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Global Competitiveness: Challenges & Solutions for Pakistan

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Global Competitiveness: Challenges & Solutions for Pakistan

Abstract

Economy of Pakistan has shown resilience to sustain growth in recent years even with evident macroeconomic imbalances and structural problems. On the fiscal side, the country has one of the lowest taxes to GDP ratio, mounting fiscal deficit and consistently growing government borrowing. On the monetary side, the central bank has to follow the fiscal directions and keep policy rates high amidst heavy government borrowing and high levels of inflation. On the external side, the economy faces rising trade deficit, steep decline in rupee and freeze in foreign investment. On the structural side, the country has a severe energy crisis, distortionary utility prices and distribution and political stalemate to engage in any serious economic and political reforms. In this paper, we document the key challenges to the economy and suggest policy solutions. We argue that the country has to resolve energy crisis with investment in renewable energy. The government has to protect private property rights, improve governance and instigate deep fiscal reforms to reduce its size and crowding out impacts. We also suggest how the country shall revise its trade policy with product and market diversification and establishing new relations with cheap import sources.

Keywords *Pakistan Economy, Economic Growth, Energy Crisis, Security Crisis, Macroeconomic Imbalances*

JEL Codes E6, H3, O5

1. Brief Background of the Study

Pakistan witnessed its first major high economic growth phase in the 1960s. The country was able to create an industrial capitalist class, but later on, it was found that this growth only benefitted a very specific minority class and created huge income inequality which eventually led to the separation of East Pakistan from West Pakistan.

After experimenting with nationalization in the 1970s, the high growth phase returned in the 1980s. The economy experienced high growth rates with foreign aid inflows, but this time, it was not backed by the same productivity growth as in the 1960s.

In the later part of the 1980s, Pakistan went to International Monetary Fund (IMF) and World Bank (WB) for Structural Adjustment Program (SAP). IMF and WB recommended privatization, diminished role of government in running businesses, deregulation, and liberalization. The plan also forced the country to remove quotas on international trade, lower tariffs, expand list of importable items, reduce subsidies and increase indirect taxes.

These SAPs brought negative impact on growth, inflation, income distribution, the social sectors, and poverty in the 'lost' decade of 90s (Zaidi, 2005). Anwar (1996) analyzing the SAP in Pakistan and its effects on poverty argued through an empirical research

that not only the absolute poverty incidence, but also the intensity and severity of poverty increased significantly.

Dawn of the new millennium brought extraneous luck factors to the economy which brought fresh investment, capital and huge inflow of remittances. But, the economic management during the first decade of the new millennium could not convert this third phase of high economic growth into a sustainable process by implementing structural reforms.

Now, the current times present challenges to the economy which are much different and more daunting as compared to the past. The economy is now part of a global economy with trade to GDP ratio touching one-third of the GDP level. This global trade is now increasingly replacing quota-based trade restrictions with tariffs. These tariffs are also not completely controllable with 'most favored nation' and 'national treatment' regulations of WTO. Trade policy cannot be made in a vacuum and using import substituting industrialization and maneuvering exchange rate cannot help to replicate similar growth levels of the past.

Apart from the structural change in production and employment, there also has been a change in the exports and imports mix and diversification in import sources and export destinations. Earlier, a lot less regional trade used to happen with countries in close proximity. But, this trend is changing and will further change after i) MFN status to India, ii) new trade ties with Central Asia after peace restoration in Afghanistan, iii) economic crisis continues in Europe and the emergence of Gwadar port. But, amidst these opportunities, security and energy crisis has led to not only capital flight and brain drain, but a lot of established entrepreneurs have shifted their production facilities to countries like Bangladesh and Turkey.

In light of this background and context, it is important to highlight and document the key challenges to the economy and design policy that is applicable in meeting these current and future challenges.

In this paper, we present an analysis of the key challenges facing the economy and discuss their policy solutions. We document the challenges by citing various important economic indicators. In section 2, we document and analyze the challenges and their effects on the economy. In section 3, we present and analyze various policy steps that can be taken to effectively cope up with these challenges.

2. Global Challenges to the Economy

2.1. Energy Crisis

Energy crisis in Pakistan has worsened in recent years leading to loss of output, increased incidence of manufacturing unemployment, cost push inflation, capital flight, low manufacturing capacity utilization and loss of export markets. The contributing factors to the crisis include inefficient energy mix, price distortions and low investment in

alternate energy. The short term measure by the government to absorb loss from price distortions created by an inefficient energy mix has resulted in the ballooning fiscal deficit.

In economic literature, endogenous growth theory sheds light on the importance of complimentary investments and public infrastructure that can not only result in increasing returns to scale, but also lead to permanent source of continued long term growth.

Even though the role of energy infrastructure cannot be overemphasized for an industrializing country, but, Pakistan has not been able to attain energy sufficiency as yet. Table 1 shows the supply and demand position currently and projections for the future.

Table 1: Supply and Demand Position: 2014-2020 (MW)

Supply and Demand Position: 2014-2020 (MW)							
	2014	2015	2016	2017	2018	2019	2020
Existing Generation	15,903	15,903	15,903	15,903	15,903	15,903	15,903
Proposal/Committed Generation	13,520	14,607	16,134	18,448	18,448	18,448	18,448
Existing + Committed Generation	29,423	30,510	32,037	34,351	34,351	34,351	34,351
Expected Available Generation	23,538	24,408	25,630	27,481	27,481	27,481	27,481
Demand (Summer Peak)	25,919	28,029	30,223	35,504	34,918	37,907	41,132
Surplus/Deficit Generation	-2,381	-3,621	-4,593	-8,023	-7,437	-10,426	-13,651

Source: Private Power & Infrastructure Board

This situation requires diversifying energy mix to effectively meet rising demand. Table 2 gives account of the installed capacity for electricity generation in Pakistan. It hints at the fact that with increased pressure on thermal and hydel energy along with gas and water shortage impending in future, the country needs to move towards renewable sources of energy.

Table 2: Composition of Installed Capacity (MW)

	Pepco System	KESC System	Total
Hydel (WAPDA)	6,444	-	6,444
Hydel (IPPs)**	111	-	111
Thermal (GENCOs/KESC)	4,885	1,821	6,706
Thermal (IPPs)	8,325	262	8,587
Rentals	403	50	453
Nuclear (CHASNUPP & KANUPP)	650	137	787
Others		324	324
Total	20,818	2,594	23,412

Source: Private Power & Infrastructure Board

Table 2 also shows that capacity utilization is very low. Circular debt has created frictions in efficient utilization of capacity. Despite having sufficient capacity, the country has not been able to produce the electricity and other energy goods in required quantities. Hence, prices have increased which has resulted in the rise of cost of production and due to this; the major industries have lost competitive edge amidst increased global competition in a free trade era.

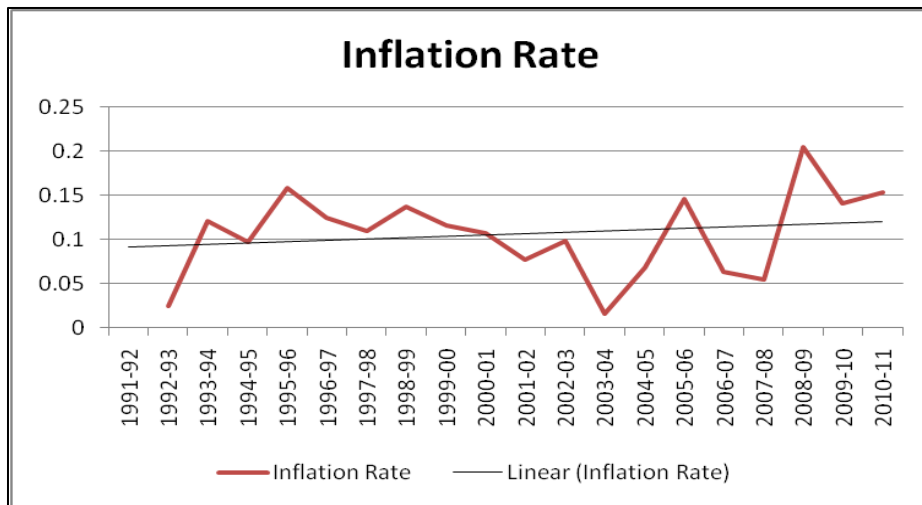
For estimating the cost of energy on output in Pakistan, Siddiqui et al (2011) estimated the cost of unserved energy using primary data from firms. According to their estimates, the overall industrial sector loss ranges between Rs 269 and Rs 819 billion. The figure roughly equals 1% to 3% of total GDP.

Recently, in fertilizer sector alone, Engro’s Enven plant received gas for only 45 days in 2012, Pakarab Fertilizers for 100 days, Dawood Hercules for 70 days and Agritech for 100 days.

Furthermore, oil related imports of Pakistan now exceeds one third of total imports. Rising oil prices have resulted in higher imports, balance of payments deficit, decrease in value of rupee and soaring inflation.

It is now appreciated by almost all circles that at current consumer prices for electricity, the energy mix has to be modified. This modification in mix requires new projects and these projects require huge amount of financing. Government is already cash starved with mounting fiscal deficit and it cannot sustain the subsidies. Figure 1 shows the energy inflation in the past 8 years for Pakistan.

Figure 1: Energy Inflation Rate (%)



Source: Economic Survey 2012-13 Statistical Appendix

Since energy is a major component of cost of production and transportation, it leads to cost-push inflation spiral in the overall economy.

2.2. Security Crisis & National Disorientation

Rodrik (2006) explains that when investment is constrained by poor property rights, improving financial intermediation will not help. Security of property rights has been one of the most important determinants of why some countries developed quickly than others. (Acemoglu et al, 2001).

In Pakistan, return to capitalistic democracy after the military rule ended in 2008 was hoped to change matters. But, political forces in capitalistic democracy contributed in maintaining the status quo by providing token benefits to their voters and by creating and encouraging an environment where the common public has no choice than to join hands and support them to safeguard their private property rights.

One of the reasons behind capital flight, brain drain and lack of domestic and foreign investment is the inadequate provision of civil as well as private property rights.

The country faces increasing social and economic polarization. It still faces the persistent hold of elite class over the country's policies, administration and resources. All too visible is the deteriorating social capital and social fiber and the increasing divide between elite class and poor resulting in a continuously shrinking middle class.

The paradigm shift requires unity of purpose and collective pursuit of that purpose with rigor. But, increasingly declining national cohesion and increased stratification with regards to religious sectarianism, ethnic origin, regional and political affiliations is posing a humungous challenge for betterment.

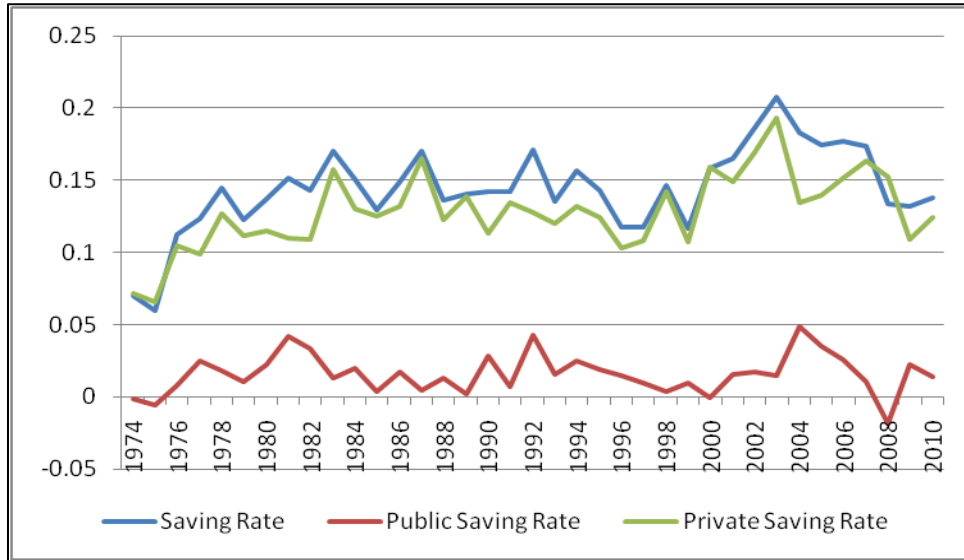
2.3. Macroeconomic Imbalances

2.3.1. Low Savings and Investments Ratio

Economic growth literature highlights the importance of capital formation, complimentary investments and physical and social infrastructure. The long term growth literature from Harrod (1939)-Domer (1946), Solow (1956) and to Romer (1986) is almost unanimous on the role of savings and capital accumulation for long term economic growth.

In Figure 2, we provide data on national savings rate, private savings rate and public savings rate. It can be seen that private savings constitute almost 90% of the national savings. On the other hand, public savings share in national savings had been negligible. Vincelette (2006) also noted that private savings accounts for 90% of the total savings in Pakistan in the period 1981-2005.

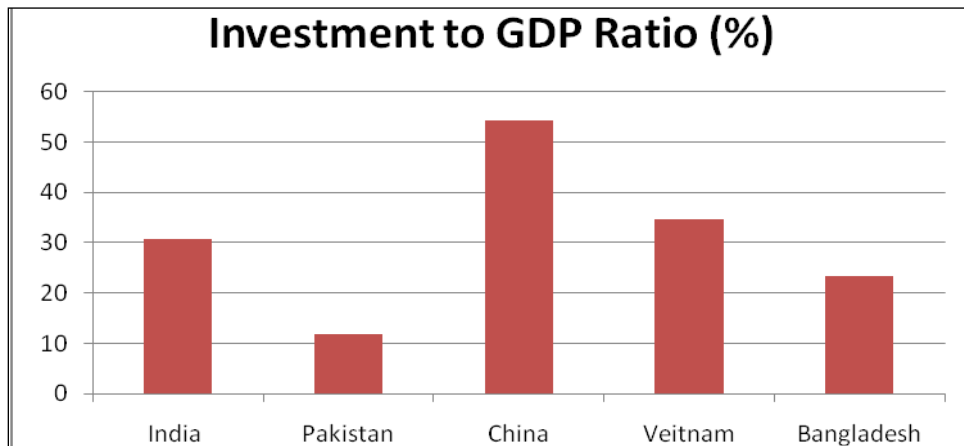
Figure 2: National Savings, Private Savings & Public Savings Rate (in proportion)



Source: Handbook of Statistics on Pakistan Economy

Pakistan has one of the lowest investments to GDP ratio in the world. Figure 3 provides a comparison of investment to GDP ratio in Pakistan as compared to the regional countries. One of the prime reasons of low investment to GDP ratio include the high cost of doing business which includes i) high taxes in the formal sector, ii) supply side bottlenecks, iii) weak security, iv) weak legal system and enforcement etc.

Figure 3: Investment to GDP Ratio (%)

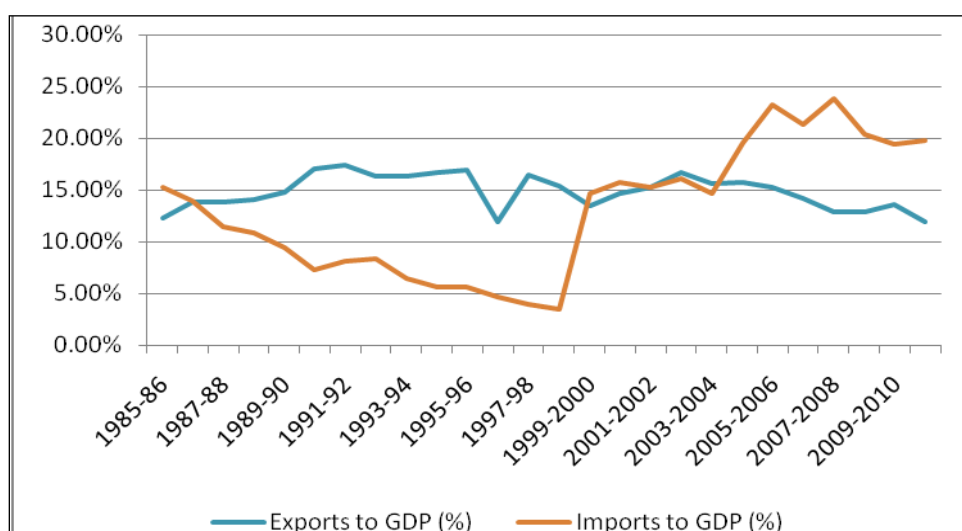


Source: CIA Factbook

2.3.2. High Trade Deficit

Pakistan has achieved steady increase in exports in absolute terms, but the ratio with GDP has been somewhat constant during the last 30 years. In the last few years, imports have surged steeply than the exports both in absolute terms and as percentage of GDP. Figure 4 shows the trend of exports and imports as percentage of GDP during the last 30 years. It shows that gap between exports and imports as percentage of GDP has increased in recent years.

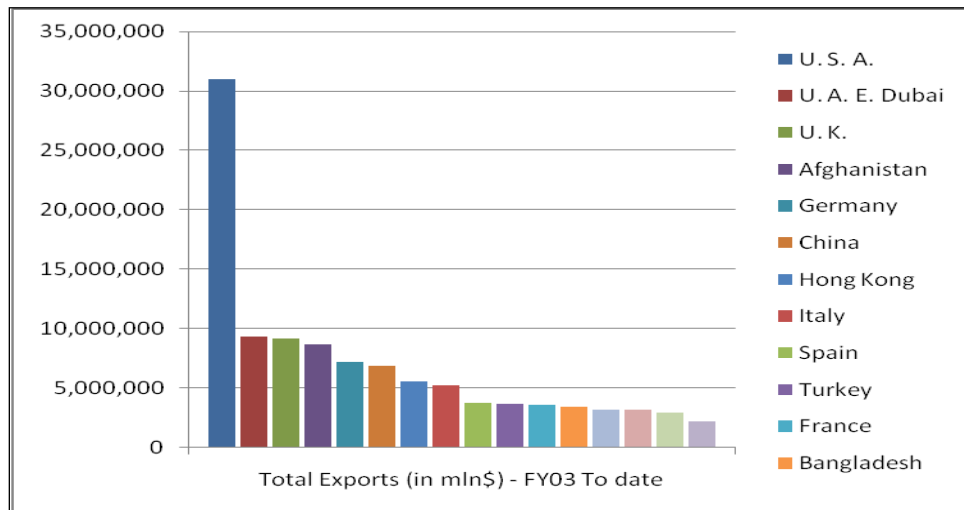
Figure 4: Exports & Imports (as % of GDP) during 1986-2011



Source: Pakistan Bureau of Statistics

Figure 5 represents major export destinations for Pakistan's products. In recent years, Pakistan has been able to diversify export destinations somewhat, but still, a lot of room exists for trade with SAARC countries, Central Asian countries, African countries and GCC countries. With Economic crisis in USA & Europe and geo-political crisis in Middle East, it is pertinent to seek further diversification in export markets.

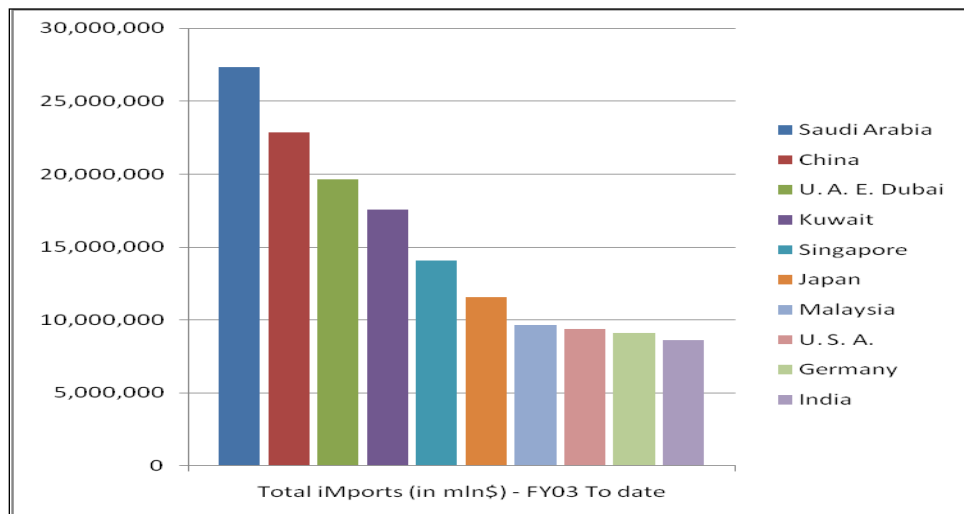
Figure 5: Top Export Market by Size of Exports in Amount from FY73 Onwards



Source: State Bank of Pakistan

Figure 6 represents major countries with which Pakistan’s imports are linked. Due to heavy reliance on imported oil (up to 80% of total requirement), Saudi Arabia tops the list. For meeting food deficit, it would have been pertinent to import from India and Australia which are in close proximity and have sufficient economies of scale to supply at cheap cost.

Figure 6: Top Importers by Size of Imports in Amount from FY73 Onwards

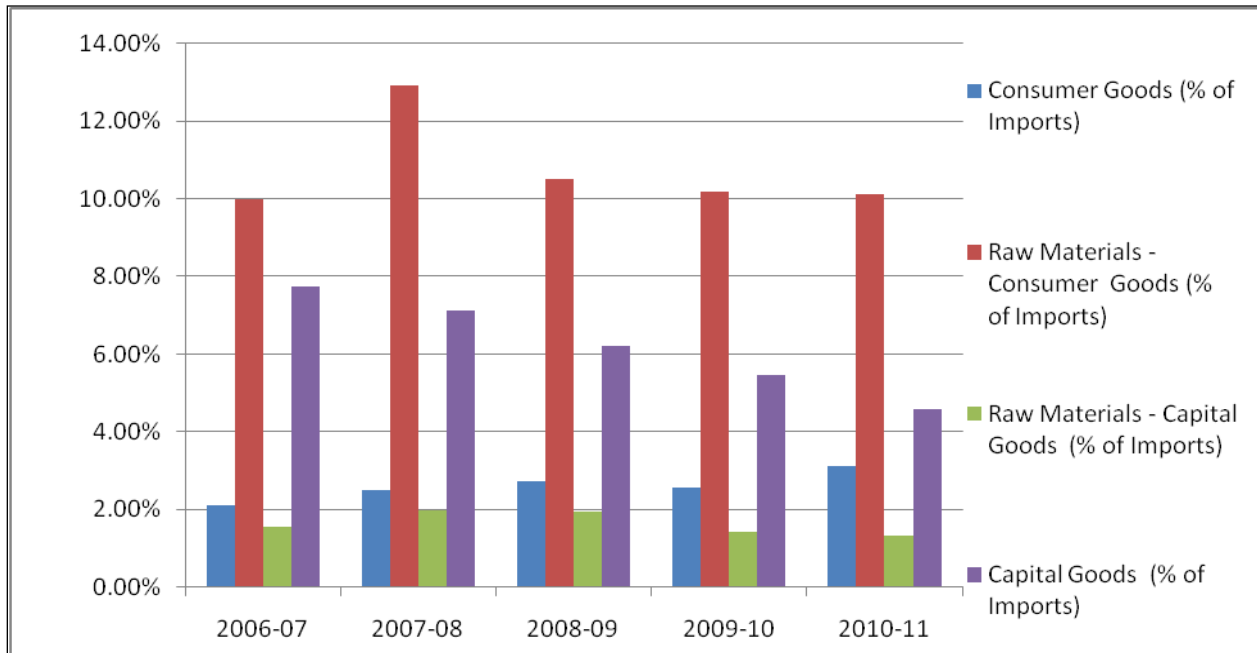


Source: Pakistan Bureau of Statistics

Pakistan is still importing mainly the raw material consumer goods (See Figure 7). The imports of capital goods which are used in production have declined as percentage of total imports during the last five years. This suggests that imports have mainly been dominated by consumer goods for meeting consumption demand rather than building

productive capacity. Indeed, the consumer goods as percentage of total imports have steadily increased during the last five years.

Figure 7: Imports Composition during 2006-2011

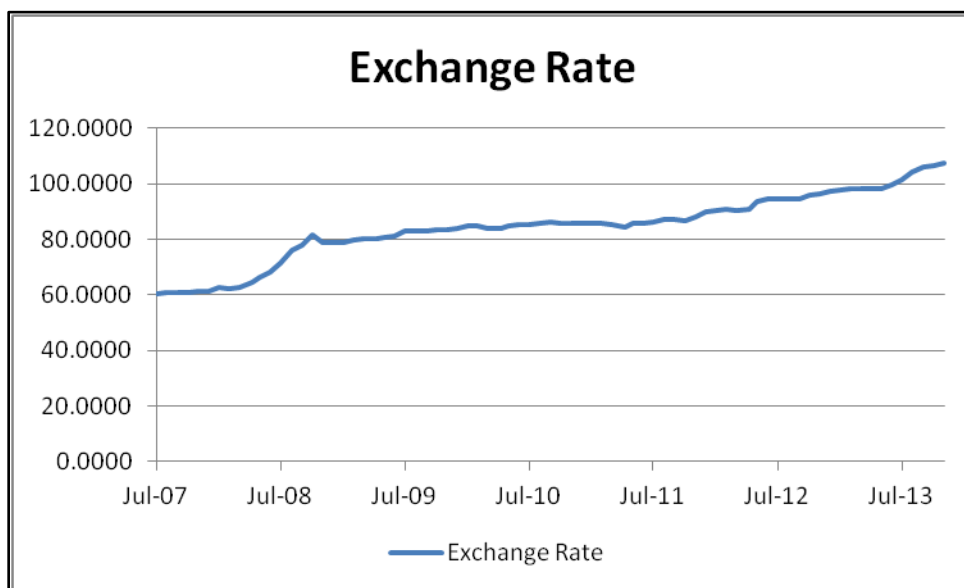


Source: Pakistan Bureau of Statistics

2.3.3. Rapid Rupee Depreciation

Rupee has witnessed a free fall during the last five years than in the almost twice as long Musharraf's era before that. In FY08, USD/PKR exchange rate was hovering around PKR 60. But, the transition to democracy in 2008 started the period of rapid depreciation of rupee. Only in the last two years, rupee has depreciated by about 25% as shown in Figure 8.

Figure 8: Exchange Rate USD/PKR (2007-2013)



Source: State Bank of Pakistan

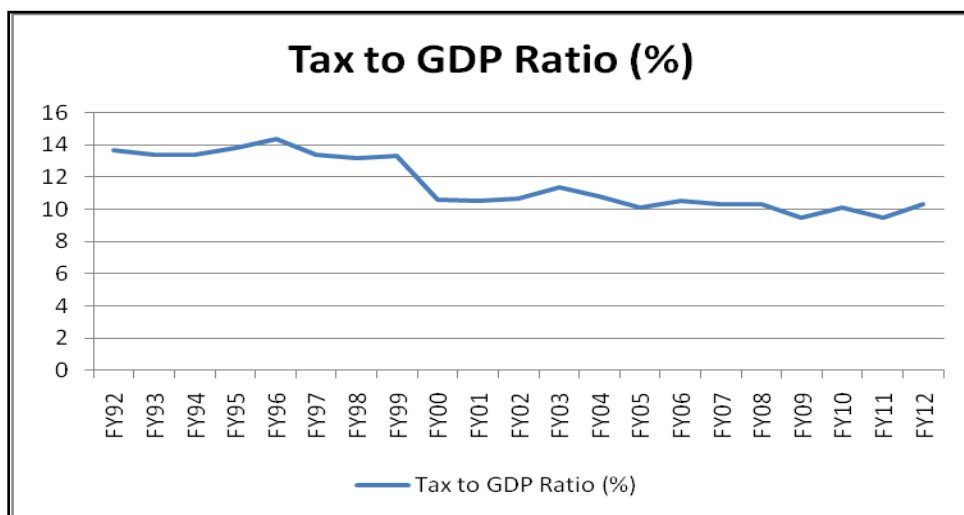
Reasons for the rapid depreciation of rupee include a) high import bill, ii) low Foreign Direct Investment (FDI) and iii) constancy in remittances Year-on-Year growth. The recent spurt was also influenced by speculative run and uncertainty over Pak-US and Pak-IMF relations. Rise in import bill and slack growth in exports had led to a relatively more increase in demand than supply for USD. The central bank initially decided not to intervene and the market forces together with speculators let the rupee depreciate speedily. Late intervention by the central bank had stopped the damage for the time being, but the fundamental drivers for such rapid depreciation still need to be tackled with sound macroeconomic policy and long term economic planning.

2.3.4. Fiscal Imbalances

Pakistan is classified as lower to middle income country by IMF and it is ironic that among those countries, Pakistan has lowest taxes to GDP ratio. Chaudhry & Munir (2010) explained that determinants of low tax revenue in Pakistan include narrow tax base, more dependence on agriculture sector, devaluation, foreign aid, informal economy and low levels of literacy rate. They opined that low tax revenue in Pakistan owes to large traditional agriculture sector and other 'hard to tax' sectors such as small business and shadow economy.

Figure 9 presents tax to GDP ratio and it shows that the ratio has decreased consistently in the last two decades in Pakistan. Still, the income tax collection is not as broad based as it should be and lack of documentation and 'un-documentation' due to stringent conditions for formal sector has resulted in slow progress in the expansion of tax base.

Figure 9: Tax to GDP Ratio (%)



Source: Ministry of Finance

3. Policy Steps to Meet Challenges

3.1. Reducing Distortionary Incentives Against Value Addition

Manufacturing requires industrial processing of raw materials. This mechanical processing requires energy. Since the country could not yet develop abundant, dynamic and efficient energy mix, cost of such mechanical/industrial processing is higher in Pakistan in most industries.

Secondly, value addition requires a clear incentive in manufacturing over trading. Since income from retail trade and services is largely out of tax net, the producers paying bulk of business related taxes do not get necessary incentive in engaging in laborious act of value addition.

When primary raw materials are exported, they cannot get high price. But, value addition can exponentially increase the margins and create strong brands for the country's export mix with each step of value addition achieved.

Corporatization of milk, meat, processed food, edible oil etc industries in recent past and their success thus far in domestic market presents a strong potential to gain good prices of value added goods with branding and effective marketing in international markets too. In this way, both domestic and international markets will comprise the target markets for domestically produced value added goods.

3.2. Improving Public Infrastructure

It is pertinent to provide necessary infrastructure in new export processing zones to diversify and expand the benefits of export led growth and increase employment generation in various geographical clusters.

Furthermore, it is important to encourage setting up of production facilities in new geographical regions. In this regard, public goods and infrastructure needs to be developed which can help in rebuilding people's confidence and reduce their privately incurred costs. This will help in creating employment in various geographical regions and reduce urban congestion, pollution, urban-inflation, rapid migration and social unrest etc. This could also have far reaching impact on dealing with ethnic conflicts and regional disconnection as well.

3.3. Strengthening Private Property Rights & Governance

Entrepreneurial culture rests on security of property rights and provision for private gains from entrepreneurial pursuits. When private property rights and improved security is not provided, investment would primarily get concentrated in large scale enterprises which can afford access to complex legal system present in Pakistan and which can afford to build internal security walls for operating in Pakistan.

Currently, no new IPOs are forthcoming which shows lack of investment and expansion of existing local businesses. Foreign investment has also dried up.

Provision of improved security, access to improved and uncorrupted bureaucratic services, fast and wide public access to enforceable judicial system and safeguard of private property rights in all regions of the country is vital to avoid inter-regional conflicts. To boost investment, improving both the access and speed of judicial services is vital. This will strengthen competitive environment and encourage private sector investment on a large scale.

Enforcing private property rights - both related to tangible and intangible properties - are vital for the growth of value added goods and services. Private property rights in IT and software industry can help the country gain foreign exchange and capitalizing on the human capital that had been developed in last decade in information & Communications Technology.

3.4. Correcting Fiscal Imbalances

Pakistan has one of the lowest taxes to GDP ratio in the world. M. Ali Kemal (2007) estimated that the underground economy ranges between 54.6% of GDP to 62.8% of GDP and tax evasion ranges between 5.7% of GDP to 6.5% of GDP. According to his estimates, underground economy and tax evasion were increasing very rapidly in the early 1980s, but the rate of increase further accelerated in the 1990s.

Fiscal reforms require increasing the tax base without dampening investments. The reforms shall reduce distortionary incentives and increasing documentation and size of the formal sector economy.

In this regard, we suggest the following policy reforms:

- i. A reduced uniform tax rate along with uncomplicated tax procedures is needed to boost production. Tax base needs to be increased through documentation. Income tax should be levied on agricultural income, stock trade and real estate investment. Services especially the hotels/restaurants, franchises etc must be brought in tax net rather than looking to burden the already registered taxpayers.
- ii. Furthermore, tax base needs to be increased through documentation. Tax disclosure shall be made necessary in most material transactions. A strong and vibrant information network is necessary encompassing major financial, legal, accounting, auditing and tax institutions for timely disclosure of malpractices and tax evasion.
- iii. It is quite revealing that banks have very low Advance to Deposit ratio at the moment and they are heavily lending to the government at very high interest rates. If the government reforms the tax system and decrease its borrowing from the banking sector, it will enable the central bank to decrease the policy rate. Decrease in policy rate and reduction in government borrowing will increase credit to the private sector, especially in long term energy projects.

3.5. Resolving Energy Crisis

To meet the increased energy demand, solar and wind energy could be explored as alternate source of energy. Pakistan is a tropical country and has a large coastal area. Furthermore, corporatization of Thar coal project can expedite increased use of coal in the energy mix.

Brunnschweiler (2009) in an empirical study of 119 non-OECD countries using panel data concluded that lack of financing is one of the major obstacles for minimal use of renewable energy in developing countries. Financial sectors of these countries are often underdeveloped and are unable to efficiently channel loans to produce renewable energy. Hence, it is important to encourage private sector investment in energy sector.

3.6. Increasing Savings and Capital Formation

It is important to provide incentives for producers to incorporate their businesses in the formal sector and raise capital through issuing financial securities to the general public. It will allow people to have alternative direct investment opportunities that offer better yields on their savings. This will also compel banks to offer financing at lower rates so that they do not lose lending business to direct issuance of financial securities by firms. It will also compel banks to offer better yields so that people do not substitute bank investment with holding corporate financial securities.

3.7. Improving Regional Integration & Competitiveness

Increased diversification of export destinations and gaining preferential access to markets can help boost exports. Pakistan has slightly lesser import tariffs on average (See table 3) as compared to India and Bangladesh. Hence, Pakistan can plead its case for preferential access based on its increased commitment towards opening its borders for foreign goods.

Table 3: Average Tariff (%) for Period 1999-2010

Country	Average Tariff (%) for Period 1999-2010
Pakistan	12.7
India	17.685
China	7.5527
Bangladesh	16.9322

Source: WTO/UNCTAD

As Pakistan gets the Generalized System of Preferences (GSP) plus status from the EU, it will ensure that 80% of the local items get duty-free access to the 27-country market. This will bode well for gaining increased market access to the EU region.

The increased duty free market access will ensure penetration of Pakistan's products in a region where a lot of Asians live and they have demand for a lot of the products of Pakistan, including Halal Food, footwear, garments etc. Recession in EU region may increase demand from locals too who would look for affordable and competitively priced consumer goods from Asian countries after the decline in consumers' purchasing power.

Table 4 presents the fact that Pakistan has much less tariffs in most product categories than the other regional countries.

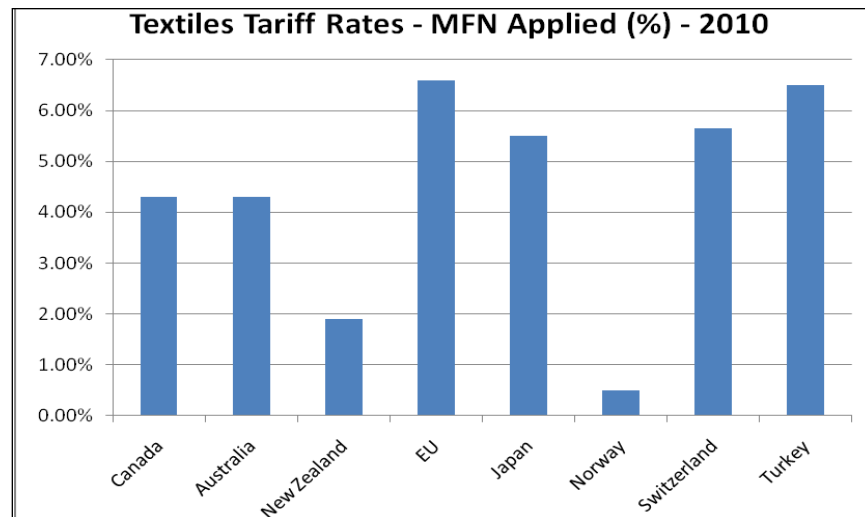
Table 4: Tariffs & Import Duties by MFN Applied (%) – 2010

	Pakistan	India	Bangladesh	Sri Lanka
Animal products	14.6	33.1	14.8	27.5
Dairy products	30	33.7	12	27.6
Fruit, vegetables, plants	18.2	30.4	14.8	25.6
Coffee, tea	12.8	56.3	14.7	30
Cereals & preparations	18.8	32.2	24.3	25.3
Oilseeds, fats & oils	8.8	18.3	11	27.2
Sugars and confectionery	17.2	34.4	27.4	19
Beverages & tobacco	52.5	70.8	22.3	67.9
Cotton	7	12	15.2	0
Other agricultural products	6.7	21.7	11.4	12.6
Fish & fish products	10.6	29.8	10.9	14.8
Minerals & metals	12.4	7.5	7.4	10.1
Petroleum	10.7	3.8	4.8	9.8
Chemicals	9.6	7.9	6.6	3.5
Wood, paper, etc.	15.5	9.1	4.4	13.3
Textiles	16.7	14.7	9.6	3.6
Clothing	24.8	13.4	16	14.8
Leather, footwear, etc.	14.9	10.2	13.2	19.4
Non-electrical machinery	9.3	7.3	8	3.2
Electrical machinery	14.7	7.2	8.3	9.7
Transport equipment	24.7	20.7	11.5	9.6
Manufactures, n.e.s.	13.1	8.9	11.9	12.6

Source: WTO/UNCTAD (Tariff Profiles 2011)

In Textile sector alone, there are many growing economies which have relatively more favorable tariff rate structure (See Figure 10) and Pakistan's exports to them could be increased.

Figure 10: Textile Tariff Rates – MFN Applied (%) – 2010



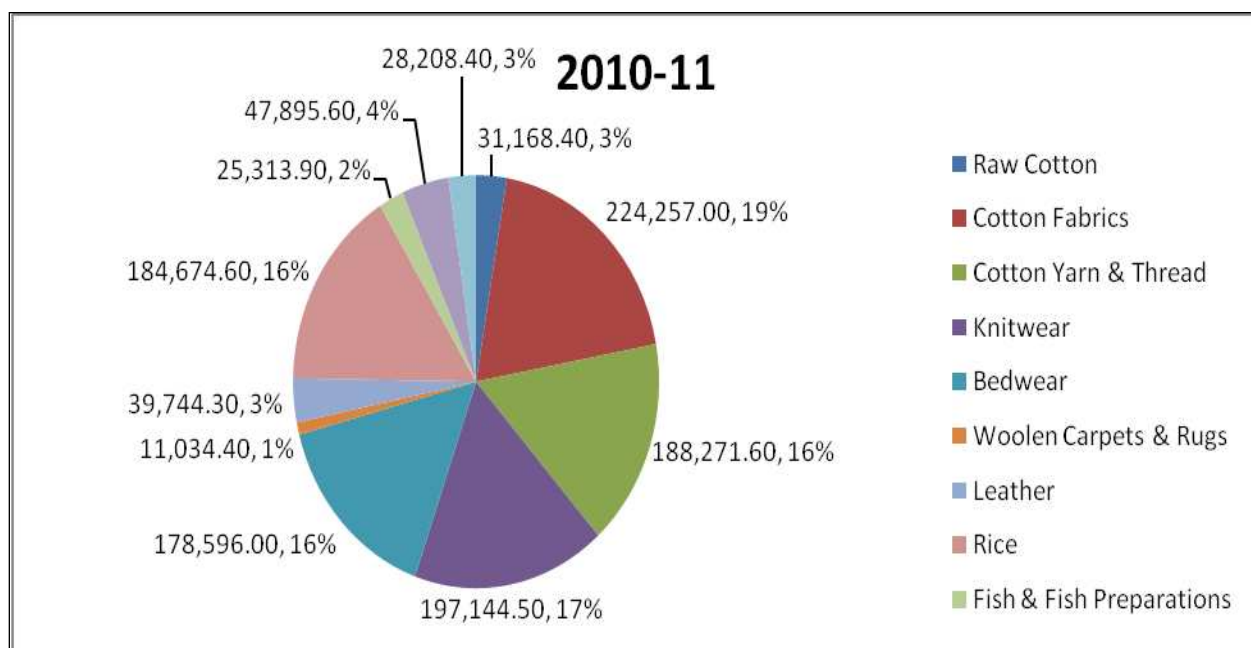
Source: WTO/UNCTAD (Tariff Profiles 2011)

Northern zone is in close proximity with Central Asia including Afghanistan. Good relations with Afghanistan could provide a very good market. Cyclical industries grow with the economy. Good relations with Central Asian countries including Russia would help boost export demand as these countries are having decent economic growth.

3.8. Enhancing Product Diversification in Exports

From Figure 11, it could be seen that Pakistan largely relies on textile sector and some particular commodities in food sector for its exports, like Rice and Wheat. High potential exists to diversify exports into leather goods, surgical goods, processed food etc.

Figure 11: Export Composition by Category (%)



Source: Pakistan Bureau of Statistics

By improving quality standards, Pakistan can also tap developed markets, especially in food sector including fruits and vegetables, fish meat, other meats etc. For this to happen, it is vital that incentives are provided to meet quality standards. In this regard, incentives like allowing quick amortization of R&D and BPR costs, direct subsidy and duty free imports of equipment are vital. To ensure exportable surplus in food category, it is vital to devise a comprehensive plan for storage, warehousing and transportation.

Services industry like IT outsourcing, gem stones polishing, Medicare, tourism etc shall be given priority as they require less infrastructure and are labor intensive.

Brand development is necessary to create awareness in developed markets and increase acceptance in developed markets where customers demand high quality products and are willing to pay additional markup for better quality goods.

It is recommended to provide specialized credit directed towards building R&D capacity, innovation, and technical up gradation of production processes. In this regard, SBP can provide interest rate subsidy just like it does for export financing. SBP can also give targets to at least the big banks just like it does for agriculture financing etc.

3.9. Skills Up-gradation

Education especially technical, vocational and skills oriented needs to be encouraged and prioritized. A postgraduate is in a better position to attain scholarships worldwide, but, the rural primary and secondary education can only be funded by the state. It is well

documented that social returns to primary education are higher than the costs involved in providing them.

In this regard, PSDP allocation for vocational education must be enhanced. Partnership with regional public and private universities and colleges can be fruitful. Rather than investing on duplicating the infrastructure, same existing infrastructure could be used to enhance number of skilled persons in targeted geographical areas.

After exports, the only major source of dollar inflow has been remittances. Even though brain drain is not the best outcome for a developing country like Pakistan, but, if the overseas Pakistanis remit their savings to Pakistan, it will benefit the country. Remitters can get higher returns on their savings inside Pakistan. But, if the security crisis remains severe, then, people may migrate permanently and that will dampen remittances in future.

3.10. Gaining Self-Sufficiency in Import-Dependent Products/Sectors

Pakistan is the third largest producer of milk, but still imports significant amount of dairy products. By having a good warehousing, cold storage and means of transportation system, the loss of yield in-transit could be reduced and hence burden of imports could be lowered. In this regard, it is vital that financing schemes be provided in such infrastructure development and if the infrastructure needs to be imported, ease in tariff rates be provided to expedite establishment of effective supply chain management system. Corporatization of farms will also help in big private sector corporations taking the lead to develop infrastructure themselves and improving efficiency by removing wastage and gaining from economies of scale and scope.

In fertilizer sector, at present, Pakistan has an installed capacity to produce approximately 7 million tons urea annually. Out of this, 4 million tons capacity gets gas from Mari gas field and remaining 3 million tons from Sui Northern Gas Pipeline (SNGPL) and Sui Southern Gas Company (SSGC). During 2011, these plants collectively produced slightly less than 5 million tons urea. Worst hit were the fertilizer plants depending on SNGPL network. Their capacity utilization dropped to as low as 30%. As a result, Pakistan had to import fertilizer. This shows that energy crisis in the country has resulted in low capitalization levels even in such industries where Pakistan has developed enough strength to produce them domestically. Cement sector is another sector which has exhibited capacity utilization level of 70% only in the recent past.

Machinery and Transport equipment imports comprise almost 30% of the total imports. Pakistan has the highest tariff rates in this category among all regional countries as shown in Table 4. The increased protectionism in automobile sector was supposed to support the domestic industry, but the domestic industry has not yet improved production processes which could make it competitive. The industry needs to be given credible threat that it has to improve its production processes in some defined timeframe and after which it will have to face competition from the world when tariffs are

reduced. Presently, since the automobile sector is labor intensive, immediate reduction in tariff will have to be analyzed against the tradeoff with rising unemployment in short-run.

On the other hand, tariff rates for industrial machinery must be revised downwards to support the use of industrial machinery in production processes. Since Pakistan at the current time relies heavily on imported oil for its energy needs, the high tariffs on import of crude oil must also be revised downwards. This could be complimented with raising the tariffs for imported primary products, especially, coffee, tea, tobacco etc. In addition, the import of food products can be made from India due to close proximity and Bangladesh due to its comparatively lower tariffs.

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