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The proposed revenue measures

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According to media reports, the PTI administration is proactively engaged in seeking recommendations from all relevant entities/departments including State Bank of Pakistan, Federal Board of Revenue (FBR) and Ministry of Commerce, on measures that would increase exports, decrease imports and boost revenue after consultations with stakeholders, including Pakistan Business Council. This is imperative given the rising trade deficit accounting for an unsustainable current account deficit of 18 billion dollars and a budget deficit of 6.6 percent as claimed by the government while independent analysts place the figure at closer to 7.5 to 8 percent.

Export incentive package was announced by the then Prime Minister Nawaz Sharif on 1 January 2016, refined by his successor Shahid Khaqan Abbasi last year and on the second last day of its tenure, 30 May 2018, it was further refined and extended till 2021. The package is estimated to cost 195 billion rupees and includes non-traditional exports, extension of drawback of Local Taxes and Levies (DLTL) on the same terms and conditions for commercial and manufacturer exporters and zero rating for textile machinery imports. This package, reports indicate, will continue however, the government would be well advised to note that while exports did rise in June 2018 - a rise of 12.6 percent yet imports rose by 14.7 percent. In other words, there is a need to also focus on import decreasing measures.

The government is considering imposing regulatory duty on around 600 to 700 tariff lines that would reduce imports and increase revenue by an estimated 1.1 billion dollars. However, a *Business Recorder* exclusive reveals that regulatory duties fuel smuggling of relatively small items that are easy to carry through three routes - green channel facility, transshipment of bonded goods from Karachi port to dry ports and Afghan Transit Trade. More disturbingly, the report indicates that around 12 to 13 billion dollars worth of items are smuggled into the country each year - from the Afghan border, the Iranian border and by sea from the UAE, which include Indian products. Any increase in regulatory duties must therefore be accompanied by better policing across the points of entry and in this context, it is relevant to note that FBR has yet to set up a 10,000-strong customs border force to plug our porous borders - a decision that was taken four years back in 2014. The element of collusion by any law enforcement force with the smugglers given the anticipated windfall profits is significant and therefore is an urgent need to deal with smuggling through appropriate measures.

The government reportedly is considering raising regulatory duty on furnace oil and mobile phones by 12.5 percent. The former may discourage generation of electricity from the most expensive input though this policy may have to be reversed during the summer months when electricity demand is high. It may be recalled that the previous government had banned the import of furnace oil but lifted the ban in March this year as demand for electricity rose. Raising RD on mobiles would simply increase illegal entry into the country.

The government has reportedly also decided to give electricity connections to industrial units in one month, lift moratorium on local gas in Sindh and Khyber Pakhtunkhwa, resolve the Gas Infrastructure Development Cess issues, and clear pending sales tax refunds. These measures are indeed appropriate but may require further refining as giving connections to industrial units within a month would require appropriate measures to end red-tapism, lifting the moratorium on gas producing provinces may lead to shortages in Punjab, GIDC issues are legal and not resolvable by government decrees, and if all pending sales tax refunds are cleared - estimated at around 200 billion rupees - then the government would be fuelling a budget deficit to even more unsustainable levels.

To conclude, the assumption in the measures under consideration is that they are short-term as little change in the tax structure itself is envisaged. One would hope that the government begins work on long-term measures to reform the tax structure and at the same time try to plug the smuggling routes.