Topic:- Pakistan's informal economy: the way forward.

Outline

1- Introduction

2- An overview of Pakistan's informal economy.

3- Causes of Pakistan's informal economy.

A) Burdensome, low-quality regulation and complex taxation.

Case in point: An IPRI policy brief (2025) estimates that about 59-60% of Pakistan's economy is informal and around 40% is black economy, noting that excessive NOCs, overlapping regulations and high compliance costs are major drivers of informality.

B) Limited formal job creation and informality as a "safety valve".

Case in point: UNDP notes that Pakistan's informal sector accounts for a major share of the national economy and employs about 27.3 million people, making it the default absorber of labour when formal jobs are scarce.

c) Weak state capacity and governance, especially in border/peripheral areas.

Case in point: The IPRI study highlights Pakistan's 6,774-Km land border with India, Afghanistan, Iran and China, passing through under-governed regions (Balochistan, KP), where informal cross-border trade in fuel, food staples and consumer goods is often the primary source of livelihoods due to weak institutions and limited state presence.

D) Structural dominance of small, cash-based firms and low financial inclusion.

Case in point: ILO's "Pakistan's Hidden Workers" finds that home-based women workers in Karachi's textile / garment value chains work 12.3 hours per day on average, yet earn only about 60% of the statutory minimum wage, with almost 99% dependent on a single contractor and with no written contracts or social security - classic informal conditions.

4. Impacts of the informal economy on Pakistan.

A) Erosion of fiscal capacity and narrow tax base.

Case in point: The IPRI's policy brief (2025) underlines Pakistan's tax-to-GDP ratio near 10%, despite a much larger underlying economic base, indicating massive untapped revenue due to informality and evasion.

B) Depressed productivity and "low-wage traps."

Case in point: ILO's "Pakistan's Hidden Workers" shows home-based workers earning below minimum wage often doing tedious, low-value tasks (e.g. cropping threads, basic stitching) with long hours and no bargaining power - evidence of a depressed productivity and wage trap.

c) Precarious work and social protection gaps.

Case in point: UNDP's COVID-19 assessment warned that because the informal sector employs 27.3 million people, shocks like the pandemic could sharply increase under-employment and poverty as these workers have almost no formal safety nets.

d) Distorted macroeconomic data and policy blind spots.

Case in point: Mughal, Schneider and Hayat show that the shadow economy has different short-run and long-run impacts on official GDP, implying that ignoring it leads to mis-estimation of growth, productivity and the effects of taxation or monetary policy.

5- Way Forward: Policy recommendations:

A) Make formality attractive: simplify entry, licensing and taxation.

Case in point: De Soto's classic thesis in "The Other Path" and "The Mystery of Capital" argues that informality is people's "spontaneous and creative response to the obstacles that the state places in their way"; reducing those obstacles is the most effective way to pull them into legality.

B) Use digital rails to document transactions and expand the tax net.

Case in point: Pakistan's broader digital stack (NADRA identity system, real-time payment platforms like RAAST, expanding mobile money) already provides the infrastructure to gradually shift informal cash transactions into traceable, low-cost digital channels, which global World Bank work identifies as key to formalisation and financial inclusion. (World Bank - informality: Why is it so widespread?)

c) Extend labour rights and social protection into informal work.

Case in point: Global ILO data underlines that about 60 %

of world employment is informal, and extending social protection to these workers is central to SDG-aligned growth strategies.

D) Raise productivity of informal enterprises through skills and finance.

Case in point: Pakistan-focused research links stalled poverty reduction after 2019 to low productivity in labour-absorbing sectors like construction, transport and small trade precisely where informality is dominant. (World Bank Jobs)

E) Formalise border trade and local markets instead of criminalising them.

Case in point: "Border market" and "special economic zone" approaches in other developing countries have shown that graduated regulation can integrate informal traders without wiping out livelihoods. (World Bank and ILO Discussions of informality)

F) Integrate street vendors and home-based workers into urban planning.

Case in point: Ananya Roy's "Urban Informality: Toward an Epistemology of Planning" shows that cities which give legal space to informal workers - rather than evict them - can reduce conflict, increase tax compliance and improve service delivery.

G) Improve measurement, data sharing and accountability around informality.

Case in point: IPRI argues that including informal output in GDP and labour statistics would improve growth, employment and fiscal data and recommends a "Central Delivery Unit" with dashboards and KPI scorecards, linking national database to monitor formalisation and revenue gains.

Topic:- Promotion of tax culture in Pakistan: Perspective, prospects and challenges.

Outline

1- Introduction.

2- An overview of tax culture in Pakistan.

3- Perspective on tax culture in Pakistan.

A) Chronic "low-tax state" despite recent improvement.

Case in point: Pakistan's tax-to-GDP ratio (federal + provincial) stayed stuck in a narrow band of 9.3–10.1% between FY2019 and FY2024, far below the OECD average of 34% and Asia Pacific average of 19.3%. (Finance Division)

B) Weak citizen-state social contract and trust deficit.

Case in point: A Gallup Pakistan survey (2024) finds 84% Pakistanis say it is necessary to pay taxes and oppose tax evasion, indicating

normative support for taxation.
Yet another Gallup analysis (2025) shows 48% believe taxes are higher than required and 56% say taxes are unfair, and earlier work found only a minority think high-income people pay their due share.

c) Tax administration is in transition: from manual to data-driven.
Case in point: FBR's Annual Performance Report 2023-24 lists key steps: integration with NADRA, SECP and other agencies, expansion of point-of-sale integration for retailers, and real-time data flows to detect non-filers.

4- Key challenges in promoting tax culture in Pakistan.

A) Narrow, distorted tax base and undertaxed elites.
Case in point: FBR's Annual Report 2023-24 shows only 4.74 million active income-tax filers and about 234,000 sales-tax fillers, in a population of 240+ million.

B) Regressive structure and heavy reliance on indirect taxes.

Case in point: MoF's Fiscal Development chapter shows that despite some improvement in direct taxes (direct tax-to-GDP rising from about 3.1% in FY2020-21 to 4.27% in FY2023-24), indirect taxes still account for the majority of revenue.

C) High compliance costs, complex procedures, and weak taxpayer facilitation.

Case in point: A PIDE study on cost of tax compliance finds that businesses face multiple and higher tax rates, a complex framework, frequent amnesties and legal changes, and 'degenerate expense organization", and concludes that procedures must be simplified and depoliticised.

D) Governance, corruption and perception that "tax money is wasted."

Case in point: A recent IMF governance diagnostic (2025) estimates Pakistan's GDP could be 5-6.5% higher over five years if corruption and governance issues - including

opaque taxation and
public procurement—are addressed.

E) Informality, cash economy and weak enforcement ecosystems.
Case in point: FBR's poor experience with the Tajir Dost App—only about 100-200 retailers registered by an early deadline, signalling strong resistance to formalisation among small traders. (Business Recorder)

5: Prospects-policy recommendations for promoting tax culture in Pakistan.

A) Broaden the tax base in a fair and sequenced way.
Case in point: PIDE's "Trillion-Dollar Future" paper shows that Pakistan's tax capacity (22.3% of GDP) allows roughly doubling revenue without increasing statutory rates—mainly by plugging exemptions, leakages and base gaps.

B) Make the system simpler, predictable and more transparent.
Case in point: PIDE and OICCI

Tax Proposals 2024-25"
call for rationalising exemptions, time-limiting concessions, and simplifying tax codes arguing that uncertainty and complexity push business into informality and litigation.

c) Deepen digitalisation and intelligent enforcement.

Case in point: FBR's 2023-24 and 2024-25 reports cite integration with NADRA, SECP, banks and utilities, expansion of POS-integrated retailers, and daily-updated Active Taxpayer lists as core pillars of a data-driven enforcement model.

D) Rebuild trust by linking tax with visible public value.

Case in point: PIDE's "Tax Reforms in Pakistan: Historic and Critical View" argues that promoting tax culture requires transparent, welfare-oriented spending; people must see their taxes turning into schools, health and security.

E) Invest in taxpayer education and a long-term "tax citizenship" narrative.

Case in point: Pakistani scholars like Ishrat Hussain and Ejaz Haq repeatedly stress that taxation should be framed as part of citizenship and democracy, not just extraction an idea echoed in PIDE's 2024 webinar "Tax & Government in the 21st Century.

6- Conclusion.

Topic:- New war fronts lie in economic zones.

1- Introduction

2. An overview: how conflict of interests in political economy are leading to economic warefare.

3- Factors demonstrating that new war fronts lie in economic zones.

A) Shift of classical geopolitics to geo-economic.

Case in point: Pakistani scholar Aneela Shahzad in "Geoeconomics: The New Geopolitics, explicitly frames today's rivalries as geo-economics wars over trade routes, energy and connectivity corridors rather than territorial conquest. (Policy Perspectives, 2022)

B) Sanctions and financial statecraft — weapons of war.

Case in point: An Economics Observatory review (2025) notes that by year three of the Ukraine war, Russia's GDP was 10–12% below the pre-war trend and disposable incomes 20–25%.

lower, largely due to sanctions.

c) Use of trade wars and tariffs as instruments of strategic coercion.
Case in point: A 2025 Guardian report shows how renewed tariff escalation plus controls on rare earths and an export-control list triggered global stock market falls and recession fears, underlining that trade tools are now macro-strategic weapons.

D) Weaponised control over critical minerals and rare earths.
Case in point: China first weaponized rare earths in 2010, and between 2023-25 has imposed export restrictions on gallium, germanium, graphite, antimony and tungsten targeting US and allied supply chains. (CSIS 2025)

E) Creation of high-tech economic battle-fields by control over tech and semiconductor export.
Case in point: Reuters (2025) notes US debates on whether Nvidia may sell advanced H200 AI chips to China, with national security concerns at the core - confirming

that access to technological zones is understood as a security front.

F) Turning of energy corridors and pipelines into strategic targets.
Case in point: The IEA's report on the 2022-2023 European gas crisis shows that after Russia cut flows via Yamal-Europe and transit routes, and following the sabotage of Nord Stream 1 and 2 in September 2022, Europe faced a severe gas shock and had to rapidly redesign its energy system.

4- Potential impacts of this weaponization of economies

A) Fragmentation and weaponized interdependence in the global economy.
Case in point: A 2025 Foreign Affairs essay by Farrell and Newman calls this a "weaponized world economy", where sanctions, supply-chain attacks and export measures shape the international order.

B) Increasing sufferings of Global South due to energy, food and debt shocks
Case in point: A World Bank report

on the Ukraine war (2022) shows how port closures and export bans on Black Sea grains and Russian restrictions on wheat exports highlened global food supplies and pushed prices up, pushing many African and Asian economies toward debt distress.

c) Costly supply-chain decoupling and efficiency losses.
Case in point: Tarriffs raised average US duties on Chinese imports to over 20-24% and Chinese tariffs on US imports above 20%, raising costs for manufacturers and consumers and reducing trade volumes.

D) Domestic inequality and political polarization.
Case in point: In the US-China trade war, American soybean exports to China fell from about $12-14 billion to $9.1 billion in 2018; soybean farmers lost an estimated $24 billion in exports and saw a sharp rise in bankruptcies.

5. Way Forward-

A) Re-strengthen multilateral rules on economic coercion.

Case in point: Scholars like Farrell and Newman and Jonathan Heath call for a "jurisprudence of weaponized interdependence"— legal principles that limit abuse of economic coercion while preserving legitimate security tools.

B) Diversify and "de-risk" critical supply chains.

Case in point: After the 2010 rare earth embargo, Japan diversified supply by investing in mines in Australia, Vietnam and elsewhere, and by recycling; by the early 2020s it had cut China's share of its rare earth imports sharply, becoming a textbook case of successful de-risking. (WEF)

C) Develop norms and transparency for sanctions and export controls.

Case in point: Analyses of sanctions on Russia by the Economist Observatory show significant costs but also leakages and evasion, suggesting that smarter, better coordinated sanctions could be both more effective and less harmful to global markets.

D) Build cooperative economic security architectures instead of zero-sum blocs.

Case in point: China's proposed green minerals alliance and the US-led critical-minerals and chip alliances show both sides are already building economic-security clubs — these could either harden blocs or, if designed cooperatively, become platforms for shared standards and transparency. (Financial Times)

6- Conclusion.

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