same goes for people of Bengali/ Bihari, Somali, Yemeni and Palestinian origin living in Pakistan – opportunities are minimal for such people due to a lack of appropriate legal status. This 2.5 percent of the population of Pakistan is living in a state of statelessness—the country needs to enfranchise everyone to allow them to give their fuller to the economy.

Low effective rate of revenue: Though the import duties in Pakistan are quite high (20 percent on average) but still the effective rate of revenue collected is rather low due to the exemptions available to many firms that import intermediate goods or capital equipment. Quite often, such exemptions are available to large and existing firms but not to the new and small firms—a situation that needs to be corrected to provide a level playing field – something crucial to foster a competitive environment, which is at the heart of innovation and growth.

The Role of Judiciary: Given the enabling business environment perspective, the judicial arm lacks knowledge of the underlying economic dimensions of issues that land in the court. This at times, leads to uncalled-for decisions that do not go well with the investors—local as well as foreign. On contract enforcement, a serious engagement between the state and the judiciary is necessary—the effort and time involved in settling court cases, coupled with 'stay orders' wreak havoc with setting up and operational costs that an entrepreneur has projected while conceiving a business venture, potentially turning a viable business proposition into an unviable one—the cost of this to the economy are phenomenal.

Opportunities for Firms to Grow

Panelists:

Muhammad Ahmed Zubair
Chief Economist, Planning Commission of Pakistan

Turab Hussain
Associate Professor, LUMS

Zehra Aslam
Economist, World Bank

Omer Siddique
Senior Research Economist, PIDE

Moderator:

Najy Benhassine
Country Director (Pakistan), World Bank Group

There is a strong linkage between total factor productivity (TFP) and economic growth—literature suggests that in G5, G7, and G20 countries, TFP growth has led to income growth rather than factor accumulation. A study suggests that in 60 percent of the cases, 3 percent or higher TFP growth has led to 8 percent or higher GDP growth. However, this does not establish causality, which also has other determinants.

TFP-Growth Nexus: TFP growth in Pakistan has remained low since 1972, averaging 1.62 percent, which was low compared to other countries in the region except for India. In the '80s, the private sector played a huge role and combined with liberalisation and large-scale public-sector investment led to high GDP growth. In the '90s, liberalisation measures did not translate into higher TFP or GDP growth as sequencing was not optimal and the hangover from the massive borrowing in the '80s persisted. This led to a decline in TFP growth and a concurrent decline in GDP. In the 2000s, measures like privatisation, trade openness, deregulation, financial deregulation, focus on the banking sector, and relaxation of sanctions post 9/11, led to TFP growth as well as GDP growth. In the 2010s, TFP increased but GDP growth in Pakistan declined mainly due to idle capacity, which increased even as investment increased. Growth was driven by input accumulation and became unsustainable. These trends were visible in the agriculture, industry, and services sectors. To conclude, periods marked by trade openness, liberalisation and privatisation have shown an increase in TFP and a simultaneous increase in the GDP.

Firms & Exports: Large firms enjoying scale economies can tap into the global knowledge pool, which could increase investments over time. Therefore, big firms could potentially become engines of employment generation. Externalities and spillover effects from large firms could potentially benefit small firms as well.

- Preliminary analysis of the top 500 firms shows that there are very few large firms in Pakistan in the knowledge-intensive sectors. Moreover, the typical size of a large Pakistani firm is smaller than that in comparable economies, with the largest firms reporting sales of $1-2 billion. Firms in Vietnam, Malaysia, Turkey, and India report much higher sales.
- Exporters database shows that exports are led by a few large firms and several smaller firms. The average size of exports for a Pakistani exporter was just $1.4 million, equivalent to 1/3rd of a Bangladeshi exporter.
- Large firms in Pakistan mostly exist in the extraction sector, such as mining and gas distribution, whereas in developed countries, these are in knowledge-intensive sectors like telecom, trade, etc. Spillover effects for smaller domestic firms only accrue where knowledge-intensive firms exist.
- High-growth firms are few and far between, with most firms plagued by weak and volatile growth in sales. Smaller size means increased vulnerability to price volatility. With limited growth in sales, investment tends to remain low. Thus, the average capital growth of these firms in Pakistan is lower than the firms in comparable economies. Similarly, among firms listed on the stock exchange, stock depreciates over time because an increase in investment does not cover depreciation cost.
- In terms of profitability, there are a great number of loss-making firms that have been operating for up to 10 years and have been making a loss for three years. The loss-making firms depress the overall investment environment. These firms largely tend to be state-owned or family-owned enterprises.

Golden Triangle: A study of the 'golden triangle', districts that comprise around 28 percent of the industry, including the cities of Gujrat, Gujranwala, Wazirabad, and Sialkot, sheds light on reasons for the lack of growth. The light engineering industry which exists in districts like Gujrat, Gujranwala, and Wazirabad, is categorised by 2-3 large players, each with residual share distributed among small enterprises. The latter are labourer turned proprietors, with 8-9 employees, no access to credit except in the informal sector, no accounting mechanisms, and focused on cheaper inputs leading to a lack of standardisation. Over 15 years, diseconomies of scale force such firms out of business due to a lack of professional management. It is worth mentioning that Pakistan may soon lose its comparative advantage in exporting surgical goods as skills might be replaced with technology.

Private Sector: Evidence suggests that allowing the private sector dynamism to take its course leads to higher productivity growth. PIDE research has demonstrated that in Pakistan the government's footprint on the economy is around 67 percent of GDP, which means that further deregulation would help. Monetary and psychological costs to doing business inhibit growth, while the inefficiency of legal systems exacerbates the situation. Removal of tariff and non-tariff barriers to the export sector would lead to growth. Government must devise efficient regulatory and monitoring mechanisms to boost productivity.

Way Out:

- The government's influence on the economy should be minimal. Firstly, the government should intervene only if it appears that the industry is failing. Secondly, the government must ensure the provision of necessary public goods and infrastructure. Thirdly, time and monetary costs associated with regulation must be reduced.
- Regulations could be evaluated by the government departments themselves, by the private sector stakeholders, or by neutral evaluators. The law must be enforced with a set timeline to be effective. Stringent regulation had a disproportionately large effect on smaller enterprises compared to larger firms that have the wherewithal to deal with the same.
- Punjab passed the Smart Regulation Act of 2019, which aims to put into effect a 'regulatory guillotine' based on a few tests for regulation, including whether it is legal, whether it is necessary, whether it is business-friendly and whether it is expensive.
- The policies that incentivise foreign investment need to be harmonised with relevant laws like the Investment Act of 1976 and the Protection Act of 1992, otherwise, regulations will hinder policy liberalisation at the implementation stage.
- Pakistan does not have a clearly chosen paradigm or set of economic principles, for example, our emphasis on the welfare state conflicts with the demands for a market economy.
- We were stuck in a suboptimal equilibrium of GDP growth, where economic sovereignty has been compromised; as soon as we reach a growth rate of 4 percent, we start facing the balance of payment problem and are left with no option but recourse to the IMF.

- Instead of a five-year planning cycle, Pakistan needed a three-year transformation plan which, instead of focusing on enhancing existing production structures, should identify new areas for resource allocation.
- Creative destruction is necessary to drive out inefficient firms, and the idea of the revival of sick industries must be abandoned. Instead of benchmarking past performance, the country should strategise to compete with comparable economies. Lastly, the reformation process would likely take place over multiple generations.

Shaping Success in Creative Arts and Media

Panelists:

Hijab Fatimah
Designer, Artist & Director, Gachrung

Haya Fatima
Filmmaker

Sarmad Khoosat
Actor & Director

Wajahat Malik
Documentary Filmmaker

Naseem Zehra
National Security Specialist/Journalist

Moderator:

Fasi Zaka
Columnist and Anchor

Creative arts and media are in for dynamism and disruption. Previously, these industries used to have editors and producers as gatekeepers who decided who would get a big audience. It was hard to break in, but massive audiences were guaranteed. These days those structures are being dismantled, leading to infinite possibilities. Paradoxically, with entry barriers lowered, it is becoming harder for the content creators, because they must curate their own audience.

Technology & Filmmaking: The film medium is dependent on camera and sound equipment. In 2010, the pieces of equipment were less accessible. With the advancement in technology, short films can now be made using smartphones instead of DSLRs. The number of Pakistani documentary films has increased massively over the last ten years. This provided multiple opportunities to excel for the filmmakers in developing narratives and layered storytelling. The viewership has also increased, which would have a positive impact on the quality of content.