Goal 8

Decent Work and Economic Growth

Country Context

Islamic Republic of Pakistan, the fifth largest population on the planet with 213.6 million people,[1] is a sovereign state situated in a geo-strategic location at the junction of middle East and central Asia. Bereft of Quaid's dream for a welfare state, social development has been off the mark with 22.4 million Out of School Children,[2] 56.3% Out of Pocket Expenditure in health,[3] and 29.5% population living below poverty line.[4] Exclusionist policy patterns marginalizing governance has led to country ranking at 147th out of 188 in Human Development Index[5] and 143rd out of 144th in Global Gender Gap Index.[6] Moreover, marginalization of key strategic sectors has led to funding diversions away from social development, barely allocating 3% of the GDP each for Education, Health and Social protection.[7]

With a GDP of $279 billion (2017 est.),[8] Pakistan is categorized as a lower middle-income country. Economic stability has been a constant uphill battle with public debts and liabilities escalating up to 74% of GDP.[9] The country is ranked at 171 out of 188 countries in terms of GDP per capita (PPP) of $5,400 (2017 est.)[10] while unemployment stands at 6% without factoring in statistics from informal economy which employs almost 70% of the country's workforce.[11] Gini index estimates 30.7% inequality with disparities as wide as the income share held by the lowest 10% at 4% against that of the top 10% at 26% (2013 est.)[12] in Pakistan.

In hindsight, political institutions in their formative years - mainly adapted from the colonial rump - were barely able to withstand extraconstitutional maneuvers[13] in the absence of a strong nation-building consciousness. This resulted in successive instability of civilian governments followed by political proxies and status-quo representatives, beguiling under democratic pretexts. Weak democratic structures led to the absentia of populace from democratic processes and crippled country prospects in socio-economic and political spheres with implications long into its future. This is evident of the country rankings at 110th in Democracy Index[14] and 20th among Failed States rankings in 2018.[15] Fret over it not though, for Quaid's optimism guides our course:

The story of Pakistan, its struggle and its achievement, is the very story of great human ideals, struggling to survive in the face of great odds and difficulties.[i]

Amid international isolationism, national calamities and social fragmentation, democratization of state and social institutions is the moral and political imperative. It is essential that we promote critical education and discourse to bring forth analysis that helps adequately influence policy mandates for a just, peaceful and prosperous Pakistan.

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[i] M.A. Jinnah, Address to the people in Chittagong, March 23, 1948

Economic Growth

With a GDP of $279 billion (2017 est.),[16] and in terms of Purchasing Power Parity at $1.060 trillion (2017 est.),[17] Pakistan is recognized as a lower middle-income country.[ii] The Country has tremendous economic potential as reflective of Price Water Cooper House's report projecting Pakistan to emerge as the 20th largest economy by 2030 and 16th largest by 2050.[18] Pakistan Economic Survey 2016/17 reported a GDP growth rate of 5.3% from 4.2% last year, income per capita growth of 6.4% from 1.1% last year, reduced inflation at 4.09%, reduced fiscal deficits to 4.2% from 4.6% last year, and the GDP volume to have crossed $300 billion mark. The survey recorded a growth of 3.5% in agriculture sector from 0.3% last year, 5.98% in services sector from 5.70% last year, while industrial sector growth rate declined to 5% compared to 5.8% last year. It further reported a boost in Foreign direct investment flows rising to $1.733 billion for fiscal year 2016/17.[19] On the flipside, however, State Bank data shows Pakistan's total debt and liabilities to have reached 74% of the GDP (est. 2017),[20] posing serious threats for the country confronted with challenges of high government debt burden, weak economic infrastructure, and increasing political instability. World Bank report hails warning signs for Pakistan in the wake of increasing fiscal deficits[iii] at 2.6% of GDP, decline in exports of 1.2% against the rise of 14.2% in imports - further increasing account deficits, rising inflation at 4.8% (April 2017 est.), and declining investment rates, indicative of the deep growing raptures in the country's economic landscape. Such contradictions are mainly due to our peculiarly strange measurement of economic growth,[iv] not in line with the international standards.[21]

The situation urges fundamental reforms in economic governance focusing on diversification of economy, enhanced fiscal and revenue generation systems, coherent policies to enhance public debt management, and efficient institutional mechanisms to leverage micro and macroeconomic stability. It requires a holistic approach to strategize reforms focused on short-term crisis management followed by medium and long-term solutions for sustainable economic growth.

[ii] World Bank classifications

[iii] Contradicting both in figures and claims to Pakistan Economic Survey.

[iv] Input Output tables for GDP haven't been updated for last 26 years. GDP is reported at factor cost as opposed to the international norm of reporting at market price resulting in disparate data sets and analysis.

Macroeconomic stability

Pakistan's macro-economic stability has seen a turbulent course confronted with natural disasters, socio-cultural havocs, flawed economic governance and political instability. The country's Balance of Payments (BoP) in international trade has seen a constant decline since 1985, deteriorated further after 2007 with imports massively outweighing exports. Imports also increased by 20% mainly due to purchase of capital goods under the China-Pakistan Economic Corridor (CPEC). This spike was accompanied by overall reduction in exports by over 3% (year-to-year comparison), causing a massive negative tilt in the country's BoP. The decline in pretty much all the sectors, except value-added textile, led to a trade deficit of 33.1% in the international market.[22] World Bank reported Pakistan's official reserves to have fallen to $16.5 billion in March 2017 from $18.1 billion in June 2016, now equating only 3.6 months of goods and services.[23] The decline is mainly attributed to 'ineffective, ill-planned' trade and investment negotiations by the government, internal political instability, law & order situation and global oil crises.[24]

1. **Clear visioning of our economic priorities should be combined with uniform growth strategy across sectors to ensure transformative outcomes.**
2. **Economic governance should be strengthened by restructuring the entire institutional framework to match international standards.**
3. **Economic potential should be diversified to stay competitive amid rampant shifts in global markets and reduce shocks in the macroeconomic environment.**
4. **Creation of new wealth paradigms should be strategized to stabilize Rupee in the global economy and improve our foreign exchange earning capacity.**
5. **Efficient governance for regulation should be ensured to attract Foreign Direct Investments over quality assurance not cheap labor.**

Fiscal and revenue generation

Government of Pakistan recorded a tax revenue shortfall of Rs. 260 billion for fiscal year 2016/17. IMF's issue paper suggests that unlocking Pakistan's tax potential could mean doubling its collection, currently at a tax-to-GDP ratio of 11%, and thereby enhancing the much-emphasized fiscal space for social development. The estimations suggest a tax revenue gap of 11% despite its improved tax effort[v] to 0.49 in 2015. The country is still significantly behind comparator developing countries' average of 0.64 due to its weak revenue generation systems that typify significant barriers to growth prospects. Despite growth prospects in tax-to-GDP ratio of 14.5% by 2020, the paper delineates shrunken taxation base, massive

[v] The ratio between actual revenue and tax capacity

exemptions, low compliance in the informal economy, underreporting of formal income and intergovernmental fragmentation in tax administration as key determinants characterizing the country's weak revenue generation system.[25] Recent reforms by Federal Board of Revenue (FBR) including the elimination of tax concessions and exemptions granted through the Statutory Regulatory Orders (SROs), differential taxation to reward compliance and penalize non-compliance, rationalizing custom tariffs, integrating National Tax Number (NTN) with Computerized National Identity Card (CNIC) database,[vi] and a policy directive for all government vendors to ensure tax compliance,[26] must be sustained through consistent backing of political will.

The other important aspect is non-tax revenues where the government recorded a shortfall of Rs. 58 billion for fiscal year 2016/17. The shortfall mainly increased due to the non-reimbursement of Coalition Support Fund grant by United States. However, notwithstanding the macro-economic aspect due to the geo-strategics here, the country still needs to put in a lot of effort to enhance its non-tax revenues from domestic sources by enacting efficient regulation of mark-up collection and royalties.

1. **Monetary and fiscal policy framework should be revamped with a reformative scope to widen and deepen taxation nets.**
2. **It should also ensure curbing tax evasive corridors and cutting down patronized exemptions.**
3. **Progressive taxation model, proven as the most efficient socially just redistributive policy measure,[27] should be implemented to decrease wealth and income gaps for inclusive and sustainable economic growth.**
4. **Private sector regulation framework must be enacted to ensure its contribution back into the community under CSR as an obligation, and not a benevolence.**
5. **Private sector's contribution must be mobilized under articulated development framework to address the shrinking Official Development Assistance (ODA) funds issue.**

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[vi] Although this requires further improvements as NTN covers 3.6 million people (barely 2 %) compared to CNIC database covering 150 million (almost 80% of population).

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