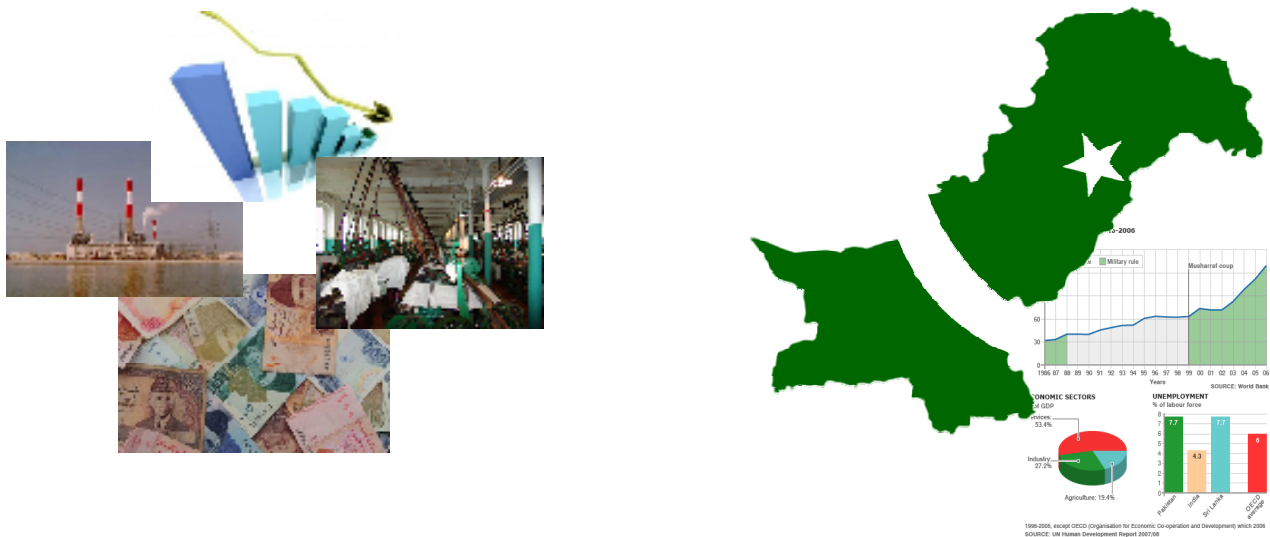


Economic and Budgetary Policy

Youth Ministry of Finance, Planning Affairs and Economics

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Youth Minister for Finance, Planning Affairs and Economics



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Executive Summary

The Federal Budget is an image of the economic policy and strategy of the government for the upcoming year. One of the reasons behind the prevalent economic crisis in Pakistan is the lack of initiative and proper planning in the Federal Budget. The Federal Budget does not take into account the ground realities of the Pakistani scenario where the social classes are segregated on the basis of economic stability and therefore a multidimensional policy is required for various scenarios.

The economy of the country is on a verge of crashing down because of a number of reasons, most important of which are the energy crisis, high reliance on foreign loans and aids, bailout packages for government institutions, high non developmental budget and high trade deficit. This economic policy proposes the following reforms to be adopted:

1. Increase in Tax Income by Levying Agricultural Tax, broadening tax base and ensuring tax recovery from all economic sectors and all segments of society.
2. Decrease in Tax Evasion
3. Debt Servicing
4. Allocation of Specified Budget for Power Projects
5. Accountability of Military Budget
6. Promotion of Cottage Industry
7. Increase in Public Sector Spendings particularly Education and Health
8. Reforms in Trade Policy
9. Improvement of Trade Relations with various countries all over the world on the basis of mutual benefit for all trading partners.

10. Mechanism for promotion of Export of Services and Value Added Goods instead of Raw Materials.
11. Strategy for successful survival in WTO regime.
12. Measures should be taken for eradicating Fiscal imbalance by barring politically motivated subsidies, halting import of luxuries for 5 years and minimizing non developmental budget.
13. Reforms should be introduced in public sector organizations such as PIA, Pakistan Railways and Paksitan Steel Mills, because economic progress is not possible without the proper and efficient functioning of these departments.
14. Ending reliance on Sales Tax for revenue generation.
15. Promotion of Manufacturing Sector on priority basis.

Increase in Tax Income

A quarter of the GDP of Pakistan is contributed by the agriculture sector and it is also a source of employment for almost half of the workforce in Pakistan in direct or indirect way. However the agricultural income has been declared exempted from taxation because of a number of politically motivated reasons. This does not only reduce the tax base but also allows people to manipulate their tax returns by declaring income from other sources as agricultural income. Moreover imposing tax on the largest commercial sector in the country is mandatory for ensuring an increase in tax to GDP ratio. The following recommendations are put forward in this regard:

1. Abolishment of all indirect agricultural taxes such as tax on machinery and equipment.
This discourages the use of novel techniques in agriculture reducing the overall production from the land.
2. Preparation of a centralized and computerized national database of land ownership in the country. Separate offices should be established in remote villages in order to maintain the data of land ownership. This will also increase employment opportunities in remote areas.
3. Calculation of average production per acre of land in all districts of Pakistan. In this way correct estimate of the agricultural income can be produced.
4. Levying of agricultural tax in a progressive manner excluding the small land owners and farmers.

Substantial steps have already been taken in order to broaden the tax base in the country; synchronization of National Tax Number is one of the biggest steps in this regard. However there is still a large sector which is yet to be brought under the tax base of the country; the retail sector.

The database used to collect tax from the manufacturing companies coupled with the purchase orders of the retailers can be used to estimate the income of retailers.

Reduction in Tax Evasion

According to the statistics provided by the FBR, the gap between actual and potential tax collection is expected to go from 69% to 78% in the coming fiscal year because of the government's lack of commitment towards collection of taxes from rich and influential people.

The issue of tax evasion can easily be solved by enforcing the already formulated laws and making FBR stronger.

The federation should make it mandatory for the provinces to levy luxury taxes in equal proportions in order to prevent manipulation. Since luxury taxes in Punjab were drastically increased during the last fiscal year, the residents of Punjab got their luxury vehicles registered from other provinces in order to save tax. Such an action promotes socially unwanted trends in the society. Moreover Punjab government also failed to achieve its set targets of luxury taxes on vehicles.

Debt Servicing

The debt servicing in Pakistan need immediate rescheduling because the current economic situation of the country is not able to withstand more loans. The debt to GDP ration has increased to almost 60% which indicates the country's inability to payback the current debt, let alone borrowing more money from national and international lenders. The government should take the following steps in this regard:

- a. The government should end its reliance on foreign loans and no more loans should be taken for bailout packages.
- b. The government should only take loans in situations where payback mechanism is automatic i.e. for large infrastructure projects.
- c. The government should take immediate steps to support the economy on the available resources in the country and should cut down the non-developmental expenditures in order to generate funds for these projects.
- d. The current debt should be rescheduled.

Energy Crisis and Power Projects

Pakistan is currently facing severe energy crisis which has not only affected the everyday life of common man, but also deteriorated the economy of the country because of devastating effects on the industries. Despite having the installed capacity for meeting the demands, the National Grid is unable to provide electricity to the nation. There are quite a few issues which need to be addressed regarding this:

1. Removing the Circular Debt of WAPDA and PEPCO. This requires a lot of investment to be put into WAPDA for the purchase of oil however with the current financial condition the government cannot take such a valiant step. A proposed solution is giving electricity on credit to the industries as well as the government institutions.
2. Ensuring payment of dues by the government departments and agencies. This will require moral courage on part of the government but the payment of outstanding dues by the government agencies is imperative for removing the circular debt of WAPDA.

3. Improvement of the efficiency of various Thermal Power units. This is very important for utilizing the installed capacity of the National Grid. The investment required for the rehabilitation of the Thermal Power units in various parts of the country is very less as compared to the money spent on Rental Power Projects. Therefore government should generate funds and expedite the rehabilitation process of the currently installed units rather than purchasing new units at high costs. The maintenance procedures of power stations should be improved and corruption should be checked in the purchase and use of fuels in thermal power stations. WAPDA Intelligence Cell should be made more strong giving them power to take action against the highest authorities, if involved in corruption.
4. The funds allocated by the Federal Government are not large enough to initiate mega generation projects such as Bhasha Dam or Bunji Dam, funding for these projects has to be brought in from international monetary agencies, for which rescheduling and improvement in debt to GDP ratio is required.
5. The funds allocated for solving energy crisis should be used for rehabilitation of thermal power units, establishment of small and medium sized hydroelectric power plants.
6. The government should also enhance partnership with trade partners like China to establish Photo Voltaic cell manufacturing units in Pakistan in order to promote solar energy.
7. The electricity for agricultural sector can be provided by covering the irrigation canals with solar panels. The initial funding required for this project can be derived from the agricultural subsidy.
8. The government should provide energy to small and medium scale industries on priority basis because these investors are not in a position to establish their own power production

units and rely on national grid for power supply. Immediate actions should be taken to divert the natural gas used in transport sector towards the industrial sector by promoting local transportation facilities. Subways should be constructed in all metropolitans of the country and buses should be improved.

Military Budget

A large portion of the federal budget is allocated for the military. Immediate reduction in the military is not possible and requires various foreign policy initiatives including the signing of a long term peace treaty with India. Moreover without achieving stability in the war against terrorism immediate reduction in defense budget is not possible. However, the accountability of military budget should be carried out. Legislation should be done in this regard and a separate accountability institution should be formed in order to check the military spendings. Moreover the involvement of military in large businesses such as DHA housing projects and Fauji Foundation enterprises should be minimized because a large portion of military budget is spent as bailout packages for these institutions with military personnels using this provision as a source of mechanized corruption. Legislation should be done to bring these army sponsored organizations under the jurisdiction of Auditor General of Pakistan.

Likewise, secret budgets of all the government organizations and ministries should be abolished and each and every paisa spent out of the tax payers' money should be audited in order to ensure transparency. Secret budgets also give rise to various other socio-political issue in addition to providing an opportunity for legalized corruption.

Cottage Industry and Agricultural Sector

In Pakistan cottage or household industries hold an important position in rural set-up. Most villages are self-sufficient in the basic necessities of life. They have their own carpenters, blacksmiths, potters, craftsmen and cotton weavers. Many families depend on cottage industries for income.

The industry plays a huge part in increasing the employment level in the rural areas due to the labour intensive work and also contributes up to 5% of the total GDP of Pakistan. ICCI President said that cottage and small-scale industries (SME) are labor intensive and provide employment to 80% of the industrial labor force, elaborating the point he added that this reduces the unemployment and offers opportunities for self-employment. This sector has always been ignored in the economic policy of the country despite its huge potential of earning a lot of foreign exchange and creating a large number of employment opportunities. A number of national and provincial organizations have been established for the promotion of cottage industry, however no activity has ever been observed from these organizations. The following steps should be taken for the promotion of cottage industry:

- a. Establishment of industrial estates.
- b. Providing marketing facilities.
- c. Setting up of technical service centers.
- d. Establishing handicraft development centers and carpet centers.
- e. Providing pre-investment counseling and guidance to newcomers.
- f. Providing local and foreign loans to small industry owners on easy installments.

- g. The government should lease out land to small farm owners in order to save them from exploitation by the landlords.

Public Sector Spendings and Public Sector Organizations

The Health and Education always gets the least share in the Federal Budget of Pakistan. As per the millennium development goals, Pakistan has to raise its literacy rate to 88%. The current literacy rate of the country stands at 49% and the government is not doing anything to improve it. A sheer lack of planning also exists for spending the meager 2% allocated for education. Similarly much more money is required for the health sector in order to improve the living standard of the people of the country. Pakistan currently stands at 145th position in the global community with respect to Human Development Index and this can only be improved by increasing public sector spendings. The following steps should be taken in this regard:

1. The educational and health budget should atleast be increased by 1% in the upcoming budget.
2. Separate funds should be allocated for different levels of education as there is no point in producing hundreds of Ph Ds when 50% of the children are not even enrolled in schools. Since education up to secondary level is a provincial subject, the federal government should issue guidelines for provinces in this regard, urging them to increase the funds for education with focus on primary education.
3. NADRA database should be used to issue stratified subsidies and facilities in the health sector.
4. The spendings for this sector can be increased to some extent by generation funds through cutting down of the non-developmental budget and reducing the imports of

luxuries. Substantial increase in Public Sector Spendings is only possible after ensuring economic stability.

5. Measures should be taken to ensure the spending of the allocated budget for education. A large portion of the budget reserved for education is surrendered at the end of the fiscal year because the government institutions lack the will to initiate new projects for betterment of education in the country. Educational development wings of should be formed at district level to ensure the correct spending of the allocated budget for education.
6. Schemes like Golden Handshake should be introduced in order to downsize the employees. In this way the huge overheads of public sector organizations can be reduced.

Improving Trade

An improvement in trade is imperative for the betterment of the economic conditions of the country. In order to increase the trade volume, we have to discover and utilize various possibilities in different regions and countries of the world. The following recommendations should be adopted by the government in order to increase the trade volume:

1. Energy Crisis should be resolved on immediate basis in order to ensure timely production of exportable goods.
2. The condition of Pakistan Railways should be improved on priority basis because the cost of transportation of goods through trains is much lesser as compared to road transport.
3. Pakistan should promote the export of services as there is a huge potential in this regard. Telecommunication and software can be the pioneer industries in this regard. Pakistan can export these services to other underdeveloped countries in Africa and South Asia.

Statistics in this regard have to be improved and the ministry of Commerce should form a Services Statistics Wing in order to maintain the data of services through professionals which Pakistan can export to underdeveloped countries. Pakistan already missed out on such an opportunity in 2002 due to lack of data when WTO asked for statistical data in this regard for the provision of services in African countries. Since the implementation of GATS (General Agreement on Trade in Services) there is a large market for services in Africa to be exploited.

4. It is imperative to improve the security situation in the country in order to invite foreign investors to the country which is very important for supporting the economy of the country in the current scenario.
5. The Ministry of Commerce should form a WTO Wing in order to increase lobbying and ensure inclusion of Pakistan's interests in future WTO agreements. In this way Pakistan can take the advantage of the WTO regime to the fullest.
6. Value addition should be done to the export articles and finished products should be exported rather than raw goods. Foreign investment can be utilized for establishing the manufacturing industry for such goods.
7. Trade policy should be based on the principles of Autonomous Trade Liberalization and regional cooperation should be increased.
8. The quality of goods should be improved in order to compete in the global market. A training institute should be established by the Ministry of Commerce in this regard.
9. Legislation should be carried out for intellectual property protection and copyright laws should be modified on the international recommendations. This is very important for inviting investment.

10. Trade Policy should be formulated for more than one year in order to achieve consistency. Annual modifications and checks should be applied.
11. Improvement of Trade Relations with various countries all over the world on the basis of mutual benefit for all trading partners.

In order to ensure successful survival in WTO regime, the following strategy should be adopted:

1. The biggest advantage Pakistan can avail through the WTO is the further improvement of its textile industry. Since the expiry of the Multi Fiber Arrangement agreement in 2005, the trade quotas for Pakistani textiles have been reduced in the global market and Pakistan rely heavily on WTO for new trade quotas, therefore lobbying should be done in order to achieve more quotas through WTO. Moreover the restructuring of textile industry has to be achieved and value added products should be manufactured and exported rather than raw textiles and quotas should be secured in this regard.
2. Full utilization of trade quotas should be utilized as the shortfall in quota utilization results in criticism from the importing countries barring the trade liberalization. Pakistan has not been able to utilize its trade quotas to the fullest because of the energy crisis. Industrial sector must be prioritized while deciding the distribution of energy.
3. The multi-lateral trade negotiations agenda in the WTO should also include that the various quotas in trade should be independent of the non-quota trade agreements and no barring should be imposed on other articles of trade if quota is granted in one article e.g. textiles.
4. Granting MFN status to different countries is important because countries are concerned about bound tariff rate rather than applied rate, so public awareness should be created in this regard before granting the status, if the decision is opposed, as in the case of India.

5. Pakistan's activities in WTO should be based on regional alliances in trade rather than political alliances, in this way Pakistan can be a part of future trade agreements of WTO.

Eradication of Fiscal Imbalance:

The following points should be considered in this regard:

1. Politically motivated subsidies such as BISP and subsidies on petrol prices must be abolished because the advantages of such subsidies are over rated and very highly projected. Since these subsidies are not directed at a particular segment of the society, the poor get the least benefit of these subsidies.
2. A ban should be imposed on the import of luxuries for a period of 5 years.
3. Non Developmental Budget should be cut down and the government should not give adhoc based pay reliefs to the government employees which devalues the currency. The same money should be spent on utilizing the resources in order to stabilize economy, this will reduce inflation and will have the same effect on the people as the adhoc based pay relief, the only difference will be the induced stability of the economy.
4. Since sales tax is a burden on the poor segment of the society, measures should be taken to phase it out.

Promotion of Manufacturing Sector

Manufacturing sector is the backbone of the economy of a country. Manufacturing is a source of jobs, as well as the segment from which is derived a significant portion of the nation's wealth. Pakistan has never achieved a trade surplus condition in its entire history and that can only be done by investing more in the manufacturing sector. The government should discourage investments in services sector which creates job opportunities but do not create any exportable

product. Moreover promotion of new technologies and research can only be promoted in the country if the manufacturing sector is made stronger. Promotion of manufacturing sector has the following advantages:

1. Promotion of manufacturing sector also creates job opportunities in other sectors.
2. Establishment of a single manufacturing industry results in promotion of a large number of other manufacturing industries giving rise to a chain-growth process.
3. Manufacturing sector allows more investment to be injected into research and development.
4. Because of greater productivity, manufacturing sector jobs are high paid.
5. In our economic scenario where agriculture sector is of the primary importance, investing in manufacturing sector helps in modernising agriculture increasing agricultural productivity; as a result a large number of jobs can be created in secondary and tertiary sectors.
6. Industrial Development is the only way forward for eradication of unemployment and poverty.
7. Investing in manufacturing sector helps in converting raw agricultural products to value added finished products, thus the foreign exchange earned through trade can be increased considerably.

Currently the GDP contribution by agriculture, industry and services sector in Pakistan is 21.2%, 25.4% and 53.4% respectively. In order to convert trade deficit into trade surplus, the primary and secondary sectors should surpass services sector in terms of GDP contribution.

Special attention should be given to Balochistan in this regard and following steps should be taken:

1. Rapid improvement of infrastructure in Balochistan should be carried out. Railways should be given priority over road transport for commercial purposes.
2. Wind and Solar power potential of Balochistan should be utilized in order to make Balochistan self sufficient in the production of electricity. This way, large industrial estates in Balochistan can be established; and this will also attract foreign investors.
3. Law and order situation in Balochistan can be improved by rapid industrialization of the province. Rapid industrialization in Balochistan can contribute greatly towards the GDP of the country.

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Appendix I

Background Papers

1. Golden Handshake Scheme

A number of public sector organizations in Pakistan are currently in loss and are on a verge of crashing down. The government has repeatedly injected money into these enterprises in the form of huge bailout packages and thus a large amount of tax money of Pakistanis are going to waste because of lack of planning by the government. Besides corruption there are a number of other reasons behind these organizations being in loss; one of them is the large amounts of overheads in the form of salaries of an unnecessarily large staff. A Rs. 11 billion bailout package was announced by PM Yousaf Raza Gillani for Pakistan Steel Mills in December 2011 and the Steel Mills has submitted a fresh demand of another Rs. 9 billion. Similarly Pakistan Railways and PIA were recently given bailout packages of Rs. 10 billion and Rs. 8 billion respectively.

Downsizing the staff can be one of the strategies for cutting down the unnecessary expenditures. A portion of money spent on bailout packages can be saved and given to employees as a golden handshake option i.e. giving sufficient amount of money to start small scale businesses to the sufferers of downsizing. This way government can cut down the bailout expenditures and the same money can be used by the former employees of these organizations to set up businesses of their own which will ensure increased economic activity.

There are several benefits of downsizing:

1. To reduce fiscal deficits and thus free up domestic resources for the private sector.

2. To reduce the effect of the superfluous staff on management time and overhead functions.
3. To improve public sector productivity by utilizing personnel level to full capacity.
4. To achieve a balance between resource allocations in private and public sector businesses.
5. To achieve increased economic activity through new businesses.

Golden Handshake provides the best solution in such a scenario because it will automatically create employment opportunities for downsized employees, adding to the economic activity in the country.

2. MFN Status of India

"Most Favoured Nation" (MFN) is a status or level of treatment accorded by one state to another in international trade. The term means the country which is the recipient of this treatment must, nominally, receive equal trade advantages as the "most favoured nation" by the country granting such treatment. (Trade advantages include low tariffs or high import quotas.) In effect, a country that has been accorded MFN status may not be treated less advantageously than any other country with MFN status by the promising country.

The members of the World Trade Organization (WTO) agree to accord MFN status to each other. Exceptions allow for preferential treatment of developing countries, regional free trade areas and customs unions. Together with the principle of national treatment, MFN is one of the cornerstones of WTO trade law.

"Most favoured nation" relationships extend *reciprocal* bilateral relationships following both GATT and WTO norms of reciprocity and non-discrimination. In bilateral reciprocal relationships a particular privilege granted by one party only extends to other parties who reciprocate that privilege, while in a multilateral reciprocal relationship the same privilege would be extended to the group that negotiated a particular privilege. The *non-discriminatory* component of the GATT/WTO applies a *reciprocally* negotiated privilege to all members of the GATT/WTO without respect to their status in negotiating the privilege.

India is one of the most rapidly growing economies of the world. Granting MFN status to India is a positive step in promoting regional trade and economic cooperation; however the current economic conditions of Pakistan are not suitable enough for such a step. MFN will ensure

considerably lower tariffs on import of Indian goods resulting in increased imports from India which will have devastating effects on the local manufacturing industry. It is worth noticing that India granted MFN status to Pakistan in 1996, however no substantial advantage have been achieved from this because of the fact that the highest tariff in India are on agricultural and textile sector and thus Pakistani exporters still cannot access the Indian markets. Trade with India will be productive once Pakistan resolves its energy crisis, strengthens its economy and remove trade barriers on textiles and agriculture, in this way MFN status can be given a practical meaning. The government should consult the textile, automobile, leather, garment and pharmaceutical manufacturers while selecting the items for concessionary tariff to India and for finalizing the negative list in order to save domestic industry from any damage. But there should not be any negative list for a country granted MFN status, therefore the government should reconsider this decision and delay it until the economy of the country gets strong enough, and India also removes high tariffs on the textile and agriculture commodities because these are the sectors in which the Pakistani exporters can gain a portion of the large Indian market. However, under the current situation the MFN status will not do any good to Pakistani economy as the cheaper Indian goods will flood the Pakistani markets.

A recent report by World Bank on the MFN status to India defines it as ‘signaling enthusiasm, goodwill, and a keenness to build peaceful and productive economic and political relations in the region’ and talks very little about the economic gains associated with it.

The need of hour is that on such issues of national interests, there should be establishment of working groups of technical experts and academicians and national think tanks, whose recommendations should be debated in the Parliament for a consensus decision.

For the improvement of trade relations with India a better strategy can be:

- **Liberalize the visa regime for businessmen:** Currently, business visas granted by India to Pakistani nationals are city specific, single entry and short duration. This limits what can be accomplished in one business trip. In this context, the recent report that India is considering moving towards a Preferential Trade Agreement with Pakistan and that a liberalized visa regime would be one of the first steps is particularly encouraging.
- **Improve infrastructure,** including warehousing facilities for perishables, better rail and cargo train services, and air links.
- **Ease restrictions,** such as the number of hours or the day of week when official trade across borders can occur.

3. Trade Relations of Pakistan

BRIC:

Brazil: Brazil is currently the 8th largest economy of the world and will be the 6th largest economy of the world by the end of 2012. However, Pakistan's trade with Brazil stands at a very low level i.e. \$400m annually. Brazil-China trade volume stands at \$56b, thus distance is not a problem and the procurement and logistic strategy adopted by China can be used in this regard. Till now Pakistani commerce sector has not explored the Brazilian market. The area on which Pakistan can focus is the import of ethanol and other bio-fuels from Brazil which can be a good alternative to fossil fuels for solving energy crisis.

Russia: Trade relations with Russia have not been established on full potential because of Pakistan's inclination towards the US in all sort of policy making. India on the other hand has benefitted greatly from trade with Russia. Fostering trade relations with Russia is an important aspect of trade diplomacy because Russia holds key positions in various regional trade associations. Recently Russia became the member of WTO after 18 years of negotiations and this is a great opportunity for Pakistan to enter into an FTA (Free Trade Association) or PTA (Preferential Trade Association) with Russia which will result in 25% trade tariff concessions for Pakistani export articles. For trade liberalization under the WTO regime, Russia will have to grant FTA and PTA status to nations, Pakistan has to be one of them. Other issues which need to be addressed for improving trade with Russia include relaxation in Visa policies, bilateral banking cooperation and construction of a land route (New Silk Road, discussed in trade relations with Central Asia). India is the largest exporter of tea to Russia, Pakistan has the same favorable conditions for growing tea in the northern areas which can be utilized and Pakistan can

become a tea exporter to Russia and Central Asian states. Moreover Rubber and Steel can be imported from Russia at much cheaper tariffs under after FTA/PTA association.

India: India is one of the most rapidly growing economies of the world. Granting MFN status to India is a positive step in promoting regional trade and economic cooperation; however the current economic conditions of Pakistan are not suitable enough for such a step. MFN will ensure considerably lower tariffs on import of Indian goods resulting in increased imports from India which will have devastating effects on the local manufacturing industry. It is worth noticing that India granted MFN status to Pakistan in 1996, however no substantial advantage have been achieved from this because of the fact that the highest tariff in India are on agricultural and textile sector and thus Pakistani exporters still cannot access the Indian markets. Trade with India will be productive once Pakistan resolves its energy crisis, strengthens its economy and remove trade barriers on textiles and agriculture, in this way MFN status can be given a practical meaning. Right now, the government should consult the textile, automobile, leather, garment and pharmaceutical manufacturers while selecting the items for concessionary tariff to India and for finalizing the negative list in order to save domestic industry from any damage. Moreover machinery and semi-finished products can be imported from India at lower prices as compared to the current options. (I plan to write a detailed paper on MFN status and its implications; I will complete that in the first week of April).

China: Trade relations with China have proved to be very beneficial for Pakistan, however Pakistan exports only 56 trade articles to China, whereas the imported trade articles from China are more than 1000, this creates a large imbalance between imports and exports. The large imports from China have already affected the local manufacturing industry because of the cheaper prices of the imported goods. Therefore with regards to the trade relations with China,

the Youth Ministry of Finance, Planning affairs and Economics recommends the following two point agenda:

1. Checks should be imposed on the trade items imported from China. Preference should be given to China in terms of imports of services. A negative list should be maintained in order to save the local manufacturers.
2. Extensive visits to China should be arranged for the Pakistani manufacturers and exporters by the Ministry of Commerce in order to explore the Chinese market, which is the largest in the world so that exports to China could be increased.

Creation of negative list will initially increase inflation in the country, but will ultimately yield better results as it will strengthen the economy.

SAARC Countries:

SAARC countries excluding India and particularly Bangladesh and Sri Lanka provide great opportunity to the Pakistani exporters. Since these countries are very populous and have a very small agricultural base to feed their large populations, Pakistan can export agricultural goods to these countries and the only competition faced by Pakistan in this regard is from India. Cement is another important export to the SAARC countries and Pakistan faces very less competition in this regard. Steps should be taken to increase the cement production in order to exploit the South Asian market. Similarly Pakistan can also compete in electronics such as Fans, Washing Machines etc. China and Far East countries pose tough competition in this regard but Pakistani goods have the advantage of low prices and cheaper logistics, thus Pakistani exporters can dominate these areas as the quality demands of SAARC countries are lower as compared to the

rest of the world. Awarding PTA status to these nations can be a positive development in this regard.

Iran, Afghanistan and Central Asian States

Afghanistan offers the largest market in the region to be exploited by Pakistani exporters. China and India are the two main competitors of Pakistani products in Pakistan but Pakistan has the advantage on the basis of its long shared border with Afghanistan and therefore Pakistan can compete on the basis of low prices because of cheaper logistics. In addition to manufactured goods, Pakistan can export services to Afghanistan. Moreover the projected profits to be generated from the Gawader port highly depend on trade relations with Afghanistan and Central Asian States. Pakistan can also import cheaper energy resources, particularly natural gas from the Central Asian States, an agreement in this regard has already been made with Turkmenistan; the barriers to its implementations must be removed promptly. Pakistan should take the leading role for trade cooperation in this region and should initiate the idea of a New Silk Road, running through Afghanistan to the Central Asian States, connected to the Motorway networks in Pakistan. This way the Gawader port will be utilized by Central Asian States and Pakistan can earn large amount of foreign exchange as transit fees. A funding conference for the proposed New Silk Road can be arranged for securing funds from international sponsoring agencies. The Free Economic Zones set up by WTO in the Central Asian States are yet to be utilized by Pakistani investors and exporters, government should arrange visits in order to increase awareness about these FEZs.

Trade with Iran follows a very simple principle; Pakistan can export cheap agricultural products to Iran and can get cheap fossil fuels for solving its energy crisis; however trade with Iran is

becoming more and more difficult for Pakistan due to the international sanctions imposed on Iran. However, Pakistan should change its stance in this regard and should side with Brazil and China who voted against the sanctions. Regional economic cooperation can yield much better results for Pakistani economy.

EU:

Pakistani textile goods are very popular in European markets and recently Pakistan has been granted up to 40% waiver in trade tariffs on various trade articles by the WTO members in Europe. Pakistan can improve its exports considerably if it resolves its energy crisis as Pakistani manufacturers is not utilizing the quotas to the fullest. Exports should be minimized from EU and Indian goods should be preferred over EU goods, negative lists should be modified in this regard.

4. Cottage and Small Scale Industries in Pakistan (By Yusraa Faaruq)

In Pakistan cottage or household industries hold an important position in rural set-up. Most villages are self-sufficient in the basic necessities of life. They have their own carpenters, blacksmiths, potters, craftsmen and cotton weavers. Many families depend on cottage industries for income.

The industry plays a huge part in increasing the employment level in the rural areas due to the labour intensive work and also contributes up to 5% of the total GDP of Pakistan. ICCI President said that cottage and small-scale industries (SME) are labor intensive and provide employment to 80% of the industrial labor force, elaborating the point he added that this reduces the unemployment and offers opportunities for self-employment. The cottage industry including sericulture silk has potential to provide employment opportunities to 25 per cent rural population across the province but the farmers have not yet got the governments support to boost this industry which can bring huge foreign exchange to the country.

Due to the ever increasing cost of large businesses makes the development of large scale production highly unfavourable and undesirable for low investment earning entrepreneurs. However due to the low set up and initial cost, the small scale and cottage industries tend to demolish such barriers increasing output at a quicker rate. Therefore it is highly recommended for the government to support such industries by providing special electricity tariff for the cottage industry so that they could be able to compete with foreign finished/semi finished goods. Pakistan's cottage industries have gained immense importance world over. Because of such developments export orders would largely be met by the local cottage industry operating relatively on medium scale. There is great demand for hand-woven carpets, embroidered work,

brassware, rugs and traditional bangles, these are also considered important export items and are in good demand in international market which would result in favourable returns in the balance of payments thereby improving the country's trade position. Hence a program for developing and promoting cottage industries both in rural and urban areas is more feasible as compared to large scale industries that need huge resources.

These industries make effective use of local raw materials which also promotes primary industries so government should announce incentives to assist the cottage industry, which is facing multiple challenges so that they can utilize their existing resources in an efficient way.

A web of cottage industries has developed in Pakistan. Blacksmiths and carpenters have played a crucial role by making and repairing agricultural implements. Carpenters also make furniture, doors, windows, utensils. Potters make ceramic dishes which are used in rural areas for cooking. In larger villages, small scale industries include flour mills, rice-husking, oil-seeds milling, shoe making, weaving, dyeing, printing, tailoring. Most of the products of these small scale or cottage industries are consumed locally. Some items are produced for export, like sports goods, surgical equipment, cutlery, handicrafts, carpets, garments and hosiery.

Sialkot in Punjab has emerged as a major center for the sports goods industry. The export of sports goods increased from Rs 30 million in 1969-70 to Rs 14457 million in 1999-2000. Sialkot, along with Lahore, is also well known for the manufacture and export of surgical equipment. Surgical instruments to the value of Rs 6621 million were exported in 1999-2000. Again, Sialkot, along with Karachi, is well known for cutlery manufacture, other cities that have earned a reputation for their general engineering industries include Gujranwala, Gujrat, Wazirabad, Lahore, Faisalabad, Hyderabad, Karachi. They manufacture a number of products, including

machines, diesel engines, steel re rolling mills, road rollers, pumps, cable wires, electric furnaces, agricultural implements.

Types of cottage and small-scale industries in Pakistan

There is a web of cottage and books industries. In almost every village, there are a number of such industries depending upon the size of the village and the demand for the products. The establishment of such industry is closely related to the availability of raw material traditional skills, climatic conditions and, in several cases, the local specialization in the organized factory sector.

There is a large variety of handicrafts available in Pakistan. They are not only aesthetically pleasing items, but they also serve the needs of local people.

Some of these industries produce important export items. Recently exports of non-cotton products have faced increasing trade barriers as public opinion in industrialized countries has expressed growing concern about child labor, environmental and health standards. These concerns are being addressed now.

Carpets

Carpets are by far the most in economic terms and they make a significant contribution to export earnings. They are generally hand-woven and hand knotted and made of wool, silk or a mixture of the two....

Textiles

Textiles are found throughout the country with a variety of design and techniques. The most famous among them are Khaddar, Susi, Khes, Chunri, Boski, Karandi, Shaal, and Ajrak. The designs are invariably brightly colored with traditional emphasis on blue and red.

Embroidery

Embroidery has developed to a fine art with distinctive regional designs and patterns.

Jewelry

Gold and silversmiths are one of the largest communities of craftsmen. Much of the jewelry made and sold in the cities is intricately fashioned and delicate.

Ceramics

Clay and terracotta pottery and utensils continue to be of great practical importance. Many of the designs of urns, pitchers, bowls, jugs, plates, and pots seen today are almost identical to those uncovered at archaeological sites around the country. Distinctive glazed blue tiles are used to decorate many of the great mosques in Pakistan.

Cutlery

Wazirabad is the city of cutlery industry in Pakistan . This industry is growing day by day and has share of 65 million US dollars in Export for 2010. High Quality Damascus Steel (Pattern Welded Steel) is manufactured in this city and 95% of world needs are produced here.

Woodwork

The Swat Valley is perhaps the most famous for its intricately carved architectural woodwork and furniture, although wood-carving is common throughout the northern mountains.

Sports goods

Sports goods earn about 3.7% of our total exports. The main raw material for the sports goods industry are leather and mulberry wood that are available in Punjab, but also

imported PVC. Football, hockey ball, hockey sticks, cricket bats and rackets are mostly manufactured by hand. The skilled workers are available in Sialkot and Lahore. In the industry large and medium size factories contract work out to small-scale and cottage concerns. The local sports goods manufacturing industry is one of the major source of foreign exchange earnings of Pakistan. It is centralised in and around the city of Sialkot, where it has flourished as a cottage industry with most of its production by generations of skilled craftsmen. At the time of independence, this industry was in an infant stage with a nominal export of Rs. 0.82 million. The Government took immediate steps to develop this industry by providing loans and subsidies to the manufacturers and arrangements were made to market the manufactured goods. Since then, the industry has flourished locally and enjoys good reputation in the international markets as well.

Production At present, there are more than 2000 units, mostly on small scale in operation with an installed capacity of Rs. 20 billion per annum. The units are operating on single-shift basis.

Pakistan produces a wide range of sports goods, accessories, games and athletic equipment generally following the British, American and German specifications.

The Government is also enforcing on a compulsory basis, minimum quality standards for sports goods manufacture. The Pakistan Standards Institute, a government agency, has devised specific standards for different types of sports goods. The important items being produced are tennis rackets, hockey sticks, hokey balls, polo sticks, cricket bats and balls, footballs, (complete) and numerous goods used in both in-door as well out-door games.

At present, Pakistan's sports goods enjoy a world-wide recognition mainly because of the care that goes into their designing, manufacturing and selecting of the finest raw materials. The basic raw materials required for the production of sports goods, are leather, wood, glue, nylon guts,

rubber and chemicals. Out of these, leather and various kinds of wood are abundantly available in Pakistan. The industry annually utilises materials worth Rs. 8 billion including imported raw material.

Exports This industry is one of the major foreign exchange earners for Pakistan and is, therefore, receiving full government backing in its development. It is estimated that more than 75 per cent of the total production is exported every year.

In fact, the export demand has acted as the main stimulus for the rapid growth of this industry because of care that goes into designing, manufacturing and selecting of raw materials. There are two factors which are responsible of this.

(i) Low price as compared to general price level

(ii) Durability plus good workmanship

Export of sports goods increased from \$136 million in 1990-91 to \$384 million in 1997-98.

Showing an average increase of 23 per cent annum as evident from table-1. The export market for sports goods is fairly diversified. More and more countries are being added to the list of their imports. In 1990-91 there were in all 50 countries importing these good from Pakistan.

Thereafter, the list has continuously expanded so that during the 1992-98 period, Pakistan exported sports goods to 90 countries. However, the principal importing countries are Germany, USA, UK, France and Italy. Others were Spain, Netherlands, Hong Kong, Denmark, Canada, Belgium, Dubai and Chile. Country-wise export of sports goods is given in table-2.

In the international market, India, Japan, Taiwan and South Korea are the main competitors of Pakistan. They are supplying their products at lower prices. While India has an advantage of cheap labour and raw material Taiwan, Japan, and South Korea have semi-automotive and

mechanised units and are always engaged in introducing cheap sports goods such as metal rackets and cricket bats etc.

In order to encourage the export of sports goods, the Government has taken many positive steps and has offered various incentives. Customs duty, sales tax and excise duty rebates on f.o.b. value of exported various types of sports goods are available.

Another incentive is that import of restricted and tanned raw materials are also allowed on cash licenses against export of sports goods.

This industry is facing severe competition from Taiwan, India and South Korea. Although the Government has provided various incentives and facilities to modernise and mechanise the industry, the opportunity has not been availed. The improvement in quality and consequently in exports earnings has been due to the improved availability for leather for manufacture of footballs which constitutes about 75 per cent of the total exports. Keeping in view the trends during 1991-98 about 23 per cent growth rate, improved quality available and competition faced in the international markets the future demand is expected to growth the rate of 15 per cent during 1999-2000.

Surgical instruments

Sialkot and Lahore are also noted for the manufacture and export of surgical instruments. The most important raw material is stainless steel which has to be imported. In this industry, also, medium scale factories contract work out to small-scale and cottage concerns. Also like the sports goods industry, most of the output is exported.

Other small-scale industries

Other small-scale industries include electric fans, cutlery and general engineering.

Problem of cottage and small-scale industries

Cottage and small-scale industries contribution to the GDP is only 5%. There are certain problems associated with these industries that are mentioned below.

- Profits are limited and they are mostly spent on the daily expenses of the owners. They do not have extra capital for expansion of these industrial units.
- Economies of scale are not available so production cost is higher. Goods produced in small-scale industries cannot compete in open market if the same goods are manufactured on a large scale.
- There is a lack of standardization and quality control. In some cases they do not meet the standards of foreign markets. A lack of coordination between different industries also creates differences in prices.
- Production methods and machinery are outdated because the investors in small-scale industry are illiterate and poor.
- The wholesaler, who takes most of the profits, exploits the owners of the small-scale industry. In some cases goods are sold to wholesalers at cost price, which discourages the owners and they reduce the quality and quantity the produced.
- In rural areas, where the electricity is not provided, small-scale industries are difficult to set up. Even the great fluctuation in voltage and power break-downs cause damage to the electric motors. The commercial rates of electricity have also increased significantly which hinders the growth.
- The craftsman and artisans learns their skills and production methods from their elders. The provision of technical advice and further training is limited.

Government policy towards Small-scale and cottage industries

The government is fully aware of the potential of cottage and small-scale industries for industrial development. The following organizations have been established to develop this sector of economy.

- Pakistan Small Industries Corporation (PSIC)
- Punjab Small Industries Corporation (PSIC)
- Sindh Small Industries Corporation (SSIC)
- The Small Industries Development Board NWFP (SIDB)
- The Directorate of Small Industries Baluchistan (DSIB)

The above organizations are taking the following measures:

- h. Establishment of industrial estates.
- i. Providing marketing facilities.
- j. Setting up of technical service centers.
- k. Establishing handicraft development centers and carpet centers.
- l. Providing pre-investment counseling and guidance to newcomers.
- m. Providing local and foreign loans to small industry owners on easy installments.