PAKISTAN INSTITUTE FOR PARLIAMENTARY SERVICES
DEDICATED TO PARLIAMENTARY EXCELLENCE

ISSN # 2414-8040

Parliamentary Research Digest

VOLUME 5, ISSUE 03 MARCH, 2018

INSIDE THIS ISSUE:

Editorial

The dawn of fragrant and colorful floral spring in March 2018 brought the pleasant news that Pakistan is the happiest country in the region according to recently released United Nations World Happiness Report. It is due to economic improvement, decrease in crime rate and improved security that Pakistan rose from 80th ranking to 75 in 2018 in total 156 countries, higher than all its neighbours.
Pakistan Institute for Parliamentary Services has already commenced its pre-budget services to Honourable MPs and a national roundtable was organized participated by around 30 senior MPs from all Houses on Economy and Financial Management. In this context, an absorbing statistical comparative data of annual expenditures since 2010 to 2018 incurred on education, health, law and order and other basic amenities of life by the Federal and provincial governments is presented in this issue. It reflects a healthy trend among governments since the 18th Constitutional Amendment in 2010 that spending on human security has doubled, which is manifestation of strength of Parliament of Pakistan that remains the citadel of people's rights and aspirations as envisioned in the Constitution of Pakistan. It is hoped that Parliament of Pakistan will continue to work for human security help country improve viz a viz multidimensional poverty ranking so that well-being of people of Pakistan is achieved.
This publication also includes introduction of recent legislation done by the Parliament, two analytical pieces on population challenges and an opinion article on challenges of trade deficit and the way forward to enhance country's exports as the next step to the record economic growth rate secured in last few years.

For any specific areas of importance that you want PIPS to send you research/briefing papers, please contact us at research@pips.gov.pk.
Happy Reading!

Muhammad Rashid Mafzool Zaka
Director General (Research and Legislation)

PARLIAMENTARY BUSINESS

Legislative Update - Acts passed by the Parliament of Pakistan from January 2018 to February 2018

By

Fahd Amin (Consultant, Legislation, PIPS)

1. **The National Commission on the Status of Women (Amendment) Act, 2018 (Act No II 2018):** The National Commission on the Status of Women (Amendment) Act, 2018 was passed by the Parliament of Pakistan on 30th January, 2018. The National Commission on the Status of Women was established as statutory body to protect the rights of the women as law did not give a time frame to the Government to appoint permanent Chairperson of the Commission; this amendment in the act would ensure the election of new chairperson within 30 days after the retirement of the incumbent chairperson. The Act would give clear time frame to the Government to appoint Chairperson which would make the role of the commission more effective.

2. **The Law and Justice Commission of Pakistan (Amendment) Act, 2018 (Act No IV of 2018):** The Law and Justice Commission of Pakistan (Amendment) Act 2018 was passed by the Parliament of Pakistan on 31st January, 2018. The main object of this amendment was to allocate share from the profit / actual income generated by investment of endowment grant to the Islamabad High Court for infrastructure development of the District Courts within the Islamabad Capital Territory, the Law and Justice Commission of Pakistan Ordinance, 1979 (XIV of 1979) proposed amendment of clause (a) of section 6-B.

3. **The Shaheed Zulfiqar Ali Bhutto Medical University Islamabad, (Amendment) Act, 2018 (Act No III of 2018):** The Shaheed Zulfiqar Ali Bhutto Medical University Islamabad (Amendment) Act, 2018 was passed by the Parliament of Pakistan on 31st January 2018. The main object of this amendment was to separate administrative control of Pakistan Institute of Medical Science Islamabad (PIMS) from the Shaheed Zulfiqar Ali Bhutto Medical University Islamabad. The Pakistan Institute of Medical Sciences Islamabad (PIMS) shall be a teaching hospital of the university and it shall be headed by an executive director appointed by the Prime Minister in the manner as may be prescribed under the Civil Servants Act, 1973 (LXXI of 1973) and the rules made there under.

4. **The Marine Insurance Act, 2018 (Act No. V of 2018):** The Marine Insurance Act, 2018 was passed by the Parliament of Pakistan on 2nd February 2018. The Act main object was to encourage and promote Marine Insurance Sector in Pakistan and provide a legal framework for regulation of Marine Insurance in the country. It also strives to remove contradictions and similarities with other laws existing in the field and provide rules for construction and interpretation of Marine Insurance policies. Comprehensive marine insurance is vital in order to protect the vessel, boat, ship, cargo, onboard equipment, crew and passengers from harm. By obtaining a favourable insurance policy, cargo ships can ensure limited liability with regard to damage or loss of expensive goods carried by the ship.

OPINION

Sectoral Balance and the Budgetary Allocations

Dr. Wasim Shahid Malik
Professor on SBP Chair, University of Balochistan, Quetta
and Adjunct Faculty, PIPS Economy & Budget Desk

1. Introduction

Government can intervene in the economy using any of the public policies. One of these policies is called Fiscal Policy which is the means by which government adjusts its revenue and spending to influence the economy and to achieve certain economic and social objectives. The two sides of the budget – revenue and spending – are called instruments of the government's fiscal policy. Annual budget is prepared for the income and expenditures of the government for one fiscal year (1st July of current year to 30th June of the next calendar year) and therefore the targets for different economic and social indicators are set on annual basis but in line with the long term targets and priorities of a nation. Here, it is worth mentioning that a government cannot achieve all desirable objectives in one fiscal year or even during the five years. Therefore, expectations from any government should be rational keeping in view that there are trade-offs in different policy objectives. For instance, achieving a higher GDP growth rate is possible at the expense of high inflation rate while some output has to be sacrificed to achieve price stability[1]. Similarly, stabilizing exchange rate is possible by letting foreign exchange reserves deplete and disturbing exports and imports due to over or under valuation of local currency. Moreover, it is noteworthy that a big share of expenditures is pre-committed which cannot be changed significantly during the fiscal year. For instance, salary bill, interest payments on debt and return of principal amount, defense expenditures, financing of ongoing projects, etc. cannot be changed much in one budget. Expenditures on these categories can be changed in the long run through a reform process. However, government can start reform agenda and set priorities for the budget accordingly.

There are two approaches to public financial management: sound finance and functional finance. According to sound finance theory the public financial management should be such that the annual budget aims at achieving a specific target of budget deficit. Achieving this target may sometimes be at the cost of economic and social improvement in the country. On the other hand functional public financial management focuses on achieving an economic outcome irrespective of what the budget deficit would be. Back in 1943, Abba Lerner, a leading researcher in fiscal policy, wrote in his book: ***The central idea is that government fiscal policy, its spending and taxing, its borrowing and repayment of loans, its issue of new money, and its withdrawal of money, shall all be undertaken with an eye only to the results of these actions on the economy and not to any established traditional doctrine about what is sound or unsound***.

So the main debate regarding fiscal policy in general and annual budget in particular remains on targeting fiscal outcomes vs economic goals. The sound public finance theories prescribe targeting fiscal outcomes (targets regarding budget deficit or public debt as percent of GDP) even at the cost of economic goals, at least in the short run. But according to functional finance theory, the fiscal outcome for a sovereign country is not an appropriate target for annual budget. The policy can instead target economic goals like full employment, price stability, poverty alleviation, reducing social and economic disparity, balancing sectoral growth, environmental sustainability, and improvement in the overall standard of living.

It is better to look at the academic literature on fiscal policy to have an idea of its objectives. Generally, fiscal policy aims at achieving seven objectives, especially in a developing country. These objectives include full employment, price stability, stabilization of economy, high growth, encouraging investment for capital formation, equitable distribution of resources, and optimum allocation of resources for a balanced growth.

[1] This trade-off is there if supply side factors like oil price are not changing. Currently, Pakistan's GDP growth is gaining momentum without increase in inflation rate. This favorable combination is due to decreased oil prices in the world market.

Fiscal policy in Pakistan, atleast over the past three decades, has lost its soul and most of these objectives are neglected. Pakistan has been a victim of *deficit hawks*[2] and policies of *deficit doves*[3] and *deficit owls*[4] are not even discussed in this country. There are three main problems with the fiscal policy in Pakistan which need to be identified. First, historically, tax policy in Pakistan remained focused on achieving only one objective – revenue maximization. Beardsley Ruml, who chaired the US Federal Reserve in the 1940s wrote two important papers on the role of taxes (Taxes for Revenue are Obsolete and Tax Policies for Prosperity; Ruml 1946a and 1946b). He identified four objectives of tax policy and interestingly "taxes for revenue generation" is not one of them. Similarly, he suggested setting tax rates to achieve the government's fiscal outcome (deficit, balanced, or surplus budget) consistent with full employment. Second, fiscal austerity is achieved through expenditure cut in Pakistan. And more importantly these steps are taken without looking at the effects of those policies on economic goals. Moreover, it is not only across the board expenditure cut that remains in practice and negatively affects economic and social outcomes, rather priorities in budget revision are much more important and are worth looking at. Mostly expenditures are cut from social sector which have negative consequences for long run development. Third, budgetary allocations are not set according the developmental needs and importance of different sectors. Feasibility studies of most of the projects are missing and sometimes least important projects get major chunk from the development budget while important sectors meager share.

The focus of this paper is this third issue. Economy is classified into sectors from different perspectives and then budgetary allocations are analyzed. Sectoral allocation is at the heart of fiscal policy because an important objective of this policy is to discourage undesirable activities while encourage needed activities in priority areas.

2. Sectoral Issues

2.1. Development and Recurrent Budget:

First of all the budgetary allocations can be categorized into two sectors: development sector and the recurrent sector. Pakistan is a developing economy and it has very low per capita GDP, compared to other countries in the world. Out of 186 countries' ranking for GDP per capita by World Bank, Pakistan ranks 147; 135 when GDP per capita is adjusted for purchasing power parity; and 42 when total GDP is considered (Table 1).

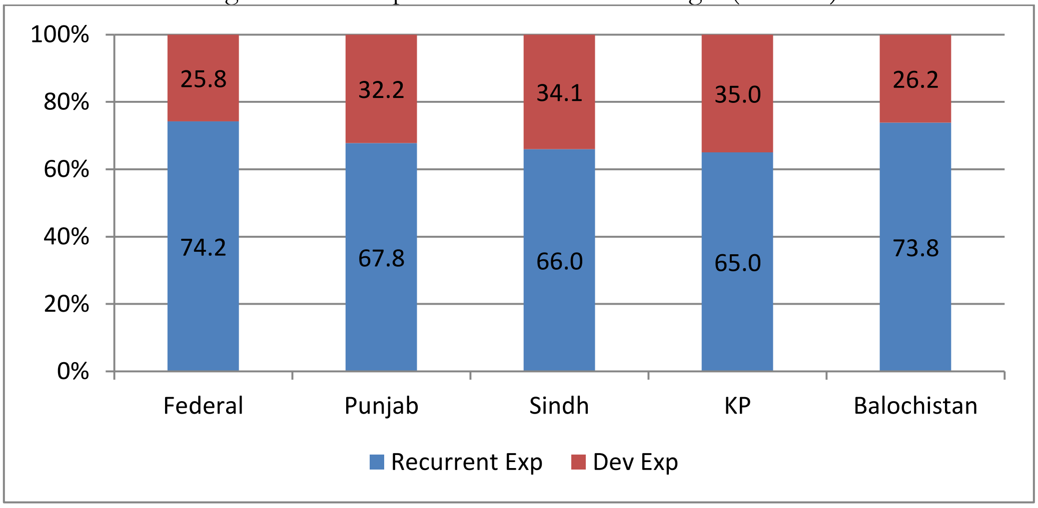
Table 1: Ranking of Countries (Out of 186) on the Basis of GDP

	Pakistan	India	Bangladesh	Sri Lanka	South Korea
GDPPC (USD)	1600	1852	1532	3905	29730
Rank	147	140	148	111	26
GDPPC-PPP	5354	7174	4207	13001	39387
Rank	135	122	140	91	30
GDP (Billion USD)	304	2439	250	84	1530
Rank	42	7	45	67	11

In such a situation Pakistan needs to focus on its development sector so that high GDP growth rate can be achieved through fulfilling infrastructure needs. However, in Pakistan approximately 70 percent of the total budget is allocated to recurrent sector and only 30 percent to development sector. This is true for federal as well as provincial budgets (Figure 1).

[2] A term used to represent those who try to achieve fiscal outcome (target of budget deficit or public debt as percentage of GDP) even at the cost economic outcomes.
[3] Those who favor economic outcomes in the short run while achieving fiscal outcomes in the long run.
[4] Those who oppose achieving fiscal outcome and always focus on economic outcomes.

Figure 1: Development and Recurrent Budget (2017-18)



2.2 Social Sector compared with Economic Sector:

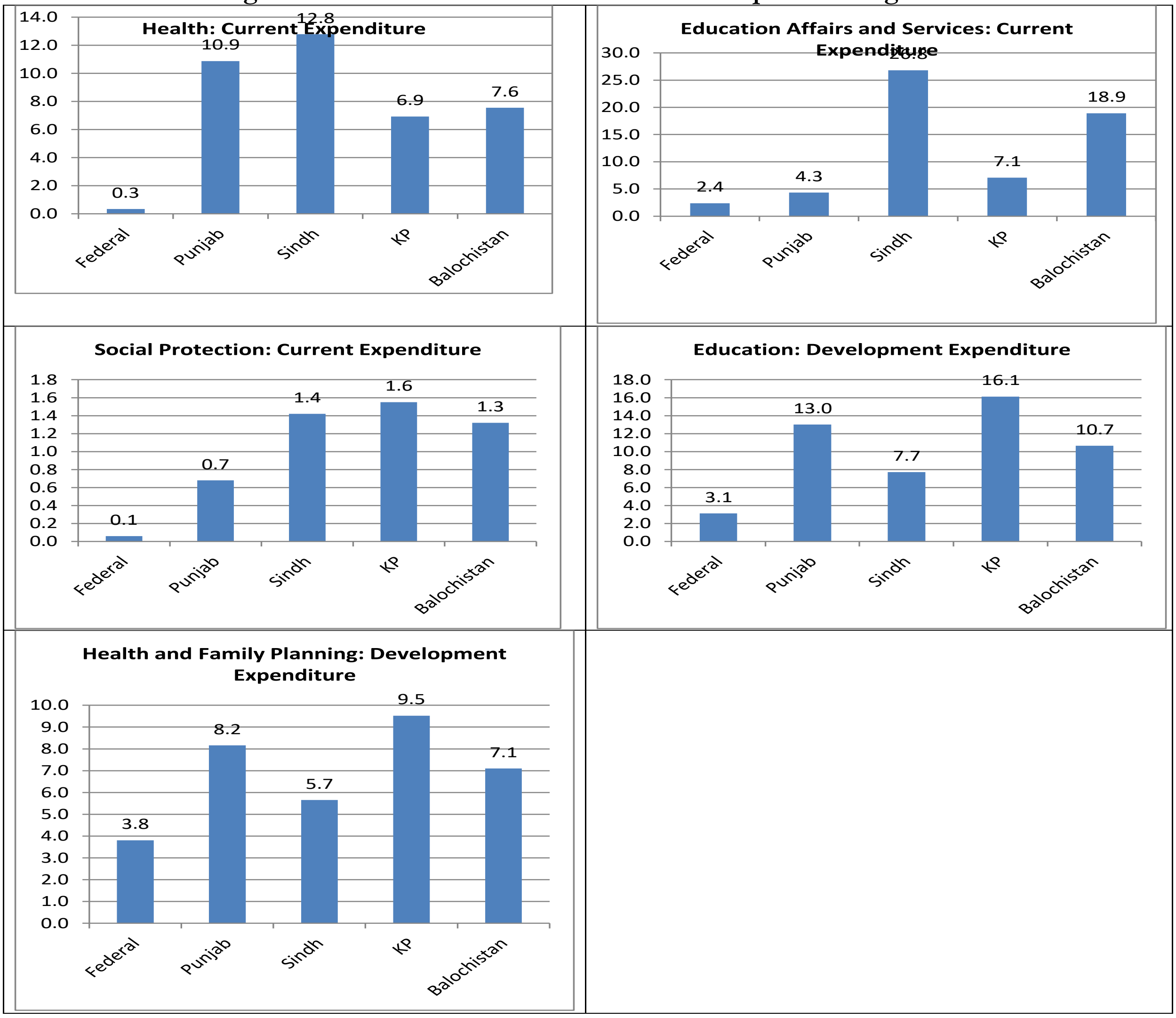
Development indicators can be categorized into economic and social indicators. With respect to economic indicators, Pakistan is a lower middle income country with approximately USD 1600 per capita income, compared with 1852 in India, 1532 in Bangladesh, 3905 in Sri Lanka and 39730 in South Korea (see table 1 and section 2.1 for details). However, Pakistan's performance in terms of social indicators is even worse than that in economic indicators. According to Social Progress Index 2017, Pakistan and Bangladesh are placed in countries with low social progress; India, China and Sri Lanka are placed in countries with lower middle social progress while South Korea in countries with high social progress. Pakistan ranks 105 out of 128 countries, while all other countries in the region performed better; Bangladesh 97, India 93, Nepal 91, China 83, Sri Lanka 73 and Korean Republic ranks 26 (Table 2). In the sub-indices of social progress, Pakistan performed worst in Tolerance and Inclusion, Access to Advanced Education, and Opportunity. Nutrition and Basic Medical Care is the only area where Pakistan performs somewhat better.

Table 2: Ranking of Countries (out of 128) according to Social Progress

	Pakistan	India	Bangladesh	Sri Lanka	South Korea	China	Nepal
Social Progress Index	51.54	58.39	54.84	66.16	82.08	63.72	60.08
Rank	105	93	97	73	26	83	91
Country Status	Low Social Progress	Lower Middle Social Progress	Low Social Progress	Lower Middle Social Progress	High Social Progress	Lower Middle Social Progress	Lower Middle Social Progress

If we look at the budget allocations in the social sector, then health, education and social protection got 2.8 to 40 percent of current revenue budget in 2017-18. Sindh province allocated huge resources in social sector (40 percent of current revenue budget). Within the sector, Sindh allocated 12.8 percent of the current revenue budget in Health sector, 26.8 percent in Education Affairs and Services, and 1.4 percent on social protection. Punjab allocated 16 percent of current revenue budget on social sector while KPK and Balochistan allocated 15.6 and 27.8 respectively. In the development budget, KPK allocated maximum resources (16.1 percent) in education sector, followed by Punjab (13 percent), Balochistan (10.7 percent) and Sindh (7.7 percent). With regards to development budgetary allocation in Health sector, KPK is again at the top (9.5 percent), followed by Punjab (8.2 percent), Balochistan (7.1 percent) and Sindh (5.7 percent).

Figure 2: Allocations in Recurrent and Development Budget



If we just look at the allocations then these seem satisfactory. However, past experience shows that revenues at federal and provincial level are poorly forecasted. After 18th constitutional amendment and 7th NFC award the provincial budget lost its credibility. Some of the functions on expenditure side and taxation were devolved to provinces in 18th amendments while provincial share in resource pie increased substantially in 7th NFC award. For instance, Punjab's own source revenue account for only 18 percent of total provincial expenditure and 82 percent come from the Federation. Provincial governments commit expenditure in annual budget on the basis of expected resources from the Federal government. The poor revenue forecast at federal level results in revenue shortfall and in turn downward revision of resource transfer from federal to provincial governments. Provincial governments then make adjustment in announced budget but revisions are arbitrary, disproportionate, not well thought out and even not discussed in the provincial assemblies. The budgetary allocation in social sector is mostly subjected to downward revision which has bad implications for efficiency as well as equity. Moreover, provincial budgets have no credibility *ex ante* as more than 4/5th of the budgetary resources are not collected by the provincial governments.

To have an idea of the issue, an example is given from the annual budget of Punjab in 2014-15. With regards to its development budget all allocations in the social sector were revised downward (Table 3). Development budgetary allocations were maximum revised downward in Education sector followed by

Labor and Human Resources, Women Development and Health sector. Development budget other than social sector, like that for Governor's secretariat and Provincial Assembly, were not only not revised downward, rather some of the allocations were revised upward. Whenever, downward revision is required due to revenue shortfall then maximum revision takes place in development budget of social sector. This scenario is not only there in Punjab province; rather practice is same across all provinces. All this results in poor social indicators of Pakistan, as shown in table 2. Governments at federal and provincial level need to improve their revenue forecasting to avoid such revisions and increase budget credibility.

Table 3: Budgeted and Revised Estimates of Development Expenditures in Punjab

Items	BE 2014-15	RE 2014-15	% Revision
Education	44.90	23.42	-48%
Special Education	0.4	Zero	-100%
Social Welfare Women Development	0.083	0.048	-42%
Women Development Department	1.4	0.09	-94%
Literacy and Non Formal Basic Education	0.05	Zero	-100%
Labor and Human Resources	0.84	0.15	-82%
Health	30	27	-10%
Agricultural Development	7.96	1.76	-78%
Governor's Secretariat	2.0	2.0	0.0%
Provincial Assembly	204.09	235.09	16%

2.3 Social and Efficiency Indicators:

The ultimate objective of any policy intervention in an economy is to improve living standard of citizens. This improvement can only be brought about only if labor productivity is high. Pakistan is middle income country with less productive labor. Poor education, health and other basic needs not only result in poor social indicators but they also contribute towards low labor productivity and lesser competitiveness of a country. This can be shown by ranking of countries according to Global Competitiveness Index published by World Economic Forum for the year 2017-18 (table 4).

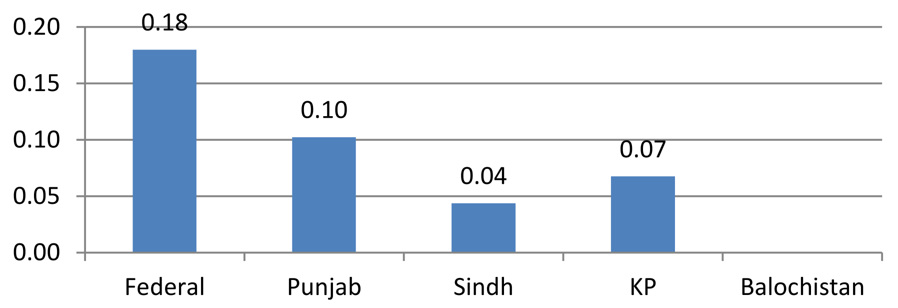
Table 4: Ranking out of 137 Countries on the basis of Global Competitiveness Index (2017-18)

	Pakistan	India	Bangladesh	Sri Lanka	South Korea
GCI-overall (137)	111	106	71	39	26
Institutions	90	39	107	77	58
Infrastructure	110	66	111	85	8
Macroeconomic Environment	106	80	56	94	2
Health and Primary Education	129	91	102	43	28
Higher Education and training	120	75	117	78	25
Goods Market Efficiency	107	56	94	83	24

Labor Market Efficiency	128	75	118	131	73
Financial Market Development	96	42	98	83	74
Technological Readiness	111	107	120	106	29
Market Size	28	3	38	59	13
Business Sophistication	81	39	91	59	26
Innovation	60	29	114	54	18

Pakistan's performance in social sector and indicators related to productivity, efficiency and competitiveness are quite poor. Pakistan ranks 111 out of 137 countries in the overall Global Competitiveness Index. In the sub-indices Pakistan's performance is the worst in Health and Primary Education (129/137) followed by Labor Market Efficiency (128/137), Higher Education and Training (120/137), Technological Readiness (111/137), Infrastructure (110/137) and Macroeconomic Environment (106/137). The only indicator for which the performance is reasonable is Market Size as Pakistan ranks 28 out of 137 countries. However, this high rank is due to large population in the country. With this state of affairs, Pakistan cannot change its status from lower middle income to upper middle or high income country. Budgetary allocation for labor and human resource services are poor and insufficient to fulfill the country's needs. Federal government allocated, in 2017-18, less than 0.2 percent of development budget on labor and human resource services. None of the provincial governments even allocated greater than 0.1 percent of development budget. Moreover, as shown in table 3, most of these allocated expenditure are revised downward. So at the end of fiscal year this important sector gets negligible amount which is insufficient to make improvement in labor productivity.

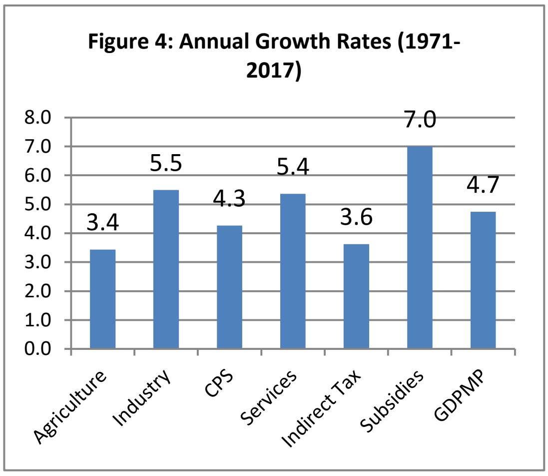
Figure 3: Allocation to Labour and HR services as Percent of Development Budget

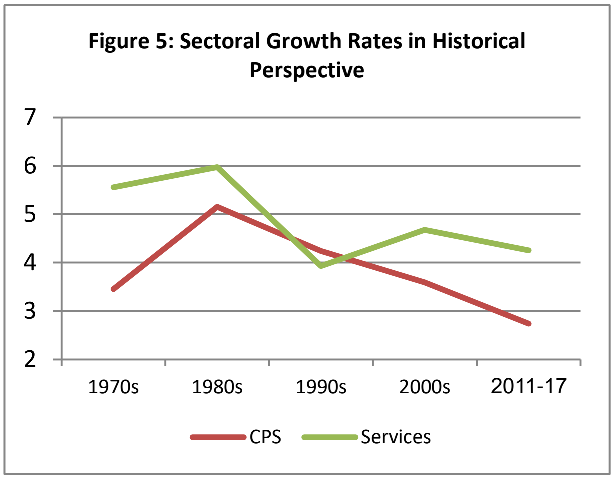


2.4 Sectors of the Economy from Supply Side:

From the supply or production side, an economy can be categorized into commodity producing sector, consisting of agriculture and industry, and services sector. Agriculture sector includes crops, livestock, forestry and fishery; industrial sector includes mining & quarrying, large scale manufacturing, small scale manufacturing, slaughtering, electricity & gas generation & distribution and construction; services sector includes wholesale & retail trade, transport, storage & communication, finance & insurance, housing services, general government services and private services. Over the past four and half decades, agriculture sector performed poorly as it grew at an average annual growth rate of 3.4 percent while industrial sector and services sector grew at 5.5 and 5.4 percent, respectively (Figure 4). The average annual growth rate of real GDP is 4.7 percent which is low for a developing economy with huge unemployed resources. Pakistan needs 8 percent annual sustained growth rate to provide employment opportunities to unemployed youth. The existing situation is because of more focus of government policy on stabilization rather than on growth which resulted in putting Pakistan on low growth trajectory. Moreover, there has been less focus of government on human resource development, improvement in

social infrastructure, entrepreneurial activities, proper design of cities for mobility and business, discouraging rent-seeking activities.
Besides low annual growth rate, the growth potential is declining over time for both commodity producing sector and services sector (Figure 5). Both sectors grew at lesser rate in 1990s compared to 1980s. In the first decade of 21st century, services sector got momentum again but this could not be sustained. However, the commodity producing sector is on continuous decline from 1990 onward. From fiscal policy perspective there is need to design tax policy in such a way that encourages real sector and discourages rent-seeking activities. Similarly budgetary allocations must align with the development needs and priorities of the nation.





3. Concluding Remarks:

Pakistan is a developing country with approximately USD 1600 GDP per capita and average annual real GDP growth rate of 4.7 percent. Pakistan has huge potential, especially in terms of human resource. But the rate at which economy is growing is not sufficient to absorb unemployed human resource and change status of the country from low middle income to upper middle income or rich country. Social indicators of the country are even poorer than the economic indicators. Country ranks in the lower segment when compared with other countries on social, economic and efficiency indicators.

Investment in real sector is stagnant and national saving is not enough to finance that low investment. The economy is put on stabilization path and measures are not taken to put it on high growth trajectory. Fiscal policy has lost its soul: revenue forecasts are poor, budgetary allocations are not informed on the basis of research, efficiency of expenditure is low, revenue maximization through high tax rate has become the only objective of tax policy, and incentive mechanism for entrepreneurship is absent. Budget exercise has lost its credibility due to frequent revision in the budgetary allocations.

Fiscal policy seems to be austere for social sector but ornate for unproductive sectors. In this state of affairs, Pakistan cannot grow faster with a high sustained growth rate. Therefore, the need of the hour is to devise an incentive mechanism that encourages investment in the sectors that create employment opportunities and help improve living standard of the citizens. On the other hand, rent-seeking activities and unproductive investment must be discouraged.

ANALYSIS

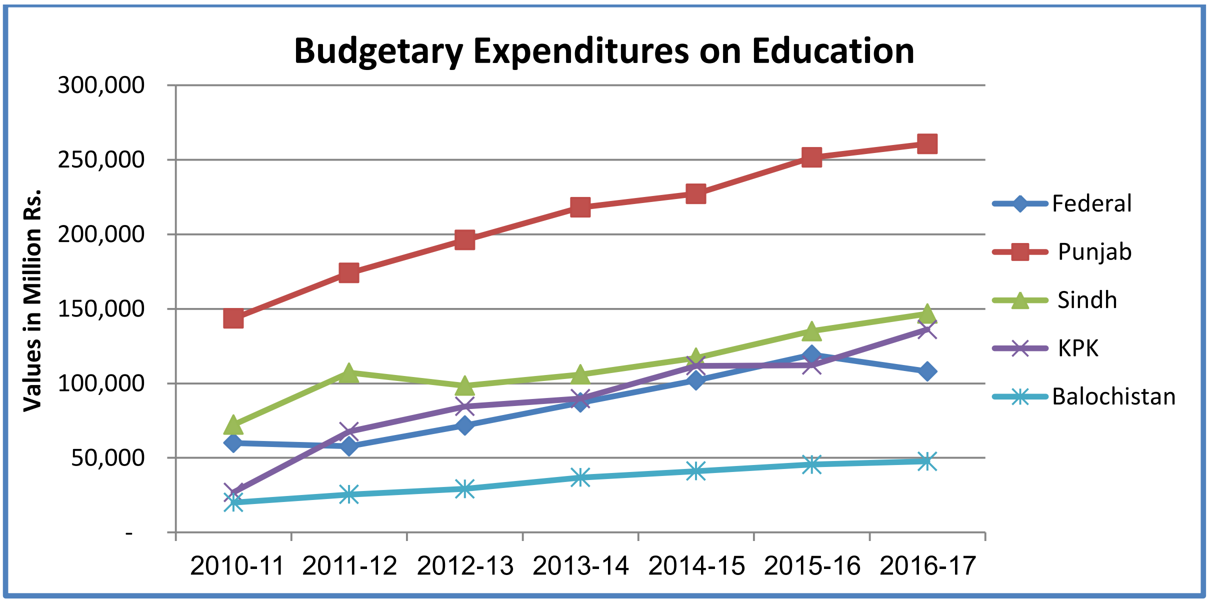
Social Sector Spending in post 18th Constitutional Amendment (2010-2018)

Muhammad Adnan Azeem, Finance & Accounts Officer, National Assembly Secretariat
and Muhammad Rizwan Manzoor, PIPS Economy and Budget Desk

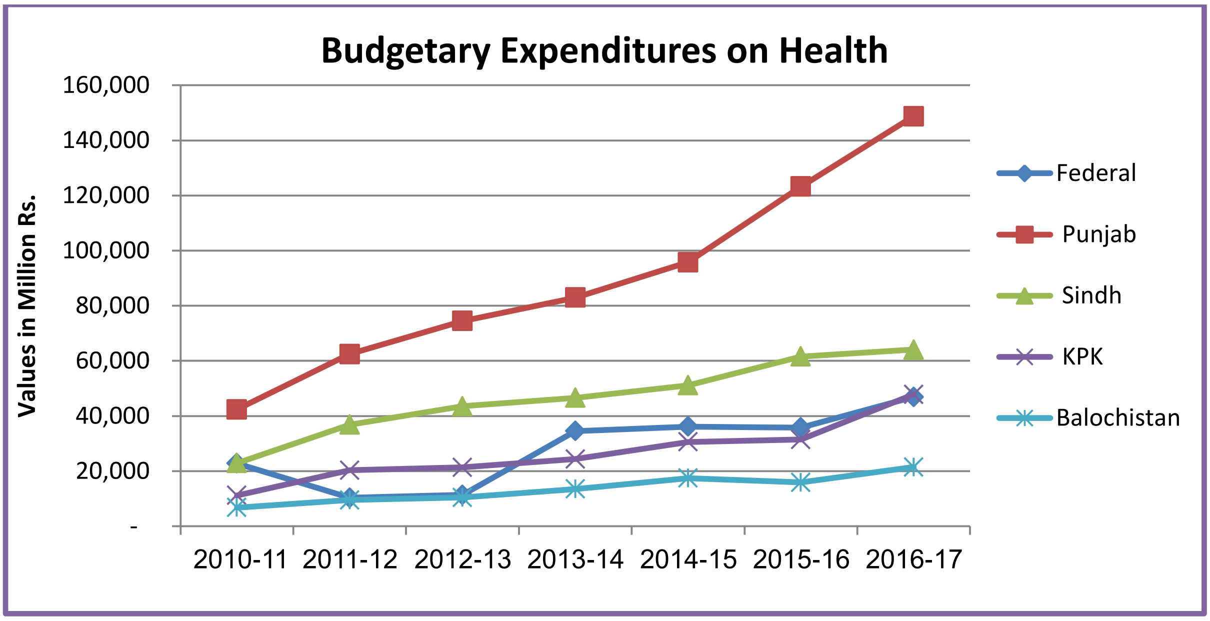
The Father of the Nation Quaid e Azam Muhammad Ali Jinnah reiterated it to be the top priority of every government that life, property and belief of every citizen is protected. It is a matter of great satisfaction that country is beginning to reap fruits of parliamentary democracy as a comparative budget spending data in areas directly related to basic well-being of citzens, i.e law and order, health, education, agriculture and environment, by federal and provincial governments has shown marked upward trend.

It is manifestation to a great extent of the fact that the 18th Constitutional Amendment passed by support of both treasury and opposition parliamentary parties in 2010 has worked well by distributing the resources among the federating units and creating a healthy competition among them for betterment of the masses.

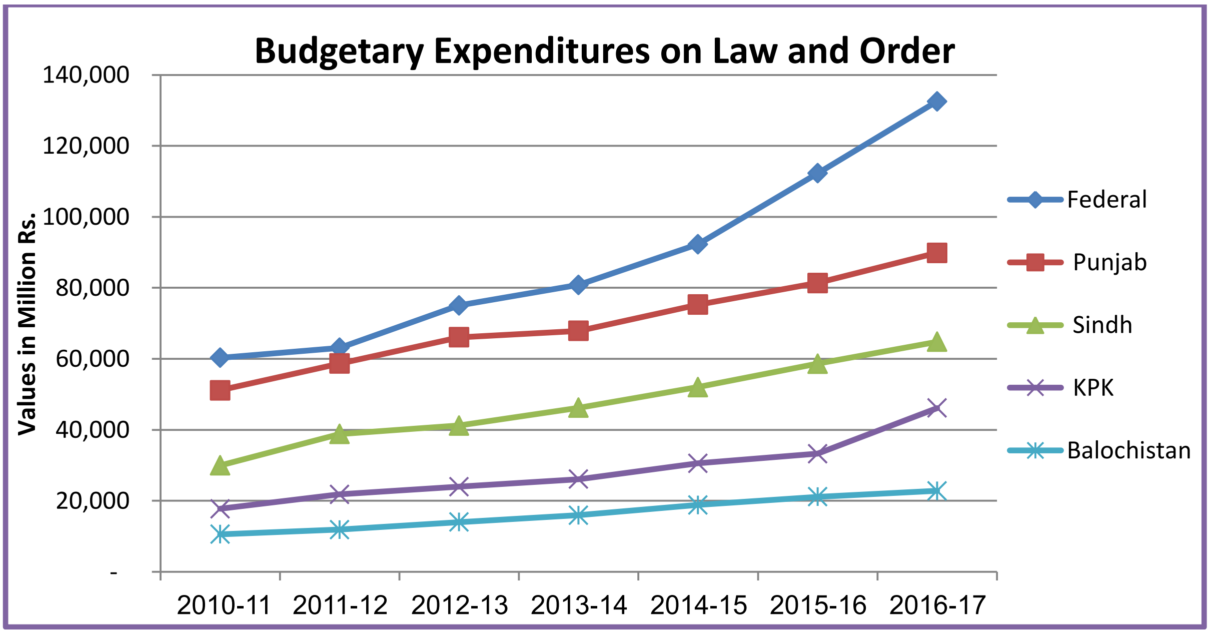
The info-graphs below show the budget spending trends in Education, Health, Law & Order, Environment and Agriculture by the four provincial government and federal government for last seven years i.e. from 2010 to 17.



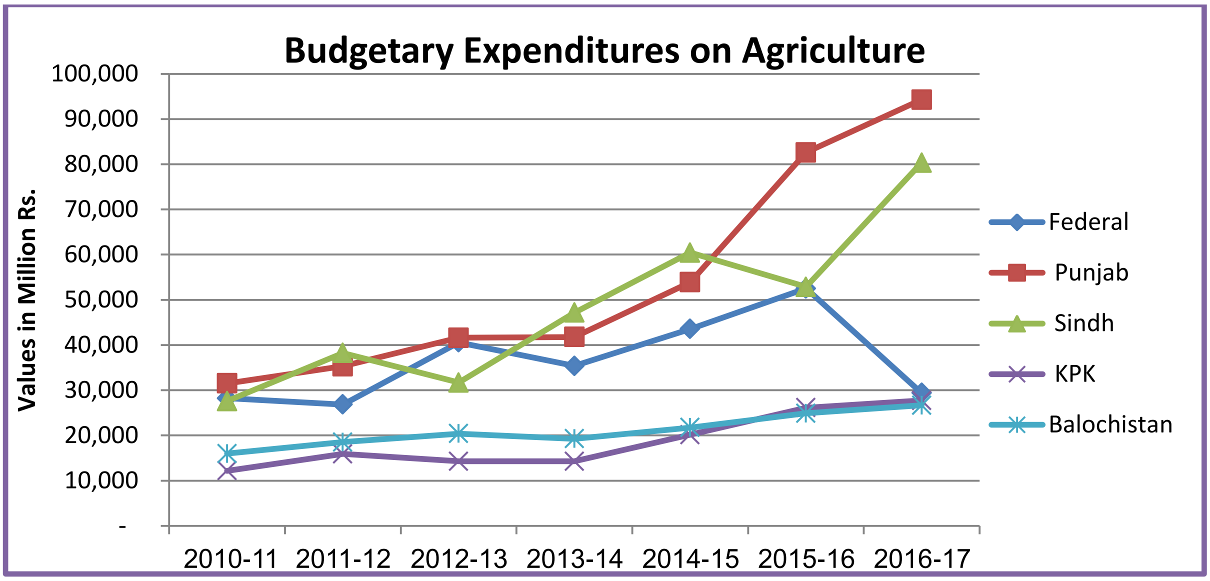
The overall spending on education in Pakistan has increased from Rs. 322, 811 million in 2010 to Rs. 699, 222 million in 2017. The data shows impressive growth in spending on Education Sector by federal government as well as by provincial governments. During the 7 years of analysis (2010-2017) the average increase in spending for Federal, Punjab, Sindh, Khyber Pakhtunkhwa and Balochistan remained 11%, 11%, 14%, 38% and 16% respectively.



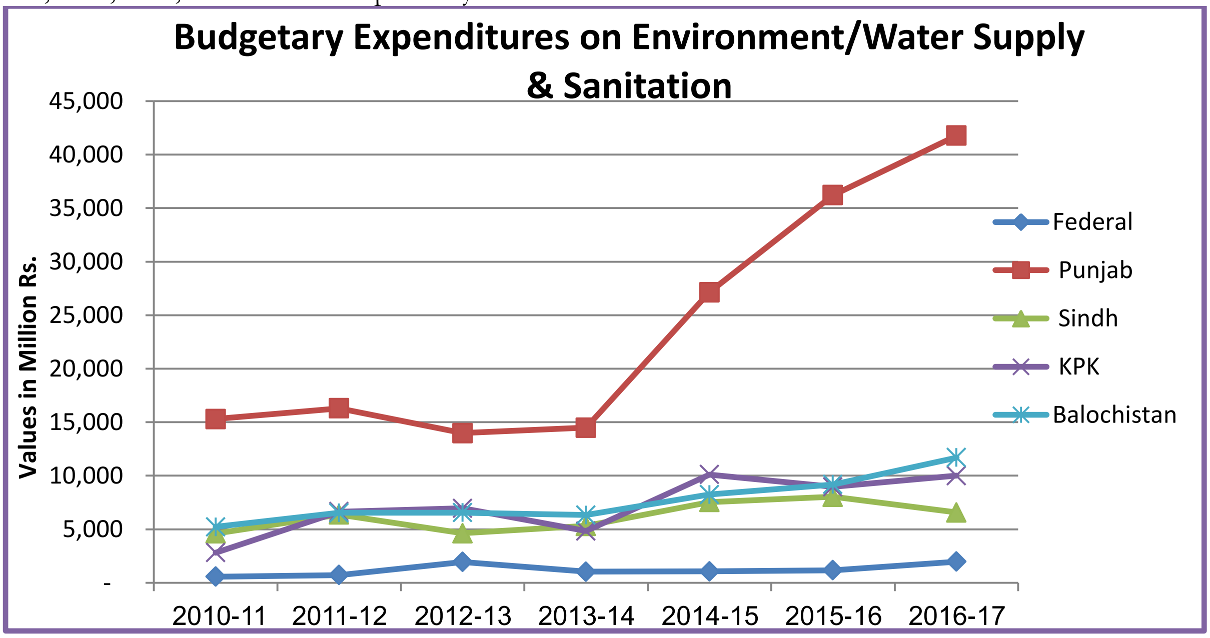
The overall spending on Health Sector in Pakistan has increased from Rs. 106,017 million in 2010 to Rs. 328,962 million in 2017. The data shows impressive growth in spending in Health Sector by federal government as well as by provincial governments. During the 7 years of analysis (2010-2017) the average increase in spending for Federal, Punjab, Sindh, Khyber Pakhtunkhwa and Balochistan remained 32%, 24%, 20%, 30% and 23% respectively.



The overall spending on Law and Order in Pakistan has increased from Rs. 169,791 million in 2010 to Rs. 356,217 million in 2017. The data shows impressive growth in spending on Law and Order by federal government as well as by provincial governments. This also reflected from the improved security conditions in the country. During the 7 years of analysis (2010-2017) the average increase in spending for Federal, Punjab, Sindh, Khyber Pakhtunkhwa and Balochistan remained 14%, 10%, 14%, 18% and 14% respectively.



The overall spending on Agriculture Sector in Pakistan has increased from Rs. 115,511 million in 2010 to Rs. 258,396 million in 2017. The data shows impressive growth in spending in Agriculture Sector by federal government as well as by provincial governments. During the 7 years of analysis (2010-2017) the average increase in spending for Federal, Punjab, Sindh, Khyber Pakhtunkhwa and Balochistan remained 6%, 21%, 23%, 16% and 9% respectively.



The overall spending on Environment, water supply and sanitation Sector in Pakistan has increased from Rs. 28,506 million in 2010 to Rs. 72,031 million in 2017. The data shows impressive growth in spending in this important sector by federal government as well as by provincial governments. During the 7 years of analysis (2010-2017) the average increase in spending for Federal, Punjab, Sindh, Khyber Pakhtunkhwa and Balochistan remained 38%, 22%, 9%, 37% and15% respectively.

Conclusion:

The Parliament of Pakistan is the citadel of human rights for the masses and it continues its legislative and oversight initiatives to improve service delivery on sectors directly improving the living standards of the country especially catering to focus on challenges of multidimensional poverty that needs to be met through contribution at federal policy level as well as the provincial implementation level. The data trend from 2010 to 2017 reveals a shift of priorities towards the human development goals and well-being of the masses especially the poor.

OPINION

Increasing Trade Deficit of Pakistan: Challenge and Way Forward

Dr. Syed Kauser Ali Zaidi
Director General, Services Trade Development Council
Ministry of Commerce, Government of Pakistan

Pakistan has been consistently faring in trade deficit due to stunted growth in exports and extravagant rise in imports. The year 2016-17 brought a mighty challenge for the economic management of the country by booking US$ 32.5 billion in deficit, which has been all time high in the country's history. The gap between country's modest exports and cannibalizing imports has further widened in the first three quarters of 2017-18. The exports started showing some signs of recovery since the developed markets got a second hit from a prolonged recession. The trade imbalance put already depleting foreign exchange reserves under choking pressure. Yet one may not overlook the fact that imbalance in favour of imports was an immediate eventuality due to focus of incumbent government in essential infrastructural development, especially in the launching phase of the China Pakistan Economic Corridor.

The challenge now includes how to trigger export growth in addition to footing the import bill without compromising the economic growth. The economic managers will have to exercise the option of raising dollar from the international market, preferably, on favorable terms. It will have deeper, political implications if the country opts for International Monetary Fund bail-out especially when general elections are only months away. The upward trajectory continues even in the ongoing financial year, which may dissuade new investment in the country. However regional economies have started displaying signs of recovery from the effects of the global recession. Similarly, Pakistan's exports appear to be on the rebound but their recovery is too slow to positively dent surging trade deficit.

The rise in import bill may be seen as investment for future gains because the import basket contains capital goods and material required for infrastructure up-gradation. Upgraded infrastructure improves the competitiveness of exports along with uptick in Pakistan's rankings on global business related indexes. Pakistan has been losing 2% of its GDP due to power shortages.[1] The import bill contains power generating machinery which would help in eradication of load shedding and saving US$ 6 billion (2% of GDP) every year.[2]

Weak industrial base: Pakistan's industrial base has always been narrow and lacking required dynamism of modern times. In 2016-17, textile sector's share in the total exports has been 60% and only 5 items make 80% of Pakistan's total exports.[3] It has structural problems that led to low output, slack investment rates and sluggish exports.[4] It lacks diversification, has technical and resource allocation inefficiencies, low standard production processes and neglecting investment in Research and Development (R&D) have made the country less competitive than its real potential in the global market. It made exports a hostage of a bunch of products and made economy a factor driven economy where low skilled labor and natural endowments were the main strength for growth. The country's efforts to pass through efficiency driven economy stage and then to reach to innovation driven economy stage could not be materialized.

Strong domestic growth: Pakistan's economy touched US$ 304 billion for the first time with a growth rate of 5.28% which is the highest in the last 10 years.[5] The economy has to consume more than ever to reach US$ 304 billion mark.[6] In order to meet the development demands of the country the surge in imports was inevitable and a spanner in the imports would have badly hurt the growth wheel. The rising energy needs, CPEC and other mega projects attracted higher amount of relevant imports. In 2016-17,

[1] Ministry of Finance, 'Pakistan Economic Survey 2012-13', Available at: http://www.finance.gov.pk/survey_1213.html (Accessed on 16 December 2017)
[2] *ibid.*
[3] Ministry of Commerce, "*Sectoral Performance of Exports",* (Islamabad: Official Printers,2017),07
[4] Kemal, Abdul Razzaq. "*Key Issues in Industrial Growth in Pakistan*", *Lahore Journal of Economics* 11 (2006).
[5] Ministry Of Finance," Pakistan Economic Survey 2016-17", http://www.finance.gov.pk/survey_1617.html, (Accessed 19 November 2017)
[6] *ibid.*

Machinery exports were US$ 7.1 billion (9.5% up) including Power Generating Machinery of US$ 1.3 billion(11%up) Electrical Machinery & Apparatus 1.2 billion (-28%).[7]

Usual causes of Decline: Some of the usual suspects that have caused our exports to fall and widen the trade deficit are the challenges of overall security situation, lack of competitiveness, out-dated machinery and methods, lack of export culture and weak contract enforcement mechanism. Security challenges have dried up new investment and BMR (Balancing, Modernizing and Replacement) in existing production facilities which have put our firms at a technological disadvantage. Among the endogenous factors, easy access to trade finance remained an insurmountable challenge for entrepreneurs. Shortage of working capital has hampered the growth of firms because they find it difficult to cater to large orders. Our existing export finance schemes being managed by the State Bank of Pakistan, has faced challenges of outreach to SMEs.[8] Majority of the users of Export Finance Schemes (EFS) are large established players and the existing arrangements leave the SME's out of the capital stream.

Trade Defense Measures against Pakistan: 'The chilling effect' was a compounding factor for some of our exports such as cement due to the application of trade defense measures by some of our trading partners on our exports. These include ban on Shrimp import by USA, additional duties by Turkey on Pakistani Textiles, SPS measure on fisheries by EU and Anti-dumping duties on Pakistani cement by South Africa.

Impact of competing FTAs: Pakistan has successfully negotiated three Free Trade Agreements (FTAs) with Sri Lanka, China and Malaysia and three Preferential Trade Agreements (PTAs) with Iran, Mauritius and Indonesia. However, Pakistan's last FTA was signed in 2009 and since then the international trading order has witnessed a plethora of enhanced market access arrangements among our trading partners. Due to lack of expansion of these preferential trading arrangements to Pakistan, the margin of preference of Pakistani firms has eroded vis-à-vis our competitors in these markets. For example, China has concluded an FTA with ASEAN where they have given 0-5% duty concession on up to 90% of the tariff lines which is significantly broader coverage of tariff lines than those covered under the Pak-China FTA.

Economic recession and global trade decline: On the exogenous side, international trade has had a suboptimal track record in recent times. In 2016, global merchandise trade shrank to US$ 15.86 trillion, down from US$19 trillion in 2014.[9] This is rather unique as trade has been generally growing more rapidly than global GDP growth since World War-II epitomizing globalization. Even the acclaimed export stars i.e. BRICS (Brazil, Russia, India, China and South Africa) have faced dire times when it comes to economic growth and export performance. Brazil and Russia are in deep economic recession while India has seen its exports fall for the 16thstraight month which translates in 15.9 % decline in overall exports in the last year.[10] The global trade juggernaut, China has posted a 25-year low growth in 2015. Since we are in the same trough, it is rather difficult for Pakistan to become an anomaly and defy this global downturn in exports. The global commodity crisis has compounded the economic slowdown. Global prices of raw cotton dropped by 21.2% and those of non-basmati rice, which constitutes 70% of our rice exports, were down by 21% in 2016. The production, stocks and prices at global level have hurt Pakistan's export numbers.

Distorted international trade and tariff regime: Free trade strives for perfect trading markets but it is hard to find them. There are subsidies, state support, and trade distorting practices, impassable regulations and notifications. Countries maneuver through currencies, companies and markets. Pakistan do not have sufficient fiscal space to pump sufficient resources to give a buoyancy to its exporting firms so it had to lose against resource rich trading nations which leads to rising trade deficit. The protectionist

[7] Ministry of Commerce, "*Trade Analysis,"* (Islamabad: Official Printers,2017),08

[8] State Bank of Pakistan, "*SBP's Iincentives Schemes*",http://www.sbp.org.pk/Incen/index.asp(Accessed on 16 October, 2017)

[9] International Trade Center,"*Trade Map*", http://www.trademap.org/Product_SelProduct_TS.aspx?nvpm=1|||||TOTAL|||2|1|1|2|2|1|1|1|1 (Accessed on 19 October 2017)

[10] *Op. cit.*

approach of Pakistan's export markets is hurting Pakistan's access to these markets. In the wake of the global recession and internal political instability, they are introducing stringent regulations that are making exports to these markets difficult than ever.

Lack of entrepreneurship for exports: Pakistan is suffering from a long term entrepreneurial vacuum. The export sector direly needs new entrants that could reinforce and diversify export base of the country. The lack of export culture which is also stymieing export development efforts leads to more investment in the domestic economy than injecting finance into the exporting sector. The problem becomes multifold when we see that the traditional players are shifting their investment from export to non-export sectors. For example, almost all local textile and clothing giants have focused on retail outlets within the country in recent years rather than establishing new industrial units.

Country's objective image: Pakistan needs to capitalize on its enhanced peace and security as well as its ever improving quality goods and services including its finished goods such as surgical instruments, clothing and footballs. This image should be persuading for importers of good quality and high end products to engage with Pakistani exporters. Pakistan produces 50% footballs of entire world and it has won the contract of official FIFA ball for the World Cup scheduled to be held in Russia in June 2018. Pakistan needs to utilize the occasion to motivate its businessmen, labourers and world at large that country produces quality that not only matches but outscores other counterparts. Success stories of quality country's exports must be told comprehensively by the media through documentaries. Even in the existing supply the importers are inviting our exporters in the middle east to strike deals which increases our exporters order managing cost. Negative travel advisories of the developed world about Pakistan discourage the importers to travel to Pakistan, examine the production facilities and place orders. Most of the insurance companies of the developed world do not offer insurance cover to their policy holders for Pakistan. In some cases, they charge additional fee or the importer had to buy second insurance. An overall image projection portraying strong political will and hosting more international people to people contacts and activities would trigger a positive and objective image of the society.

Services Sector: Pakistan has witnessed a massive rise in the contribution of services in the expansion of the economy. In fact, over the past decade, the growth rate of services has exceeded that of agricultural and industrial goods. Pakistan's service sector accounts for 59.16 percent of its GDP and for slightly more than one third of its total employment.[11] The services sector has registered 5.98% growth in 2016-17 when the overall growth was 5.28%.The services sector has strong linkages with all other sectors of the economy, providing essential inputs to agriculture and to the rest of the industry. The export related incentive packages are mainly directed towards manufacturing and agriculture. Even in services exports there are some groups that have shown exceptional growth even in recession times. For example, Computer related services have registered a growth of 102 % in the in last 5 years.[12] Its average per annum growth of last 5 years has been 20.4% which is far high than any merchandize sector of its size. Thus services sector also deserves helpful proactive environment.

Way Forward:

The global trading landscape is swiftly shifting from trade in goods to trade in tasks. It is a journey from product specialization to task specialization. The countries that are not learning lessons will have to face contracting exports and rising trade deficits. The pie of international trade, as always, is not sliced equally and those who are better prepared to deploy relevant policy options will capture a bigger slice of this pie. The success in fragmentation of manufacturing needs a revised policy paradigm that could leverage Pakistan's enhanced participation in international trade. The country is celebrating record 10 year high GDP growth but the problem trade deficit should be addressed. Pakistan needs to address policy and infrastructure related bottle necks for a turn-around of its exports sector. The country needs to keep trade on its priority to wade out of the trade deficit so that country could take advantage of its bilateral, regional and multilateral trade engagements. The key ways forward for economic managers are as under:

[11] *Op.cit.*

[12] *Op.cit.*

i. **Tariff rationalization:** The Ministry of Commerce in collaboration with FBR needs to opt for tariff rationalization because tariff on export inputs and intermediate goods raises the cost and compromises competitiveness. The trade distortion impacts of tariff need to be addressed properly.

ii. **Financial support for trade policy implementation:** The biggest challenge in the seamless implantation of trade agenda is non release of Export Development Fund for the trade policy initiatives. Ministry of Finance should, without delay transfer the funds for the trade policy as approved by the cabinet.

iii. **Abolishing regulatory duties:** More than 1600 tariff lines are facing Regulatory Duties. It is putting unfair burden on export sector by increasing cost. RDs need to be done away with to reduce cost of imported inputs that would provide cheaper, diversified and quality inputs to our firms which are pivotal for their enhanced participation in international trade.

iv. **Normalize trade with India:** Pakistan should advance for trade normalization with India by granting Non Discriminatory Market Access (NDMA) and in return getting a reduced Indian sensitive list at SAFTA. Both neighbors should get rid of their respective NTBs like city specific visas and cumbersome visa procedures. Comprehensive Dialogue can play a vital role in solving the issues like NDMA, NTBS and Reducing SAFTA Sensitive list so it should be resumed. It may help in exploring and tapping further areas of mutual trade and economic cooperation.

v. **Supply of skilled labor:** Pakistan's first ever Technical and Vocational Education and Training (TVET) Policy, is waiting for approval for the last two years. The TVET Policy has the potential to unlock export expansion through provision of quality human resource to firms. Its implementation would help in tapping the expansion potential for the exporting.

vi. **Strengthening Dispute Resolution Mechanism:** Weak contract enforcement dissuades new investment in the country. Trade dispute resolution mechanism should be made effective by strengthening Trade Dispute Resolution Organization (TDRO). The Ministry of Commerce needs to pro-actively pursue the approval of the TDRO Act from the Parliament which is expected to change the face of trade dispute resolution mechanism in the country. The Ministry needs to deploy sufficient resources so that TDRO can be functional in all the provinces and GB as per its original mandate.

vii. **Effective implementation of Trade Facilitation Initiatives:** WTO's trade facilitation agreement needs to be implemented in true letter and spirit that would reduce trade cost up to 15% on average. National Single Window (NSW) which is expected to connect all the government agencies to one point for their approvals and certifications related to export / import procedures needs to be established on top priority. The national single window would make the goods clearance system more paperless and at par with the leading economies of the region.

viii. **Enhance investment in R&D and innovation:** Pakistan needs to prepare its entrepreneur to take advantage of knowledge economy. Currently Pakistan is spending only 0.3% of GDP to Research, Development and innovation which is quite low as compared to its competitors. The spending in R&D initiatives and innovation promotion activities need to be enhanced to 2% of the GDP to bring Pakistan at par with its regional and global partners in terms of investing and subsequently reaping the benefits of the knowledge economy.

ix. **Early conclusion of market access negotiations:** Pakistan should successfully and early conclude its ongoing market access negotiations for Pak- Thailand FTA, Pak-Turkey FTA, and second Round of Pak–China FTA. The Ministry of Commerce needs to improve inter-ministerial coordination especially with FBR on revenue implications of trade agreements. The private sector consultations should be made meaningful by conducting research studies and sharing research based findings and potential gains for the Pakistani business community. The Ministry of Commerce need to share a research based response with public and private sector stakeholders about the latter's concerns about the previous FTAs/PTAs. It should also vigorously implement "Look towards Africa" policy that would be a very effective instrument for market diversification

x. **Revisiting Livestock Policy:** Pakistan needs to revise its livestock policy so that the export of livestock is allowed. Besides fetching foreign exchange, it would induce efficiency and growth in the sector which would have positive bearing upon poverty alleviation of the marginalized classes.

xi. **Incentivize the Services Sector:** Research and Development Support of at least 1% on contracted and remitted amount/value may be provided to the firms that show good performance in export of computer related services. If the R&D Support is provided and the existing growth is maintained, the gain would be of US$ 100 million and the exports of this sector would rise from existing US$ 488 to US$ 588 in next year.

ANALYSIS

Population Census 2017: Way forward for well-being of citizens with special focus on health, education and food security

Dr. Vaqar Ahmed
Joint Executive Director, Sustainable Development Policy Institute (SDPI)

The census of 2017 has put the annual average growth rate of Pakistani population at 2.4 percent. In absolute terms the population was 207.8 million in 2017 compared to 132 million in 1998. Furthermore this total does not include few areas being catered by the state including Gilgit-Baltistan and Azad Jammu and Kashmir. In any case this number now makes Pakistan fifth largest country in the world in terms of population size. Out of the total, 101 million (or 49 percent of total) is female population. The 2017 census results also reveal that Pakistan may perhaps be the fastest urbanizing country across South Asia. As much as 75.6 million persons (or 36.5 percent of total) are now living in urban spaces. Only in Sindh province 52 percent have already moved to cities with municipal jurisdictions.

In provincial terms, Punjab remains the most populous province and home to 53 percent of total population. This is followed by Sindh (23 percent), Khyber Pakhtunkhwa (14.7 percent), Balochistan (5.9 percent), Federally Administered Tribal Areas (2.4 percent), and Islamabad (1 percent). The life sex ratio (i.e. males per 100 female) has also changed since the previous census. This ratio now stands at 105 compared to 108.5 in 1998. The top four cities by population haven't changed since the previous census. These remain Karachi, Lahore, Faisalabad and Rawalpindi. However Multan which was at number 5 in 1998 has been taken over by Gujranwala. This is followed by Peshawar, Multan, Hyderabad, Islamabad and Quetta at number 10.

While it is encouraging to note that 63 percent of Pakistan's population was under 25 years of age – indicating all the potential demographic dividends, and also that overall population growth is lower than the growth of labour force, however it may be a little worrying for policy makers and those involved in development administration that in the next three decades, Pakistan's population is projected to double. If Pakistan economy continues to grow at a sluggish rate and resources are not created in a sustainable manner over the longer run, this significant increase in population could result in further strain on urban areas, public infrastructure, and social sector facilities particularly education and health (Ishfaq et al. 2017, Ahmed 2015).

A. State of education, health & food security

The United Nations Development Program's Human Development Index for 2015 puts Pakistan at 147 out of 188 countries. According to the 2016 data released by the Ministry of Federal Education and Professional Training, 44 percent school age children falling between the ages 5 and 16 years were out of school. This is a population of 22.6 million children not having the benefit of schooling. Almost 21 percent primary schools in the country do not have an appropriate size of faculty and are usually run by a single teacher.

While the definition of 'school' is fairly broad for public statistics collection purposes, however in reality 14 percent schools are only a single room and even these are facing several forms of constraints. For example, 40 percent of total primary schools in the public sector were without electricity, 29 percent did not have safe drinking water, 25 percent lacked a boundary wall, and 28 percent didn't have toilet facilities. Due to both, demand and supply side challenges, only 30 percent kids starting in grade-1 will reach until grade-10.

Children not being in schools should alarm much more if they are from regions hit by violence. For example, 58 percent of children in FATA are not in school. Similarly in the case of Balochistan 70 percent children are not going to school. These children are ultimately prime candidates to join the forces which harm the state. These among other reasons have given rise to disparities in education. For example, the female literacy rate, according to Pakistan Economic Survey 2016-17 is 48 percent. This is low if compared with male literacy rate now at 70 percent. The primary school enrolment rate is only 51 percent for female. It should not be surprising that the global gender gap index – a measure to capture gap between men and women across socio-economic indicators, ranks Pakistan 143 out of 144 countries in 2017.

A growing population will of course also have implications for the health sector. While increased the budgetary resources for this sector remains a challenge, equally difficult is to bring improvements in areas which could help health sector outcomes e.g. provision of safe drinking water and efficient disposal of waste. The Ministry of National Health Services, Regulations and Coordination has shown concern over the current state of infant mortality. According to 2016 statistics out of 6.3 million children born in Pakistan, 441,000 died with in the first 12 months. In fact almost 2,90,000 children die before the end of their first month.[1]

The UNICEF – United Nations Children's Fund for providing humanitarian and development assistance to children and mothers in developing countries now puts Pakistan as the riskiest country for newborn children. A key reason for this is that Pakistani women have a lesser probability of receiving appropriate assistance during pregnancy. There are only 14 skilled health professionals for every 10,000 persons. Going forward, it would be a significant challenge to have more mothers give birth in decent health facilities and under the care of skilled attendants (also see Manzoor et al. 2016).

The productivity of future labor force is also projected at low levels as out of the overall population of children, one-third is underweight. Similarly 46 percent children are malnourished. Almost one-third of the children are anemic due to iron deficiency. The Ministry of Planning, Development and Reform in its 2017 report 'The Economic Consequences of Under nutrition in Pakistan: An Assessment of Losses' informed that malnutrition's economic loss stands at 3% of national income or USD 7.6 billion. To reverse this situation donor funded food fortification programmes are underway the sustainability of which can only be ensured through proper ownership of federal and provincial governments.

The case of missing infrastructure and facilities at public hospitals also requires urgent attention. Sindh – second largest province in terms of population faces this challenge as public hospitals only have one-third of the required facilities available. Patients throng from the rural districts to hospitals based in the cities, often simply due to the lack of beds in rural areas. The provincial government now mindful of the lack of resources is seeking relentlessly to transfer management of public hospitals to private entities, which is not an answer to all the problems given that government officials still require capacity to regulate the private entities in the interest of patients. The capacity to respond to sudden disease outbreaks has also declined. For example, between 2016 and 2017 the number of affected persons by dengue in fact increased by 25 percent.

Let us now turn to an equally important responsibility of state in the wake of a growing population. The current situation of food security on ground leaves a lot to be desired. While food availability may not be much of a concern at least for most parts of the country, however food access i.e. distribution of food, similarly food utilization including the dietary patterns remains a concern. The daily diets lack the required levels of diversity much needed to overcome the deficiencies of micronutrients.

Even the production of food at local levels is constrained as Pakistan is in the list of most water scarce countries. Due to lack of water storage facilities and uncertain rainfall patterns in recent years, even in irrigated lands farmers have suffered losses in turn acting as a disincentive for future production. Even the past distribution of state land to landless farmers has worked little as the land itself was not made cultivable through desired interventions. During the past decade unfavourable climatic conditions and depressed prices forced the farmers, particularly in the smaller provinces to shift from major crops to livestock. The latter's share in the overall agriculture economy is a little over 50 percent (also see Ahmed and Asif 2016).

[1] Also see Ahmed & Ahmed (2014) for poverty and social impact analysis of immunization programme in Pakistan.

The above mentioned state of food insecurity should be easy to address in an environment where the country is witnessing progress in quantum growth of crops and stability in prices, certainly a matter of satisfaction for the incumbent government that continue to attract and encourage the farmers. According to the World Food Programme's food security bulletin the annual production of wheat crop for 2016-17 grew by 4.1 percent. The annual production of rice is estimated to increase by 9.2 percent in 2017-18. The prices of wheat, rice and wheat flour have remained stable in recent past. In fact the prices of non-cereal items witnessed a decrease.

B. Some possible reform measures

Going forward it is important for the federal and provincial governments to reform at least four areas of governance which in turn could bring about sustainable outcomes in the social sectors.

i. First, for Pakistan to be self-reliant in financial resources needed to address education, health and food security challenges it is important to increase resource mobilization efforts, through tax and non-tax resources and protect budgetary allocation for social sectors. This is in line with the Fiscal Responsibility and Debt Limitation Act (see Ahmed 2015b). Several progressive taxes are now under the provincial domain including taxes related to agriculture, property and transport. Increasing revenues from these sources will in turn make provinces and district level administrations less reliant on donor funding and ensure continuation of development programs once development partners exit (Jamali and Ahmed 2015).

ii. Second, the wastages in government expenditure already disbursed on education, health and food security can be minimized through appropriate policy measures, accounting practices and physical monitoring and evaluation of public schemes. Currently the federal public sector development programme and spending under provincial annual development plans have multiplicity of similar schemes leading to wastage of scares government resources. Also, it is clear from recent evaluations by Planning Commission that almost one-third of the disbursed development spending is not reaching the beneficiary (Khan et al. 2016).

iii. Third, public sector alone may not be able to arrange the financial and technical resources to plug gaps in the service delivery. It is important that local private sector should see investment in education and health as a priority for their own future growth and productivity. The United Nation's 2030 Agenda attaches significant importance to the role of private sector in timely achievement of Sustainable Development Goals (SDGs) in developing countries. All provincial governments may initiate a public private dialogue to see where private sector can be invited to scale up the initiatives in social sectors. Several such efforts under the public private partnership are already underway which can be replicated at a wider scale.[2]

iv. Fourth, the role of non-profit organizations at the community level in creating ownership for goals towards education, health, nutrition and food security is important. Behavioral and attitudinal changes necessary for adopting new technologies (e.g. preventive practices in health or conservation methods in agriculture) can only come about through community mobilization by local non-governmental organizations (NGOs).[3] It may be noted that recent tightening of regulations around NGOs has severely stifled the work of smaller and genuine organisations at the local level. This regulatory regime while necessary should not be at the cost of discouraging socially desired interventions. Social entrepreneurship is another model at the local level that can help our societies. This should be encouraged through policy measures (see also Yaseen and Ahmed 2016).

v. Fifth, it is important that parliamentary oversight should keep the achievement of SDGs on track. The recent book 'Pakistan's Agenda for Economic Reforms', published by the Oxford University Press highlights several diverse instruments, which parliamentarians may use to exercise their oversight as regards timely implementation of SDGs. For example, these instruments may include: parliament asking the government for regular information; parliament asking the government for public clarification of policy; parliament obtaining information from sources outside the government; parliament expressing its views to the

[2] Private sector has also been a key actor in peace building; see Khan and Ahmed (2014).
[3] See also Abbas and Ahmed (2016).

government and the public; parliament forming a special committee to meet regularly to discuss this subject; and if a committee is already existing and wishes to closely study the subject on a more frequent basis, a sub-committee can be formed which can co-opt technical experts.

The Parliament's SDGs Task Forces in the federal and provincial level assemblies should ensure that the commitment to SDGs and an emergency for their implementation is promised in the manifestos of all mainstream political parties. These Task Forces should also ensure regular and broad based debate around key SDGs on the floor. The Parliament's leadership e.g. Chairman Senate and Speaker National Assembly should seek regular updates on the implementation status from the Task Forces.

These Task Forces also need to realize that civil service remains the single most important instrument for development administration in education, health and food security areas. Therefore reform of the public administration should be led by these Task Forces. Innovative models of reforms in line with success examples from other countries can motivate the civil servants towards a focus on outcomes and better efficiency and effectiveness of public expenditure. Similarly the Task Forces at the provincial parliament level also need to ensure stakes of women and marginalized groups.

C. References

Abbas, M.H., Vaqar Ahmed (2016) Challenges to Social Accountability and Service Delivery in Pakis=tan. Social Change, Vol 46, Issue 4, 2016.

Ahmed, Sofia and Vaqar Ahmed (2014) Poverty and Social Impact Analysis of Expanded Program on

Immunization in Pakistan. Working paper 143, Sustainable Development Policy Institute.
Ahmed, Vaqar and Asif Javed (2016) National Study on Agriculture Investment in Pakistan. Working paper 157, Sustainable Development Policy Institute.

Ahmed, Vaqar (2015) Towards Sustainable Economic Development in Pakistan. Editor: S. Malik: Pakistan's Security Problems & Challenges, NUST.

Ahmed, Vaqar (2015b) Fiscal Challenges and Response. Book: Roadmap to Economic Growth of Pakistan, Islamabad Policy Research Institute.

Ishfaq, Sadia; Ahmed, Vaqar; Hassan, Danish; Javed, Asif. 2017. Internal Migration and Labour Mobility in Pakistan. South Asia Migration Report 2017, Routledge.

Manzoor, Rabia; Ahmed, Vaqar, and Khan, Shehryar (2016) Legislative Gaps in Implementation of Health related Millennium Development Goals: a case study from Pakistan. Journal of Pakistan Medical Association, June 2016.

Jamali, Sohaib and Vaqar Ahmed (2015) Tax Reforms in Sindh. Policy Brief 54, Sustainable Development Policy Institute.

Khan, Anam; Asif Javed; Samavia Batool; Fazal Hussain; Hamid Mahmood and Vaqar Ahmed (2016) The role of youth in sustainable development: perspectives from South Asia. Overseas Development Institute.

Khan, S.A. & Ahmed, V., (2014). Peaceful Economies: Assessing the Role of the Private Sector in Conflict Prevention in Pakistan. Stability: International Journal of Security and Development. 3(1), DOI: http://doi.org/10.5334/sta.dv

Yaseen, Fayyaz and Vaqar Ahmed (2016) Trade Winds of Change – women entreprenuers on the rise in South Asia: Background country study for Pakistan. United Nations Development Programme.

OPINION

Demography and Development – Evidence from Developed Countries

Fakiha Mahmood
Research Officer, PIPS International Relations Desk

The sixth population is Pakistan, conducted after much delay is set to provide a clear picture of the Pakistan's population in terms of number. While the detailed results have yet to come, policy making circles are going to have the opportunity to ponder over the current state of population in Pakistan and what policies to adopt in the future based on primary data covering various aspects of the population dynamics renewing the debate to formulate a National Population Policy in order to deal with the potentials and opportunities of the Pakistan's human capital.

The Annual Plan 2017-2018, a flagship publication of the Planning Commission, Pakistan's premier organization responsible for looking ahead for strategic decision making in the country states:

> *"There is a strong relationship between population growth and economic development of the country. All the developed countries of the world have controlled the population and achieved replacement level of fertility. But the case of the developing countries of Asia and Africa is different. As their population growth rate is high, so it has adverse consequences on socio-economic fabric of the country, pressure on limited resources, high rate of dependency and ultimately poverty with all its allied problems. Population stabilization is the key factor for attaining sustainable development."*[1]

Similarly according to the Economic Survey of Pakistan, "Population growth plays a determinant role in the development process of a country. Increasing population growth raise the dependency ratio and puts pressure on education, health system and food supply."[2] With this broader perspective in place, this paper looks at a) the linkage between population growth and economic development, b) what is the state of population in the developed countries? It also given a brief snapshot of the challenges China has been facing as a result of the one-child policy.

Population Growth and Economic Development: Theoretical context

The role of population growth in economic growth and development is highly contested in academic circles, as empirical studies provide little or no evidence to support either side of the debate with compete approval. The general view which often gets translated into the policy making community especially in developing countries is that population growth hampers human development. This is the pessimistic view of population growth which emerges from the ideas of Thomas Malthus. A Professor of History and Political Economy at the East India Company, he is famous for his writing "*An Essay on the Principle of Population*" published in 1798. His main thesis was that the population is growing at a rapid pace which would lead to shortage in food supply owing to diminishing returns[3] in agriculture. Hence, in order to avoid the impending acute poverty he prescribed the mechanism of population control. However, his ideas proved to be wrong with the increased food production faster than the population growth mainly because of technological progress in agriculture sector.[4] Nevertheless, population pessimists contend that population growth:

- Leads to scarcity of resources and environmental degradation
- Creates food insecurity
- Results in overcrowding and congestion in urban centers
- Generates unemployment

---

[1] Government of Pakistan, Planning Commission, Ministry of Planning, Development and Reform, "Annual Plan 2017-2018."

[2] Government of Pakistan, Ministry of Finance, "Economic Survey of Pakistan 2016-17."

[3] "Diminishing Returns" is a law in economics which states that "if one input in the production of a commodity is increased while all other inputs are held fixed, a point will eventually be reached at which additions of the input yield progressively smaller, or diminishing, increases in output." Reference: https://www.britannica.com/topic/diminishing-returns, (accessed January 30, 2018).

[4] A. P. Thirlwall, Economics of Development (New York: Palgrave Macmillan, 2011) 136-137

- Loss of savings[5]

The effect of population growth on the savings ratio emerges from the perceived high dependency ratio of children because they consume but do not produce. The argument ignores the fact that older people also consume without adding into the production process and as the population declines the number of people enjoying the retired life increase in the given community. Hence the effect of population growth on the savings itself is contested in the academic circles.[6]

Contrary to the Malthusian ideas and the environmentalists which have renewed the Malthusian thesis in recent years, there is a strand of literature which contends that population growth contributes positively to economic development in a country. While critics had put forward various studies refuting the Malthusian theory even at the time of Malthus, in early to mid-1990s Julian Simon gathered arguments as well as empirical evidence on both sides of the debate on population growth. He concluded that initially the population growth negatively impacts the per capita income but in the long run growth in population positively impacts upon the economic growth and development. Population optimists generally give following arguments to support their ideas:

- The stimulus to new methods in agriculture
- The supply response of families
- The provision of social infrastructure (particularly transport)
- Scale economies[7]
- Demand-induced investment[8]

Population optimists argue that the population pressure creates new and efficient ways of agriculture for increasing the supply in order to meet the incoming demands. As empirical evidence the proponents of this view cite the example of Green Revolution which occurred in Asia in 1970s as a result of growing demand of food supply produced wheat and rice on such a scale which outnumbered the increase in population. As families work harder and use innovative ways to support their children, increasing family size signifies increase in output. Studies suggest that the elasticity of output to increases in the number of children is about 0.5, meaning that if a family witness 25 percent increase, for example four to five children, output increases 12.5 percent. Population growth leads to development in social infrastructure, transport and communication facilities. Development in these sectors provides benefit which goes much beyond the negative impacts of population growth. These facilities become available on cheap prices due to economies of scale. Population growth creates healthy environment for investment. Some economists put the blame for lack of investment not on the shortage of savings but on the ability to take the risk to invest.[9]

The State of Population in Developed Countries

Contrary to the general perceptions, developed countries have not stabilized the population. A glance at the state of population in the developed countries reveals following:

- Their population is contracting rapidly.
- The decline in the population of the developed countries has not come about as an outcome of the designed policy to stabilize the population. Instead, it has resulted from the shifts in their socio-economic values which have severely impacted upon the family structure as a unit of society.
- Given the emergence of multitude of issues such as ageing, the population decline is not a welcome development and more developed countries are looking towards the ways to raise population growth.

---

[5] Ibid, 291-294; Mathew MacCartney, Economic Growth and Development: A Comparative Introduction (London: Palgrave Macmillan, 2015) 79-91.

[6] Ibid.

[7] "Economies of Scale refer to the cost advantage experienced by a firm when it increases its level of output." https://corporatefinanceinstitute.com/resources/knowledge/economics/economies-of-scale/, (accessed January 31, 2018).

[8] A. P. Thirlwall, op. cit., 291-294; Mathew MacCartney, op.cit., 79-91.

[9] Ibid.

Population is declining in the developed countries at a significant pace. The population in Bulgaria, Croatia, Latvia, Lithuania, Poland, Republic of Moldova, Romania, Serbia, Ukraine and the United States Virgin Island is estimated to decline up to 15 percent by 2050. Fertility in all the European countries is below replacement level, i.e. 2.1 births per woman on average. As the table below depicts, except for New Zealand the entire developed world had fertility rate below the replacement since 1975 and is expected to remain so even up to 2100. Even New Zealand is now witnessing fertility below the replacement level and according to UN projections there are little chances to recover the gap any time soon.[10]

Total Fertility in Developed[11] countries for selected periods (Medium Variant)

Region/country	1975-1980	1990-1995	2005-2010	2010-2015	2015-2020	2025-2030	2045-2050	2095-2100
Europe	1.98	1.57	1.55	1.60	1.62	1.69	1.78	1.84
North America	1.77	2.00	2.01	1.85	1.86	1.87	1.89	1.91
Australia	1.99	1.86	1.95	1.89	1.83	1.78	1.76	1.80
Japan	1.83	1.48	1.34	1.41	1.48	1.58	1.70	1.79
New Zealand	2.18	2.07	2.14	2.04	1.97	1.89	1.80	1.81

Source: UN Population Division, 2017

The underlying factors responsible for this decline in fertility range from the dynamics of the labor market to immigration with varying levels of impact on the child bearing. Labor market tends to have significant impact on the decision to raise children. Rigid working conditions and entitlement to annual leave discourages women from childbearing. Maternity and paternity leaves have also been associated with level of fertility and consequently population growth in a country. Some countries chose to offer financial benefits in order to raise fertility. Childcare services provision has been considered an important factor in providing ease to balance family and office work for the children. The matters pertaining to housing have also played in affecting the fertility level.[12]

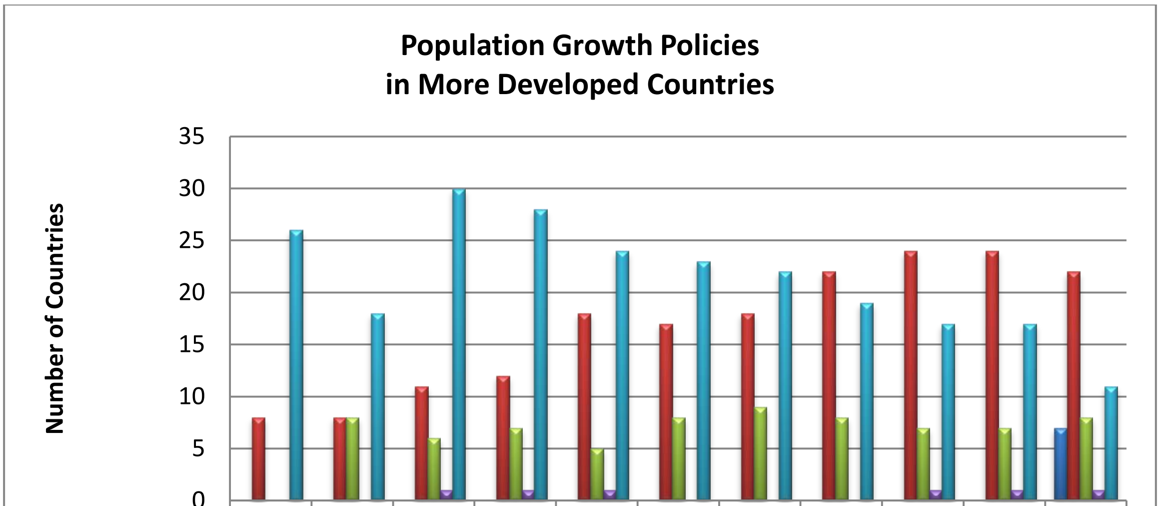
Data from 1976 to 2015 demonstrates that lowering the population growth was never a dominant government policy paradigm in developed countries. Instead, "no intervention" has remained a dominant trend which is now increasingly being replaced with the trend to "raise" the population as official policy of more developed countries. Except for United Kingdom no country in the entire more developed world has ever adopted the policy to "lower" the population growth since 1976 to 2015. The unique policy in UK has got a particular contextual background. For example, from 1991 to 2016 almost 55% increase in population attributed to net migration. While the magnitude of migration varies in the four constituent nations, without migration UK's population would either stagnate or decrease in the long run.[13]

[10] United Nations Department of Economic and Social Affairs Population Division, "World Population Prospects: The 2017 Revision," Key Findings and Advance Tables, https://esa.un.org/unpd/wpp/Publications/Files/WPP2017_KeyFindings.pdf, (accessed January 26, 2018) 5.

[11] UN definition included Europe, North America, Australia, Japan, and New Zealand among developed countries.

[12] United Nations Department of Economic and Social Affairs Population Division, Expert Group Meeting on Policy Responses to low Fertility, "Cross-cutting issues and policies in countries experiencing low fertility," November 2-3, 2015, http://www.un.org/en/development/desa/population/events/pdf/expert/24/Policy_Briefs/PB_1.pdf, (accessed February 8, 2018).

[13] Dr. Alessio Cangiano, "The Impact of Migration on UK Population," University of Oxford, January 24, 2018, http://www.migrationobservatory.ox.ac.uk/wp-content/uploads/2016/04/Briefing-Impact-on-Population-Growth.pdf, (accessed February 9, 2018).



	1976	1986	1996	2001	2003	2005	2007	2009	2011	2013	2015
No Official Policy	0	0	0	0	0	0	0	0	0	0	7
Raise	8	8	11	12	18	17	18	22	24	24	22
Maintain	0	8	6	7	5	8	9	8	7	7	8
Lower	0	0	1	1	1	0	0	0	1	1	1
No Intervention	26	18	30	28	24	23	22	19	17	17	11

Source: UN Population Division, Population Policies Database (accessed February 09, 2018)

Ageing and Dependency Ratio

Ageing is the phenomenon whereby the proportion of the population above certain age rises due to fertility decline and rise in life expectancy. In 2017 almost 13% of the world population with 962 million people was aged 60 or above. The growth in the number of people above 60 years is occurring at 3 per cent rate across the world. According to estimates the world would be inhabited by 1.4 billion people in 2030 and 2.1 billion in 2050 and expect to reach 3.1 billion in 2100. Exact figure may not come about as expected, however, growth in the old age cohort is increasing at a rapid pace. The countries with declining fertility are at the forefront of this global trend.[14] The list of countries with largest share of persons aged 60 year or over shows that the developing countries which adopted aggressive population control policies will be added in the list in the coming decades.

Ten countries or areas with the largest share of persons aged 60 years or over

Rank	1980		2017		2050	
	Country or area	*Percentage aged 60 years or over*	*Country or area*	*Percentage aged 60 years or over*	*Country or area*	*Percentage aged 60 years or over*
1	Sweden	22.0	Japan	33.4	Japan	42.4
2	Norway	20.2	Italy	29.4	Spain	41.9
3	Channel Islands	20.1	Germany	28.0	Portugal	41.7
4	United Kingdom	20.0	Portugal	27.9	Greece	41.6
5	Denmark	19.5	Finland	27.8	Republic of Korea	41.6
6	Germany	19.3	Bulgaria	27.7	China, Taiwan Province of China	41.3
7	Austria	19.0	Croatia	26.8	China, Hong Kong SAR	40.6

[14] United Nations Department of Economic and Social Affairs Population Division, "World Population Prospects: The 2017 Revision," Key Findings and Advance Tables, https://esa.un.org/unpd/wpp/Publications/Files/WPP2017_KeyFindings.pdf, (accessed January 26, 2018) 11.

8	Belgium	18.4	Greece	26.5	Italy	40.3
9	Switzerland	18.2	Slovenia	26.3	Singapore	40.1
10	Luxembourg	17.8	Latvia	26.2	Poland	39.5

Source: UN Population Division, World Population prospects, The 2017 Revision

Strategic planners world over are looking towards the issue of ageing as the dominant challenge to economic growth and development. From United Nations to World Economic Forum, the issue of ageing has secured prominent place in world leading forums looking towards emerging trends in coming decades. The Global Trends report issued in 2017 by the United States National Intelligence Council outlines the foremost global trend with implication through 2035 as "the rich are ageing, the poor not." According to the report, the biggest losers in terms of working-age population would be China and Europe, despite of having enormous opportunities for skilled labors and service-sector workers.[15]

The table below compares the dependency ratio in more developed regions and less developed regions. The data provided by the UN Population Division depicts that despite steep decline in fertility among the more developed counties, the dependency ratio is much higher in comparison with the less-developed countries. The major share of this dependency in more developed regions is attributed mostly to the ageing population. And the projections up to 2050 point to further deepening in the trend, as the number of older people is increasing at a rapid pace.

Dependency Ratio (Dependents per 100 non-dependents)

		1980	2015	2030	2050
More Developed regions	Child + old-age (ages 0-19 and 65+/ages 20-64)	73.9	65.4	79.4	89.8
	Old-age (ages 65+/ages 20-64)	20.4	29.1	41.1	50.5
Less-developed regions	Child + old-age (ages 0-19 and 65+/ages 20-64)	118.0	75.7	75.0	77.2
	Old-age (ages 65+/ages 20-64)	8.8	11.2	16.9	25.1

Source: UN Population Division, https://population.un.org/ProfilesOfAgeing2017/index.html, (accessed February 8, 2018).

The case of China

China presents a classic example of a country which adopted and implemented "one child policy" in 1979 in order to curb the population growth with the fear that increased population would put pressure on resources. But the consequences are no less than a disaster, generating long term socio-economic dilemmas and lowering the economic growth prospects.

China's unprecedented economic growth in past few decades has come about as a result of 63.8 percent of working-age population as of 1987, at that time only 4.2 percent people in China were above 65 years of age. That working age population was the driving force behind the 10 percent GDP growth witnessed from 1987 to 2007. According to estimates, the share of old people in Chinese population will reach 14% by 2025. A comparison with other countries reveals that it took France 115 years to increase its aged population from 7 percent to 14 percent, China took only 23 years, US-60 years, UK-45 years, and Germany-40 years.[16]

China's economic growth is being challenged by the shrinking working-age population and growing aged people. The work force is expected to reduce from 911 million in 2015 to 848.9 million in 2020 and 781.8 million in 2030. Consequently, economic growth is expected to reduce around 0.5 percent to 0.75 percent per year from 2020 to 2050. Most importantly, policy makers in China will have to cope with the increasing aged population by increasing social security spending. Apart from abandoning the one-child

[15] National Intelligence Council, "Global Trends: Paradox of Progress," (2017), https://www.dni.gov/files/images/globalTrends/documents/GT-Full-Report.pdf, (accessed January 29, 2018) 8-9.

[16] Spencer Sheehan, "China's struggle with Demographic change," *The Diplomat*, June 20, 2017, https://thediplomat.com/2017/06/chinas-struggle-with-demographic-change/, (accessed February 9, 2018).

policy China is also looking towards other ways and means to avert the "self-inflicted demographic disaster" [17] like upgrading the industrial base, introducing robotics in the manufacturing sector, raising minimum retirement ages, relocating business overseas. [18]

One of the prominent consequences of the China's one-child policy is the 62 million "missing women" creating imbalance in male-female ratio. As of 2010 there were 118 for every 100 females in China, compared with the natural sex ratio of birth 105 males to 100 girls. Estimates suggest that even if natural sex ratio gets normalized there will be 10 percent more males in Chinese society by 2050. These imbalances have already begun haunting the policy makers with increasing trafficking and deteriorating social institutions.[19]

Increasing salience of Human Capital

The World Bank publication *The Changing Wealth of Nations* 2018 for the first time includes human capital in calculating the wealth of nations around the world based on times series of household survey. Capital refers to "a resource that can be used for economic production". According to the publication, the wealth of a nation comprises of the sum of 1) produced capital 2) natural capital, 3) human capital, and 4) net foreign assets. Over the past two decades, the global wealth has increased witnessing a growth of 66% from 1995 to reach $1,143 trillion in 2014. While low-income countries are still lagging behind, the wealth has spread among high and middle-income countries. Defined as "the net present value of lifetime earnings of the labor force," human capital is considered the most important. The reason for low-income countries for lagging behind is the lack of human capital. Middle-income countries have witnessed fastest growth in recent decades mainly due to significant investments in education and health sectors.[20]

Conclusion:

Population planning in Pakistan tends to ignore some of the important factors in determining the population dynamics and follows the Malthusian path without assessing its implications. There is a need to revisit the basic presumptions for population planning in Pakistan as a way forward for National Population Policy. The challenges being faced in more developed world as well as China provide important lessons which have largely been ignored in the developing world.

Past few decades present the evidence that lowering the population growth was never a policy paradigm in more developed countries. The decline in population growth in those countries is not a welcome development as policy makers seek to raise fertility and reduce the gap in population through migration. Furthermore, the mega-challenges like ageing and the resultant increasing dependency ratio refute the population pessimism. According to the figures provided by UN Population Division, Fertility rate in Pakistan has declined from 6.60 in 1975-80 to 3.38 in 2015-2020 and expected to reach 1.82 in 2100. Without investing in education and health even the policy makers tasked to design policy for the population of 1.82 fertility rate would be faced with same challenges because the human capital would not have improved in such a scenario.

[17] Jeff Desjardins, "This animation compares the population growth of India and China," World Economic Forum, August 31, 2017, https://www.weforum.org/agenda/2017/08/this-animation-compares-the-population-growth-of-india-and-china, (accessed February 9, 2018).

[18] Spencer Sheehan, op.cit.

[19] Mara Hvistendahl, "China's new birth rule can't restore missing women and fix a population," *Scientific American* November 2, 2015, https://www.scientificamerican.com/article/china-s-new-birth-rule-can-t-restore-missing-women-and-fix-a-population/, (accessed February 9, 2018).

[20] Glenn-Marie Lange, et. al., "Richer or Poorer? Global and Regional Trends in Wealth from 1995-2014"; Kirk Hamilton et. al., "Human Capital and the Wealth of Nations: Global Estimates and Trends" in *The Changing Wealth of Nations: Building a Sustainable Future*, eds. Glenn-Marie Lange, Quentin Wodon, and Kevin Carey (Washington DC, The World Bacnk, 2018), https://openknowledge.worldbank.org/bitstream/handle/10986/29001/9781464810466.pdf?sequence=2&isAllowed=y (accessed February 1, 2018) 43-44, 115-132.

UN World Happiness Report 2018

PAKISTAN HAPPIEST NATION AMONG NEIGHBOURS

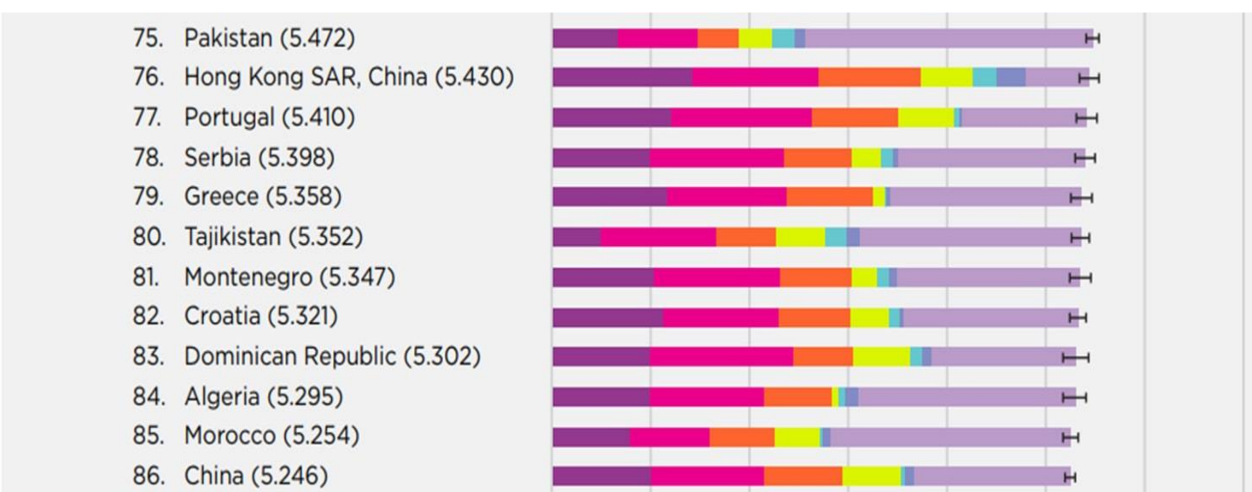
Economic Growth Increase, Decreased Inflation, Improvement in Law and Order and Lesser Crime Rate under Democratic Governments triggers improvement to 75 ranking as against 80 last year in total 156 countries

The United Nations' World Happiness Report (WHR) 2018 is a landmark survey of the state of global happiness. WHR 2018, which ranks 156 countries by their happiness levels was released on March 14th 2018 at a launch event at the Pontifical Academy of Sciences in the Vatican. A country's average ladder score was calculated into components explained by six hypothesized underlying determinants (GDP per person, healthy life expectancy, social support, perceived freedom to make life choice, generosity and perception of corruption). The overall rankings of country happiness are based on the pooled results from Gallup World Poll surveys from 2015-2017, and show both change and stability.

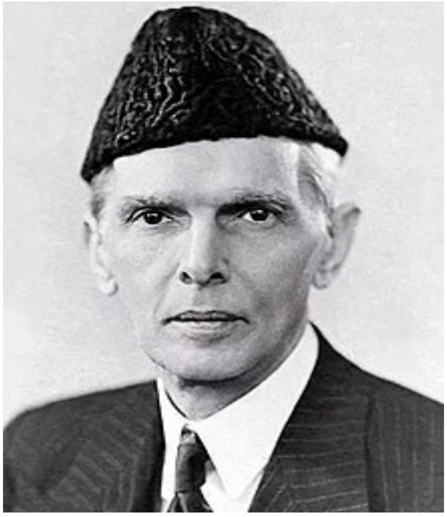
There is a new top ranking country, Finland, but the top ten positions are held by the same countries as in the last two years, although with some swapping of places. Four different countries have held top spot in the four most recent reports- Denmark, Switzerland, Norway and now Finland.

According to the sixth World Happiness Report, PAKISTAN is 58 points ahead of its arch-rival India, 11 points ahead of all-weather friend China, 31 of Iran, and 70 points ahead of Afghanistan on the ranking table of happiness. The UN Sustainable Development Solutions Network's annual survey report ranked Pakistan on the 75 spot among 156 countries.

The report declared Finland the world's happiest country whereas Burundi bagged the last position; Bangladesh was ranked 115, down 40 points compared to Pakistan; Sri Lanka was ranked 116; China 86; Iran 106; India 133; and Afghanistan was ranked 145 on the index.



WHR ranks Pakistan 58 points ahead of India.— Reference: http://worldhappiness.report/ed/2018/



"If we want to make this great State of Pakistan happy and prosperous, we should wholly and solely concentrate on the well-being of the people, and especially of the masses and the poor".

Quaid-e-Azam Muhammad Ali Jinnah
Address to the Constituent Assembly of Pakistan on August 11, 1947

PAKISTAN INSTITUTE FOR PARLIAMENTARY SERVICES
DEDICATED TO PARLIAMENTARY EXCELLENCE

Pakistan Institute for Parliamentary Services was established in Dec 2008 through an act of the Parliament to promote research, provide training and to provide facility of information to the Parliamentarians in performance of their duties and for matters connected therewith and ancillary thereto.

PIPS team endeavors to serve the Parliament through its cherished values of :

Integrity, professionalism, non-partisanship, accessibility and anticipation

For feedback feel free to contact Editor at:
Ataturk Avenue (Service Road), F-5/2, Islamabad
Email: research@pips.gov.pk
Web: www.pips.gov.pk