to depreciate against it. Pakistan, a net importer of food and petroleum products, has been particularly affected. The escalation in crude oil prices due to the global crisis has led to double-digit inflation in Pakistan since November 2021. The depreciation of the Pakistani rupee has further exacerbated the prices of imported goods. The appreciation of the US dollar is mainly attributed; to fundamental forces such as the tightening of monetary policy in the US and the prevailing energy crisis. Additionally, the conflict between Russia and Ukraine has significantly disrupted the supply of commodities, given that both countries are the major exporters of energy and agricultural products. Furthermore, recent floods have caused substantial damage to the economy; the agricultural sector is being affected the hardest. Due to considerable disruptions in the supply of perishable items triggered by the floods, the price of the goods has increased.

For the outgoing fiscal year, the inflation target was set at 11.5 percent. However, inflationary pressures have persisted throughout the first ten months of the current fiscal year, marking the 18th consecutive month of double-digit inflation since November 2021. In April 2023, the Consumer Price Index (CPI) stood at 36.4 percent on a year-on-year basis, surpassing the previous month's 35.4 percent and the 13.4 percent recorded in April 2022. On average, the CPI inflation rate reached 28.2 percent during the period of July to April in FY2023, in stark contrast to the 11.0 percent observed during the same period the previous year, as shown in Graph 02 below.

[9] Pakistan Economic Survey 2022-23. Ministry of Finance, Government of Pakistan (2023). https://www.finance.gov.pk/survey_2023.html

Graph 02: Pakistan's Inflation, Consumer Prices (annual %)**



Inflation is hitting all segments of society, particularly the lower-income and middle class. The percentage of expenses in the income pie ranged from 25 to 30 percent. Studies have revealed that more than 50% of household income is spent on food. However, it doesn't appear that inflation will significantly decline anytime soon till the middle of 2025[10].

5. THE UKRAINE CONFLICT

The protracted confrontation between Russia and Ukraine has yielded extensive consequences, not only for the directly involved parties but has also resonated worldwide, impacting numerous nations and their economic landscapes. Within this group of countries, Pakistan, located in South Asia, has not been exempt from the reverberations stemming from this conflict.

The origins of the Russia-Ukraine conflict can be traced back to the annexation of Crimea by Russia in 2014, which was followed by the backing of separatist movements in Eastern Ukraine. This series of events has sparked a prolonged and intense conflict, giving rise to significant political, social, and economic ramifications. The conflict has been characterized by territorial disputes, military engagements, and strained diplomatic relations, resulting in considerable hardships for the Ukrainian people and strained relations between Russia and Western countries.

The conflict in the Black Sea region created several changes to the supply and demand of the major commodities - energy and food. Both are vital to the running of an economy. In the aftermath of the invasion, the global commodities market suffered a historic shock, with oil and gas rose by over 60% and coal by 70%, with the benchmark oil price reaching $130, while wheat, the global staple food, by 60%[11].

To quote the OECD report Economic Outlook 2022, “Russia’s war of aggression against Ukraine has provoked a massive energy price shock not seen since the 1970s”. It was mainly to reduce European dependence on Russian oil, and there was only one way to it; the short and medium

[10] This part of analysis is extracted from the in-depth interviews with the subject experts (profiles are given at the end of this report).
[11] The Oil Market Crisis Sparked by Russia’s Invasion Is Nearing Its End (2023). Oil Price.com. https://oilprice.com/Energy/Energy-General/The-Oil-Market-Crisis-Sparked-By-Russias-Invasion-Is-Nearing-Its-End.html
**This part of analysis is extracted from the in-depth interviews with the subject experts (profiles are given at the end of this report).

term, to import from other regions. However, this had an immense effect; on the price and supply of oil for all countries that imported it. Pakistan is one of the countries that needs to import energy resources to meet its demand at home. The country was able to; produce 4.3 million metric tons of crude, which is only 20% of what it needed in 2019. So, Pakistan imports 80% of its oil, making it a vast part of its import bill. Further yet is the problem, that Pakistan's refineries are outdated. This means Pakistan must import large amounts of refined oil which is more expensive compared to crude[12].

There is also the matter of natural gas; when liquefied, referred to as Liquefied Natural Gas (LNG). It is used for heating, cooking and for producing electricity. In 2022, Pakistan generated 35.28% of its electricity from natural gas. Pakistan has a long-term deal with Qatar to import LNG. However, this is insufficient. Pakistan gets 7-8 cargoes of LNG from Qatar, and around 2, from other sources, while needing 14 in total; to meet its electrical and industrial requirements. Pakistan has come to terms with Azerbaijan to import LNG. Though that also would not be able to suffice domestic needs.

In contrast, the other problem caused by the war is the rise in food prices and supply. Before the invasion, Ukraine; was the breadbasket of Europe, accounting for as much as 10% of global wheat exports. While there may be limited awareness of this among the general public, Ukraine; was the primary supplier of wheat to Pakistan before the war. However, since the war, Pakistan has increased; its wheat import from Russia instead. Although, this still does not provide the required amount falling short by an estimated 2.3 million MT, according to S&P Global. The price of wheat, though, is far more expensive now than before. The war in Ukraine caused a spiral of protectionism among wheat-exporting nations, notably India, which banned exports leading to further increases in the global market price for the staple.

The war in Ukraine is not solely responsible for Pakistan's economic woes but did indeed exacerbate them. Pakistan faces a long problem with its trade deficit that was propped up by artificially strengthening the rupee. The pandemic also caused significant problems for the country as it reduced remittances and lowered exports. While flash floods ruined many fertile regions and vastly increased the quantity of imported food. Pakistan is, however, expecting a bumper harvest in 2023, expected to; reduce Pakistan's wheat import requirement as domestic production rises, but not completely. The Ukraine crisis only further highlighted Pakistan's severely precarious economic situation and how geopolitics can send ripples across the globe.

[12] Confronting the Crises. OECD Economic Outlook Report (2022). https://www.oecd.org/economic-outlook/november-2022/

6. PAKISTAN'S TROUBLING EQUATION

Despite experiencing economic and political adventurism, Pakistan has failed to break the ramshackle of the development enigma. Though the initial decades of 1950s and 1960s witnessed relatively high economic growth and progress, as the maxim goes, that no development is development if it's not sustainable, the growth came in leaps and bounds with the complementary menace of inequality. However, the winds took a change in the 1970s; when the nationalization policy; was adopted by Bhutto regime. Then Zia era ensued with privatization from 1980s till 1999. Throughout 2000, the era of economic liberalization ushered in. But from 2013, determinations for robust privatization have dominated the economic stage. On the political front, hide and seek between the different governance regimes has been witnessed. Yet the fate of Pakistan is stuck in time. The question that keeps surfacing is; why has nothing worked so far? The answer lies in the lack of understanding of how the whole social order works[13].

Elites have taken control of it and don't care about the system in place or who is in charge as long as it benefits their economic advantages. Moreover, there is a lack of vision, policy inconsistency, rent-seeking apparatus, politicians-industry nexus, lack of reform, and political will.

So, how do we get out of this downward spiral? For this, a three-tier strategy is proposed. One is a short-term plan to break out of survival mode. Second is the medium-term strategy to initiate targeted reforms which could act as a bedrock for long-term strategy. Finally, the long-term strategy suggests revamping the system comprehensively to consolidate the gains of the medium-term plan and perpetuate long-term growth and development.

[13] Hussein, S (2018). The Door-Step Conditions for Transition from Limited Access Order to Open Access Order: The Evidence from Pakistan. Pakistan Institute of Development Economics (PIDE). https://thesis.pide.org.pk/thesis/the-door-step-conditions-for-transition-from-limited-access-order-to-open-access-order-evidence-from-pakistan/

7 | SHORT-TERM STRATEGY

7. SHORT-TERM STRATEGY

In the short run, Pakistan should focus on two areas primarily, i.e., IT and Agriculture sectors. The reason is that these two domains have the inherent capacity to deliver the impact within a few months' time, which is exceedingly crucial for Pakistan, as the country desperately needs to harness something positive in the short run; to give it appropriate space and time to move forward towards medium-term strategy.

7.1. Focus on IT Sector

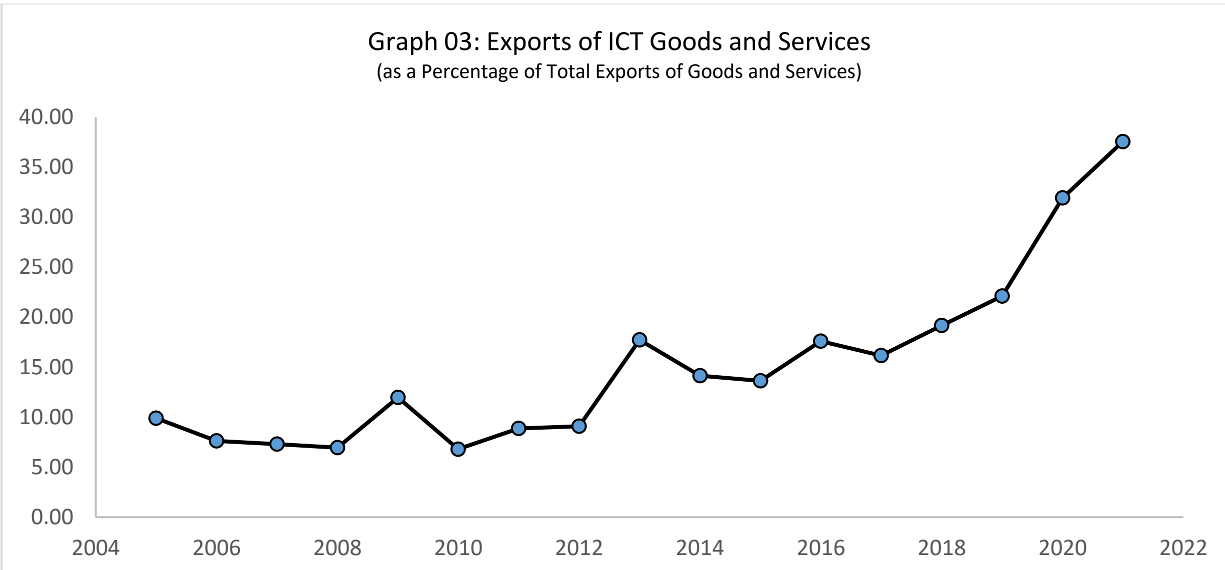
Pakistan's Information Technology (IT) sector, amidst the 4th Industrial Revolution, is a beacon of transformation, revolutionizing the fabric of the nation's economy. The quantifiable impact of this revolution is unmistakable. According to the World Bank, the digital economy accounts for approximately 15% of the global GDP and has grown 2.5 times over the last decade; compared with the physical economy. Within this realm, Pakistan's IT sector has the potential to play a pivotal role; keeping in perspective that global digital assets are valued at $3.8 trillion, and additional digital spillover effects are worth $7.5 trillion. As a result, the country's IT sector has emerged as a potential catalyst for change, promising to reshape Pakistan's economic landscape for years to come[14].

The growth trajectory of Pakistan's IT sector over the past decade is nothing short of remarkable, with the export income of the industry witnessing a consistent 20% annual increase. This expansion is fueled by; a vast talent pool that Pakistan possesses, owing to its vibrant youth population and an abundance of graduates in technological fields such as computer science, engineering, and mathematics. This human capital; serves as a wellspring of progress and creativity, propelling the IT sector forward. On this transformative journey, Pakistan's government also has taken proactive measures to nurture the growth of the IT industry. By implementing incentives that include reduced telecommunications costs, tax breaks for IT exports, and increased investment in research and development projects, the government has created an environment conducive to IT investments. Such support empowers the industry to flourish, fostering a sense of innovation and technological advancement.

One cannot overlook the inherent advantage of Pakistan's IT sector - its cost-effectiveness. While other South Asian countries grapple with increasing expenses in the conventional IT trading sector, Pakistan's accessible IT resources offer remarkable savings of approximately 70% per year. This economic advantage enables IT businesses to lower operating costs and enhance their ability to compete on the global stage, maintaining their edge in technological domains such as artificial intelligence, the internet hub, cybersecurity, and automation. Moreover, Pakistan is geographically advantageous and serves as a gateway to the Middle East, Central Asia, and South Asian markets. This strategic location opens up; a realm of possibilities for IT firms seeking to expand their presence in these burgeoning regions. By leveraging this positioning, Pakistan's IT sector can forge lucrative partnerships, establish a robust network, and tap into a vast consumer

[14] Fatima, SN (2023). Role of IT Sector in Revolutionizing Pakistan's Economy, Modern Diplomacy. https://moderndiplomacy.eu/2023/04/29/role-of-it-sector-in-revolutionizing-pakistans-economy/

base, thereby solidifying its position as a formidable force in the digital economy. Pakistan is gradually growing in technology exports (as shown in Graph 03). However, it is pertinent to note that the goods account for less one percent each year. It is actually the services sub-sector that is booming.



Besides the triumphs and promises of the IT sector, it is essential to acknowledge the challenges that hinder its full potential. Pakistan's IT industry holds the potential to uplift the economy in the short term, but that demands close attention to the obstacles faced by the sector. The low quality of internet services remains a persistent issue, despite; significant improvements in broadband penetration; decent internet connection is only available in city clusters and thus, leading to a significant digital divide. Therefore, the government can play an active role in facilitating rural areas by improving accessibility to the Internet and reducing the cost of internet service. Moreover, the situation is made worse by the internet shutdown during periods of political instability, which leads to substantive losses for the IT sector and creates an environment of uncertainty, which is a major problem if Pakistan wants to attract more foreign investment as domestic venture capital is in its initial stages. Furthermore, the lack of funding for new technological ventures and innovative ideas stifles the industry's growth and limits its potential for growth.

While Pakistan has an abundance of IT graduates, the educational system still lags behind with its outdated curricula and inadequate integration of cutting-edge technologies. Thus, Pakistan’s education system fails to equip graduates with the skills demanded, by multinational clients. Therefore, HEC can play a proactive role in bringing up the curriculum to the mark, which will further enhance the ability of IT professionals to compete in the international market. Additionally, frequent changes in government laws and regulations impede long-term planning for IT companies. In the absence of a comprehensive legal framework for e-commerce, IT companies are hesitant to further invest in the market, hindering progress and impeding the establishment of trust between online merchants and customers. Therefore, Pakistan can greatly benefit from a formal legal framework for e-commerce will build confidence among existing companies to invest more in the IT sector of Pakistan.

While the growth of Pakistan's IT sector can be attributed; to the resilience and ingenuity of its tech-savvy youth, further governmental support and investment are indispensable to sustain and enhance this momentum. Infrastructure development is a pressing need, with improved connectivity serving, as the backbone for the industry's continued progress. Addressing policy challenges related to financial flows is vital to fostering a nurturing environment for innovation and investment. Additionally, stabilizing the volatile currency is essential to protect against market fluctuations and ensure the long-term viability of the IT sector. The government's commitment to capital expenditure in the IT industry will pave the way for sustained growth, empowering the sector to elevate Pakistan's position in the global digital economy.

Pakistan's IT sector’s remarkable growth, underpinned by an expanding talent pool, favorable government policies, cost-effectiveness, and strategic positioning, propels its economy into the digital age. However, challenges must be confronted, head-on to unlock the sector's full potential. By addressing issues such as; internet quality, funding constraints, education gaps, political stability, and the legal framework for e-commerce, Pakistan can unleash the transformative power of its IT industry. With unwavering government support and investment, Pakistan's IT sector will continue to; shape the nation's destiny, ushering in an era of unprecedented technological advancement and economic prosperity.

7.2. Target Agriculture Sector

Historically, Pakistan has been an agriculture-based economy, and the agriculture sector has played a pivotal role in the country’s history since the first green revolution in the 60s. The agriculture sector holds immense potential for further development and growth in Pakistan. With its fertile land, diverse climate zones, and abundant water resources, the country is well-positioned to harness economic opportunities in the short run within its agricultural sector.

The sector encompasses various sub-sectors, including crop cultivation, livestock farming, poultry, dairy production, fisheries, and horticulture. According to the Pakistan Bureau of Statistics (PBS), these sub-sectors; contribute 24% to the; gross domestic product (GDP) of Pakistan and serve as a vital source of employment by providing employment opportunities to half of the employed workforce. Hence, from an economic standpoint, investing in the agriculture sector can have profound multiplier effects, stimulating rural development, reducing poverty, and fostering overall economic growth[15].

One of the primary advantages of Pakistan's agriculture sector is its vast cultivable land. The availability of such land presents an opportunity to increase production and diversify agricultural activities, leading to a more sustainable and inclusive economy. Moreover, the country's diverse agro-climatic zones offer the potential for year-round crop cultivation and specialized

[15] Pakistan Economic Survey 2022-23. Chapter 02 Agriculture, Ministry of Finance, Government of Pakistan (2023). https://www.finance.gov.pk/survey/chapters_23/02_Agriculture.pdf

production, facilitating both domestic consumption and export-oriented agriculture. Also, Pakistan benefits from abundant water sources, particularly the Indus River system, which supports irrigation for a significant portion of agricultural land. It provides a strong foundation for expanding agricultural production and improving water-use efficiency through modern irrigation techniques, such as drip irrigation and precision agriculture.

However, it is important to acknowledge the challenges faced by the agriculture sector in Pakistan. Issues such as growing water scarcity, outdated farming practices, inadequate infrastructure, limited access to credit, and vulnerability to climate change pose significant obstacles to achieving the sector's full economic potential. Therefore, there is a need for targeted interventions and policy measures to address these challenges systematically. To maximize the economic benefits of Pakistan's agriculture sector; it is imperative to focus on technological advancements, research and development, and implementing modern farming practices.

Investing in agricultural innovation, including improved seed varieties, mechanization, and precision farming technologies, can enhance productivity, reduce post-harvest losses, and ensure resource-efficient practices. According to the PIDE reform agenda, simply eliminating impure seeds from the market can lead; to a boost in output. Several unregistered firms and even registered ones, are selling seeds without proper labeling, showing their low quality, circulating in the market. This further discourages investment in the sector. Thus, it is vital that the country develops and enforces a Seed Act and imposes a truth-in-label regime. Pakistan can also benefit from abandoning indirect subsidies on gas to fertilizer producers. Fertilizer producers act like a cartel and reap the benefits.

It is equally important to strengthen value chains, enhance market linkages, and promote agro-industrial development. By fostering closer integration between the agricultural sector and downstream industries, such as food processing and agribusiness, Pakistan can unlock additional economic opportunities, create value-added products, and stimulate rural employment.

Furthermore, facilitating access to finance, providing crop insurance schemes, and developing robust storage and transportation infrastructure is essential for reducing risks and increasing market efficiency. Another key point is that the private sector is not allowed to set up a market and forced to sell in the public sector market, where prices are controlled; by the local government which creates inefficiency. In the short run, amending the law to allow the private sector to establish markets will boost investment and output. The interventions in this domain will bear fruits within one harvest cycle and thus, provide the support that Pakistan’s economy needs in the current devastating economic environment. Moreover, the suggested interventions not only improve farmers' livelihoods and enable the sector to respond effectively to changing market dynamics and consumer preferences.

In conclusion, Pakistan’s agriculture sector offers; a sense of relief and optimism for the future of the economy. With its vast cultivable land, diverse climate zones, and abundant water resources, the sector has significant untapped potential to drive economic growth, reduce poverty, and ensure food security. By addressing existing challenges and implementing comprehensive reforms, Pakistan can unleash the transformative power of its agriculture sector, laying the foundation for a prosperous and sustainable economy.

8 MEDIUM-TERM STRATEGY

8. MEDIUM-TERM STRATEGY

Pakistan, in the medium-term strategy, must include reforms in terms of establishing a firm industrial base leading to growth in exports, creating a conducive business environment for Foreign Direct Investment (FDI), cutting down the bureaucratic friction suffocating economic activity and hindering growth, reform civil services as a whole of the state machinery is run by bureaucracy as well as solve the enigma of judicial hold-ups. All these reforms could put Pakistan at the take-off stage, where the country would be able to grow on solid foundations. The passages below would give you detailed accounts of the aforementioned intervention areas.

8.1. Industrial Sector is the Key

The industrial sector in Pakistan plays a vital role in the country's economic development and export potential. However, it has been grappling with numerous challenges that have led to stagnation. Additionally, the growth of Pakistan's exports has not been as robust as desired. The lines to follow; critically analyze the policy perspectives behind the stagnant industrial sector and the sluggish export growth in Pakistan.

Firstly, one of the most significant barriers hindering the industrial sector's growth is the persistent energy crisis. Frequent power shortages and high energy prices have severely impacted the manufacturing sector's productivity and competitiveness.

Secondly, Pakistan faces challenges related to a cumbersome regulatory environment, which increases the; cost of doing business and hampers investment. Complex and time-consuming bureaucratic procedures, overlapping jurisdictions, and a lack of streamlined policies deter domestic and foreign investors from setting up or expanding industrial operations in the country[16].

Thirdly, access to affordable credit is crucial for industrial expansion. However, Pakistan's industrial sector often faces limited access to finance due to high-interest rates, stringent collateral requirements, and risk-averse lending practices by financial institutions. It restricts the ability of businesses to invest in modern machinery, technology, and skilled human capital.

Fourthly, a lack of emphasis on Research and Development (R&D) and innovation has left Pakistani industries less competitive globally. The absence of significant investment in technology and innovation has resulted in outdated production processes and products, limiting export potential and market access.

Fifthly, there is a problem of skewed taxation policies. Pakistan's taxation policies are not conducive to industrial growth and export expansion. High corporate taxes and a complicated tax structure have discouraged businesses from formalizing their operations and staying within the documented economy, leading to reduced tax revenue for the government.

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[16] Khan, K (2021). Industrial Policy for Economic and Social Upgrading in Pakistan. Friedrich-Ebert-Stiftung (FES), Islamabad. https://library.fes.de/pdf-files/bueros/pakistan/18898.pdf

Sixthly, persistent security concerns and political instability have created an uncertain business environment in Pakistan. It has deterred foreign investment and hindered the development of a stable industrial sector capable of producing goods for export.

Seventhly, Pakistan's export basket remains heavily concentrated in a few primary products, such as textiles and agricultural commodities. The lack of diversification exposes the country to external shocks, global price fluctuations, and limited access to markets that demand high-value-added products.

Eighthly, inefficient logistics infrastructure at ports and border crossings creates bottlenecks, leading to delays in export shipments and increased transaction costs. Modernizing and streamlining customs procedures and port facilities are essential for improving export competitiveness.

Ninthly, persistent trade imbalances, where imports exceed exports, pose challenges; to the industrial sector's growth. The country's global competitiveness is limited by; low labor productivity, inadequate skills development, and a weak business ecosystem.

Lastly, the problem at the core in policy inconsistency. The policy is a tool to achieve a specific objective, and an effective way to eliminate uncertainty by upholding a clear pathway. A predictable and stable policy enables all the agents to have a level playing field and act accordingly. Unfortunately, in Pakistan, there is a lack of policy predictability and consistency. The industry faces severe issues due to; non-predictable and inconsistent policies and asks for a stable and predictable policy, to strategically make decisions about investment, expansion, procurement of machinery and so on. Here, it is pertinent to note that whatever the government decides; should be through an inclusive process, taking all the stakeholders on board and then making an inclusive endogenous policy framework.

For Pakistan to establish its industrial base, increase productivity in real terms, and earn handsome foreign exchange against surging exports, all of the above factors should be; critically addressed for industrial growth to not be a distant dream.

8.1.1. Learning from the Best Practices

Pakistan can gain valuable insights from the successful industrial journeys of various countries worldwide. By examining these experiences, Pakistan can identify crucial lessons, and apply them strategically to propel its economic progress. Let us explore key factors; that contributed to the success of industrialized nations and offer recommendations for Pakistan's industrial development.

Successful industrial journeys have been underpinned by strong government support and a well-defined policy framework. Countries like South Korea, Singapore, and China have implemented policies focused on infrastructure development, investment in research and development, attracting foreign direct investment, and creating a conducive business environment. Pakistan should formulate a long-term industrial policy, reduce bureaucratic hurdles, and provide incentives to promote industrial growth[17].

In parallel, investing in human capital and education has been critical for industrial success. Germany, for example, is renowned for its skilled workforce and vocational training programs. Pakistan must prioritize improving the quality of education and training programs to align them with industrial requirements. It can be achieved by; fostering collaborations between industry and educational institutions, promoting technical and vocational education, and encouraging entrepreneurship.

The development of robust infrastructure is another aspect for attracting investments and facilitating industrial growth. Nations like Japan and Malaysia; have made substantial investments in transportation, logistics, and energy infrastructure. Pakistan can draw lessons from their experiences; by improving connectivity, upgrading ports and airports, enhancing transportation networks, and ensuring a reliable and affordable energy supply. These measures will enable efficient movement of goods and reduce production costs, enhancing the competitiveness of Pakistani industries in the global market.

Moreover, embracing technological advancements and innovation; acted as the bedrock for targeted and upward industrial trajectories. Countries such as the United States, South Korea, and Sweden have thrived by fostering a culture of innovation, supporting research and development, and promoting technology-driven industries. Pakistan should invest in research and development, encourage collaboration between academia and industry, promote startups and entrepreneurship, and create an ecosystem that fosters innovation. Adopting emerging technologies like artificial intelligence, robotics, and clean energy can give Pakistani industries a competitive edge.

Additionally, strong linkages between industry and academia are stepping stones for accelerating the wheel of the economy through research-based innovation. Countries like the United Kingdom and Taiwan have established robust connections between universities and industries, leading to technology transfer, skill development, and research collaboration[18]. Pakistan can benefit by promoting industry-academia partnerships, establishing research and development centers within universities, and encouraging knowledge-sharing platforms. This collaboration will foster the development of industry-relevant technologies, the creation of a skilled workforce, and overall growth in the industrial sector.

The focus on export-oriented industries has been a common strategy among countries whose industrial sectors took off in a short period of time. China and Vietnam, for instance, have strategically emphasized manufacturing and export-led growth. Pakistan should identify sectors

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[17] Haraguchi, N., Martorano, B., & Sanfilippo, M. (2019). What factors drive successful industrialization? Evidence and implications for developing countries. Structural Change and Economic Dynamics, 49, 266-276. https://doi.org/10.1016/j.strueco.2018.11.002

[18] Breznitz, D. (2007). Innovation and the State: Political Choice and Strategies for Growth in Israel, Taiwan, and Ireland. Yale University Press. https://www.jstor.org/stable/j.ctt1nppt9

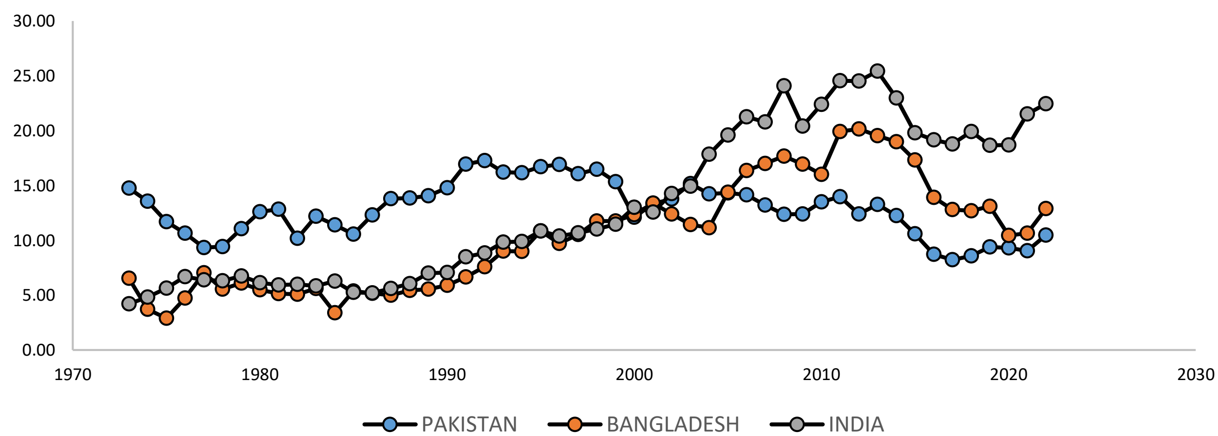
with high export potential, develop export-oriented industrial zones, provide incentives for export-oriented industries, and improve trade facilitation measures. This approach will diversify the economy, increase foreign exchange earnings, and establish a competitive advantage in the global market.

In conclusion, Pakistan has to prioritize strong government support - not be read as bailout packages but proper and targeted incentive mechanisms to brew competition and innovation, investment in human capital, robust infrastructure, technological advancements, industry-academia linkages, and special emphasis on export-oriented industries to foster its industrial development and achieve sustainable economic growth. However, it is crucial to adapt these lessons to Pakistan's unique socio-economic context and implement them with a long-term vision and commitment to overcome challenges and drive industrial transformation.

8.1.2. Industrial Journey: Diverging paths of Pakistan, India and Bangladesh

In the realm of economics, a fascinating tale unfolds as we observe the divergent paths of Pakistan, India, and Bangladesh. Each country's economic journey reflects a unique blend of strategies, policies, and challenges, shaping their destinies in distinct ways (as shown in Graph 04).

Graph 04: Exports of Goods and Services as a Percentage of GDP***



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In Bangladesh, we find a nation that has harnessed the power of exports, especially in the textile industry, propelling it into fierce competition with Pakistan. The country's emphasis on value addition has proven fruitful, attracting businesses and enhancing market presence.

Moreover, Bangladesh's pursuit of sustainable economic growth stands out as a strategic move, providing stability and better prospects for planning. By tackling poverty at its roots, the nation ensures that its economic policies translate into tangible improvements for its citizens.

*** The data for this graph is taken from the World Bank's Databank.

Integrating human development and environmental considerations into economic planning underscores Bangladesh's commitment to holistic progress.

Whereas, in the contrasting case of neighboring India, we witness a more measured approach. Though the growth rate in the 1990s may have seemed modest, India's consistent expansion set the foundation for future success. Strategic efforts to attract foreign investments in select sectors and open up its market contributed to India's economic progress.

In contrast, Pakistan's economic journey has faced turbulence, marked by sporadic reform measures that hindered its potential for sustained growth. A stop-and-start approach to liberalization resulted in missed opportunities and a lack of continuity in economic development.

An important factor in assessing the three countries' economic progress lies in their infrastructure. Pakistan's commendable progress in this aspect, with well-developed roads and internet connectivity, provides a solid foundation for growth. However, other critical elements, such as political stability, skilled labor, product specialization, and harmonious collaboration between the state and private sector, also play pivotal roles in attracting investments and fostering growth.

For Pakistan to enhance its economic competitiveness, it must prioritize consistent investment policies and focus on specific sectors for sustained growth. By identifying its strengths and aligning them with clear incentives, Pakistan can stand on equal footing with its regional counterparts.

In conclusion, the economic trajectories of Pakistan, India, and Bangladesh reveal a rich tapestry of diverse strategies and outcomes. Bangladesh's focus on exports, value addition, and sustainable growth has propelled it forward, while India's consistent progress and strategic investments have contributed to its economic success. Pakistan's potential remains intact, awaiting a steadfast commitment to reforms and a strategic direction that can unlock its path to prosperity. As a senior economist, I believe that with the right approach and a long-term vision, Pakistan can carve its place; as an economic powerhouse in the region[20].

8.2. FDI: Build Bridges, Not Barriers

Pakistan's ability to attract Foreign Direct Investment (FDI); is impeded by a range of challenges that require comprehensive attention. Firstly, macroeconomic instability poses a significant hurdle, characterized by high inflation, fiscal deficits, and external imbalances. To address these concerns, Pakistan must prioritize sound fiscal policies, monetary discipline, and effective management of external accounts to establish a stable economic environment that inspires confidence in potential investors.

[20] This part of analysis is extracted from the in-depth interviews with the subject experts (profiles are given at the end of this report).

Table 01: Why FDI is low in Pakistan?	
Political Instability	As with any country, political stability plays a crucial role in attracting foreign investments. Instability can create uncertainty for investors and lead them to explore other markets.
Security Situation	FDI tends to increase when the security situation in the country is stable and favorable. This also implies that a regional security situation may play a significant role in attracting investment.
Discouraging Business Environment	Pakistan is seen as having a discouraging business environment. There is a perception that the government does not support businesses, and there is a lack of trust in potential investors. This mistrust may hinder investment opportunities and deter foreign businesses from entering the Pakistani market.
Dispute Resolution Mechanisms	The lack of efficient dispute-resolution mechanisms is seen as a significant issue in Pakistan. Inadequate commercial courts and enforcement mechanisms may deter potential investors who seek reliable methods to resolve conflicts and ensure the protection of their investments.
Judicial Intervention	The higher courts and the supreme court actively adjudicating economic and investment-related matters have created a perception among investors that agreements signed with the government might not be as secure as expected. The court’s intervention in economic transactions can deter investors.
Exchange Rate Volatility	Investors seek confidence in their returns and are concerned about the stability of the exchange rate. If the local currency (rupee) continues to decline in value against the US dollar, it creates uncertainty about the dollar returns on their investments.
Energy Crisis	Pakistan's energy crisis has severe implications for its economy.
Policy Inconsistency	It is one of the core elements which pushes FDI away. Focus on policy consistency is advised to encourage FDI.

The business environment in Pakistan also presents obstacles to FDI. Issues such as corruption, bureaucratic red tape, and weak contract enforcement discourage foreign investors. Streamlining administrative procedures, reducing regulatory burdens, and enhancing transparency and accountability in government processes are crucial steps toward creating a more conducive business environment. Establishing specialized commercial courts, adopting e-governance initiatives, and implementing robust anti-corruption measures will further; contribute to a transparent and investor-friendly atmosphere.

Another critical area for improvement is infrastructure development. Inadequate transportation systems, energy shortages, and limited access to reliable telecommunications services hinder FDI inflows. To address these; the country needs to prioritize investments in transportation networks, and logistics, as well as energy generation and transmission systems. Public-private partnerships, international collaborations, and targeted infrastructure projects can help bridge the infrastructure gap and establish a solid foundation for economic development.

Then comes human capital development. Pakistan's workforce often lacks the necessary skills required for modern industries, creating a skill gap that deters investors. Investing in education and vocational training programs, with a specific emphasis on; science, technology, engineering, and mathematics (STEM) fields, will help develop a skilled workforce. Collaborations between industry and educational institutions, apprenticeship programs, and vocational training centers can play a crucial role in bridging the skill gap and enhancing Pakistan's competitiveness.

Offering attractive investment incentives and clear regulations is crucial for attracting FDI. Pakistan should review its investment policies, ensure transparency and consistency, and offer incentives such as tax breaks, exemptions, and investment protection mechanisms. Maintaining a regular dialogue with investors and establishing effective feedback mechanisms will help identify concerns and address them promptly, thereby fostering a supportive investment climate[21].

Additionally, focusing on sectors with high growth potential, such as manufacturing, agriculture, information technology, and renewable energy, can attract targeted FDI. Developing special economic zones, export processing zones, and industry-specific clusters will create an enabling environment for investment in these sectors. Likewise, improving market access through regional trade agreements, reducing trade barriers, and diversifying export markets will enhance Pakistan's appeal to foreign investors seeking access to larger consumer bases.

Summing up, Pakistan must undertake a comprehensive and coordinated approach to address the challenges hindering FDI. Collaborative efforts involving government institutions, private sector stakeholders, and international partners are crucial for successful implementation. These measures will contribute to a favorable investment climate, increased FDI inflows, and sustainable economic growth in Pakistan.

8.3. The Red Tape Tango

If someone draws a comparison between systems in the developed world and those in developing countries, one of the first things that come up is that things get done quickly in the former and much slower in the latter. Ever imagined the economic cost of snail-paced procedures? Ever thought about why it is so difficult to function legally in developing countries, to the extent that people find it easier to operate in an extra-legal domain, to avoid the cumbersome processes? One might say things are not as hard as they might appear to be, but the ground reality tells us a different story.

The key problem, which a majority of the people in developing nations face, is trying to acquire legal property. It involves a daunting legal process. The processes are simple in developed countries, but they are just so needlessly difficult here. To gauge the amount of 'friction' in terms of the number of steps required and the impediments to the legal process and bureaucratic mechanism, Hernando de Soto Polar, a prominent Peruvian neoliberal economist known for his work on the informal economy and the importance of business and property rights, started an extensive study spanning over year across South America along with his teams of researchers[22].

These teams went to different departments as applicants, consumers etc. and went through a different process each, whether it was to buy a piece of land or register a business. He and his team came up with fascinating, rather mind-boggling findings. For instance, obtaining legal

[21] This part of analysis is extracted from the in-depth interviews with the subject experts (profiles are given at the end of this report).

[22] Hussein, S (2021). Understanding Sludge. The News daily, Islamabad. https://www.thenews.com.pk/tns/detail/878249-understanding-sludge

authorisation to build a house in Peru could take six years and eleven months. The procedure to formalise a home purchase in Peru could take 207 steps in 52 government offices, just in the first out of five stages.

To get a legal title for that piece of land, 728 steps are required. Likewise, a private bus, jitney or a taxi driver who wanted to obtain official recognition of their route would face 26 months of red tape.

Another example is gaining access to desert land for construction in Egypt which used to take 6-14 years. It explains why 4.7 million Egyptians have chosen to build their dwellings illegally. If, after building a home, the settler decides to have the property legalised, they will risk demolition, a heavy fine and up to 10 years in prison. Formalising informal urban property in the Philippines takes 168 steps. The entire process involves 53 agencies and could take 13 to 25 years. The same is the case in Haiti, where buying a piece of land requires 111 bureaucratic hurdles and 19 years at least.

The long ordeal will not ensure the legality of the property "in the long run". As these processes are so discouraging, operating outside the law becomes an attractive option; creating an extra-legal sector – black market/ informal economy. While it may be a small chunk in the developed world, it is widespread in developing countries. People in the informal sector technically do not have any legal ownership of almost anything they possess.

It is pertinent to note that all of the above findings and much more are contained in a book named; The Mystery of Capital: Why Capitalism Triumphs in the West and Fails Everywhere Else by Soto. It is pertinent to note that the book was published in 2000. Since then, all the countries mentioned in the book have come a long way and undergone many reforms. These countries, at present, may be much better than in 2000. However, the reason to refer to this book here is that it still makes a lot of sense. Its comprehensive analysis shows how the mechanisms in developing countries work and how sluggish these can become, so much so that people just opt to function extra-legally.

In Pakistan, what Cass R Sunstein calls 'sludge', incurs substantial transaction costs[23]. This can be attributed to various factors. First, there is a high degree of centralisation in organisational hierarchies. Everything moves to the centre or highest power of authority for approval or further action. This causes unnecessary delays. The central authority often has little to no knowledge of what is happening at the grassroots level.

Second, the work culture is such that most officials are problem creators rather than problem solvers. Most do not want to take responsibility and rather sleep over decisions. Cumbersome processes make things more difficult. If you do one step wrong, you return to square one and restart the whole process afresh, which creates space for corruption. Many are compelled to offer bribes to accelerate their application or request some government or state department to be exempted from the routine procedure.

[23] Sunstein, CR (2021). Sludge: What Stops Us from Getting Things Done and What to Do About It? https://www.amazon.com/Sludge-Stops-Getting-Things-about/dp/0262045788

Third, much of the friction is because at every step, and there is a need for physical presence or contact, which makes it a significant part of the transaction cost. A task that can be done with a click online instead requires that you visit the regional office in person. Next, you have to go to many offices step by step. There is a dire need for digitisation and deregulation to simplify the processes, minimise transaction costs, and get rid of the sludge factor.

Meaningful reform cannot happen unless we know how much sludge is there. For this, we need to sludge audits at various organisations and for various processes. It is pertinent to note that PIDE is the first research think tank in Pakistan that has attempted to quantify sludge. PIDE has quantified sludge considering three dimensions: time consumed, monetary cost, and psychological cost. Through its sludge reports, PIDE aims to highlight the sludge involved in different activities, and induce the concerned agencies to work for reducing sludge. Then it intends to pin down areas where sludge can be reduced either by shortening the procedure or through digitization. The estimated cost of sludge to the economy is staggering. According to the PIDE Sludge Audit, in various sectors, the sludge at the national level costs Pakistan 39% of the GDP[24]. If this doesn't ring alarm bell, God knows what will.

8.4. Elephant in the Room

Whenever there is a discussion on what is holding Pakistan back, the elephant in the room is bureaucracy. So, what is wrong with bureaucracy, or should we say what wrong has it done to the country? For the answer, we need to dig a bit into its historical evolution. Pakistan's administrative machinery, in particular its infamous bureaucracy, is profoundly influenced by its colonial legacy. The British had created authoritative and exceedingly centralised bureaucratic institutions to rule the empire.

Although the British built strong governance institutions tailored to their needs - established on the philosophy of extractive institutions - the same institutions hindered the effective functioning of the newly formed state. The new administration was not supposed to rule and extract resources with a heavy hand, instead it needed to strive for inclusiveness and selfless service to people.

During the country's over seventy years of journey, several reforms were initiated without any robust change. Since 1947, 29 commissions/ committees have been formulated to; chalk out a roadmap for civil services reforms. None can be attributed to a significant outcome.

Despite all the efforts, there is a near consensus that the civil service continues to fail to perform its roles and responsibilities. Most of the reform deliberations merely tinkered with organisational restructuring, minor adjustment of pay scales, creation, merger, or disbanding of occupational groups and changes in functions and powers of some offices. The reforms have failed to address; critical issues of accountability, meritocracy, and competence.

The popular view is that their inefficiencies have increased while the research and policymaking capacity has declined. Even when some good recommendations have been made, they have been

[24] Haque, NU & Qasim AW (2022). PIDE Sludge Audit Volume I. Pakistan Institute of Development Economics (PIDE), Islamabad. https://pide.org.pk/research/pide-sludge-audit-vol-1/

ignored. For instance, the AR Cornelius Commission recommended abolishing the sharp demarcation between federal and provincial civil services and including more specialists and professionals at all levels. These recommendations, which never got implemented, were to integrate the civil servants with their field of specialisation, making a more efficient civil service.

Not surprisingly, these reform efforts have failed to improve the performance of the civil service. Instead, these may have set up a system for “perk-maximisation” and political quid pro quo for perks. It can be inferred that the thirst or daring for reforms in the real essence always took a back-seat. This was probably because most of the reformers themselves were not free from the clutches of the legacy mentioned earlier.

In this context, the Pakistan Institute of Development Economics (PIDE), as part of its overarching civil services reforms’ efforts; unpacks its reform agenda for civil service and recommends the needed reforms. The civil service’s performance, can be judged from the World Bank’s regulatory quality index, on which Pakistan’s score is consistently low. In 2018, Pakistan’s score on the index was again lower than the South Asian median score.

Other indicators, such as the government effectiveness index, also tell a similar story. Interestingly, the PIDE observes that so far, there has been no real analysis of the total cost of civil servants, including not just the pay but all the monetary and non-monetary perks. In PIDE’s view, the reform should begin by adequately compensating all civil servants so that their welfare is not compromised. Previous pay commissions’ recommendations failed because they recommended only an increase in pay and allowances while sticking to the existing system.

The monetisation of all perks should be a priority as it would give a more accurate picture of the remunerations and reduce the disparities, existing within the structure[25]. The monetisation of the housing facility would free up the land, and utilising this land for commercial and economic activity could result in an investment potential of Rs 6-10 trillion. It is equivalent to; $60-100 billion or 30 to 50 percent of our GDP.

If one component of the reform package can generate this much value, imagine the potential gains other complementing reforms could bring. It is time for serious reforms; otherwise, we would not be able to cope with the contemporary requirements for governance, and a few years down the lane, the bureaucratic apparatus would be gearing faster towards a dysfunctional domain.

[25] Cash Poor, Perks Rich! Civil Services Compensation: Incentives Dissatisfaction and Costs (2021). PIDE Islamabad. https://file.pide.org.pk/pdf/reports/Civil-Service-Compensation-Report.pdf

8.5. The Cost of Judicial Delays

"May God save you from courts, police and hospitals" has become one of the most common prayers in Pakistan. Why so? Because legal battles affect the litigants in many ways, socially as well as economically. One can understand why justice is expensive in our country, but why are there unnecessary delays?

The institutional mechanisms and the organisational configuration of Pakistan's judicial system require several formalities disguised as the proper procedures or codes of conduct for justice. The litigants also have to pay for different costs, including lawyers' fees, court fees, cost of documentation, etc.

The delay in the dispensation of justice has reached a point where it has become a factor of injustice. The volume of backlog, the loopholes and complexity in procedural law, and the case management system are some of the factors that delay and deny access to justice. The court machinery is overloaded, slow and not readily accessible to all.

The sluggishness of court proceedings indirectly favours those who are financially strong. It takes years to reach a conclude, that too with lacunae. The poor are frequently compelled to give up against financially strong parties because they can often not afford the costs. So, they often give up their cases with unconditional apologies or settle out of court, mostly against their wishes.

The unnecessary delays, at least as far as the civil cases are concerned, can be addressed from two standpoints; one unintentional and the other intentional. Unintentional delays can be controlled by; revisiting our legal system – perhaps more appropriate for olden times but not modern lives. The intentional delays must be penalised with effective enforcement.

The current regime of civil suits in Pakistan; is governed by the Code of Civil Procedure enacted in 1908. There is no solid attempt to; amend the rules of procedures according to present-day needs. Much of the delay occurs as the provisions of the Code of Civil Procedure are not properly observed and leaving speedy disposal of cases compromised. After filing a complaint, the processing fee is often not paid immediately. Therefore, the summons to the defendant are not served in time. After the defendant files his appearance, his advocate often seeks long adjournments to file written statements. Once the pleadings are closed, the stage of producing documentary evidence before issues are settled. Quite frequently no documentary evidence is presented at this stage. Little use is made of the provisions for discovery and inspection of documents and for serving interrogatories.

If these provisions are properly utilised, the disagreement between the parties, can often be narrowed down before a case goes to trial. Instead, more often than not, when the suit comes for trial, the advocates sit down in the court, open the files, probably for the first time, and begin laboriously to prepare lists of documents, countless hours wasted this way.

The Code of Civil Procedure, 1908, requires the defendant to submit a written statement within a stipulated period. In most cases, the defendant intentionally does not comply with the time-limit for filing such a statement. Applications are instead filed before written statements, causing unnecessary delays in the disposal of proceedings. Where the defendant has no defence, he is naturally interested in prolonging the trial. The liberal attitude of the court in respect of adjournment is one of the main causes of inordinate delay.

Access to justice hits different social classes differently. Generally, upper-middle-income and higher-income groups manage the costs in a manner that does not affect their routines. The only costs associated with the higher income classes seem to be their reputation and mental stress. With their high incomes, this group can hire lawyers or teams of lawyers; who handle their legal affairs very effectively.

The poor, middle, and lower-middle classes; make trade-offs in their budgets. They might have to curtail spending on food to leave money for lawyer's fees or seek a loan leading to mental stress and social problems. Thus, other transaction costs associated with seeking justice in Pakistan favour tend to consolidate the advantageous position of the higher-income classes.

Then there are some non-monetary costs for the litigants as well. These include but are not limited to frustration, depression, worsening of family ties, and negative impact on children's education and reputation etc.

These individual costs, added at an aggregate level, make up billion, putting a heavy price on the economy[26]. The millions of hours lost in delayed litigation could have been put to productive use. The thousands of cases having mental and physiological issues could have been avoided, saving health expenditure and so on.

The way out of this legal morass is to prescribe timelines for civil cases and heavily penalise those who do not comply. Rules of procedures, should be amended, and forensics should be at the core of proceedings. Besides state prosecutors, financing mechanisms, should be introduced for those who cannot afford large legal bills. There should be checks on lawyers and judges as well. To this end, third-party monitoring and evaluation should be considered.

Lastly, there will still be a question of who will monitor. The focus should be on self-enforcing mechanisms. We should keep coming up with better systems. If we cannot eliminate the loopholes in the structure, we can at least remove some of those.

[26] Hussein, S & Shah N. (2022). Justice: Not a Fundamental Right but a Neoclassical Economic Commodity? Knowledge Brief, PIDE Islamabad. https://file.pide.org.pk/uploads/kb-059-justice-not-a-fundamental-right-but-a-neoclassical-economic-commodity.pdf

9 LONG-TERM STRATEGY

9. LONG TERM STRATEGY

If Pakistan has to put itself on the road to sustainable development, first of all, it has to bid farewell to the complex architecture of rent-seeking. Secondly, the country is in shambles because of the fractured political system. It's not really a political system in the real sense, but a dynastic perpetuity, and it must change. Finally, there should be a transition from the concept of government to network governance, where a web of organizations is at play, each playing its role in its domain, maximizing the national progress as a whole.

9.1. Rent Seeking Machinery

The expression of rent-seeking finds its roots in the historical emergence of feudalism when the manifestation of a mature feudal system granted landowners exclusive rights to the rents derived from their land ownership. This entitlement was unrelated to their personal efforts or input in cultivating the land. Over time, the notion of rent-seeking expanded to encompass the acquisition of rents through monopolistic practices, which could only thrive; in the absence of market competition. Furthermore, individuals, in pursuit of personal benefits within the political realm, also engage in rent-seeking, leveraging their influence to secure subsidies for their own produced commodities, obtain tariffs on their goods, or manipulate regulations that give them an edge over their competitors.

The concept is fundamentally linked; to the dynamics of power perpetuating through intricate webs of privilege and enjoyed by diverse elite groups. These symbiotic relationships become conspicuously evident in the social fabric and political landscape of nations like Pakistan, where various factions of the elite forge unholy coalitions to engage in rent-seeking activities. The burgeoning corruption and nepotism prevalent in Pakistan's bureaucracy, primarily comprising individuals who wield or have connections to power, effectively subjugate ordinary citizens while employing state machinery to maximize their personal interests[27].

Over the past few decades, Pakistan's governance, can aptly be described as a convergence of bureaucracy, politics, and white-collar crime, dominated by a club of predatory elite; who unapologetically prioritize their interests, utilizing their influential positions within the state apparatus. Since its inception in 1947, Pakistan has witnessed the pervasive infiltration of rent-seeking mechanisms throughout its economy and societal structures. Similar to societies worldwide, the country harbors a dominant faction comprising the privileged, known for their deep entrenchment in rent-seeking activities in various forms. This dominant faction is the true beneficiary of the prevailing social order, commonly referred to as the system, which thrives on rents and privileges. Consequently, even the most ambitious endeavors to reform the overall system and overhaul institutional structures often fail to yield the desired outcomes due to the deeply entrenched interests that these reforms are perceived to threaten. The rent-seekers,

[27] Hussein, S (2018). The Door-Step Conditions for Transition from Limited Access Order to Open Access Order: The Evidence from Pakistan. Pakistan Institute of Development Economics (PIDE). https://thesis.pide.org.pk/thesis/the-door-step-conditions-for-transition-from-limited-access-order-to-open-access-order-evidence-from-pakistan/

having amassed colossal wealth, skillfully manipulate and direct the state machinery to propagate rent-seeking mechanisms[28].

Rent-seeking has become so intricately woven into Pakistan's economy and organizations that the state has virtually relinquished its authority; to effectively enforce the social contract. Vital governmental functions such as regulation, maintenance of law and order, efficient dispensation of justice, and effective service delivery have been severely compromised. Rent-seekers have gained such immense power and authority that they bend the laws to their advantage, rendering the state's collection of due taxes a daunting task. Rent-seeking is not confined to individual actors. Interest groups and organizations unite in rent-seeking endeavors to safeguard their collective interests. For instance, certain service groups within the Pakistani bureaucracy vehemently resist reforms that could jeopardize their dominance within the state machinery and perpetuate their privileged positions. On occasions, rent-seekers within organizations collaborate to undermine organizational accountability, rendering it futile.

The structure of rent-seeking in Pakistan rests on four pivotal components. The first encompasses regulations, immunities, subsidies, and licensing arrangements. The second involves the privileges belonging to specific interest groups or classes. The third pertains to the disproportionate land ownership held by a minority class, namely the landed elites or feudal elites, who acquired their vast estates not through struggle or diligent effort but by birthright. The fourth category revolves around State Owned Enterprises (SOEs) – heavily staffed and surviving on bailout packages, every now and then, putting a gigantic cost on the national treasury.

Since its inception, the country has maintained an extensive system of subsidies, rebates, and export vouchers, granting special treatment to specific segments of the economy through state intervention. Powerful business interest groups have adeptly lobbied for favorable tax treatment that benefits their community, irrespective of the potential adverse effects on the broader economy and the state itself. The subsidies granted to large state-owned enterprises like Pakistan International Airlines (PIA) and Pakistan Railways significantly drain national resources[29].

Rent-seekers also utilize tools such as; Statutory Regulatory Orders (SROs) to exempt prominent industries from customs duties and taxes. These legislative tools provide fertile ground for rent-seeking opportunities, benefiting not only specific sectors or industries but, more significantly, those directly or indirectly involved in issuance of such SROs. Additionally, rent-seeking within Pakistan is intertwined with the privileges and perks enjoyed by the Civil Services of Pakistan, particularly certain select groups. The opulent residential houses in elite zones of major urban centers, distributed at the district and divisional headquarters level, serve as prime examples of rent-seeking practices. These practices; not only distort the housing market but also manifest clear discrimination among different cadres and service groups. It is not uncommon for two

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[28] Gul, I. (2017). Pakistan’s Elite Capture and the State of Insecurity. Routledge Handbook of Contemporary Pakistan. Routledge. https://www.routledgehandbooks.com/doi/10.4324/9781315696706

[29] Naveed, S., Salman, Y., Jabeen, N., Jadoon, M. Z. I., & Irfan, S. (2018). Governance and Management of State-Owned Enterprises in Pakistan. Pakistan Economic and Social Review, 56(1), 47-66. https://www.jstor.org/stable/26616732

government employees on the same pay scale, entitled to similar perks and privileges including housing and conveyance, to experience stark disparities in their housing arrangements. While one employee struggles with inadequate house rent, insufficient to secure decent living in the open housing market, the other revels in a government-owned accommodation occupying a substantial plot of land, with a market value far surpassing the permissible house rent for the former. Moreover, rent-seeking mechanisms within civil services extend to favoritism in foreign training, postings, and transfers based on personal connections or influence.

In parallel, Pakistan's tax regime also serves as a potent rent-seeking mechanism. Indirect taxes account for an overwhelming majority of total revenue collection, while direct taxes constitute a small chunk. The ratio of indirect and direct taxes is around 85% and 15% respectively. This stark disproportionality reveals the protective measures adopted by the elite and high-income class to safeguard their shared interests. One of the most insidious forms of rent-seeking is getting a protective tariff or a special regulation to impede competitors from entering, thereby allowing monopolistic practices to go unchecked. This deters innovation and the efficient allocation of resources toward improved productivity.

Furthermore, excessive indirect taxes, stifling consumer spending, reducing business revenues, and diminishing tax collection when economic activities decline. In theory, indirect taxes should solely target goods and services consumed, leaving savings untaxed. They would generate less revenue than income taxes if the tax rates were equal. However, income taxes encompass labor (wages or salaries) and capital (interest, dividends, capital gains), affecting savings also. The heavier burden of indirect taxes falls disproportionately on the poorer segments of society, eroding their purchasing power, a significant portion of the population.

Conversely, the imposition of higher indirect taxes and lower income taxes exposes the flaws in Pakistan's tax collection system and underscores the influence of affluent factions in maintaining low-income taxes while imposing burdensome indirect taxes. This disparity also highlights the absence of effective organization, systematic collection, monitoring, and checks and balances. Consequently, imposing indirect taxes becomes an expedient tool for authorities to generate sufficient revenue without disturbing the interests of the high-income class.

Despite numerous endeavors to implement tax reforms in Pakistan, elitist agendas have consistently triumphed. Elites manipulate political coalitions and leverage their influence within the power structures to control the state's extractive system, thereby preserving the economic status quo. Elites are motivated to keep the state's extractive system incapacitated because a functional tax system would entail continuous deductions from their wealth. Noteworthy points regarding tax reforms warrant attention. Firstly, tax reforms in Pakistan have historically been elitist initiatives sponsored by the elites themselves, with the aim of reshaping tax administration and policy to their advantage. Secondly, members of tax reform commissions are carefully selected to reflect the relative power held by each elite group. Thirdly, the involvement and cooperation of international financial institutions (IFIs), are sought and highlighted to; lend a semblance of legitimacy to reform endeavors. Fourthly, tax reform commission reports often appear balanced, theoretically sound, and in line with dominant international trends. However, they are artfully crafted to conceal elitist agendas. Fifthly, during the implementation stage, the juggernaut of the elites is unleashed, selectively implementing reform recommendations that serve their interests.

Rent-seeking is widely regarded as profoundly unfair, as it impedes economic and institutional efficiency by stifling competition. An extensive literature on rent-seeking underscores its detrimental impact on innovation. It also acts as a barrier to innovation, as innovators often require state-supplied goods, such as permits and licenses, more than conventional producers. Innovators, unlike the established players, lack conventional lobbying power and frequently face credit constraints that impede their ability to pay bribes easily. Consequently, rent-seeking undermines economic growth and suffocates economic activity.

9.2. Fractured Political System

Political structure in a society comprises the rules and regulations for political decisions, including legislation and enforcement, as well as organisations operating under these rules and regulations. In democratic societies, political organisations include political parties, non-governmental organisations, advocacy groups and special interest groups. These organisations only evolve within the framework of political institutions but are also the agents of change in such institutions.

Of these, political parties have the most significant role, both in shaping the political structure and voicing voters' aspirations. Alternatively, political parties serve as a bridge between the people and the state upon gaining people's support and electoral trust. There are more than two hundred political parties in Pakistan, most of them with religious and nationalist philosophies. For various reasons, only a handful of political parties fit into clear categories. This fact has created some hurdles to the development of an efficient, transparent and people-friendly democratic culture in the country[30].

Many factors may have been responsible for the underdevelopment of political parties in Pakistan. The obvious ones include a low level of social progress, an authoritarian political culture, and a disproportionate share of de facto power compared to de jure. Low literacy rates and poverty across the country have clear implications for the free participation of citizens in the electoral process. As far as voters' turnout rate is concerned; it was around 51.7 per cent in the 2018 elections, with women's turnout less than 10 per cent in some constituencies. These statistics show that the progress towards democracy is poor.

Most of the key political parties are accused of democratic mismanagement. The front-runners in these parties try to retain leadership positions for life, leaving little space for newcomers. Only once such leaders depart, their successors take over the role and lead the party.

Other key positions in the political parties, are treated no differently, and most of the seats in political parties are distributed among influential people in the parties. Sometimes these are allocated on the basis of kinship or proximity to the top leaders. Most political parties in Pakistan

[30] Ullah, S., Mahmood, A., & Khan, S. (2020). The Determinants of Intra-Party Elections in Pakistan: A Study of Major Political Parties. Liberal Arts and Social Sciences International Journal (LASSIJ), 4(2), 191-201.
https://doi.org/10.47264/idea.lassij/4.2.15

have never held transparent intra-party elections[31]. Over and over again, political, feudal and industrial elite have secured vital positions in most of the political parties on the basis of nominations without regard to merit.

On the surface, it looks like top leaders in major political parties are chosen by their central boards or working committees. However, bodies include non-elected associates. At the lowest tier of the hierarchical pyramid in the party, leaders at various ranks and/or the Central Executive Committees name the office holders. As a result, dominant people commanding intra-party influence get themselves elected to key positions in the party. Social and business minions with political motivations use similar tools in all parties. This is why political parties have not been successful in contributing substantively towards democratising the state and the society.

Almost all political parties in Pakistan, except for a couple of right-wing religious parties have not been concerned with the training and education of political workers. Even rare parties are increasingly adopting the ways of mainstream parties. Quite frequently, the only communication between the parties is through the banal statements and speeches by the self-appointed leaders dispersed via the media or public gatherings.

During the late 1960s, there was a tradition of study circles for political workers. Party leaders and ideologues, even some second-string leaders, wrote policy papers and several parties published dedicated newsletters. Unfortunately, these practices have died out.

Most of the parties in Pakistan are, to a great extent, established on patronage networks, translating into poor service delivery for the masses. There has always been a trade-off between patronage and quality of service delivery. There are three main aspects in a political party or party system in general to have a rigorous effect on this tradeoff: the degree of disintegration of the party system, the internal cohesion, and the degree of polarisation.

Party fragmentation raises the information demand on the part of voters as there are more candidates and a lot more messages for them to weigh in the course of the general election. When political parties are highly factionalised, there are no clear career paths and projections. The viable candidates then have more incentives to concentrate on self-interest and try to enhance their individual standing.

When we disregard merit and establish/ run parties based on kinship, patronage and tribes, a downfall is imminent. Political parties are the bedrock of a functional democracy. However, when there is no intra-party democracy, how can one expect the democracy to function as a whole? It is time to stop taking merit detours and establish merit-based systems. Political parties ought to lead the way. For Pakistan to transition from limited access order to an open access order, it has to make a shift from the concept of government to network governance – where a horizontal web of organizations is there. Each works in its domain, while indirectly contributing to the overall progress and economic stability.

[31] Kausar, S. W. A., Gul, A., & Hafeez, S. (2023). Exploring intra-party democracy and political finance in Pakistan: The case of effectiveness of mainstream political parties. Asian Journal of Comparative Politics, 20578911221149422. https://doi.org/10.1177/20578911221149

9.3. From Government to Network Governance

Governance has been a highly debated topic in recent times. The ideas and descriptions of governance have undergone significant evolution, particularly over the last couple of decades. The conceptual boundaries have expanded, moving beyond technical and narrowly classified meanings that refer only to state intervention. Instead, governance now encompasses a comprehensive structure that includes management by non-governmental entities as well as supra-national and transnational regulations.

The transformation of structures has not only led to a shift in language from the government to governance but also increased the involvement of more organisations in decision-making processes. This new perception of governance emphasises the idea of a network of regulatory stimuli, where organisations play a key role in what is known as network governance[32].

A modern society can be described as a complex communication system, integrated through a horizontal network of interdependent organisations. These organisations, both formal and informal, evolve gradually through incremental changes and interact with similar entities, leading to learning and innovations in their internal structures. As a by-product, this process contributes to society at the aggregate level, pushing it towards a transition from government to network governance.

As a result, the role of government is minimised, and governance through a network of organisations in their respective domains takes over. These developments lead to the emergence of mega sub-systems such as the economic system, political system, traditions, values, and more. Together, these sub-systems constitute a social order, including organisations within the framework of the state as well as those in the private sphere. Functionally independent organisations play an exceedingly significant role in our times. Perpetual organisations are increasingly important for sustaining the social order.

Perpetual organisations have their own rules that remain unchanged with the change of players, including the management. While the developed world has experienced a transition from government to network governance, most developing countries, including Pakistan, have yet to undergo this transition.

There are two important reasons why Pakistan has not transitioned to network governance. First, a well-connected coalition dominating decision-making processes at all levels, from legislation to provision of public goods. Second, the government has a far bigger footprint than most developed countries. It is doing many things that it should not be doing.

A study by the Pakistan Institute of Development Economics (PIDE) has found that the government's economic footprint amounted to 67 percent of the national economic pie[33].

[32] Hussein, S (2023). Governance Mutation. The News daily, Islamabad. https://www.thenews.com.pk/tns/detail/1064924-governance-mutation

[33] Qadir, U & Rafiullah, R (2020). Increasing Space for Investment and Entrepreneurship through Reducing the Footprint of Government on the Economy in Pakistan. Research Report, PIDE Islamabad. https://pide.org.pk/research/increasing-space-for-investment-entrepreneurship-through-reducing-the-footprint-of-government-on-the-economy-in-pakistan/

Contrary to the original idea of governance, it is still perceived; as 'the government having strict control over things' in Pakistan. As a result, organisations; political, social, or economic - have been unable to mature and achieve perpetuity; and the idea of organisations being agents of change in the society has not materialised. Instead, organisations remain stagnant, and it reinforces the personal element, nepotism, and red-tape.

In Pakistan, governments tend to change the rules of the game, making it harder to make credible commitments. They should not change in the middle of the game because every agent in the society is entitled to a level playing field.

In the absence of perpetuity, there are apprehensions about the social contract that the state has with its citizens. It creates unpredictability and instability, preventing some in the society from engaging in healthy economic or political activities as they can no longer calculate their pay-offs. A sense of urgency is needed to shift from government to network governance.

10. CONCLUSION

Towards the end, we would like to tell our readers that the comprehensive strategy we explained above is not sufficient to turn around the country. These target interventions deciphered above in short, medium, and long-term strategies are of prime significance to kick-start the economy and to put it on stable path. Besides, these there is ample space for reforms in each area of our country. To highlight all may not be possible and also it may not be the scope of the report, but we can highlight a few most significant ones below[34].

- ☐ ***Transparency and Accountability:*** Implementing measures to enhance transparency and accountability in the political system can help reduce corruption and ensure that resources are allocated more effectively to welfare and economic development initiatives.

- ☐ ***Meritocracy and Expertise:*** Encouraging a meritocratic approach to governance can ensure that individuals with the right expertise and qualifications are placed in key positions, reducing the influence of nepotism and favoritism.

- ☐ ***Long-Term Planning:*** Policymakers should prioritize long-term planning and sustainable development goals over short-term gains, which can help ensure that decisions are made with the country's long-term interests in mind.

- ☐ ***Public-Private Partnerships:*** Engaging the private sector in the development process through public-private partnerships can bring specialized knowledge, skills, and investment to accelerate economic growth and development.

- ☐ ***Investing in Education:*** Focusing on education and skill development can empower the workforce with the necessary tools to participate in economic growth and innovation, reducing the reliance on external bailouts.

[34] This part of analysis is extracted from the in-depth interviews with the subject experts (profiles are given at the end of this report).

- ***Encouraging Entrepreneurship:*** Creating an environment that fosters entrepreneurship and innovation can lead to job creation and economic diversification, reducing the dependency on a few priorities.

- ***Promoting Good Governance:*** Emphasizing good governance practices, such as rule of law, fair and efficient bureaucracy, and protection of property rights, can create a conducive environment for local and foreign investors.

- ***Public Awareness and Engagement:*** Educating the public about the importance of their participation in the development process can lead to more informed decisions and increased demand for accountability from politicians and power brokers.

- ***International Cooperation:*** Cooperative efforts with other nations can bring expertise, technology, and resources to address common challenges and foster economic growth.

It is pertinent to note that implementing these will require strong political will, effective leadership, and the cooperation of various stakeholders. It's essential to have an ongoing dialogue and inclusive decision-making processes to address the national issues. Only inclusive processes are sustainable over the long run. The earlier we realize this, sooner we can solve our issues.

PROFILES OF EXPERTS

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34. This part of analysis is extracted from the in-depth interviews with the subject experts (profiles are given at the end of this report).