

# **Report of Consultative Workshop on**

**LINKAGE BETWEEN TRADE,  
DEVELOPMENT AND POVERTY  
REDUCTION**

**(September 29, 2005, Islamabad)**

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# First Country Consultative Workshop On Trade, Development And Poverty Reduction

## **Abstract**

*CUTS International along with its partner organisations across 15 countries in Africa, Asia and Europe is exploring the linkages between trade, development and poverty reduction (TDP). This project is supported by the Department for International Development (DFID) UK and Ministry of Foreign Affairs, The Netherlands. Sustainable Development Policy Institute (SDPI) and National Institute of WTO and International Trade Laws (NIWTL) are the project partners in Pakistan. NIWTL prepared the country background paper for this project. To hold a public discussion on country background paper and to unfold various dimensions of linkages between TDP, SDPI held a consultation workshop in Islamabad on September 29, 2005. This was first of the series of consultative workshops in this regard.*

*Workshop participants had an intensive discussion on following key questions:*

- 1. Definition of poverty*
- 2. Rationale behind exclusive use of official data on poverty reduction in country background paper*
- 3. Role of corporate sector interventions in poverty reduction in Pakistan*
- 4. Policy coherence*
- 5. Way forward*

*Dr Azam Chauhdhary of NIWTL and Dr Abid Qaiyum Suleri of SDPI welcomed the participants and apprised them of major objectives of the project as well as that of the workshop. It was followed by a presentation on country background paper by Akhtar Mehmood. Shaukat Randhawa from Ministry of Commerce, Pakistan and Dr Ejaz Ghani from Pakistan Institute for Development Economist (PIDE) were the invited discussants on the country background paper. It was followed by an open plenary.*

*Shahid Siddiquee of Nestle Pakistan was the second speaker who presented a detailed insight into the Nestle's role in poverty reduction in Pakistan. Hafiz Aziz of the Network for Consumer Protection and Dr Sajjad Akhtar from Centre for Research in Poverty Reduction and Income Distribution were the invited discussants on Siddiquee's talk.*

*This was followed by a group work to collect stakeholder's views on TDP and various TDP initiatives.*

## **Summary of the Plenary and Group work**

Most of the discussion revolved around strength and weaknesses of the background paper, concept of poverty, and role of governance issues in bridging the gap between trade and poverty reduction. It was appreciated that country background paper examined the important issues of trade, development and poverty and their inter-relationship.

It was also appreciated that the paper examined contemporary policies, including public expenditure on social sector as well as targeted poverty related expenditure. Evaluation of the current poverty reduction strategy and identification of the potential gains and losers from trade liberalisation was considered to be the key contribution of the paper.

Discussing the linkage between economic liberalisation and poverty reduction, the participants emphasised that Pakistan began its liberalisation of trade in 1987-88, and since then it has eliminated virtually most of its non-tariff barriers (NTBs) such as licensing procedures, quantitative restrictions (QRs), and its system of foreign exchange quotas at the same time it has reduced its tariffs substantially. The average of the applied tariffs of Pakistan is now about 17 percent, and its maximum tariffs (except its tariffs relating to the automotive sector) have come down from 125 percent in 1987-88 to 25 percent in 2002-03. The dispersion of its tariffs has also been reduced drastically. In 2005, Pakistan had only four slabs; 5, 10, 15, and 25 percent. However, these reforms do not seem to have a direct relationship with the value of exports and imports in the 1990s; exports grew merely at the rate of 5.6 percent compared with 8.5 percent in the 1980s, while imports increased only at the rate of 3.2 percent as against 4.5 percent. Employment, a major channel through which international trade affects poverty, did not improve either. According to the Labour Force Survey of Pakistan, the unemployment rate rose from 5.89 percent in 1999 to 7.82 percent in 2000; rural unemployment rose to 6.94 percent and urban unemployment to 9.92 percent. These high unemployment rates were unprecedented in the history of Pakistan.

The linkage between international trade and poverty reduction was also discussed. It was felt that international trade has risen strongly from 2000 to 2005 (except in 2001-02). In 2004-2005, exports rose by more than 15 percent. It need not be reiterated here that trade affects poverty directly through its impact on the cost of living, jobs, and wages as well as government revenue, and indirectly through its effect on the development and utilisation of productive capacity of a society. However, like many other developing countries, the trade liberalisation did not help much in reducing the poverty in the country. Poverty had declined in the '70s and '80s and has been on the rise since 1988. The year 1988 was the benchmark when we entered into the International Monetary Fund (IMF) programme. This was the era when we started the structural adjustment programme and did it within the framework of the IMF and the World Bank. We mainly pursued their policies and agenda to liberalise the economy. As a result, poverty increased during the 1990s.

Some participants thought that inconsistent and inappropriate policies that were implemented as part of the IMF and the World Bank loan conditions were the major reason for increased poverty in Pakistan despite increased trade and economic liberalisation. It was suggested that one should analyse the policies that worked and that did not work in Pakistan on TDPI.

Reports from Asian Development Bank (ADB) and the State Bank of Pakistan (SBP) were also quoted by some participants to debate that contrary to what seems to be stated in the country background paper, poverty seems to be on the rise in Pakistan. ADB, in its report *Poverty in Pakistan: Causes and Institutional Responses* released in August 2002, said the population living under the poverty line in 1993 had increased from 26 percent to 32 percent in 1999. The report said, this number further increased after 1999. This fact was seconded by the SBP, which in its second quarter report of 2004 said that unemployment stood 7.8 percent in 2003 as compared with 6.3 percent in 2002.

While assessing the importance of governance in linking trade liberalisation with poverty reduction and development, the participants were of the view that trade reforms should not be the only objective of any intervention. They felt that one should also focus on accompanying reforms such as governance, institutional strengthening and infrastructure development in the developing countries like Pakistan. To them, it was vital that above-mentioned reforms

should be domestically owned so that they could respond to the specific needs of the countries involved. The meeting felt that sustained economic growth was critical for poverty reduction. However, an environment conducive for economic activity that can encourage domestic and foreign investment (deemed to be a prerequisite for sustained economic growth). Another prerequisite that requires improvement in governance, including judicious indictment of macroeconomic stabilisation process is necessary. Better management of public resources establishment and implementation and enforcement of rule of law.

Some participants also referred to the lessons learned from social action programmes. They pointed out that lack of resources was a serious constraint in enhancing human development. This constraint was further aggravated by mismanagement and other governance issues which resulted in poor service delivery. Poor service delivery directly enhances the feelings of powerlessness and vulnerability, which are the intangible elements that shape the lives of the poor. Therefore, it is imperative to address governance issues responsible for social exclusion of the poor and marginalised.

Another suggestion was to strengthen the role of civil society for achieving Pakistan's long-term poverty reduction objectives. The participants were of the view that the success of wider government reforms hinges on public-private and public civil society partnership. They also suggested the need to facilitate synergies between government and civil society organisations (CSOs). Identifying lack of trust between government and CSOs as a major problem, the participants emphasised the need to build trust among various stakeholders.

It was also suggested that country background paper should focus on how exactly the specific trade initiatives would affect different poverty reduction strategies. It was recommended from the floor that a section should be added in the paper to explore relevant item of poverty reduction strategy against each trade initiatives.

It was observed that projects supported by international donors lack domestic ownership and are directed by a donor led-agenda that is all-too-often unresponsive to the priorities of the developing countries receiving the support. More needs to be done to engage CSOs effectively in the debate to respond to the needs of people at the grass-roots level.

Official poverty line was also a centre of debate and many participants question the legitimacy of poverty reduction efforts of government, which are based on controversial 'caloric' poverty line that seems to be devoid of human development aspect. Some of the participants quoted official statistics that head-count ratio of poverty fell during 1987-88 and 1990-91 from 29.2 percent to 26.1 percent, and then rose continuously in the decade of the 1990s till it reached a high level of 32.1 percent in 2001-02. The behaviour of 'poverty' since then has yet to be estimated, but it seems that, despite a relatively high inflation rate in 2004-05, a strong gross domestic product (GDP) growth rate might break the momentum of rising poverty and perhaps even reverse it.

Examples from telecommunication sector were shared where liberalisation really worked well in Pakistan. It was informed that following privatisation, reduction of custom duties to zero, and liberalisation of foreign investment, this sector has experienced a dramatic expansion. Mobile subscribers have increased from a mere 0.3 million in 1999-2000 to 16 million in 2004-05. During the calendar year 2004, after deregulation, this sector generated 341,622 direct and indirect employment opportunities. It was shared that in 2005 direct and indirect job opportunities in this sector should increase to 460,000.

On contrary other participants expressed their apprehensions that in the pretext of de-regulation, liberalisation and the privatisation, state has actually withdrawn its inherent regulatory role. They pointed out anti-competitive practices such as cartel formation and their implications on the state of consumer, especially right to choose. They were of the view that liberalisation policies should be followed by a strong regulatory system to ensure the consumer protection and this aspect should also be addressed in the country background paper.

Role of inflation and price hike as a major bottleneck in creating a meaningful linkage between trade, development, and poverty reduction was also discussed in detail. It was mentioned that the consumer inflation measured by the consumer price index (CPI) has crept steadily upwards during the last few years. Inflation that stood at 3.58 percent in 1999-2000, increased to 4.57 percent in 2003-04 and surged to over 9.06 percent during the year 2004-05. High inflation coupled with high unemployment hinders any meaningful link between trade, development and poverty reduction.

One of the participants pointed out the effect of external factors that hinder translation of trade activities into poverty reduction initiatives. According to her, “while many factors like global prices, the exchange parity rate, cost of production play a major role in determining the price of commodities, the prices of petroleum have seemed to have the most impact”.

Nestle Pakistan’s representative was of the view that in order to reduce poverty and to achieve millennium Development Goals (MDGs), it is necessary that the national policies should focus greater attention on rural development. This is important because the bulk of the population of Pakistan still lives in rural areas. He informed that Nestle Pakistan has intervened at the grassroots level by purchasing milk from the farmers. Nestle’s intervention enables the marginalised people to earn a worthwhile living. He mentioned that Pakistan’s milk production enables it to produce 70,000 tonnes of milk powder. However, Pakistani dairy industry is only processing 30,000 tonnes of milk and rest of the capacity is not being utilised mainly due to import of subsidised milk powder from Europe. Rest of the 40,000 tonnes of milk remains unsold and this turns rural population more vulnerable. He also stressed upon the importance of rural credit schemes for small farmers and producers so that landless growers may increase their herd size.

The participants unanimously pointed out the need to have foolproof data on poverty and development.

### **Recommendations**

- To carry out perception survey of stakeholders on linkage of trade, development and poverty reduction and to map the feelings of stakeholders;
- To develop policy follow-up culture i.e., monitoring of policy implementations;
- To facilitate synergies and develop trust between government and CSOs;
- A poverty reduction strategy must therefore take account of the range of poor around the poverty line rather than focus only on the fixed head count number;
- The current poverty reduction strategy needs to pay greater attention to rural development because the bulk of the population of Pakistan still lives in rural areas;
- Rural markets for major agricultural commodities need to be reformed radically;

- Processing of agricultural products needs to be improved drastically in the rural areas to reduce waste, and improve quality and efficiency;
- Effective operation of safety nets needs constant attention;
- Justice, equality before law, respect for the property rights of the poor ((however, meagre their assets may be), and the rights of women to their inheritance, to work outside the home, and to the security of their person need to be enforced in the rural areas;
- Imports of capital and intermediate goods can contribute to the growth process by enhancing the productive capacity of the country, while trade can lead to production gains through international diffusion and adoption of new technology;
- Sustained economic growth is critical for poverty reduction and to revive growth it is necessary to create environment conducive for economic activity and encourage domestic and foreign investment;
- There is a need to elaborate how exactly the specific trade initiatives would have bearing on different poverty reduction strategies whereby it would be useful if some discussion is added in the country back ground paper by providing relevant items of poverty reduction strategy against each trade initiatives;
- Anti-competitive practices should be strictly discouraged;
- The availability of credit to the rural population in order to be able to sustain themselves in terms of generation of wealth is an area, which needs to be addressed urgently, which must be accompanied by skill development programmes.
- To learn about policies that worked for poverty reduction, one can design a survey focused on rural households who managed to get out of poverty;
- We need a strategy at this time though we have the strategy but it is mainly about growth, but we need to have redistribution mechanism as well;
- We need social safety nets though, we have some safety nets like *Zakat* and food support programme but they need to be effectively monitored and implemented;
- We should involve the poor and marginalised in the process of policy making and they should be the one to decide whether something is good for them or not;
- For poverty reduction there is a need to control the chances of tampering with data;
- We should not confuse trade liberalisation with import liberalisation;
- There is also a need for a regulatory system to check prices, so that multinational companies cannot distort prices; and
- Corporate Social responsibility must be fulfilled by corporate sector to reduce poverty through trade.

## **Annex-A**

### **Dr Azam Chaudhry, National Institute of WTO**

This project is a brainchild of CUTS, International, India. There are various dimensions to the linkages between trade, development and poverty reduction. Both theoretical and political economic dimensions are unfolding in this era of trade and investment.

Some efforts are being made to look into various dimensions of the issues and to make trade and investment liberalisation work for the poor. However, unfortunately most of these efforts do not attempt to look into the issue holistically i.e., in both theoretical and economic terms.

This particular project is supported by the ministry of Foreign Affairs, The Netherlands and the DFID, UK. It is being implemented in select countries in Africa, Asia and Europe in partnership mode over a span of four years. The Pakistani partners for this project are SDPI and NIWTL.

The country background paper authored by Akhtar Mahmood is being circulated among the participants. We look forward to your comments and observations particularly in the second session of the today's seminar. It is fundamental in order to make this project as scientific as possible.

## **Annex-B**

### **Dr Abid Qaiyum Suleri, Assistant Executive Director, SDPI**

This is the zero consultation on the draft report on trade development and poverty reduction. It would be followed by a series of two consultations, one in November and another in December. We tried to involve the Secretary, Federal Ministry of Commerce but he could not make it due to some prior commitments.

There are four broad objectives of this study and I shall discuss one by one. In short, this is an international project on linking trade, development and poverty reduction, and is being implemented in 15 countries across Asia, Africa and Europe. One of the basic objectives of this experience sharing in 15 countries is to learn lessons from others. How can we link trade, commercial activities with poverty reduction? How can trade affect the development and poverty and to analyse whether there is any positive or negative linkage between them?

It would be a four-year project, which would gather lessons of success as well as the failure stories in other countries on various TDP initiatives; such as US initiatives in Africa that link various trade-related initiatives with poverty reduction, various European initiatives -- trade for human development and trade for aid, and of course United Nations Development Programmes' (UNDP's) trade from human development perspective.

But what one needs to do is to learn and combine lessons from all initiatives and assess how far they were able to achieve their objectives; what were the strong and weak points; and how we can improve upon. Once we have this data with us over the period of four years our ultimate objective would be to help policy makers to prepare their policy responses and the Ministry of Commerce to review its working. In this way, we would help them identify their strengths and weaknesses.

The second objective of this project is to provide policy support on trade and development issues globally. SDPI as a think tank of Pakistan is a firm believer that all the research is useless stuff unless it is translated into some policy initiatives. There must be a strong linkage between research and policy endeavours that is why one of the objectives of this study is to bridge this gap.

Project partners in all 15 countries, especially in Pakistan—NIWTL and SDPI --would believe in advocacy but they do not want to get involved in rhetoric, we want to develop our advocacy campaign based on strong research. So we have to link advocacy with research. Otherwise advocacy would turn into a piece of criticism or activism and would not be a real concrete stuff we want to achieve.

The third objective, in order to provide policy support, would be the perception survey of stakeholders on linkage of trade, development and poverty reduction. This perception survey is quite important; it would be undertaken by NIWTO, which would try to map the feelings of stakeholders on various activities and attempts that were made consciously or unconsciously to link trade, commercial activities with development and poverty reduction. How far were those initiatives able to deliver? Can they deliver or not? What are the actual perceptions of common stakeholders? Can TDPI provide them any relief at all?

We have to find reasons for policies that work and that did not work. Of course, policy follow-ups or policy chasing is extremely important. Unfortunately, in Pakistan so far we have not been able to develop a culture where we can see and monitor what promises were made in various policies, for example, trade policy of previous years. Vital questions include: how far the government and other stakeholders were able to achieve the goals and promises mentioned in the trade policies? How different is the current year's trade policy from the previous one? What is the value addition? Interrelation between various policies and presence or lack of synergies between these policies is another question of great significance. Unfortunately, the culture of policy follow-up does not exist, neither in public sector nor in private sector nor in CSOs nor NGOs.

One of the value additions that we want to bring through this project is to develop policy follow-up culture. Every year, before trade policy, we can prepare five-pager or six-pager white paper where we can constructively and positively highlight the success story as well as failures (along with the reasons for the failure) of the previous policy.

Next, building negotiations capacity is crucial. One cannot remain aloof from globalisation and from WTO and various agreements. Our negotiators are playing very vital role in protecting the interest of Pakistan and we need to build upon their negotiations capacity and it would only be possible, if they know the demands of the stakeholders back home. What do they perceive? How various agreements can affect them and what sort of change that one is looking for through TDPIs.

Another objective is that we want to facilitate synergies between government and CSOs. Unfortunately, it has become a practice that we hear policy statements from various heads of the departments and various political elites where they keep on criticising NGOs and the role of CSOs. But we ignore the fact that various NGOs are credible and they are engaged with the government/state in very constructive and positive manner. They want to bring change. Of course, we need to develop trust because lack of trust between government and CSOs is one of the major problems.

Through this project we want to build this trust. And we want to come to some converging point. Of course, the difference of opinion is very vital, very positive and it should remain there. Of course, NGOs should keep on playing the role of a watchdog or carrying constructive criticism and applauding the government where it is due. However, at least one can come to the point of convergence where we can agree that in the longer interest these are the goals that we want to achieve.

Finally, the ultimate objective of this project is that we are working for the policy that helps to reduce inequality, the policy that can work. Here is a common notion of pro-poor policies means any thing that has positive effect on poor but it does not talk about reducing inequality for example in the UNDP Human Development Report 2005, Brazil's example is given that the way the income distribution in Brazil is happening. If we distribute one dollar in Brazil, 85 cent would go to the top 20 percent wealthier Brazilian population and only three cent to the bottom (poorest) 20 percent population. Hence, we cannot say distribution is not pro-poor as bottom 20 percent does gain something from that one dollar; however this promotes the unequal distribution too.

The major aim that we want to achieve through this project in these 15 countries is that we want to work for reducing inequalities where marginalised segment, weaker communities, the

poor among the poor can have maximum benefits from trade and development. We want to promote trade and also want to make poverty reduction a reality. With this broader introduction of the project I would stop and request the presenters, Akhtar Mehmod and Shahid Sidiquee to present their papers.

## **Annex-C**

### **Akhtar Mahmood**

He is a retired Federal Secretary, Government of Pakistan, Fellow of Economics at Clare Hall, University of Cambridge. He is also Director Research and Training at the NIWTL.

### **PAKISTAN Country Background Paper Linkage between Trade, Development and Poverty Reduction**

*This short study has been prepared by the NIWTL, Pakistan for the Consumer Unity & Trust Society (CUTS International) and SDPI as a country background paper on poverty in Pakistan. The paper contains ten sections that cover the terms of reference provided by CUTS. As advised by CUTS, the best available data has been used to illustrate and support the points made in the study. The size of this paper has been restricted to about 5,000 words. I have not invented anything. I have not tried to exceed or abridge those limits. I will take each one of them one by one.*

#### **I. The Concept of Poverty**

Though the pain of poverty has no ambiguity about it, the definition and measurement of poverty is fraught with considerable difficulty. Serious effort is therefore being made by scholars and policy-makers both at national and international levels to achieve a measure of agreement on what constitutes poverty, how best to estimate its incidence, and what should be done to reduce it.

Like many other countries, Pakistan established its own official poverty line in 2000-01. Since the UN Millennium Declaration, the international community led by the World Bank, has also agreed on a poverty line to monitor progress in the achievement of MDGs. These national and international definitions have, however, not put an end to legitimate controversies about the meaning of poverty. Policy-makers and scholars are well aware that poverty is not just low income and/or low consumption; it also includes lack of human development and vulnerabilities such as food insecurity, insufficient availability of remunerative employment and lack of access to social services. It is also now widely recognised that whether a poverty line incorporates human development and social indicators or not; monitoring of these indicators must form an essential part of any review of poverty in a country.

#### **II. Pakistan's Official Poverty Line**

The definition being used by the Planning Commission for the determination of Pakistan's poverty line is based on a calorific requirements approach. The Planning Commission agreed in 2000-01 on a 'national poverty line on the basis of 2,350 calories per adult equivalent per day at Pakistani Rs 748.57 (US\$12.5) per capita per month at the prices of 2000-01 and minimum non-food requirements'. Based on this criterion, the percentage of the population estimated to be falling below the poverty line is reported in Table I.

**Table I:**  
**Percentage of Population below the Official Poverty Line**

	1986-87	1987-88	1990-91	1992-93	1993-94	1996-97	1998-99	2000-01
Pakistan	29.1	29.2	26.1	26.8	28.7	29.8	30.6 <sup>a</sup>	32.1 <sup>b</sup>
Urban	29.8	30.3	26.6	28.3	26.9	22.6	20.9	..
Rural	28.2	29.3	25.2	24.6	25.4	33.1	34.7	..
Poverty Gap				4.2	5.1	4.1	6.4	6.8

Source: Planning Commission, Government of Pakistan

Note: a. Head count index based on Rs. 673.54 per adult equivalent per month at the prices of 1988-99 PIHS Survey.

b. Head count index based on Rs. 748.56 per adult equivalent per month at the prices of 2000-01 PIHS Survey

It can be seen from Table-1 that head-count ratio of poverty fell during 1987-88 and 1990-91 from 29.2 percent to 26.1 percent, and then rose continuously in the decade of the 1990s until it reached a high level of 32.1 percent in 2001-02. The behaviour of 'poverty since then has yet to be estimated, but it seems that despite a relatively high inflation rate in 2004-05, a strong GDP growth rate might break the momentum of rising poverty and perhaps even reverse it.

Table II leaves no doubt that after the stagnation of the nineties Pakistan began to recover its traditional moderately high growth rates in 2002-03, and that it did so without raising any inflationary expectations.

<b>Table II:</b> Real GDP Growth Rates and Inflation Rates			
	2002-03	2003-04	2004-05
GDP Growth Rates	5.1	6.4	8.4
Per Capita Growth Rates	3.9	3.3	6.0
Inflation Rates	3.1	4.6	9.3

Source: Economic Survey 2004-05. Government of Pakistan

The exceptionally high inflation of 2004-05 is at least partly due to the abnormal behaviour of oil prices. Government is, however, determined to bring down this rate as soon as possible, and has already announced important changes in its monetary policy to restrain demand. It is therefore not overly optimistic to hold the view that recent relatively high GDP growth rates are likely to stop the rise in poverty in the country.

There is not much of an argument these days that a calorie-based definition of the poverty line is a narrow and an incomplete criterion. This measure has therefore to be seen together with human and social indicators of an economy in order to capture better the 'wide domain of poverty'. The social indicators of Pakistan reported by the World Bank are reported below:

**Table III:**  
**Poverty and Social Indicators: 1997-03**

	Pakistan	South Asia	Low Income
Urban population (% of total population)	34	28	30
Life expectancy at birth (Years)	64	63	58
Infant mortality (per 1000 live births)	76	68	82
Child malnutrition (%of children under 5)		48	44
Access to improved water sources (% of population)	90	84	75
Illiteracy (%of population age 15+)	54	41	35
Gross primary enrollment (% of school age population)	73	95	92
Male	84	103	99
Female	62	88	85

Source: Pakistan at a Glance, World Bank, 2005

This is indeed a depressing Table not only for Pakistan but also for the South Asia as a whole. It does, however, show that in a comparative context Pakistan's performance in the social sectors is no longer as dismal as it used to be in earlier decades.

Recognising that the poor are not a simple, homogenous mass, and that a uniform, undifferentiated policy might not therefore work to reduce poverty, the Planning Commission of Pakistan recently carried out another survey to deconstruct the poor into categories such as chronically poor, transitory poor and transitory vulnerable. This survey has brought out that 'as much as 63 percent of the poor population in fact falls between the poverty line and a level of consumption that is equivalent to 75 percent of the poverty line<sup>1</sup>'. In other words, poverty in Pakistan is characterised by large amounts of clustering around the poverty line and a high proportion of the vulnerable population tends to move in and move out of poverty. A poverty reduction strategy must therefore take into account the range of poor around the poverty line rather than focus only on the fixed head count number.

### **III. Millennium Development Goals and the International Poverty Line**

The MDGs of Pakistan is reproduced in Annex I, and the incidence of poverty by international standards is reflected in Table IV above. Given the Poverty and Social indicators listed in Table III, MDGs do not seem to be beyond the reach of the Government provided the authorities continue and strengthen the poverty reduction policies initiated in recent years.

**Table IV:**  
**International Poverty Line**

<b>Survey Year</b>	<b>% Population below \$ 1 a day</b>	<b>% Poverty Gap at \$1 a day</b>	<b>% Population below \$ 2 a day</b>	<b>% Poverty Gap at \$2 a day</b>
1998	13.4	2.4	65.6	22.0

Source: World Development Indicators 2005

### **IV. Institutional Arrangements**

Planning has been the cornerstone of Pakistan's development policy virtually since its creation, and food security has always been one of the pillars of Pakistan's poverty reduction programmes. Looking back, it is fairly clear that Pakistan has never failed to ensure availability of food (cereals and sugar) at affordable prices though a temporary scarcity of sugar did once trigger a massive protest movement. The wheat procurement and distribution system that Pakistan has operated over several years has never been a very efficient system, but it has provided adequate quantities of wheat to all parts of the country at all times at uniform and subsidised prices.

Ensuring food security, even in this very limited sense, has been no ordinary achievement. Pakistan has never fallen a prey to famine or even near famine even in its most difficult times. But it also has to be acknowledged that in the past, successive governments have failed to commit adequate volumes of resources and administrative attention to the social sectors (education, health, safe drinking water etc.); this failure is simply too brazen to be laboured here. This mixed record (relatively strong on food security and weak on social sectors) should not, however, obscure the fact that the decade of the 1980s did see a distinct decline in the incidence of income and consumption poverty, while the 1990s experienced a more or less

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1 Accelerating Economic Growth and Reducing Poverty: The Road Ahead. Ministry of Finance, Government of Pakistan, December 2003

continuous increase in head-count ratio of poverty stagnation in its GDP growth rates, and a very slow increase in its exports.

Following the depressing experience of the 1990s, in 2000 the 'government articulated an Interim Poverty Reduction Strategy Paper (IPRSP) that provided an integrated focus on a diverse set of factors that impact on poverty and other development outcomes. The core elements of the IPRSP were to engender growth, improve human development and governance and reduce the vulnerability of the poor to shocks<sup>2</sup>'. The full Poverty Reduction Strategy Paper was issued in December 2003. This strategy is part of the Poverty Reduction and Growth Facility agreed by the IMF and the World Bank with the Government.

The 2003 strategy paper encompasses a large array of actions that have to be elaborated and implemented by virtually the entire government, but the Ministry of Finance, being responsible for the conduct of Pakistan's relations with the IMF and the World Bank, plays the lead role. Hence, the Ministry of Finance has set up a Poverty Reduction Strategy Paper Secretariat that prepares the paper in consultation with concerned ministries and monitors progress in implementation of the Strategy Paper. This Secretariat is being assisted by a research centre called the Center for Research on Poverty Reduction and Income Distribution. The Planning Commission of Pakistan is providing full support to the Ministry of Finance in the preparation of the Strategy Paper.

Finally, it may be noted that Pakistan has completed the arrangements under its 2001 IMF Poverty Reduction and Growth Facility, and that no new Facility is now in force in Pakistan. Pakistan is now pursuing its in-house poverty reduction strategy.

## **V. Macroeconomic Policies and Trade Liberalisation**

Poverty in Pakistan increased in the decade of the 1990s as the country experienced severe exogenous shocks such as economic sanctions and drought. In this decade, Pakistan's GDP grew at just about 4 percent compared with 6.5 percent in the 1980s: agriculture registered a bare 3.1 percent compared with a 5.4 percent in the 1980s<sup>3</sup>. The share of investment stagnated, and the share of interest payments in the GDP rose from 3.8 percent to 6.8 percent, while the share of development expenditure fell from 7.3 percent in the 1980s to 4.7 percent of GDP in the 1990s. Inequality (Gini Coefficient) did not change but the absolute number of the poor did rise.

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2 Accelerating Economic Growth and Reducing Poverty: The Road Ahead, Ministry of Finance, Government of Pakistan

3 Sohail Malik:

As Table V shows, Pakistan began its liberalisation of trade in 1987-88, and since then it has eliminated virtually all its NTBs such as licensing procedures, quantitative restrictions, and its system of foreign exchange quotas, and at the same time it has reduced its tariffs substantially. The average of the applied tariffs of Pakistan is now about 17 percent, and its maximum tariffs (except its tariffs relating to the automotive sector) have come down from 125 percent in 1987-88 to 25 percent in 2002-03. The dispersion of its tariffs has also been reduced drastically. This year (2005), Pakistan has only four slabs; 5, 10, 15, and 25 percent.

Year	Slabs	Maximum
1987-88	17	125
1994-95	13	65
1997-98	05	45
1998-99	05	35
2000-01	04	30
2001-02	04	25
2002-03	04	25
2003-04	04	25

Source: National Tariff Commission, Government of Pakistan

This reform did not, however, stem the slowdown of growth in the value of exports and imports in the 1990s: exports grew merely at the rate of 5.6 percent compared with 8.5 percent in the 1980s, while imports increased only at the rate of 3.2 percent as against 4.5 percent. Employment, a major channel through which international trade affects poverty, did not improve either. In 1999, the Labour Force Survey of Pakistan reported that the unemployment rate was already 5.89 percent, which then rose to 7.82 percent in 2000; rural unemployment rose to 6.94 percent and urban unemployment to 9.92 percent. These high unemployment rates were unprecedented in the history of Pakistan.

The economy now seems to be turning the corner. During the last four years, the GDP of Pakistan has grown from 1.8 percent in 2000-01 to more than 6 percent in 2004-2005<sup>4</sup>. In 2004-05, agriculture, which has the strongest immediate impact on rural poverty, grew by 7.6 percent, manufacturing by 12.5 percent, and services by 7.9 percent. International trade, another important determinant of poverty, has also risen strongly over the first 5 years (except in 2001-02) of this decade. In 2004-2005, exports rose by more than 15 percent. It need not be reiterated here that trade affects poverty directly through its impact on the cost of living, jobs, and wages, as well as government revenue, and indirectly through its effect on the development and utilisation of productive capacity of a society. Higher capacity utilisation is therefore an important indicator of the benign effects of expanding international trade. In Pakistan, the highest increase in capacity utilisation has been observed in electronics and automobiles. Other industries that have done well are fertilizer, paper and paperboard, tractors, industrial chemicals, and steel<sup>5</sup>. These industries either exceeded 100 percent capacity utilisation or very nearly 100 percent capacity utilisation. It is therefore reasonable to expect that poverty is no longer increasing, and is perhaps decreasing.

## **VI. Complementary Policies**

Sound macroeconomic policies, high growth and liberal trade policies are indeed necessary but not sufficient for a substantial reduction of poverty. It is now widely acknowledged that macro-economic policies have to be supplemented by social sector and targeted poverty related expenditures to help the poor move out of their dire predicament. There is no doubt that in the past authorities did neglect the social sectors, but since 2001 the Ministry of Finance is making a systematic effort to redress this. The enormous problems of poverty, however, still remain. Government will therefore not only have to ensure that there is no backsliding in any sector; it will also have to make every effort to reinforce its reform

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<sup>4</sup> Pakistan Economic Survey 2004-05, Government of Pakistan

<sup>5</sup> The State of Pakistan's Economy: State Bank of Pakistan, Third Quarter 2004-05

strategy. The following table (Table VI) displays the new directions in the social sector policies of Pakistan.

**Table VI:**  
**Social Sector and Poverty Related Expenditures (Rs. Billion)**

	2001-02 Actual	2000-03 Actual	2003-04 Actual	2004-05 Budget
<b>I. Community Services</b>	10.98	16.57	20.63	21.46
Roads, highways, & buildings	6.34	13.15	16.45	16.58
Waters supply and Sanitation	4.64	3.42	4.18	4.88
<b>II. Human Development</b>	90.67	105.81	134.13	147.73
Education	66.29	78.61	97.96	102.38
Health	19.21	22.37	26.58	36.08
Population Planning	1.33	3.12	4.91	4.88
Social security and welfare	3.66	1.30	4.14	3.90
Natural calamities	0.19	0.41	0.54	0.49
<b>III. Rural Development</b>	24.30	34.18	45.30	43.04
Irrigation	10.13	15.54	22.94	32.37
Land Reclamation	1.84	1.76	2.00	2.44
Rural Development	12.33	16.88	18.38	7.23
Rural Electrification			1.98	1.00
<b>IV. Safety Nets</b>	8.33	13.75	11.46	19.03
Food subsidies	5.51	10.86	7.84	14.63
Food Support Program	2.02	2.24	2.80	3.90
Tawwana Pakistan	0.80	0.59	0.40	0.50
Low cost housing		0.06	0.42	0.00
<b>V. Governance</b>	32.98	38.54	42.44	46.80
Administration of justice	1.98	2.25	2.44	3.41
Law and Order	31.00	36.29	40.39	43.39
<b>TOTAL</b>	167.25	208.84	253.96	278.06
<b>Percentage Increase</b>		24.9	21.6	9.5

Source: Economic Survey 2004-05, Ministry of Finance

The Table-VI does show a fairly dramatic increase in social sector allocations at least in the first two years of the I-PRSP, but more than that, it brings out how wide is the range of measures that must be taken to cope up with poverty.

## **VII. Current Poverty Reduction Strategy**

The strategy that the Government of Pakistan, in consultation with the IMF and the World Bank, announced in 2003 to reduce poverty and meet the Millennium Development Goals rests on four pillars:

- Achieving high and broad-based economic growth while maintaining macroeconomic stability;
- Improving governance;
- Investing in human capital; and
- Targeting the poor and vulnerable.

Built on these pillars, Government is already implementing a comprehensive programme of reform to its macroeconomic policies, and its financial and foreign trade sectors. The country's overall fiscal deficit has already come down from 8.8 percent of the GDP in 1990-91 to 3 percent in 2003-04, and Government intends to keep it around 3.5 percent until FY

2008. The aim of monetary policy is to stimulate private activity and to stabilise the foreign exchange rate around its current market-determined rate. The exchange rate does not any more discriminate against agriculture as it used to in the 1980s and 1990s.

**Trade liberalisation** and export promotion is one of the major areas of reform. It has already been reported in this paper that maximum tariffs in Pakistan now do not exceed 25 percent, and that the number of slabs have been reduced to just four. It can also be seen from Table VII that in FY 2005, effective customs duty rates on dutiable imports were a mere 14.2 percent. Some of the major tariff peaks (e.g. automobiles) have also been reduced, and value-added tax (VAT) has been introduced to reform the distorted and discriminatory tariff structures. Pakistan gave up its quantitative restrictions and other bureaucratic NTBs quite some time ago.

Year	Effective Rate of Customs Duty (Percent)
1987-88	
1994-95	34.0
1997-98	22.9
1998-99	18.0
2000-01	17.0
2001-02	15.1
2002-03	15.6
2003-04	14.7
2004-05	14.2
Source: Central Board of Revenue	
Note: a= excluding automobile sector	

These reforms coincided with a difficult time for the economy of Pakistan but they did lay a basis for higher growth of trade and fuller utilisation of the productive capacity of the country. Pakistan has now begun to reap the fruits of those difficult decisions; not only is the economy growing at its long-term trend growth rate but also both its exports and imports are increasing rapidly.

Exports are now being progressively liberalised. For example, in FY 2005, export duties on many agricultural products such as raw cotton, rice (husked and unhusked), raw hides, fish, molasses and birds (falcons, other) have been eliminated. It has also been decided to enlarge the export finance scheme, among other things, to provide adequate resources for small and medium enterprises (SMEs). According to official sources, two special export zones will be established soon, and an Upgradation Fund will be set up and managed by both the public and private sectors.

Government has further decided to review the costs and benefits of its remaining protectionist policies, and carry out a rationalisation of its tariff structure to eliminate its anti-export bias. In its 2004-05 annual import policy, it also reduced substantially its list of prohibited products. At present, this list contains items such as anti-Islamic, obscene, or subversive literature, alcoholic beverages and spirits, and edible products not fit for human consumption. Products importable under health and safety requirements include wheat, fish and fishery products, sugarcane seeds, banana seeds, vegetable seeds, insecticides, fungicides etc. Import of edible products is also subject to some restrictions related to food safety. Moreover, Pakistan has adequate legal and institutional arrangements in place to protect its productive system from the harmful effects of dumping, sudden import surges, and foreign subsidies. Pakistan's import policy is now amongst the least restrictive of the developing countries.

**Targeting the poor and vulnerable** is now an integral part of Pakistan's poverty reduction policy. The country has already established two micro-credit banks and several institutions responsible for making direct transfers to the poor. Some of these are introduced below:

**Khushali Bank** is an important part of the comprehensive financial system for the poor. It was established in 1999, and today it has a network of 130 service outlets across 64 districts

in the country. It now plans to extend its work to another 11 districts in the current year. The disbursements of this bank, mainly in the rural areas of the country, amount to nearly Rs. 3 billion (US\$49mn).

**SME Bank** is working as a pioneering bank for the promotion of SMEs in the country. Gross advances extended by the bank have already exceeded Rs 1 billion (US\$16.3mn). Total disbursement of credit to 642 customers in 2004 stood at Rs 388 million (US\$6.5mn).

**Pakistan Poverty Alleviation Fund (PPAF)** is a public-private enterprise with three windows:

- a. Line of credit for expansion of poverty-targeted micro-credit programmes through the Credit and Enterprise Development Unit;
- b. Grants and loans for community physical infrastructure on a cost-sharing basis, mostly for clean drinking water identified by communities, locally run through the Community and Physical Infrastructure Unit; and
- c. Grants to strengthen and build the institutional capacity of organisations and communities through the Human and Institutional Unit.

The beneficiaries of the Fund add up to 329.9 million people spread over 87 districts. The fund has already completed 3,000 schemes.

In addition to the above institutions, the State Bank of Pakistan is managing two endowment funds, namely: i) the Micro Finance Development Sector Fund; and ii) the Community Investment Fund. The former is devoted to the capacity-building and skill-development needs of poor communities, particularly women, while the latter provides funds for community-level development schemes<sup>6</sup>.

**Social Safety Nets** includes the Worker Welfare Fund, Food Support Programme, Social Security, Employees Old Age Benefit, Pakistan *Bait-ul-Mal*, and *Zakat* Fund. **Zakat** is the single largest mechanism for cash transfers to the poor. This Fund provides financial assistance for day-to-day livelihood, education stipends, health care, social welfare, and marriage assistance. *Zakat* already assists 2 million people and another 1.5 million are being added to the programme. This programme does not simply help in the fulfillment of basic needs, but also helps to rehabilitate the poor permanently.

The Food Support Programme is designed to compensate for the effect of increases in retail wheat prices brought about by increases in producer prices. Cash support of Rs 2.5 billion (US\$41.5mn) was allocated in 2004 for disbursement on a bi-annual basis.

The Pakistan Center for Philanthropy was established in August 2001 to raise social understanding of philanthropy and to assist in the creation of a social, regulatory, and fiscal environment for the promotion of philanthropy. It has been estimated that the people of Pakistan give about Rs 70.5 billion (US\$1.2bn) in private charity.

Finally, NGOs are also making their contribution to greater awareness of poverty and its eradication.

## **VIII. An Assessment of Current Strategy**

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6 Accelerated Economic Growth and Reducing Poverty: The Road Ahead. Government of Pakistan

There is no doubt that the poverty reduction strategy being practiced in Pakistan since 2001 represents a significant advance over the partial and uncoordinated policies of the past. This advance is being made both in terms of concepts and practice. The strategy recognises clearly that the concept of poverty goes well beyond income and consumption deprivation, and that a wide range of actions at several levels of the society and the economy is required to reduce and finally to eliminate it. However, it is not possible at this stage to make even a reasonably fair assessment of the impact of the current strategy on poverty. The Household Income Expenditure Survey, called the Living Standards Measurement Survey, which is designed to provide the necessary information, is still only partly complete. Its incomplete, ill-digested and premature results cannot therefore be used with any confidence, as some official agencies have done, to make a judgment about how the Strategy has worked in real life. However, it is clear from Table VI that expenditures on poverty-related activities have increased significantly and that the operations of the safety nets have been enlarged. These policies cannot but have made a notable, positive impression on poverty.

Notwithstanding this optimistic picture, it seems that the current strategy needs to pay greater attention to rural development. This is important because the bulk of the population of Pakistan still lives in rural areas. There are three areas in particular which need to be highlighted in the future:

- **Rural markets for major agricultural commodities** need to be reformed radically. At present, Pakistan's rural areas are ill-equipped to take advantage of the liberalisation of trade policies of US and EU that are likely to come about as a result of the Doha Round of Negotiations on Agriculture. Current stabilisation policies should not be allowed to distort unduly farm-gate prices in relation to the international prices. It is important that the rise in international prices of major agricultural commodities that are to result from reduction of agricultural subsidies by the industrialised countries reach the farmers. This will not only increase the income of the farmers but also increase employment in the rural areas.
- **Processing of agricultural products** needs to be improved drastically in the rural areas to reduce waste, and improve quality and efficiency. Quality has now become an essential pre-requisite for export promotion. Concurrently, farm-to-market roads need to be increased substantially to integrate better rural markets with national markets, and electrification needs to be accelerated to modernise rural processing industries. There is also a need for better definition of public policy instruments for livestock development. Government needs to develop a better regulatory role and a more WTO-compliant sanitary phyto-sanitary (SPS) measures and public health framework. Investment on livestock is one of the most effective poverty reducing measures.
- **Operation of safety nets** needs constant attention. Safety nets, apart from being expensive, can be abused extensively. It is therefore essential that the targeting and delivery mechanisms of these programmes be made transparent and efficient.
- Above all, justice, equality before law, respect for the property rights of the poor ((however, meagre their assets may be), and the rights of women to their inheritance, to work outside the home, and to the security of their person need to be enforced in the rural areas. Progressive politicisation of the institutions responsible for administration of land rights, irrigation, justice etc., has only led to their absorption in the ancient *biraderi*, caste, and tribal structures of economic and political power. Regrettably, those institutions no longer have much capacity left in them to act even in a relatively impartial and objective manner. Restoration of the **rule of law** is a prime prerequisite for the reduction of poverty, and laws need to be made in a transparent, democratic manner.

#### **IX. Gainers and Losers from Trade Liberalisation**

It is trivially true that some industries gain and some lose from trade liberalisation. But this formula does not apply to Pakistan very strictly. This section will therefore suggest sectors for further study - not gainers and losers but a sector that has done very well and a sector that has not done well after trade liberalisation.

This sector that has done extremely well in Pakistan as a result of liberalisation in the **telecommunications sector**. Following privatisation, reduction of custom duties to zero, and liberalisation of foreign investment, this sector has experienced a dramatic expansion. Mobile subscribers have increased from a mere 0.3 million in 1999-2000 to 5.0 million in 2003-04. During the calendar year 2004, after deregulation, this sector generated 3,41,622 direct and indirect employment opportunities. It has been estimated that in 2005 direct and indirect job opportunities in this sector should increase to 460,000. This is one sector, which should be selected for a further study and 'perception survey'.

The sector that has not done well after reduction of customs duties to 25 percent is **cutlery**. This sector is important not only because of its potential to earn foreign exchange but because it embodies valuable traditional skills and is a source of substantial employment in a specific region of Pakistan. It also has a direct bearing on the state of poverty in the districts called Sialkot and Gujranwala. The evidence for its relative stagnation is that the value of cutlery exports is more or less stagnant for the last several years.

#### **X. Risks to Poverty Reduction Strategy**

It is important to recognise the unquestionable progress that the Government has made in liberalising its trade regime and in implementing its poverty reduction strategy is not yet secure; in fact, it is still open to several risks. These risks need to be understood clearly and policies need to be designed to minimise them. Some of the most obvious risks are listed below:

- A high rate of **inflation**, particularly inflation in food prices, is a constant danger to the well being of the poor. There is no doubt that the present high rate of inflation (9.5 percent), if not checked effectively, will undo most of the effects of the pro-poor policies of the last four years. A continuous rise in the price of food, which constitutes the bulk of the consumption of the poor, is particularly lethal. Government must therefore pay immediate attention to this issue.
- An **adverse exogenous economic or political shock** might weaken the resolve of the Government to continue with its trade reform and poverty reduction policies.
- A **shift in the domestic balance of power** could not only stop further liberalisation, but also reverse the progress already made. It is, therefore, important for a liberal government to estimate carefully the protectionist power of a coalition which comprises: a traditional bureaucracy reluctant to lose its power to intervene in economic activities as a result of deregulation and liberalisation; the interests clustered round import-substitution industries (e.g. automobiles); and trade unions. Coalitions of this kind have sufficient power by themselves to block liberalisation but, when combined with ideologically motivated militants, they can become a serious threat to the forces that seek greater integration with the world economy. Government must therefore be ready to exercise leadership, initiate educational and capacity-building programmes, and where necessary, introduce adjustment assistance measures to reduce the pain of change.

**At the end of this study**, one can only hope that South Asian countries will recognise, sooner rather than later, the right of the mass of their citizens to live in dignity and freedom, and that they will make a strong effort to put their people on a footing of equality with the rest of humanity.

## Annex-C-I

### Alignment with Millennium Development Goals

Goals and Indicators	1990-91	2000-01	2005-06 (Projected)	2011 (Projected)	2015 (Projected)
1. Eradicate Poverty and Hunger <ul style="list-style-type: none"> <li>• Overall Poverty Level (% of Population)</li> <li>• Poverty Gap Ratio</li> </ul>	26.1	32.1 4.53	29 6.84	22	16
2. Achieve Universal Primary Education <ul style="list-style-type: none"> <li>• Literacy Rate of 15-24 Old (%)</li> <li>• Gross Enrolment</li> </ul>	49 73	58 87	59.5 104	78 104	86 100
3. Gender Equality and Empower Women <ul style="list-style-type: none"> <li>• Ratio of literate women to males of 15-24 years (%)</li> <li>• Proportion of Seats held by Women in the Parliament               <ul style="list-style-type: none"> <li>○ National Assembly</li> <li>○ Senate (%)</li> <li>○ Local Councils (%)</li> </ul> </li> </ul>	0.61  0.9 1	0.65  21 17 33	0.65		0.93
4. Reduce Child Mortality <ul style="list-style-type: none"> <li>• Infant Mortality Rate</li> <li>• Proportion of fully Immunized Children 12-23 months</li> <li>• Under Mortality Rate</li> </ul>	120 25% 140	77 53% 105	63 82% 80	50 90% 65	40 Below 90% 52
5. Improve Maternal Health <ul style="list-style-type: none"> <li>• Maternal Mortality Rate/100.000</li> <li>• Total Fertility Rate</li> </ul>	550 5.4%	450 4.1%	350 4.0%	180 2.5%	140 2.1
6. Combat HIV/AIDS, Malaria and other Diseases <ul style="list-style-type: none"> <li>• Incidence of TB/ 100,000</li> </ul>	N/A	177	133	N/A	45
7. Ensure Environmental Sustainability <ul style="list-style-type: none"> <li>• Sustainable access to safe water</li> <li>• Population with access to sanitation</li> </ul>	82%	86% 28%	90% 51%	55%	93%

Source: Poverty Reduction Strategy Paper, 2003, Ministry of Finance PIHS and NEMIS data still be reconciled.

## **Annex-D**

### **Discussion on Country Background Paper**

#### **I) Dr Ejaz Ghani, Pakistan Institute of Development Economics (PIDE)**

This paper is very useful for developing economies like Pakistan. The paper examines the important issues of trade, development and poverty and their inter-relationship. After a brief description of poverty profile in Pakistan and the targets set by Pakistan in achieving MDGs, the paper focuses on various institutional arrangements for poverty reduction, and reviews Pakistan's experience with trade liberalisation and macroeconomic policies.

Then the paper goes on to examine contemporary policies including public expenditure on social sector as well as targeted poverty related expenditures. A key contribution of the paper is an evaluation of the current poverty reduction strategy and identification of the potential gainers and losers from the trade liberalisation.

Finally, the paper spells out some risks to poverty related strategies in Pakistan. Now, I would like to present the background of the TDPIs in Pakistan.

Pakistan mostly followed protectionist trade policies during its initial phases of development. The overriding principles behind the restrictive trade regimes were protection of the domestic industries from foreign competition and conservation of foreign exchange for balance of payment support. Extensive tariff and NTBs, exchange rate regulations and other administrative controls were used to promote import substitute industrialisation. While the protectionist trade strategies initially provided some impetus to industrialisation and economic growth, the capacity to sustain high growth rates considerably eroded over time. Hence, protectionism resulted in inefficiency, promoted rent seeking, and affected exports due to anti-export bias inherent in protectionist trade policies. These factors led to a general recognition of the fundamental flaws in import substitution strategies. This, in turn, led to a shift in economic policy in favour of trade liberalisation and export led growth.

Now the current trade policy of Pakistan reflects the broad aim of achieving greater openness through import liberalisation, export promotion and competitive exchange policies. Trade liberalisation has been a major component of structural adjustment programmes initiated in Pakistan in the early 1990's. The key element of the country's import policy included rationalisation of the tariff structure, reduction of major NTBs and simplification of import procedure. As the author of this study has mentioned that Pakistan made major strides in reforming its state of tariff structure i.e. the maximum import tariff came down from 225 percent in 1986-87 to 70 percent in 1994-95. Akhtar Mahmood has rightly said that currently the maximum tariff stands at 25 percent with four non-zero slabs: 5, 10, 20 and 25 percent.

In the last several years, Pakistan has made substantial progress in eliminating or reducing NTBs to trade. In 1990 there were only 32 products on the negative list and import of 28 products was restricted for health and safety reason. The government has abolished this restricted list that could be imported from any country. These issues are being addressed in structural adjustment programmes and efforts are under way to phase out tariff concession, exemptions and to improve transparency through simplification of import procedures.

Pakistan's export policy is geared towards encouraging export led growth through the development of an efficient, competitive and diversified export sector. To stimulate export-oriented industries, the government provides a variety of incentives including income and sales tax concession and exemptions from customs duties on imported intermediate input and capital goods and easy access to credit facility.

Exporters are allowed rebate on customs duties, sales tax and surcharges through the duty drawback facility. The duty drawback rates are standardised as a percentage of pre on board value of exports or a specific amount per unit good exported. Other important promotion measures include provision of loans to exporters at concessional rates of interest through the export finance scheme and financial assistance to export oriented industrial units.

Trade and growth theory generally predicts a positive relationship between openness to international trade and economic growth. Akhtar Mahmood has rightly said that we will have to be careful about this growth. First, liberal trade regime enhances efficiency through greater competition and improve the resource allocations. Second, greater access to world market allows economy to overcome size limitation and benefits from economy of scale. Third, import of capital and intermediate goods can contribute to the growth process by bringing the productive capacity of the country. And the fourth, trade can lead to production gains through international diffusion and adoption of new technology.

The relationship between trade liberalisation and poverty has been extensively debated in the literature. The link between trade policy and poverty has been discussed in terms of relationship between trade liberalisation and economic growth on the one hand and between economic growth and poverty on other. In principle, sustained economic growth is critical for poverty reduction. However, to revive growth it is necessary to create environment conducive for economic activity and encourage domestic and foreign investment that requires improvement in governance, including judicious indictment of macroeconomic stabilisation process, better management of public resources, enforcement of rule of law and move to less enthusiastic system of economic regulations.

Experiences with social action programme have shown that lack of resources is a serious constraint in improving the human development. Mismanagement and other governance issues resulting in poor service delivery are also crucial concerns for Pakistan. It is imperative to address governance issues that are responsible for social exclusion of the poor, women and minorities.

Poor public sector performance, endemic corruption and the loss of trust of citizens on public institutes hamper the success of wider government reforms, which are to be implemented in partnership with the civil society institutions. While Pakistan significantly liberalises its trade regime, poverty alleviation remains a challenge, albeit Pakistan needs to continue with the reform process. It is expected that deeper and more extensive reforms in terms of trade investment liberalisation may echo growth.

In the end I would like to mention that although the study spells out some trade initiatives that may relate to some action as outlined in the PRSP, it does not elaborate how exactly the specific trade initiatives would have bearing on different poverty reduction strategies. It would be useful if some discussion is added in the text by giving relevant item of poverty reduction strategy against each trade initiatives.

**II) Hafiz Aziz-Ur-Rehman, The Network For Consumer Protection**

I am not an economist. My perspective is basically a consumer right perspective. Personally being a lawyer, I would not be in a position to go into nitty-gritty of lots of technical issues such as the import, export subsidies and tariffications. Realising the fact, which Akhtar Mahmood mentioned that he has been provided with a sort of format by the CUTS or SDPI as a broader parameter of the study and he had to confine within that parameter or format while analysing and writing the country background paper. I would like to talk about that particular format. It is expected from the organisation like CUTS or SDPI that whenever this kind of format is going to be finalised more developmental perspective should be reflected there, which seems to me, at this point of time, largely missing from this study and its format, and framework. The definition of poverty and the academic discussion on it are known to us.

On the other hand, MDGs and their status of implementation in Pakistan, PRSP and whatever is happening in Pakistan, including the state of social safety nets in the country have largely betrayed the Pakistani consumer. Let me borrow the arguments from the earlier speaker that what are the exact implications of the trade liberalisation on consumer in Pakistan. This is a very simple question. Though for economist this question would be very difficult to answer because it is difficult to judge how international, regional and domestic trade is going to have certain influence on the decision of a particular consumer in Pakistan.

A layman is going to ask the above-mentioned question whenever we would discuss the issue of tariff regime, the government's macro and micro economic policies. But how these policies are going to be translated and what it means particularly for a consumer is not very much clear from this paper and we have to make it clearer and this whole study is about the linkages between trade and poverty but linkages are simply not there in the paper.

This sort of studies would only be useful when a layman is going to be convinced that whole trade liberalisation is pro-poor and pro-consumer. This is the whole objective, which should be achieved through such kind of studies. We should also realise that creation of wealth in Pakistan is obvious. It is improving and new wealth is being created and the growth has been achieved. No one is going to challenge the data, which is available. But again, we have to appreciate the conventional wisdom. One is the statistics, data and this empirical study. But at the same time, conventional wisdom is something big and important indicator as well.

Mahmood Akhtar has mentioned that poverty in Pakistan is not going to increase. It was shocking for me that such a claim is coming from CUTS and SDPI. Not only the civil society institutions, but independent researcher and scholars are actually confronting the government data and the official statistics. Recently, the ADB official and the World Bank official have conceded that growth is fine; government achievements are appreciable but at the same time poverty is the big issue and it is just increasing and government should seriously think about this issue.

I see a sort of dichotomy between whatever is written in the study paper and whatever actually presented over here. Maybe this is a sort of after-thought but this is very appreciable and good after-thought and we have to incorporate it in the paper as well. Among the complementary policies, he has mentioned the governance for example, justice and law and order. We all know that this component is there in the PRSP. Ironically, within the PRSP there is no indicator provided to gauge the progress on poverty reduction. What can be the indicator and who would gauge that actual on ground situation of access to justice and law

and order has changed. Legislation is the inherent character of the government, which is absolutely missing in Pakistan.

It is really shocking that on the pretext of de-regulation, liberalisation and the privatisation, in Pakistan, the state has actually withdrawn its inherent regulatory role. I can give you an example of the monopoly control authority, which has issued notices to so many sugar mill owners. But there is a shocking kind of cartelisation in sugar, cement etc. We know that which kind of anti-competitive practices are rampant in the market place. Yes, trade is flourishing and this growth rate is obviously very much there. But this is coupled with unfair trade practices, which have direct implications on the state of consumer, their purchasing parity, competitiveness, and the right to choose.

We know that this right to choose can never be materialised unless we are going to have fair trade in the market place. Anti-competitive practices can be worked out and for that purpose state inherent regulatory role is very important and state should not compromise on this role because of so called liberalisation or de-regulation policies. I would insist that creation of wealth is not the achievement because poverty is all about allocation and re-allocation or distribution of wealth. If we are not going to think and address those concerns in these kind of studies, which are coming from the organisations believing in the sustainable perspective then who would do it? The paper in hand seems to be sort of official version of ministry of finance etc., sharing their 'achievements.

The paper may be good but at the same time what is the added vision or dimension which the institutions like CUTS and their partners could provide. We have to be quite mindful of that fact. Until and unless the consumers are going to be satisfied and they are going to believe that the trickle down effects have started working, all these statistics and analysis would be of no use.

### **III). Shaukat Randhawa, Ministry of Commerce WTO wing**

I am not going to criticise the paper. One point in this paper that we have clearly developed a link between poverty alleviation or our development and the trade liberalisation interesting findings are presented that poverty is on the rise and at the same time since year 2000 onward things have been changing towards the positive direction. Now one can ask whether rise in poverty was because of unilateral trade liberalisation? This is the question earlier discussants have already raised.

Another thing that could have been in this paper was that we talked about our trade liberalisation but what was the impact of the trade liberalisation from others on our economy. Did we benefit from the liberalisation in other parts of the world? I agree to the optimism Akhtar Mahmood has mentioned in the later part of the paper, when he suggested that we should bring reforms in our farming sector or in our domestic economic structure.

However, we also have to closely monitor the outcome of current WTO negotiations before bringing any major reforms in our economic policies. Unfortunately, till today, there have been differences between demands of developing countries and standpoints of developed countries in WTO. However, the developing countries are now moving forward. We will benefit from the negotiations and Pakistan is going to gain because we are already in a situation of minimal risk. We don't need to reduce any subsidy and reduction in subsidies somewhere else are going to be in our benefit.

#### **IV. Shahid Siddiqui, Nestle Pakistan**

Coming from Nestle, I cannot represent the entire private sector. I cannot do it. I am not competent to do that because private sector is so diverse and every industry has its own specific approach towards trade liberalisation. I would focus on poverty issue related to rural population. Nestle is mainly a dairy industry and it is there we are in contact with the rural population.

There are certain areas where it is possible to impacting positively on poverty reduction through trade activities and the dairy sector is one of them. I think that government and policy makers need to take closer look to explore the linkages between the two. The rural population was 28.2 percent in 1986-87. It has increased to 34.7 percent in 1998-99. We do not have the figures beyond 1999 but I am sure that poverty must have increased over time. It's about 41 percent that shows tremendous increase in the poverty in the rural areas. It is also creating a disturbance between population that should stay in the rural areas because of the agricultural activity and the population that is migrating to urban centres.

I would present a small example on how government policies can affect trading activities that in turn can affect poverty. For instance, duty on import of milk powder was reduced to 25 percent. In fact, it was reduced to 20 percent but the dairy sector protested and the government increased it to 25 percent. The problem was that in India they have mountains of powder and it is likelihood that if you make Pakistan an attractive market for India, you will see a lot of milk powder coming from India. How does that impact poverty here?

Akhtar Mahmood has rightly pointed out that cheaper availability of milk to consumer is certainly one area where we need to be happy about. But we also need to take into account that when you have imported milk powder that debilitates the local industry from going into dairy sector.

Pakistan has the capacity to produce about 70,000 tonnes of milk powder. How many tonnes of milk powder are being processed in Pakistan? It is in the range of 30,000 tonnes that is processed. So, it means that 40,000 tonnes capacity is lying idle. And why it is laying idle is because there are subsidies being given on export of dairy products by EU member countries or many other countries. Netherlands and other EU countries are giving subsidies to dairy products. These subsidies are causing the prices to crash substantially from an average of US\$2200 per tonne to US\$1400 per tonne and totally knocking out the local dairy industry because it is obviously not in a position to compete with the subsidised imports of milk. Since the import duty on milk is 25 percent, they find it easy to penetrate and knock the local industry out. Now opposite to this duty on powder milk in India is 60 percent. They have not succumbed to the IMF or WTO pressure to bring down their duty to 25 percent or 20 percent as we have done. They have blocked any import of milk into India.

When I say the import of milk powder knock out the local industry it means how it impacts the rural poor. The local industry, therefore, if cannot process 40,000 tonnes of milk, then that milk is not being bought from the farmers, who are producing it at the rural level. If they cannot sell the milk, then they are unable to convert their milk produce into cash. That is reducing their ability to earn and is contributing to poverty increase in the rural areas.

We have other issues related to the dairy sector in Pakistan as well. Our animals are not producing as much milk per animal as it is been done in other countries. Therefore, the costs of production for Pakistani milk farmer is high and if the industry ends up buying milk at

higher prices, then it definitely would not compete with the imported milk on subsidised rates. That is one negative impact of trade liberalisation on the dairy sector.

Coming back to the country background paper one realises that that due to the constraint of 5000 words, it was not possible to explore each dimension of trade-poverty linkage. Perhaps during the discussion we can take into account other things that have been left out or could not be addressed. The other things like distribution of wealth are of course extremely important. There are certain inherent problems, which are related to governance. Although, the government is trying to address them, but it will take a while before they are actually addressed. I would also like to point out one thing that could help the rural poor to overcome poverty: it is the availability of credit. The availability of credit to the rural population in order to be able to sustain themselves in terms of generation of wealth is an area, which needs to be addressed urgently. There are landless people in the rural areas who earn their living by selling milk from dairy animal but unfortunately they are not in a position to increase their herd size because of lack of resources. Increase in the herd size would mean more milk, which mean more income. So they are in dire need of credit facility.

Although there are institutions which government has created to provide this kind of credit. But in practice, it does not work because these people are not in a position to provide collateral etc. Perhaps the availability of small credits to these farmers would also enable them to overcome poverty. Poverty is basically an essentially a rural phenomena in Pakistan. I think that is what the government and the policy makers will have to address. In the long-term unless you do that, there would be a total destabilisation in the society and the agriculture economy is also going to suffer. The distortions thus created will perhaps impact the entire economic scenario.

## **Annex-E**

### **Group Work (Questions)**

- 1. Is there any linkage between trade, development and poverty reduction?**
- 2. How can we make our policy to work for the poor?**

#### **I) Muhammad Ejaz Ahmad, Agriculture Price Commission, Pakistan**

Yes, no one can deny the fact that there is a linkage between trade, development and poverty. To my knowledge, there is only one experience in the rural areas that has come from Nestle Pakistan. They have intervened at the grassroots level and started purchasing milk from the farmers. I know this is the only thing, which has enabled the marginalised people to earn a worthwhile living. The marginalised people can only be brought out of the poverty web through such interventions.

What was the price of milk in the rural areas before the intervention of the Nestle Pakistan? How do you think that households who have no land of their own have increased the production of milk per animal after the intervention of Nestle? Have they increased the milk production or not? Logic says that with the increased demand the price of that commodity also increases. The question is not how much profit Nestle is making, but how much has been awarded to the milk selling persons. I have observed that before intervention of Nestle in our areas milk was purchased by milkmen at the rate of Rs 4/- or Rs 5/- per litre. Now its price ranges from Rs 10/- to Rs 14/- per litre. Nestle' intervention has reduced the marketing cost of farmers. Moreover, it gives them the best ever price of their produce.

Now let me touch upon some of the interventions from public sector. It is a pity that rural development and poverty reduction have become synonyms. Most of the public sector approaches have failed because the poorest segment of society was not targeted appropriately.

We cannot say that rural development programmes are pro-poor. The entire rural development programmes are tailored for all segments of society. It was observed that poverty increases as a result of relatively uniform yielding policies. An owner of 12 acres of land in the same village has the same kind of access to credit line as the one holding 5 acres. There is another aspect: whether a farmer has political links or not. To learn more, we can focus, especially on a survey in the rural areas targeting only the households who have got out of poverty. How they did it? My observation is that people who got remittances from abroad invested the money in the real estate in urban areas. They purchased tractors and trolleys and used them for commercial purposes rather than using them in agriculture sector. They have started earning more money. We should give big loans to the poor. How we can recover these loans is a big problem. If Nestle give loans to the milk owners in rural areas is something that they should share with us.

#### **II) Gulbaz Afaqi, Soon Valley Development Programme, Pakistan**

I will take an extreme position on the subject of poverty, which essentially is not an economic question. It's a moral and social question. We have failed in morality and sociality. The market fundamentalism like religious extremism is not going to save humanity or the poor. Nestle gets milk at the rate of Rs.11/- per litre from poor farmers and sells it with value

addition for Rs 40/- per litre. The return of value addition that goes to Nestle, after excluding Rs 3/- per litre as cost of carriage, transportation etc., is almost Rs 26/- per kg. So this is a corporate agenda and Nestle is not doing any good to eradicate poverty. Nestle, like other corporate entities, believes in profit making. I don't trust that trade or corporate sector is going to reduce poverty in Pakistan.

Only three percent of the total milk produced in the country is processed. Therefore, the price value of three percent cannot affect the value of 97 percent. It is a misconception that Nestle's purchase of milk from the rural farmers has affected poverty alleviation at the grassroots level. In fact, this 'poverty reduction' is quite a new slogan in the capitalist mode of production. International Food Information Service (IFIS) also use the same theme to exploit us. The capitalist's mode only concentrates on wealth creation besides maximising its benefits. Who the hell are the government and the World Bank to decide a poverty line? The credit will turn the poor even poorer.

### **III) Nasir Javed, *Ghumman Kissan Bachao Tehreek*, Pakistan**

Corporate sector cannot help in poverty reduction. Let us examine the working of Nestle. They have purchased the milk. They have only taken the benefits but not given the share to the consumers. The same approach is being followed by the fertilizer and pesticide producers who have earned billions of dollars in profit, but they are not giving any incentives to the people. They should spare some percentage of their profit for charity and poverty reduction.

A healthy culture of competition can do a bit in poverty reduction. There is no such competition. Basically, the corporate structures are not going to reduce poverty rather it is making profit. Corporate sector has changed the social behaviour. They are offering loans at commercial rates, which would lead the farmers into another vicious cycle of poverty.

### **IV) Shandana Gulzar Khan, National Institute of WTO, Pakistan**

Corporate interest is different from humane, moral and social interest. Yes, corporate social responsibility (CSR) has cropped up as an issue in the last couple of years. But I do not know any business whether in Pakistan or at the international level that actually works for charity. If you work for charity as a byproduct that is one thing but your focus is on profit- and money-making and helping society at large that is what the business does. It is not a charity.

Secondly, one of the issues raised was fundamental market strategies and here I would like to quote an example from one of the dairy projects of the ministry of food, agriculture and livestock, in conjunction with the Food and Agriculture Organisation (FAO). They are actually copying the Nestle model. Moreover, *Haleeb* has also entered the field as well. It remains to be seen whether it is competing with Nestle or not.

### **V) Dr Talat Anwar, UNDP, Pakistan**

I agree with the author of the paper that poverty has narrowly been defined in official term. Poverty has various dimensions. It is a much broader concept. You can define in a broader way. Larger population lives below the poverty line. At the moment, it is about 30 percent. Poverty is defined as "just barely to get minimum calories". That is sufficient for survival in society. So the official poverty line is the cost of the minimum caloric requirements that is about Rs 748 (US\$12.5) per capita per month in 2001 prices. If you adjust this official poverty line by inflation it would come to around Rs 950 (US\$15.7) per capita now. The rural and urban poverty have not been reported in the paper. According to official estimates, the official level urban poverty was about 22 percent and rural poverty about 38 percent in 2001.

Different analyses disagree with official version because poverty has been substantially underestimated in Pakistan. According to my personal research, 38 percent population lives below poverty line and I presented my findings in a conference held by Pakistan Society for Development Economics (PSDE) in January this year. The ADB also gives the same figure, while the World Bank estimated it at 37 percent.

Poverty is substantially underestimated according to the official poverty line. But if you define poverty in a much broader way you will find 70 percent population lives below the poverty line. Poverty had declined in the 1970s and 1980s and has been on the rise since 1988. The year 1988 was the benchmark when we entered into the IMF programme. This was the era when we started the structural adjustment and did it within the framework of the IMF and the World Bank. We mainly pursued their policies and the agenda was to liberalise the economy. As a result, poverty increased during the 1990s.

After the liberalisation it is noticeable that poverty has increased in Pakistan while during the liberalisation it had declined. Export growth was very high in the 1970s and 1980s. Why poverty increased is mainly because of the inconsistent and inappropriate policies that we implemented within the framework of the IMF and the World Bank. The sequence of policies was not correct and this was one of the reasons for rise in poverty. We had been asked to liberalise our trade regime rapidly; as a result we got negative effects on our revenue. We were asked to reduce tariff, and at the same time we were also told to reduce the budget deficit. How is it possible? There is a link between trade, development and poverty reduction. Because trade is considered to be the engine of growth, it is essential for poverty reduction. However, without right policy cohesiveness, trade cannot deliver.

In fact we need a strategy. At this time, we have the strategy but it is mainly about growth. We are focusing on the growth but growth alone is not sufficient for poverty reduction. We need to have redistribution mechanism as well. We have slightly unequal socio-economic structure. Inequality exists in the system mainly because of the socio-economic inequalities. We have inequality because assets such as land are highly unequally distributed. Secondly, we have human capital assets, which are also unequally distributed. Thirdly, we need social safety nets. Although, we have some safety nets like *Zakat* and food support programme but they need to be effectively monitored and implemented.

#### **VI) Maryam Afzal Khan, Actionaid, Pakistan**

We are talking about linkage between trade and poverty. The corporate sector is the major player in trade. We need to concentrate on the impact of corporate sector on poverty reduction. One needs to understand whether this is positive or negative. Corporatisation is creating wealth in the country. The question is whether corporations are also contributing to the distribution of wealth equally among the people.

Imbalances and unequal distribution can increase poverty. The trade contributing to reduce inequalities can decrease poverty. We should involve the poor and the marginalised in the process of policy making. They should be the one to decide whether something is good for them or not. It should be their decision whether liberalisation is going to benefit them or not. They should be included in the policy making and planning process in a better way. Their voice should be heard.

**VII) Muhammad Iftikhar, Student of Economics Department, Quaid-i- Azam University, Pakistan**

The development process means improving the living standards. In Pakistan, poverty is increasing, so one needs to question if development is really taking place at all. Poverty in the country has been increasing. Before President Musharraf came to power, Pakistan was at 127<sup>th</sup> position on human development index now it has gone down to 140<sup>th</sup> position. Where is the development and where is the reduction in poverty? I think there is no linkage. No one can show that this trade led development can decrease poverty in our country.

**VIII) Khalid Jamil, Aaj TV, Pakistan**

For poverty reduction, there is a need to reduce the chances of tampering with data. We claim that much is being spent on health, education, community services, human development, rural development, safety nets and governance to reduce poverty. If these expenses were real, then poverty would not have been increased.

**IX) Mahnaz, SDPI, Pakistan**

You have mentioned that so many banks are targeting the poor and vulnerable. That the *Khushali* Bank and SME Bank are providing funds to farmers or to the rural people. But you have not mentioned how it contributes in poverty alleviation. It's a process of capital flow in the market. How can you say that these funds or credits are contributing towards poverty alleviation?

There was a remark that if trade is liberalised, things become cheaper and the poor can buy them. Could you please explain how the poor would be able to buy? Do the poor have the power to buy cheaper things in our country?

**X) Mubarak Zeb Khan, Daily Dawn, Pakistan**

We should not confuse trade liberalisation with import liberalisation. I mean what we have done in the past, we have unilaterally liberalised our import regime and that resulted in a massive increase in imports. We are going to become a net goods importing country. I think the government should focus on increasing exports because imports very marginally affect poverty reduction.

In the background paper, you have just given the review of the previous government policies related to poverty reduction. At one place, Akhtar Mehmood mentioned that the growth in the GDP would result in declining poverty, although results are the other way round. Moreover, he said that there is a shortage of wheat and sugar in the country. I don't think there is any shortage of these commodities. But there are some other reasons like hoarding, which are responsible for the artificial storage of such items in the market.

The author of background paper mentioned on page seven of the report, which reads as follows, "it was therefore reasonable to expect that poverty is no longer increasing and is perhaps decreasing". The government statistics, however, said poverty is increasing in the country. But the author has said that perhaps it was decreasing.

The study does not mention the methodology. Is it going to be a drawing room based study or survey? What was your methodology? Yes, there is a linkage between trade and poverty but in case of Pakistan the linkage is negative. The trade liberalisation in Pakistan was not a conscious decision of the government but rather a conditionality of the IMF attached with

poverty reduction and growth strategy. Under this programme, they introduced general sales tax on various items like foodstuff etc. It adversely affected the poor.

There is poor coordination among the ministries. On the one hand, the Finance Ministry is negotiating with donor agencies regarding different policies while on the other we are unilaterally reducing tariffs without taking into confidence the stakeholders. What will be the effect of trade liberalisation on their business?

To conclude, I would say the corporate sector might help in reducing poverty. Increased investment could bring more employment opportunities. There is also a need for a regulatory system to check prices, so that multinational companies would not increase prices.

**XI) Rana Nazir Mehmood, WWF, Pakistan**

The policies should be pro-poor and properly implemented. But the question arises whether the poor wanted to come out of poverty. When we go to communities they were found to be reluctant to come out of their lifestyles. I do believe that credit never helps in bringing people out of the poverty line unless loan is followed by proper skill developing mechanism.

At the same time, when we talk about corporate sector the question is if they can make profit then why not the poor.

There is a strong linkage between trade, development and poverty reduction. There is only a need to institutionalise the social corporate responsibility (CSR). If the CSR is incorporated in the policy, we can see some steps forward towards poverty reduction.

**XII) Shahid Siddique, Nestle, Pakistan**

My presence has made Nestle the centre of discussion, because you think I was the only corporate representative and you started aiming at me. Pakistan is the fifth largest milk producing country in the world. It produces about 28 billion litres, out of which only two percent is processed, not three percent. Therefore, there is a tremendous amount of milk, which is in an unprocessed form.

According to statistics, in Pakistan milk consumption is the highest per capita. Only two percent is processed and the rest is consumed by people in the urban areas. The villages have not given up consuming milk. They serve you Pepsi as it is fashionable to do so because it enables them to display their better lifestyle.

There are a lot of people who take loans but are unable to utilise it properly; and therefore do not benefit from it. The private sector and industries also take loans but they process it and become profitable organisations. The same goes for individuals who take loans. If you are not in a position to utilise the money you get through the credit system, then the hard luck. You are the one losing out. But the fact is that within the Nestle system we have enabled a lot of farmers to get loans on cheaper interest rates i.e. 14 percent and 12 percent. They have been able to increase their herds' size and one farmer has increased it from three animals to 200 over a period of about six to seven years. I am not saying that every farmer would be able to do that. Obviously, they have limitation, as most of them even don't know which breed to go for and how to manage animals, etc.

There is a general perception that companies like Nestle are only there for minting money and doing nothing for the community. This is not true. We have very elaborative services that we have established to help farmers to understand better animal management. We provide

them all kinds of guidance pertaining to animal husbandry, including what they should do, how should they do and how should they manage their herds. We guide them on how and when they vaccinate their animals. This is the sort of contribution we made to the farmers community. We have a complete policy of CSR.

We do a number of things in the rural areas where we help farmers in the areas of elementary education for their children. We have developed sustainable schools, set up water pumps and tube wells. We go out in deserts like Thar and Cholistan and set up hand pumps. We help them with the basic health facilities. So whatever we could do for the community in terms of CSR and social action programme, we do for them.

The answer to the question, whether corporate sector contributes to poverty reduction is yes. How do we do that? The corporate sector brings in investment, technology, and hires people, and hence creates jobs. It generates wealth, it pays taxes and above all it creates a positive economic environment in which the community flourishes and develops the corporate world, besides playing a role in economic development. And economic development directly translates into poverty alleviation.

### **XIII) Akhtar Mahmood, Author of the paper**

What is the methodology? I was given specific terms of reference. I was told not to do special or fresh survey. You have to only rely on the data, which are already available and that you will have to restrict yourself to 5,000 words. I have done that. Whether it is a good enough methodology or not should be defended by SDPI, who have sponsored these things? I did it because I have been asked to do it within the predefined parameters. As far as the multinationals are concerned they have ambiguous role. There is no doubt that Pakistan attracted most of the multinationals. But the question is whether we want to promote our trade or productivity and whether we want to improve our technology or growth rates or not.

This does not apply to each individual case or to each multinational. In case of Pakistan, however, they are doing a lot of work. But some of them are not so good. For instance, take the case of automobile sector. They have considered themselves as an exception. Their tariffs rate is outside the whole range of Pakistan's. These multinationals that are supposed to promote trade liberalisation just do the opposite in the case of Pakistan. The Nestle representative said that tariff had been raised from 15 percent to 25 percent and defended the protectionism. These all have got very negative approach to life.

Why I am so excited about tariffs. Tariff is a mean of distributing income from the poor to the rich; so if you have these kinds of tariffs and make yourself an exception to the general rule of the country, then you are doing something very negative about poverty reduction. Protectionism is the hallmark of these two sectors: Nestle milk and dairy products. Nestle is not only operating in Pakistan but also in Sri Lanka and India. You can see their experience as well. I know Nestle very well. They can't operate on a free trade basis. They need protection of 25 percent, which is a lot for that purpose. We don't stand for that kind of protection.

I have been asked not to challenge the data, because I know these data are very dubious. I also know the whole literature on poverty in Pakistan. Trade has two kinds of effects: one is through growth; if you have trade, then you may have high growth; if you have high growth, then you may reduce poverty. I agree that growth is a necessary condition but not a sufficient

one. Trade has this effect through the growth mechanism. For instance, you develop labour intensively because there are poor people. They are the only manpower resource.

We should develop our industry on the basis of our labour force. But we never did it. If you reduce tariffs, then consumer will always gain and the multinational may or may not. Poverty is a very complex issue. There is no doubt about it but we have to be careful that without growth we cannot do very much. When you have 8.5 percent growth rate, there is a hope that it might have some effect on poverty reduction. When there is 11 percent inflation, there is no doubt that poverty would increase. I said abolish the Price Commission. The price that the farmers get in Pakistan for wheat or cotton or any thing is much lower than those of the international prices. This has been the experience since the establishment of the Price Commission.

The international prices are already very fluctuating because of the subsidies of the Organisation for Economic Cooperation and Development (OECD) countries like EU, US and Japan.

Despite that the international prices are low and our farmers are getting the lowest prices, we are hoping that there would be reduction in subsidies when the process will begin as a result of the forthcoming Hong Kong Ministerial conference.

It would be of no good to the farmers if better prices are not transmitted to them and the government or the middleman or multinational take up the whole advantage. Agricultural prices should be handled in such a way that at least what the farmers get internationally should also be provided to the local farmers as well.