SUMMARY of the Article "Economic turnaround moment?" by Najy Benhassine and Martin Raiser, Dawn [Published on January 3rd, 2024]

Pakistan, after experiencing an extended period of declining poverty rates, is now confronted with a severe economic crisis due to poor policy choices and various shocks, including Covid-19, catastrophic floods in 2022, and adverse global conditions. The resultant slowdown in growth, increased poverty, and the looming threat of debt default demand deep and sustained reforms. The authors propose comprehensive solutions to address Pakistan's challenges, emphasizing the urgency to seize this crisis as an opportunity for transformative change. Key areas include addressing the human capital crisis, generating fiscal space through tax reforms and expenditure savings, fostering a dynamic and open economy, transforming the agriculture sector for climate resilience, and addressing inefficiencies in the energy sector. Bold fiscal reforms could potentially generate over 12% of GDP in new fiscal space, providing resources for human development, infrastructure investment, and debt reduction. The authors stress the need for local empowerment, decentralization, and expanded social safety nets to ensure inclusive growth.

Easy/Short SUMMARY:

Pakistan, once on a positive trajectory in reducing poverty, is now in the midst of a severe economic crisis due to poor policies and multiple shocks. The authors suggest urgent and comprehensive reforms in areas such as human capital development, fiscal reforms, an open economy, agricultural transformation, and energy-sector improvements. They emphasize that seizing this crisis as an opportunity for transformative change is crucial, envisioning Pakistan achieving upper-middle income status by 2047.

SOLUTIONS of The Problem:

1. Human Capital Development:

- Shift focus from traditional health and nutrition to broader aspects, including clean water, sanitation, birth spacing, and improved living conditions.
- National mobilization and behavioral change campaign.
- Investment of close to 1% of GDP annually.

2. Fiscal Reforms for Fiscal Space:

- Increase tax collection by abolishing tax exemptions and reducing compliance costs.
- Raise additional revenues at provincial and local levels, especially from undertaxed sectors.
- Privatize loss-making public enterprises.
- Cut poorly targeted subsidies in agriculture and energy.
- Reduce overlaps between federal and provincial spending.
- Aim for bold fiscal reforms to potentially generate over 12% of GDP in new fiscal space.

3. Dynamic and Open Economy:

- Address currency overvaluation and high tariffs hindering exports.
- Improve the business environment by reducing state presence in markets.
- Attract foreign investment through policy predictability and reducing red tape.
- Encourage fair competition by leveling the playing field.

4. Agricultural Transformation:

- Reallocate subsidies to public goods like research, veterinary services, irrigation, and drainage.
- Promote regenerative agriculture and build integrated agriculture value chains.
- Enhance resilience against climate shocks and increase productivity.

5. Energy Sector Efficiency:

- Address distribution and transmission losses.
- Leverage cheap hydropower and solar resources through investment.
- Shield tariff adjustments from politics to incentivize long-term investor confidence.

6. Local Empowerment and Social Safety Nets:

- Empower local governments for efficient funding allocation.
- Revive the decentralization agenda.
- Expand social safety nets with improved targeting and coherence across federal and provincial instruments.

IMPORTANT Facts and Figures Given in the Article:

- **Key Shocks to Pakistan's Economy:** Covid-19, 2022 catastrophic floods, adverse global conditions.
- **Current State of Human Development:** Human development outcomes at levels seen in much poorer countries.
- **Tax Collection as Percentage of GDP:** 10% for decades.
- **Potential Additional Revenues from Tax Reforms:** About 3% of GDP.
- **Potential Additional Revenues at Provincial and Local Levels:** Another 3% of GDP.
- **Potential Expenditure Savings:** 3% of GDP per year.
- **Potential Total Fiscal Space from Bold Fiscal Reforms:** More than 12% of GDP.
- **Current Percentage of 10-Year-Old Children Unable to Read an Age-Appropriate Text:** 78%.
- **Year Envisioned for Pakistan's Upper-Middle-Income Status:** 2047.

MCQs from the Article:

1. **What are the key shocks mentioned in the article affecting Pakistan's economy?**
   A. 2022 floods only

B. Covid-19 only
C. Covid-19, 2022 floods, adverse global conditions
D. None of the above

2. **What is the proposed investment for addressing the human capital crisis as a percentage of GDP?**
   A. 0.5%
   B. 1%
   C. 2%
   D. 3%

3. **What is the suggested percentage increase in tax collection through abolishing tax exemptions and reducing compliance costs?**
   A. 1%
   B. 3%
   C. 5%
   D. 7%

4. **What is the envisioned year for Pakistan to achieve upper-middle-income status according to the authors?**
   A. 2030
   B. 2040
   C. 2047
   D. 2050

5. **Which sector requires transformation for safeguarding food security against climate change and rising water scarcity?**
   A. Information Technology
   B. Agriculture
   C. Healthcare
   D. Energy

VOCABULARY:

1. **Transformative** (adjective) (□□□□□□□□□): Causing a marked change in someone or something.
2. **Decentralization** (noun) (□□□ □□□ □□□□□□□ □□□□□□): The transfer or delegation of authority to a lower level, especially from a central government to local or regional administration.
3. **Regenerative** (adjective) (□□□□□□ □□□□□□): Relating to or marked by regeneration or re-creation.
4. **Incentivize** (verb) (□□□□ □□□□□): Provide someone with an incentive for doing something.
5. **Predictability** (noun) (□□□□□□□): The state of being predictable; the quality of being able to be foretold or relied upon.

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 Adaptable Learning: Summaries allow you to adapt your learning approach based on your time and goals. Whether you're seeking a quick update or an in-depth analysis, summaries can cater to your needs.

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Economic turnaround moment?

BY Najy Benhassine, Martin Raiser

AFTER a commendable long period of uninterrupted decline in poverty rates, Pakistan’s economy is now facing one of its worst crises. Poor policy choices, combined with a series of shocks — Covid 19, the 2022 catastrophic floods and adverse global conditions — caused growth to slow, poverty to increase, and brought the country to the brink of debt default. Moreover, human development outcomes remain at levels we see in much poorer countries, while per capita income growth has been declining in the face of low productivity and high fertility.

These challenges call for deep, sustained reforms. We recently launched Policy Notes, which lay out our views on what these should entail. What we propose is not new. We and others have made similar suggestions before. What is different this time is that the alternative of muddling through with short-term fixes and external financing is riskier and much harder to pull off. Many countries’ turnarounds have emerged out of similar crises. For Pakistan, too, this could be an opportunity to address deep-rooted issues that have plagued the country’s development for too long.

First, Pakistan must address its human capital crisis. Seven per cent of children die before their fifth birthday — that is multiple times higher than in comparable countries. Forty per cent of children under five suffer from stunted growth — more than 50pc in poorer districts. Halving stunting rates in a decade is feasible, but will require a shift from the traditional focus on nutrition and health only, to providing wider access to clean water and sanitation, birth spacing services, and improved living and hygiene environments. It will take strong cross-sectoral and local coordination, a national mobilisation and behavioural change campaign, and investments of close to 1pc of GDP every year. A weak education system compounds the effects of stunting: 78pc of 10-year-old children are unable to read an age-appropriate text, while over 20 million children are out of school.

Second, to finance improvements in service delivery and human capital development, Pakistan must generate more fiscal space. Tax collection has remained at a low 10pc of GDP for decades. Abolishing expensive tax exemptions and reducing compliance costs alone could quickly generate about 3pc of GDP in added revenues. More could be raised at the provincial and local levels from undertaxed sectors, like real estate, agriculture, and retail — potentially raising another 3pc of GDP. Expenditure savings could be achieved by more efficient management of public resources. Most loss-making public enterprises should be privatised. Poorly targeted subsidies in agriculture and energy should be cut, while protecting the poorest. Overlaps between federal and provincial spending should also be cut. These measures could provide savings of 3pc of GDP per year.

For Pakistan, crises could be an opportunity to address deep-rooted issues that have plagued its development.

Over time, bold fiscal reforms could potentially generate more than 12pc of GDP in new fiscal space. This is three times the additional resources needed to address human development gaps — leaving enough resources to raise public investments in infrastructure and reduce public debt. But to put Pakistan's public finances on a more sustainable footing will ultimately not be possible without stronger economic growth.

Third, Pakistan must strive for a more dynamic and open economy. Current policies distort markets for the benefit of a few, while preventing productivity growth. Frequent overvaluation of the currency coupled with high tariffs lead firms to focus on domestic markets, disincentivizing exports. A challenging business environment deters investment, as does a strong state presence in contested markets. Tax distortions also discourage productive investment and support non-tradable sectors such as real estate. Accelerating the sale of productive assets or selectively attracting foreign investment deals may bring in much-needed forex reserves in the short term, but lasting impact will require addressing urgently the core issues behind low investment and declining productivity growth: levelling the playing field, spurring competition, cutting red tape and increasing policy predictability.

Fourth, the agriculture sector must be transformed to safeguard food security in the face of climate change and rising water scarcity. Current subsidies, government procurement and price restrictions lock farmers into low-value, undiversified farming systems and water-intensive crops. These subsidies should be reallocated into public goods such as research on seeds, veterinary services, irrigation, and drainage services, promoting regenerative agriculture and building integrated agriculture value chains. Such measures could generate productivity gains, boost on- and off-farm incomes, and make Pakistan more resilient against climate shocks.

Fifth, energy-sector inefficiencies need to be addressed faster and more consistently, as they have long been a drain on public resources. Recent tariff increases have helped limit losses while protecting poor consumers, but large distribution and transmission losses, combined with high generation costs, have to be reduced to put the sector on a sustainable footing. Fortunately, Pakistan has access to some of the cheapest hydropower and solar resources. Leveraging these will require investment, which will only come if long-standing issues in the distribution and transmission systems are addressed, notably through more private participation. Also, tariffs adjustments needed to recover costs have to be shielded from politics, in order to provide credible incentives for investors over the long term.

All these policy shifts cannot be achieved at the federal level alone. Local governments will need to be empowered with capacity to raise and efficiently allocate funding to invest in much-needed local services. The decentralisation agenda needs to be revived. Moreover, a more dynamic economy will provide opportunities for most Pakistanis, but to leave no one behind, social safety nets will need to expand while improving targeting and coherence across federal and provincial instruments.

By implementing such fundamental reforms in the coming years, Pakistan can achieve upper-middle income status by its centennial in 2047. We have no doubt it has the human capacities and a proven implementation ability to reach this goal. The country has ample potential to not let this economic crisis go to waste and instead make it a historical turning point. The year 2024 could mark "Pakistan's moment".

Martin Raiser is World Bank vice president for South Asia.

Najy Benhassine is country director for World Bank Pakistan.

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