MANAGEMENT ACCOUNTANT

The official flagship Journal of ICMA Pakistan

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CPEC

- A Game Changer for the region

"We invite professional organizations, like ICMA Pakistan, to come forward and contribute towards highlighting and making CPEC a resounding success. I encourage ICMA Pakistan to effectively participate in various events and conferences on CPEC and provide professional input."

Mian Muhammad Nawaz Sharif
Prime Minister
Islamic Republic of Pakistan

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Institute of Cost and Management Accountants of Pakistan

In the name of ALLAH, the Most Magnificent, the Most Merciful

And in the Earth are neighbouring tracts, vineyards and ploughed lands, and date-palms, like and unlike, which are watered with one water. And we have made some of them to excel others in fruit. Lo! herein verily are portents for people who have sense. (4) And if thou wonderest, then wondrous is their saying: When we are dust, are we then forsooth (to be raised) in a new creation? Such are they who disbelieve in their Lord; such have carcans on their necks; such are rightful owners of the Fire, they will abide therein. (5) And they bid thee hasten on the evil rather than the good, when exemplary punishments have indeed occurred before them. But lo! thy Lord is rich in pardon for mankind despite their wrong, and lo! thy Lord is strong in punishment. (6)

Surah Al-Rad, Ayat 4 to 6

Translation: Mufti Taqi Usmani
http:///www.quranexplorer.com

From the
Holy Quran

Vision Mission & Core Values

Vision

To be the Preference in Value Optimization for Business

Mission

To develop Business Leaders through imparting quality education and training in financial and non-financial areas to bring value-addition in the economy

Core Value

- Competence
- Innovation
- Ethics
- Transparency
- Professionalism

This Journal is also available on ICMA Pakistan's Website : www.icmap.com.pk

From the Desk of President

Pakistan has become the global spotlight in the wake of developments taking place under 'China-Pakistan Economic Corridor (CPEC). CPEC is a strategic venture, being termed as 'game changer' and is poised to shape the future destiny of Pakistan and other countries in this region. A new era of economic growth has begun and if all goes well, CPEC will prove to be a launching pad for Pakistan to lead the emerging economies of the world.

ICMA Pakistan has always been cognizant of its responsibility to keep members abreast with developments taking place globally, regionally and locally, in the profession as well in areas which directly or indirectly impact the profession. CPEC is one such changing dynamics in this region which cannot be ignored. It has a direct bearing on the role of our members, both in their individual capacity as well as a professional.

Realizing the importance of CPEC, the Institute brought out last year one issue of MA Journal on 'CPEC and Readiness of Banking Sector'. This issue was well received not only by our members but also by others in business and corporate sector. The current issue of this year also focuses on CPEC with research based articles and write-ups on different aspects of CPEC. I do hope that the readers will find this issue interesting, insightful and beneficial.

The Institute is privileged and honored to receive a special message of H.E. the Prime Minister of Pakistan for this specific issue of Journal and we do welcome his suggestion for ICMA Pakistan to contribute towards the success of CPEC. Let me assure the Prime Minister that the Institute is playing its part and certainly we would be more than willing to extend all professional support in shape of employment, consultancy and cost audit of CPEC projects.

We are obliged to Mr. Ahsan Iqbal, Federal Minister for Planning and Development for giving an exclusive interview for this issue. We do appreciate his observation that ICMA Pakistan may suggest focus areas to the Planning Ministry for carrying out research in the field of finance and trade.

I would also like to thank Mr. Shahnawaz Mahmood, Deputy Managing Director of Pakistan-China Investment Company for sharing his thoughts in an interview for this issue of Journal. We will definitely take initiative on his proposal for enhancing capacity of our members to play role in helping companies formulate bankable feasibilities and conducing cost analysis for joint ventures being set-up between the two countries.

Dear members, taking this opportunity, I am pleased to share that several initiatives have been taken by your Council for elevating the image of the Institute at regional and global levels. Recently, we have concluded the SAFA International Conference which was a big success as it attracted office-bearers of accountings bodies in SAARC countries in addition to representative of Ministry of Finance of Afghanistan. Inauguration of the conference by H.E. Mamnoon Hussain, President, Islamic Republic of Pakistan and gracious presence of Federal Finance Minister, Mr. Mohammad Ishaq Dar, as Chief Guest, at the concluding session added significance to the conference. This program has helped Institute gain mileage in the government.

Soon after the SAFA International Conference, ICMA Pakistan team, under my leadership was invited at the Senate of Pakistan for an exclusive session with Mr. Saleem Mandviwalla, Chairman Senate Committee on Finance to discuss wide array of relevant issues. We presented our case and communicated ICMAP's reservations and demands on Companies Bill, 2017, including offering at par financial audit rights for CMAs; mandatory cost audit for all industries; and proposal for setting up an independent Financial Reporting Authority or Council in Pakistan. The ICMA Pakistan's demands were well taken and hopefully we expect to hear good news very soon.

ICMA Pakistan has been recognized by CAPA and the undersigned, in view of contribution towards strengthening financial management in public sector regulatory bodies in Pakistan, has been appointed as member of CAPA's Public Sector and Financial Management (PSFM) Committee. This is really a big achievement for the Institute. During my last participation in CAPA meeting at Manila, Philippines in April 2017, I put forward a proposal for developing a KPI Index for PFM in CAPA countries which has been duly accepted.

Dear members, the Council is all prepared to further strengthen the profession and to explore new avenues for our members so that they can contribute towards promoting corporate governance in private and public sectors and development of the national economy. We do hope that our consistent efforts will yield results soon. Your avowed support will always be welcome to encourage the Council to continue to strive for the best.

Please enjoy reading and share your comments on rp@icmap.com.pk.

Mohammad Iqbal Ghori, FCMA
President

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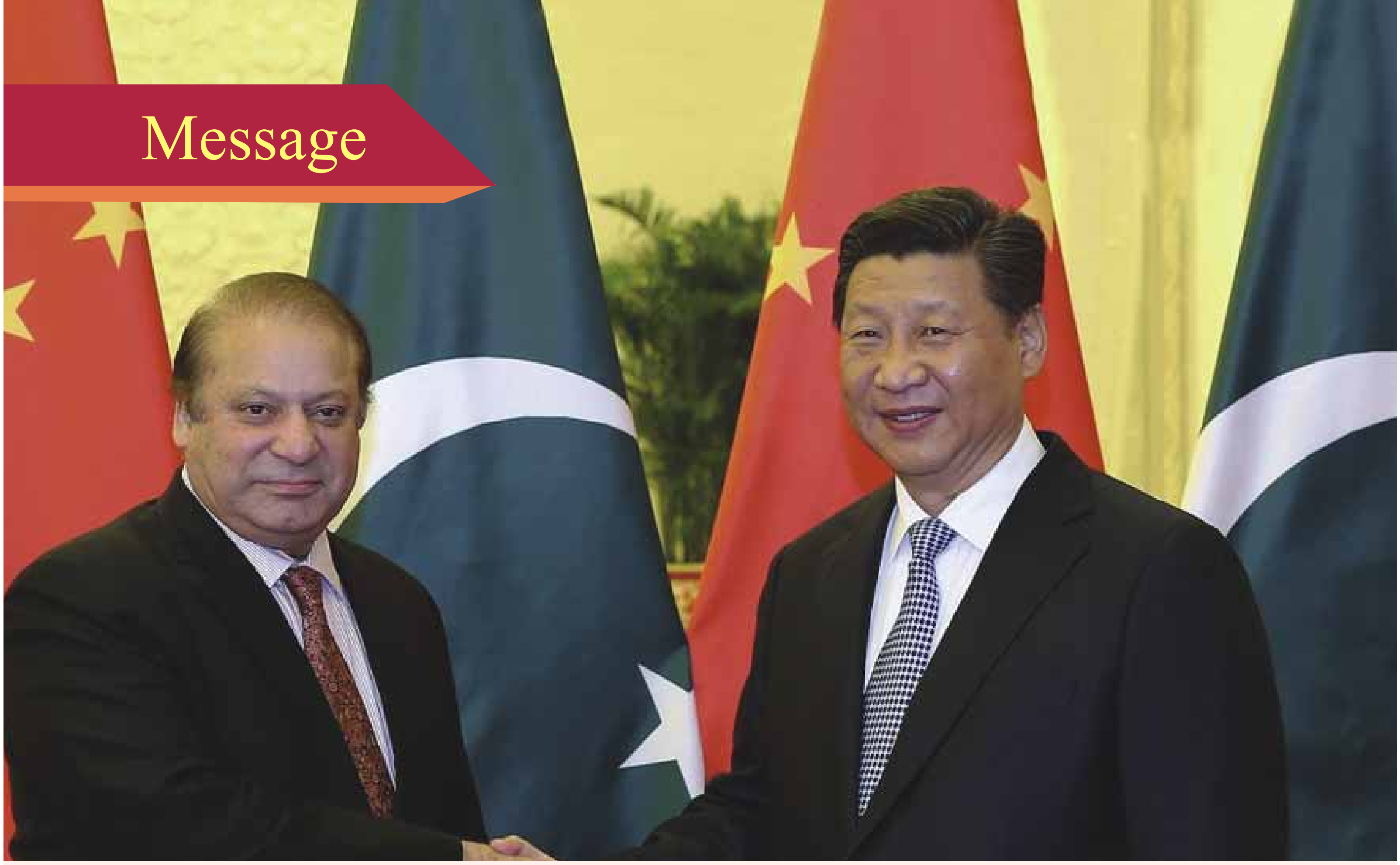


I am pleased to learn that the Institute of Cost and Management Accountants of Pakistan is bringing out a special issue of its official Journal on 'China Pakistan Economic Corridor (CPEC). I would like to congratulate ICMA Pakistan on taking this initiative of highlighting CPEC which is a historical milestone in the China-Pakistan bilateral relations. This mega venture would certainly bring economic progress and prosperity in Pakistan and the entire region.

China helped us a great deal in the economic revival at a crucial juncture for which the government and people of Pakistan are grateful to the Chinese leadership and people. China and Pakistan have translated its long-term strategic ties into a strong and durable economic partnership that would greatly benefit both the countries. Energy projects under CPEC including Coal, Hydel, Wind, Solar, LNG as well as transmission lines and infrastructure projects including Roads network, Rail links, Aviation projects and Data Connectivity are being executed on fast track basis.

Economic outlook of Pakistan has altogether changed in the last three years, which is being acknowledged globally. PricewaterhouseCoopers (PwC) has projected Pakistan to become the 20th largest economy by 2030 and the 16th largest economy by 2050. Barron's has described Pakistan as the "next big thing" and "the flag bearer of the positive changes taking place in the South Asian nations".

As a result of the investor friendly policies of the present government, and the economic turnaround achieved in the last three years, various reputable international investors and companies are visiting Pakistan and interacting regularly to explore business and investment opportunities. After having achieved macroeconomic stability, the Government is now focused on achieving higher, sustainable and inclusive growth. GDP growth was recorded at 4.7% in FY 2016, an eight year high. Resilience of the economy has also been recognized by international credit rating agencies in the form of improved ratings and outlooks.

Moreover, our Investment Policy has been designed to provide a comprehensive framework for creating a conducive business environment for the attraction of FDI and Pakistan's policy trends have been consistent, with liberalization, de-regulation, privatization, and facilitation being its foremost cornerstone. The Law of Special Economic Zones (SEZ) has been made to meet the global challenges of competitiveness to attract Foreign Direct Investment (FDI).

Pakistan is now set on the track for sustainable economic growth. CPEC will definitely make Pakistan's strategic position more attractive for global investors. We invite professional organizations, like ICMA Pakistan, to come forward and contribute towards highlighting and making CPEC a resounding success. I encourage ICMA Pakistan to effectively participate in various events and conferences on CPEC and provide professional input.

I once again congratulate the Institute on bringing out its issue of Management Accountant Journal on CPEC and hope that it would provide useful information for the benefit of all stakeholders. I wish them success in their efforts.

Mian Muhammad Nawaz Sharif
Prime Minister, Islamic Republic of Pakistan

Exclusive **Interview**

Prof. Ahsan Iqbal

Federal Minister for Planning and Development

Prof. Ahsan Iqbal, Federal Minister for Planning & Development holds an MBA from the University of Pennsylvania, USA and B.sc (Mechanical Engineering) from the University of Engineering & Technology, Lahore. His previous appointments include Chief Coordinator/ Minister of State, Pakistan 2010 programme; Deputy Chairman, Planning Commission: Chairman, Good Governance Group, Government of Pakistan; Chairman, Pakistan Engineering Board, and Chairman, National Steering Committee on Information Technology and TQM & Productivity. He was elected to the Parliament as Member of National Assembly of Pakistan in 1993, 1997 and 2013. In the past, he also served as Policy and Public Affairs Assistant to the Prime Minister of Pakistan and as Senior Advisor, Al-Madinah Al-Monawarah Digital Economy Project, Saudi Arabia. He led the formulation of Pakistan Vision 2025 which was launched by the Prime Minister of Pakistan on 11 August, 2014. On his initiative, Pakistan's first National IT Policy was formulated. His main areas of interest include Development and Business Economics, Governance, Change Management, Strategic Management and Leadership, Knowledge Economy and International Affairs.

ICMAP: CPEC is termed as a game-changer not just for Pakistan but for the entire region. Could you briefly identify the real benefits of CPEC to Pakistan and the region, especially in context of generating employment opportunities?

AI: The financial flows are expected to raise investment to GDP ratio by 2.8 percent. This investment will spur economic activity and expected to create around two million new jobs, given employment elasticity. The enhanced power generation capacity along with improved connectivity resulting from CPEC projects is expected to add 2 percent GDP growth in medium to long term. The increased investment may initially increase imports on account of raw material and industrial machinery for projects. The investment of Chinese companies in CPEC projects as commercial ventures will thus serve as foreign direct investment and will eventually contribute to overall growth by catalyzing investment to GDP ratio.

ICMAP: The local industry fears that flow of cheap goods from China would adversely affect them? Do you agree?

AI: The import of cheap material is a false assumption. Quality is based on customer requirement and proper Quality Assurance/Quality Control measures will be assured. Development of Special Economic Zones will balance the impact of China's Transit Trade. China's interest in transferring most of its labor intensive manufacturing/ assembling plants to Pakistan will balance out any adverse effect from transit trade. Joint ventures and setting up of new industries will have multiplier impact on exports, hence balancing any adverse effect from China's trade. Chinese leading enterprises will be encouraged to invest in Pakistan and to form joint ventures with local Pakistani businesses. The Joint ventures will not only promote competition but it will uplift the Pakistani industry as well.

"China's interest in transferring most of its labor intensive manufacturing/ assembling plants to Pakistan will balance out any adverse effect from transit trade".

ICMAP: What measures are being taken to protect local industry and will they be provided similar incentives and tax exemptions as being offered to Chinese companies under CPEC?

AI: The consultative process for the incentives of Special Economic Zones (SEZs) under CPEC is in progress and all stakeholders are being consulted on the process, including the Chambers and business leaders. At present SEZ Act 2012 provides incentives which are available to all SEZs whether they are to be established under CEPC or otherwise. SEZ incentives are available to local as well as foreign investors. BOI is working on devising a package of incentives to attract foreign investment in general and Chinese in particular.

ICMAP: What will be mechanism of tariff setting for CPEC-related power projects and who will determine the tariff?

AI: Mechanism for determining the tariff has already been approved and tariff has been issued to the investors by NEPRA. NEPRA determines tariffs for the three sectors namely Generation, Transmission and Distribution.

ICMAP: Do you think power projects set up under CPEC would help generate surplus electricity for exports?

AI: Thrust in energy sector will indeed be a major contribution of the government to address the load shedding problem and provide the vital base for the growth of national economy. Energy projects (1320 MW coal based power projects at Port Qasim and 1320 MW coal based power project at Sahiwal and 660 MW coal based power project at Thar by Engro) are making good progress besides, wind, hydel and solar based projects. It is estimated that with the completion of the energy projects in early harvest projects, 10,000 MW would be added in the National Grid by 2018.

ICMAP: It is a generally felt that major portion of CPEC will depend on local finances rather than Chinese investment. What is your opinion?

AI: Some projects are being implemented through local finance including construction of Hakla to Dera Ismail Khan. However CPEC investment is done through grants, loans and FDI. Majority of investment is in energy sector which will be done through IPP (Independent Power Project) financing mode. Other details of financing will be as under:

Transport and Infrastructure

Roads (Government concessional loan)
Rail Network – ML-1 (GCL under discussion)
Gwadar (Grant/GCL/Interest free loan)

Others

Fiber Optic (GCL/Grant)

Note: The total cost will have to rise when cost of new project is determined and include.

ICMAP: As per State bank figures only US$ 500 million imports under CPEC were made during first six months of current year. Does this point to slow implementation of CPEC?

AI: Majority of projects under CPEC are as per set time lines. The projects which will commence in 2017 include Gwadar Airport; Gwadar East Express Way; up gradation of MLI and Gwadar 5.0 MGD water plant

ICMAP: Pakistan and China signed a Free Trade Agreement (FTA) in 2006. However, the FTA apparently did not benefit Pakistan as this did not increase our share in Chinese Imports. What do you say? Further, how SEZs set up under CPEC will enhance our exports?

AI: The development of Special Economic Zones (SEZs) will balance the impact of china's transit trade. The Chinese experts' team will visit Pakistan to guide the Pakistani team on the development of SEZs. The industries that will be established in SEZs will contribute in the GDP growth. It is expected that CPEC-related projects will create some 700,000 direct jobs during the period 2015-2030 and raise its GDP growth rate, adding 2.5 percent points to the country's current growth rate.

ICMAP: The success stories of China, Korea and Taiwan are due mainly to their special focus on SME development. What measures are being taken for the growth of SMEs in Pakistan, especially in context of CPEC?

IA: SMEs are part of the industrial cooperation and SMEs business leaders are being consulted in policy formulation by the Baord of Investment. SMEs development is one of the focus areas. CPEC offers immense opportunities of economic growth and the SME sector has a significant share in terms of contribution to GDP, employment and exports. The priority sectors may include but not limited to logistic, gems and jewellery, construction, fisheries, dairy, livestock, engineering, mineral, leather, tourism and textiles.

ICMAP: Management Accountants are specialized in costing and tariff setting. Do you think there is scope for engaging them to undertake cost analysis and audit of energy and other projects under CPEC?

IA: ICMA Pakistan may contribute in capacity enhancement of the existing HR and may suggest focus areas to the Ministry of Planning & Development for research in the field of Finance and trade.

"ICMA Pakistan may contribute in capacity enhancement of the existing HR and may suggest focus areas to the Ministry of Planning & Development for research in the field of Finance and trade."

The interview ended with a vote of thanks to Prof. Ahsan Iqbal Federal Minister for Planning and Development who spared his valuable time and gave his candid views exclusively for this Journal - Editor

Shahnawaz Mahmood
Deputy Managing Director
Pak-China Investment Company Limited

ICMAP: What was the idea behind the establishment of Pak-China Investment Company? Please apprise us about its objectives, role and achievements?

SM: Pak-China Investment Company Limited ("PCICL"), which is a development financial institution (DFI) jointly sponsored by the Ministry of Finance of Pakistan and China Development Bank is playing an important role in furthering the bilateral economic relations between the public and private sectors of Pakistan and China. Established in 2007, with agreement of both Governments, PCICL has over the years successfully completed transactions in a varied spectrum of sectors such infrastructure, renewable energy, textile, sugar, Ports & Shipping and other industrial sectors. PCICL has a strategic edge that it has been permitted by the State Regulator (State Bank of Pakistan) as the only DFI to lend and borrow in USD. PCICL has access to local as well as Chinese Capital Market, which gives it edge to access to fund capital requirement. PCICL supports infrastructure development, greater synergy between the Financial sector cooperation as well as promoting Chinese investment in Pakistan. Our two main sponsors i.e. Ministry of Finance gives us access to the government institutions and immense strategic advantage on key projects and GOP led initiatives and China Development Bank gives us a window of immense opportunity, market and capital; providing us with expertise and synergy.

ICMAP: Is Pak-China Investment Co. engaged in financing projects under CPEC? If so, please share the details of these projects and the size of financing?

SM: With the advent of China-Pak Economic Corridor ("CPEC"), PCICL's primary sponsor, China Development Bank has been the institution providing financing under the broader initiative of CPEC. Given the size and scope of a Policy Bank, CDB has led the CPEC initiative reviewing and financing a number of projects under the One Belt One Road. PCICL is as a bridge to bring together the public and private sectors of both countries. Focusing also on the spillover projects of CPEC as well as encouraging greater Chinese investments in Pakistan; we are also involved in furthering the government's vision of creating special economic and industrial zones for relocation of Chinese industry into Pakistan and establishing joint ventures. Recently PCICL became a member of the executive committee and a member of the Joint Working Group on Industrial Cooperation which is the mechanism through which work on Special economic zones will be done. We are also advising the Privatization Commission on privatization of Pakistan Steel Mills.

ICMAP: Can you identify the sectors in which the Chinese entrepreneurs are more interested to invest in Pakistan, either directly or through joint ventures?

SM: Apart from the areas outlined in the CPEC development plan, a great number of Chinese investors and companies are coming to Pakistan to explore areas where greater value addition can be undertaken. There were times when Chinese companies were only interested in EPC contracts but because of CPEC development and government policies, we are witnessing increasing interest of Chinese companies in investment in Pakistan in various sectors. Chinese companies have shown interest in infrastructure, energy as well as manufacturing industries which China can have synergy with local partner. You would be happy to note that greater interaction is being encouraged by the two governments for Chinese and Pakistani enterprises both at the provincial and federal level.

ICMAP: PCIC is one of the local partners of Chinese consortium which has recently purchased 40% strategic equity stake of Pakistan Stock Exchange (PSX). How would it help marketability of PSX and mobilize funds for CPEC and other projects in Pakistan?

SM: Acquisition of PSX by consortium led by Chinese exchanges is a major milestone for Pakistani capital market as well the regulator i.e. SECP. PCICL with the sponsor support, track record/experience and clientele (of the institution) can play an instrumental role in CPEC related projects. Now with Shareholding and BOD representation in PSX, PCICL can play the role of bridge between CPEC Projects and Capital Markets of Pakistan. This would help in listing of CPEC Projects on PSX and mobilization of funds from local investors for the CPEC Projects. The consortium also has many market development plans which will increase the depth of PSX.

ICMAP: Do PCIC provide advisory services for matchmaking of Pakistani and Chinese companies? How ICMA Pakistan can engage with PCIC in providing professional expertise and services in preparing feasibilities and cost analysis of joint venture projects? Can you identify areas where ICMA Pakistan and PCIC can join hands for collaboration?

SM: Yes, one of PCICL's main tasks is to use the PCICL platform to bridge the two public and private sides together. Therefore we are very much into match making, due diligence, business plan evaluations and then seeking cooperating partners in china or Pakistan. Pak China has a dedicated China Advisory Department. ICMA Pakistan can play an important role in helping companies formulate bankable feasibilities, cost analysis for joint ventures etc. For this ICMA has to equip itself with the capacity and mandate to undertake such a task.

ICMAP: What role PCIC is playing in promoting exports of Pakistan to China?

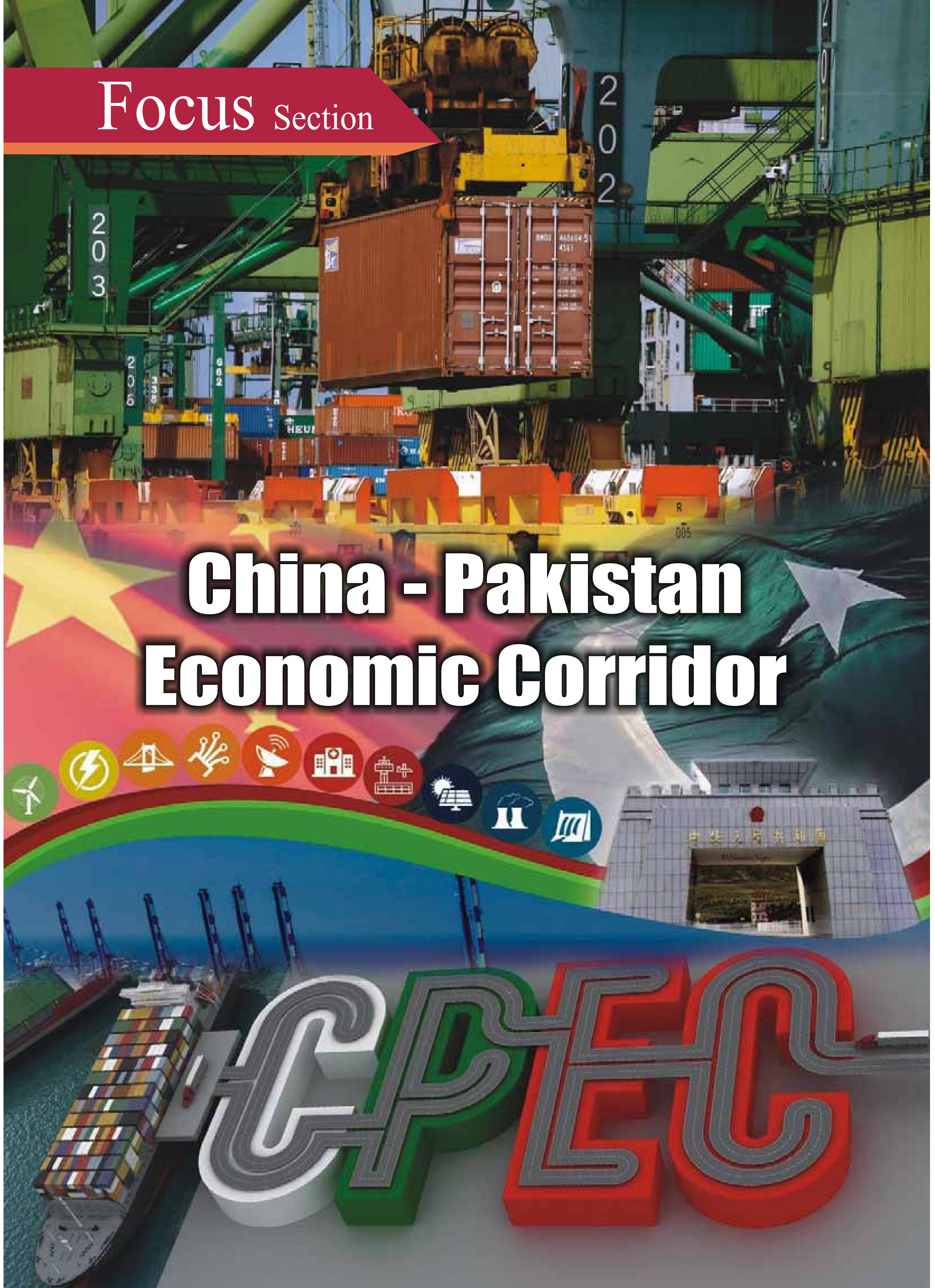
SM: PCICL is supporting and promoting the industrial development as well as greater Chinese investment in Pakistan. We endeavor to bring both public and private sectors entities together for development of export related industries. In that we are also supporting local Pakistani companies and business houses to expand and go towards value addition; where possible with Chinese companies as Joint Ventures.

ICMAP: CPEC will be a game changer for the region. What are your comments?

SM: CPEC is part of a broader initiative under One Belt One Road. Its all inclusive concept for not only Pakistan but also includes the development and economic progress of this region. The term "game changer" as widely mentioned the only viable solution to Pakistan's and the region primary problems is the "harmonious economic development". What is transpiring in Pakistan today is an economically beneficial "course correction" with a focus on economic development. Therefore CPEC is helping to link Pakistan with the region with a network of roads, rail focused on inter-connectivity, as our economies around the world are more and more interdependent. With the development of infrastructure, industrial activity will increase in Pakistan thus creating employment opportunities. CPEC will be translated into economic development of Pakistan on a broader level and for the uplifting of the people of the region.

The interview ended with a vote of thanks to Mr. Shahnawaz Mahmood, Deputy Managing Director Pak-China Invetment Company Limited who spared his valuable time and gave his candid views exclusively for this Journal - Editor

Mr. Waqar Ali Khan, FCMA Member National Council, ICMA Pakistan is presenting a memento to Mr. Shahnawaz Mahmood, Deputy Managing Director, Pak-China Investment Company Limited. Mr. Zakir Hussain Satti, Director North Region is also seen in the picture.


Focus Section
China - Pakistan
Economic Corridor
CPEC

Implications of China Pakistan Economic Corridor

The President of the Apex Body of Trade and Industry in Pakistan says:

Zubair F. Tufail
President
The Federation of Pakistan
Chambers of Commerce and Industry (FPCCI)

> **"Based on critical analysis, it is strongly recommended by FPCCI that before finalizing revised FTA and other agreements on investment and mobilization of labor and entrepreneurs, FPCCI must be taken into confidence and the final draft of all such agreements, which belong to the private sector - directly or indirectly - must be decided after approval from the private sector representative body – FPCCI"**

The China-Pakistan Economic Corridor (CPEC), announced during Chinese President Xi Jinping's visit to Pakistan and with a value estimated by Pakistanis at US $ 46 billion (now increased to 52 billion dollar), is a bold geo-economic initiative which alters the strategic environment in the region. It is the first step towards implementing the recommendation.

One cannot deny the historical significance of deep rooted ties between Pakistan and the People's Republic of China because since the establishment of diplomatic ties between China and Pakistan on May 21, 1951, the relations of bilateral trade and economic cooperation have been expanded and deepened in numerous areas.

The Pakistan-China Treaty for Friendship and Cooperation and Good Neighborly Relations is a key instrument which enables Pakistan to strengthen its strategic, economic and cultural relations.

The origins of China-Pakistan Economic Corridor (CPEC) could be traced to the construction of the Karakorum Highway in 1970s from the Pakistani town of Havalian in Hazara division to Khunjerab Pass, the border of China and Pakistan. In 2010, China declared Kasghar, an important transit point on the ancient Silk Route and a gateway between China and Pakistan, as Special Economic Zone (SEZ) with the idea to develop the Chinese western province of Xinjiang into a major trading hub leading to energy and economic integration with South and Central Asia.

Economic history of Central and South Asia is largely associated with the connectivity of trade and natural and human resources among the peoples of Central and South Asian countries. The silk rout and the Grand Trunk road (famously known as 'GT Road' in Pakistan and India) have been providing the major source of this connectivity. In the bipolar regime in 20th century, the direction of trade and mobility of resources of Central Asian States have been shifted from South Asia to Eastern Europe which was not an historical route of the trade and resource mobilization. The economic, political and social history of Central Asian States is significantly connected with South Asia. The visible signs of the revival of historical routes can be observed in the region after the fall of Soviet Union.

The ratification of TIR Convention by the ECO countries, the white card scheme to facilitate the drivers to travel across the boarders in ECO member countries, simplification of visa process for travelling ECO member countries, ECO Trade Agreement to enhance the trade among the member countries, Visa sticker scheme for the leading businessmen to allow travel across the border without visa and the formation of ECO trade and development bank and the insurance company are the indicators of reviving the historical relations among the Central and South Asian countries.

In 2013, Chinese leader Xi Jinping introduced a new development strategy and framework called "One Belt, One Road (OBOR)", which focuses on connectivity and cooperation among countries, primarily between People's Republic of China and the rest of Eurasia. OBOR has 6 trade corridors spread mainly over Eurasia but also touch the fringes of Pacific, North & East Africa. The main corridors are: -

1) China Mongolia - Russia Corridor
2) New Eurasian Land Bridge
3) China Central Asia West Asia Corridor
4) China Indochina Peninsula Corridor
5) China Myanmar Bangladesh India Corridor
6) China Pakistan Economic Corridor (CPEC)

It is expected that within a decade China's annual trade with OBOR countries will exceed $ 2.5 trillion. OBOR will cater for 2/3 of the world population, 1/3 of the world GDP and 1/3 of the world services &goods. China- Pakistan Economic Corridor (CPEC) is the main component of OBOR. The basic concept of CPEC is to join Gwadar (Arabian Sea port in Pakistan) with Kashgar / (Xinjiang province) in Western China.

It is interesting that Eastern and Central Chinese provinces have been developed but the Western side is still lacking. When Deng Xiaoping created China's first special economic zone (SEZ) in 1980, Shenzhen was transformed from a tiny fishing village to the 3rd busiest port of the world. Now, more than 30 years later, China has focused on another special economic zone: Kashgar, the center of Uygur civilization and once an important staging post along the Silk Road. Chinese government is keen to regain the status of the Kashgar as was hundreds of years ago, when caravans between East and West made it to the most important city in western China. In 2010, the slogan "Shenzhen in the East, Kashgar in the West" became emblematic of the city's new status as an economic zone. To materialize that dream, the base and jump off point has to be Gwadar. In this way Gwadar becomes the main component of CPEC, giving shortest access. CPEC has the most obvious advantages over the other corridors because of its location. It links Gwadar with Kashgar at the middle of OBOR, where the quantum of business and traffic will be at highest peak.

Corridors in ECO Member Countries:

Besides Chinese government, the Economic Cooperation Organization (ECO) is the flagship institution to enhance the trade and economic relations among ECO member countries namely Afghanistan, Azerbaijan, Iran, Kazakhstan, Kirgizstan, Pakistan, Tajikistan, Turkmenistan, Turkey and Uzbekistan. The secretariat of ECO Chamber of Commerce and Industry in Pakistan is serving to promote the trade among ECO countries and materializing the benefits of China-Pakistan Economic Corridor (CPEC) for all ECO member states. Other than CPEC the following corridors and trade enhancement projects are in progress in ECO Countries:

a Quadrilateral Agreement on Traffic in Transit (QATT):

Pakistan, China, Kazakhstan and Kyrgyzstan are included in this agreement, while Tajikistan has also requested for being part of this arrangement. The road between Almaty (Kazakhstan) and Karachi (Pakistan) is likely to be extended to Turkmenistan, Uzbekistan and Tajikistan subject to peace in Afghanistan

b. Islamabad-Tehran-Istanbul (ITI) Train Network:

It is a part of the Trilateral Connectivity Networks between Iran, Pakistan and Turkey which covers connectivity through rail, road, air and optic fiber. The journey (6566 Kilo meter) from Islamabad to Istanbul via Tehran 6566 takes 14-16 days, as compared to 40-45 days from Karachi to a Turkish sea port. Agreement has been reached to cut the journey time from 15 to 10 days through swift trains.

c. Trilateral Transit Trade Agreement (TTTA):

The trade passage of Pakistan-Afghanistan-Tajikistan shall pass through the Khyber-Pakhtunkhwa Province, Lowari Tunnel through Afghanistan's Wakhan district near Khandud village (where distance between Pakistan and Tajikistan is nearest around 10 KM). It may link Gwadar sea port in Arabian Sea to Dushanbe. The main hurdle in this transit exchange is insistence by Afghanistan to include India in the agreement, while Pakistan has been hesitant until political settlement with India.

d. Pakistan - Uzbekistan Transit Trade Agreement:

This agreement covers the facilitations in all transport methods between Pakistan and landlocked Uzbekistan.

e. Pakistan Iran Turkmenistan Commerce Cooperation (PITCC):

It is part of a larger vision of International NorthSouth Transport Corridor where goods can be of- loaded in Gwadar and carried to Russia.

f. Afghanistan Pakistan India Bangladesh - Myanmar (APIBM) Corridor:

It is a proposed corridor to restoring historical Afghanistan-Pakistan-India-Bangladesh-Myanmar (APIBM) route which is considered a road of shared prosperity for South Asia.

g. Pakistan India - Nepal Integrated Network:

The route to Nepal shall give Pakistan access to major Chinese cities of Chengdu, Chongqing and Kunming.

h. Central Asia & South Asia (CASA) 1000:

It is an ambitious project of regional energy cooperation among Pakistan, Afghanistan, Tajikistan and Kyrgyzstan with a potential to reach from 1000 MW to 4,000MW electricity transmission alleviating power woes for the South Asian countries involved.

i. Indus River Trade Corridor:

It is envisaged that by developing this river a fast alternative track for goods and passengers' transportation can be developed. The transport expenses can be reduced to half, as one liter of fuel is able to ship one ton of consignment up to 180 km over waterways as compared to only 25 km and 75 km by road and rail respectively.

j. North-South Transnational Corridor (Kazakhstan - Turkmenistan - Iran railway link):

It provides Arabian Sea access to landlocked Kazakhstan and Turkmenistan through railway link via Iran.

k. Iran - Pakistan - India Pipeline:

Originally India was included in this project to buy natural gas from Iran but now the work is in progress between Iran and Pakistan

l. Turkmenistan Afghanistan - Pakistan and India (TAPI) Pipeline:

The TAPI pipeline is a major interlinking project for energy.

m. Trans-Iranian canal:

The idea of linking the Persian Gulf and the Caspian Sea by a canal.

All the projects for efficient connectivity in transportation and energy reflect the direction of trade and mobilization of resources in future. However, China Pakistan Economic Corridor has become more crucial because of its geo strategic and economic importance. It has become a part of the largely debatable global issues and politicized by neighboring countries of Pakistan. No doubt the project has its political impact as it can change the patterns of regional development and will improve the strength of Pakistan's relations with China and other participating countries.

China and South Asia: The Two Largest Economies for 400 Years

According to economic historian Angus Maddison of Groningen University (The World Economy: A Millennial Perspective), India had the world's largest economy in the 1st century and 11th century, with a 33 percent share of world GDP in the 1st century and 29 percent in 11thCentury. Though, Maddison's estimates have been criticized by some historical national account statisticians because of taking some controversial assumption, they provide an historical economic ranking. It was revealed that India's share of the world income went from 24 percent in 1700to a low of 4 percent in 1952. A broader macroeconomic view of India during this period reveals that there were segments of both growth and decline, resulting from changes brought about by colonialism and a world that was moving towards industrialization and economic integration. Historically, India and China were the biggest economies. Now, in globalization regime the history is being repeated as Asian economies are growing at faster track.

The changes in the global economic ranking and patterns of development are highly expected in the present regime of liberalization. The role of emerging economies, growing number of democracies, implementations of the WTO' clauses and promoting competitiveness are the sufficient indicators to believe the changes in the global development patterns. It will be quite natural and historical. South Asia has no exemption from this scenario. It is observed in global economic data that South Asia and China are rapidly moving towards their historical positions.

Changing Patterns of Economic Development:

Global development rankings have changed rapidly as G7 (or G8) club has extended to G13 by including 5 fast growing nations – China, India, South Africa, Brazil and Mexico.

Pakistan is the legacy of Muslim Empire in Delhi between 1550 to 1575. But its present economic ranking reflects the extreme deterioration in economic development, while today's India has joined G13 club of fast growing nation. Historically, the rate of growth of Pakistan economy was higher than the growth of those nations which now have been included in G13. Pakistan has lost the track of faster growth two decades before.

The present deteriorated physical and governance infrastructure do not allow the country to run at the fast track of development. Its domestic economy was under extreme pressure due to severe energy crisis which has damaged industrial activities in the country. Outflow of investment, growing unemployment, increasing inflation, lower capacity to generate public revenue, high indebtedness and social unrest are the ultimate outcomes of this crisis. The projected ranking based on highest rate of growth indicates further deterioration in the development ranking of Pakistan in comparative term. To make it comparable with India and China, Pakistan needs an annualized GDP growth greater than 7 percent. A restructuring in economic policies and revamping of physical infrastructure in transport, telecommunication and energy is required. China Pakistan

"CPEC is not without challenges and impediments. Peace and stability is needed for the successful completion of this project. Similarly, capacity building and professional skills are required to meet the deadlines for the construction of roads, railways and power stations as failure to meet deadlines will have a negative impact on CPEC".

Economic Corridor (CPEC) provides feasible way to break the vicious circle.

Pakistan' position was much better than India since 1747 to mid 1980's in term of Per capita income. However India intersected Pakistan in early 1990's and now India's position is much better than Pakistan in term of Per capita Income. The trends show that Pakistan will overtake India again in presence of CPEC.

The contemporary history of world politics indicates that economic powers lead the nations on all fronts including politics, education, culture, military and technology. In today's globalization regime, the responsibilities of private sector have enhanced and it requires revolutionary changes for acceleration.

Gwadar will be a gateway for Central Asia which can be connected via Tirmiz, the southern city of Uzbekistan. CPEC and its related future projects can cater both Turkmenistan and Uzbekistan's liquid cargo through pipelines and Kazakhstan and Kyrgyzstan's dry cargo via road. It would increase energy market share in Western China and India.

For Landlocked countries, distance coefficient of gravity model is 5.5% (every 1% decrease in distance from port increases the trade by 5.5% and CPEC will decrease this distance by 22 %.). Afghanistan can be connected to western alignment of CPEC from Chaman and eastern alignment with Peshawar from Jalalabad.

CPEC will provide shortest and most cost effective route for landlocked Afghanistan to China, India and Indian Ocean i.e. approx. 600km less as compared to the other nearest port of Chabahar. CPEC will also help in making Afghanistan a transit route for energy rich Central Asia and energy starved South Asia. It will also improve geo-political scenario for early completion of CAA 1000 and TAPI.

Based on critical analysis, it is strongly recommended by FPCCI that before finalizing revised FTA and other agreements regarding investment and mobilization of labor and entrepreneurs, FPCCI must be taken into confidence and the final draft of all such agreements, which belong to the private sector - directly or indirectly - must be decided after approval from the private sector representative body - FPCCI.

It is further recommended that local investors should be given level playing field and should be allowed same incentive equal to the Chinese. Training centre for local population should be established to train and involve the local population in the CPEC projects.

CPEC is not without challenges and impediments. Peace and stability is needed for the successful completion of this project. Similarly, capacity building and professional skills are required to meet the deadlines for the construction of roads, railways and power stations as failure to meet deadlines will have a negative impact on CPEC. Other impediments to launch successful mega-projects in Pakistan under CPEC are politics on CPEC, corruption, nepotism and inefficiency.

Need for Win-Win Arrangement under CPEC to ensure Level-Playing Field for Domestic Stakeholders

Engr. M. A. Jabbar
CEO
Qaim Automotive Manufacturing Private Limited

The World Trade Organization has created space for regional trade agreements which are expressed as RTAs. The philosophy of global trade and economic development is considered to be well aligned in terms of political economy of the world trading system to be based on package rules wherein the WTO package and its legal interpretation act together to provide the guidelines for conducting the trade amongst member countries and between or amongst the member countries of regional trade.

The CPEC has also very forcefully been argued to be a game changer for the region. With the given non resolved political issues with India, the involvement of India under the straight rules of the game for promoting the regional economy still appears to be non settled, though indications are appearing to be positive, in case if India would prefer to see its larger economy to share for due to its over advantages amongst the SAARC member countries in matrix of economic strength and knowledge based fast institutionalization further giving way to the incremental growth values for India to be fast developing middle class country. The concept of region and the changes thereof may be considered in terms of existing blocks like ECO, former satellite countries of Soviet Union to take earlier positive supporting ingredient for developments to be mutually or to be amongst complimented as the case be to be seen with the already prioritized projects of CPEC or to be made adjustment on account of continuous watch and discussion to conclude or to suggest as per outcome of joint business group discussions and decisions made thereof.

In WTO the rules of the business have relaxations in terms of compliances and time framework for least developing countries and for developing countries against developed countries. Taking clue from this international agreed position, Pakistan may look forward and implement atleast level playing field for domestic investors and stakeholders of domestic economy in agriculture, manufacturing and in services.

Over-Focus on Import Concessions under CPEC

CPEC in contrast of WTO well placed argued case appears to be over focusing on providing preferred concessions to Chinese made commodities as investments in Pakistan. Above to all the concessions granted on such commodity imports are not available to any other party including domestic investors in Pakistan. The concessions and taxations on imports from China as investment are extended to almost each and every imports of finished goods including spares and knocked down parts for just a final series of efforts of services to assemble the same for consumption by Pakistan from China. The commodities and services both from China claim exemptions from taxes.

WTO package includes TRIMs (Trade Related Investment Measures) which bars the preferential treatment of local content over imports and vice-versa. This fairly concludes to apply on commercial and taxation treatment as well. The deletion programme of Pakistan was substituted by tariff based system only because of application of TRIMs. In case of CPEC projects we are giving type of concessions

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which does not promote any domestic manufacturing for integration to highly cost competitive imports from China and become part supply chain OR integral part for present or for future requirements of CPEC imported projects in Pakistan. Even spare parts have been allowed blanket concessions regardless of their domestic manufacturing status. Time and again ECC grants tax exemptions on import based CPEC projects while any domestic interest seeking concession has to look forward to parliament for change in duty structure and tax levels during the period of passed bill of finance and next bill of finance to be passed.

> "In order to develop a win-win situation, imports of CPEC commodities must provide demarcation amongst what should be imported and what is already developed locally or can be developed locally. This will provide pen picture to integrate the domestic economy on the basis of providing space for participation of domestic stakeholders in CPEC import developments".

Pakistan received 500 Million US Dollars from World bank to substitute the elimination of all the earlier SROs allowed to import raw materials at lower level of import tariffs against tariffs assigned in the First Schedule to the Customs Act. The cost of these SROs were stated to be over Rs 200 Billion. The concept of imports of raw material under SROs was only to take care of anomalies that tariff levels assigned in the first schedule to the Customs Act for import of raw materials were same or even higher than the import tariff for finished goods, for which these raw materials were allowed through concessionary SROs.

CPEC finished goods imports under concessions would also require counter concessionary import SRO for import of raw materials for domestic manufacturing of atleast parts, spares and other assemblies for which we have capacity and capability to produce the same being in the run of low and medium tech manufacturing. These on domestic manufacturing may become part supply or chain supply for CPEC imports projects. With non-provision of rationalized approach in policy on this count to help the domestic industry to become part of the development during the CPEC projects being installed and commissioned, we are losing the present capacity as it will not otherwise offer any cost competitiveness to integrate and be acceptable for Chinese investors as part supply.

MNA Mr. Asad Umar Chairman NA Standing Committee Production during a discussion wherein I was also present said that he thought that Pakistan economy will get atleast USD 8.0 Billion equivalent share of domestic goods as supply chain for CPEC projects. Mr. Qaisar Sheikh Chairman Finance Committee was also present and showed his concurrence and said that private sector must make strong advocacy for policy space to be able to provide chance to the domestic manufacturing industry to integrate and become part supplier of CPEC projects and as well in future to come atleast to be suppliers of recurring requirements of spare parts for to include for requirements of power projects imported with complete materials from China.

List of Locally Manufactured Products and Procedure for Concessionary Imports

Since decades a list of locally manufactured products is being maintained, amended and added as the case be which is notified by Federal Board of Revenue. Some of the items were recommended by NTC in past also to be included in the list of locally manufactured goods. This list is checked before concessionary imports of projects are accorded concessions. The goods which are listed in the locally manufactured list are not allowed concessions on imports but which are not locally manufactured are extended benefit of concessions as per fiscal – ECC decided / made policies.

In almost all the concessionary notifications on import of capital goods, machinery, parts, accessories and other material goods for setting up of project, particular industry, power house, mining, oil & gas explorations is based on allowing concessions to imports which are not listed in the locally manufactured goods notified and updated from time to time by FBR. The same concessions substituted in 5th and 6th Schedule of Customs and Sales Tax Act does refer to this exception to disallow tax concessions on locally manufactured goods per notified position. Even during the operation of last IPP policy 1994, the SRO in facilitating concessionary imports of power projects did not provide such waiver to the imported parts which are locally manufactured.

On the contrary a counter SRO was issued to facilitate domestic manufacturers to import raw materials at concessions at par with imports by IPPs to manufacture the domestic goods and become part of the supply chain. Many service provider of power station of today benefited from these concessions during upto the commissioning of IPPs in the relevant time and period.

This is the first time that a proviso has been added in the last Finance Bill whereby imports of power projects 25 MW and up are regardless of domestic manufacturing status in grant of tax concessions, which means that goods, parts, accessories etc which are listed in the domestic manufacturing will also be

imported under concession, a shift away from a long established policy by the FBR. The relevant extract is provided Below:

Quote: THE SECOND SCHEDULE
[see section 2(4)]

"FIFTH SCHEDULE TO THE CUSTOMS ACT 1969
(IV OF 1969)
[see section 18]

Part-I

Imports of Plant, Machinery, Equipment and Apparatus, including Capital Goods for various industries/sectors

Provided that the condition of "local manufacturing" shall not be applicable on import of machinery, equipment and other capital goods imported as plant for setting up of a new power unit of 25 MW and above duly certified by Ministry of Water and Power in respect of those power projects which are on IPP mode meant for supply of electricity to national grid; **unquote**

The status of domestic manufacturing used to be certified by Ministry of Industries and Production through its attached department Engineering Development Board. For the first time the actual function part of MOIP in respect of burden of to be custodian of interest of domestic and engineering manufacturing economy has been shifted to Ministry of Water and Power by issuing a Customs General Order.

Quote: Govt of Pakistan
Revenue Division Federal Board of Revenue
Islamabad, the 30th June 2015

Customs General Order No. 03/2015

Subject: **LIST OF LOCALLY MANUFACTURED GOODS / ITEMS FOR THE PURPOSE OF CONCESSIONARY NOTIFICATIONS ETC.**

In the aforesaid Customs General Order, for the Exclusion, the following shall be substituted, namely:

"EXCLUSION:- Conditions of local manufacturing appearing in Part-1 of Fifth Schedule to the Customs Act, 1969 and Six Schedule to the Sales Tax Act 1990 shall not apply on import of machinery, equipment and other capital goods imported as plant for setting up of a new power unit of 25 MW and above duly certified by Engineering Development Board in respect of those power projects which are on IPPs mode meant for supply of electricity to national grid." **unquote**

Engineering Development Board started examining the first project of CPEC it was assigned to identify as which parts are already locally developed so that the same may become supply chain for the imports of capital goods and machinery for setting up of power project and other projects, the recommendations of EDB didn't live life and above CGO was issued with later legal reinforcement of the same substituted by proviso in the finance bill discussed above. The role of MOIP / EDB in having due say as per rules of business was also taken away and substituted by appearing to be EDB to Ministry of Water and Power through another Customs General Order.

Quote: Govt of Pakistan
Revenue Division Federal Board of Revenue
Islamabad, the 9th November, 2015

Customs General Order No. 05/2015

Subject: **LIST OF LOCALLY MANUFACTURED GOODS / ITEMS FOR THE PURPOSE OF CONCESSIONARY NOTIFICATIONS ETC.**

In the aforesaid Customs General Order, in the Exclusion, for the words "Engineering Development Board", the words "Ministry of Water and Power" shall be substituted with immediate effect. **unquote**

Absence of Level-Playing Field in CPEC Policy Considerations

The word level playing field appears to be absent in the policy considerations during CPEC developments which even as discussed earlier is part of the international trading rules wherein domestic and imports have to be given same level of concessions or what we called no preference over each other. Further the development concept originates from continued increase in strength of domestic manufacturing. The countries with engineering developments are providing capital goods and machinery for all the manufacturing industry, which impacts the cost competitiveness positively. To start with from low tech, enter to M tech and reach innovations and high tech is the chronological or cascaded way to proceed with for development in specific of engineering goods which are dominating the world trade since long and sustains the forecast to increase the share with time to come.

The small and medium enterprises and manufacturing in specific of engineering goods with value addition have to be made part of the ongoing CPEC import based developments to become part supply for import based projects. This is contingent upon policy to strength the quality, HR and above to all eliminate tariff differentials or provide at par concessions for domestic stakeholders of economy against imports. The concessionary imports of raw materials at par with concessions for imports of finished products from China may be apart answer to produce cost competitive goods acceptable to the Chinese investors for part domestic acquisitions.

The weakening of the domestic manufacturing and in specific engineering will create a pressure on economic management when the demand liability of repayments start to occur due to all requirements of projects based on import values. Much has been written and even the IMF and other reports do warn of appearing to be big built-up of pressure when pay backs start to develop. There are so many credible calculations by local experts which need to be carefully looked into and GoP may like to converge on a future position for minimum payments required to be made against the to be development capacity during the relevant period of demand management. Therefore, the possible answer to increase import substitutions may help to reduce the trade deficit and import booked investment liability of CPEC. More exports or less imports by meeting the import substitution is a similar case which has not been focused so far as a policy measure to be strongly considered so in the developing CPEC matrix and investments thereof as an accruing liability.

FPCCI, an apex body representing private sector industry and industry in its report on FPCCI'S Stance on China – Pakistan Economic Corridor (CPEC) Farsightedness, Apprehensions and Background has mentioned six testable hypotheses driven out form the controversial arguments as ongoing on sustainable basis. Two of these statements are reproduced below:

"The word level playing field appears to be absent in the policy considerations during CPEC developments which even, as discussed earlier, is part of the international trading rules wherein domestic and imports have to be given same level of concessions or what we called no preference over each other".

Quote

4. Inflow of Chinese investment and business enterprises will adversely impact the interests of business community in Pakistan. It covers *the signing of FTA with China and flooding the Chinese products, in flow of Chinese Investment, and migration of Chinese labor to Pakistan.*

5. Another contradicted view is that the project is not financially feasible for Pakistan as the country has to pay higher cost of financing because of the unwise negotiation with Chinese investors and over estimation of project cost. Pakistan has to pay higher cost of services. **un-quote**

Further the same FPCCI report says:

In granting the incentives to Chinese investors and enterprises, the policy makers must not ignore the Pakistani investors. Being the representative of private sector and the largest stakeholder of the economy FPCCI understands the interests of Pakistani investors and entrepreneurs. We have firm opinion that interests of the local investors must be protected and at least the same incentives should be provided to Pakistanis which have been granted to foreign investors. The interests of the residents of Balochistan and Gwadar should be protected through legislations. The overseas Pakistanis should also be encouraged to invest in CPEC related projects including investment in industrial zones.

The Case for Win-Win Situation under CPEC

In order to develop a win-win situation, imports of CPEC commodities must provide demarcation amongst what should be imported and what is already developed locally or can be developed locally. This will provide pen picture to integrate the domestic economy on the basis of providing space for participation of domestic stakeholders in CPEC import developments.

During this win-win situation based developments, the domestic economy stakeholders will also acquire knowledge through cross interactions with Chinese investors to help the domestic economy to elevate the level of understanding and skill. Japanese assemblers have provided some base of such guidelines to the vendor industry in Pakistan in which the technical assistance through JICA and other assisting bodies has been made available so that the integration of local manufacturing with the assembly of Japanese origin vehicles is made possible and acceptable.

MOI&P needs to pick up the lead role as line ministry and develop a strong R&D group to analyze the imports so that the concessions are available to what is not being locally manufactured and the same is assured to be not extended in the name of generosity at the adverse cost of ours. We must look forward to be developing along-with developments by generating our inward oriented strength to not only reduce the import values but as well as provide domestic value additions to move to innovations, provide employments and keep increasing the quality response of the skilled labor.

The supply side policies are required for sustainable growth in the present CPEC developing regime, where much stress is to be laid on investment and labor policies. The components of supply side economics need to be incorporated in the policy in such a way that the recommendations of line ministry herein MOI&P with the charge / burden of industrial development becomes mandatory for incorporation in the fiscal policy / ECC decisions and approaches by FBR and in the liberal policy approaches by MoC.

We do have a chance and we must pick-up the position which requires adjustments to rationalize approaches in policy making. The concessionary imports of raw materials should be seen as improving the cost competitiveness of domestic product against imports with multiple positive effects on overall developments of domestic economy, which in future as a surplus production can also cross the border barriers and conduct export business. It has happened so in all the developed model economies.

It would be also necessary to extract the part for conclusiveness from the report of FPCCI which is based on incorporated views of 32 members FPCCI committee on CPEC.

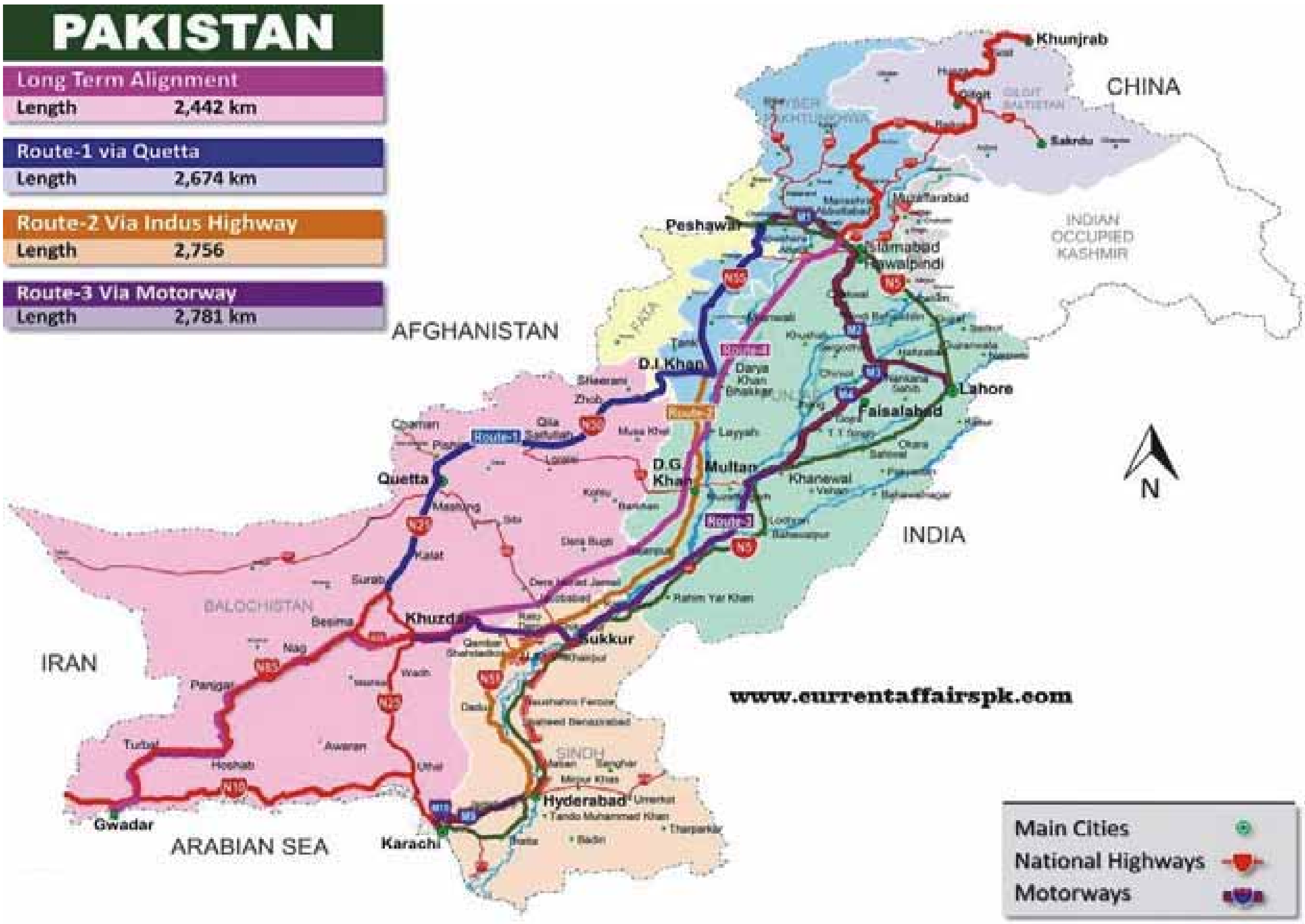
"The Ministry of Industries & Production needs to pick up the lead role as line ministry and develop a strong R&D group to analyze the imports so that the concessions are available to what is not being locally manufactured and the same is assured to be not extended in the name of generosity at the adverse cost of ours."

The FPCCI's Advisory Committee on CPEC has strongly emphasized on establishing mechanisms: (i) to protect the local investors, (ii) to boost the indigenous manufacturing industry in Pakistan (iii) to protect the indigenous peoples and industrialists from hegemony of incoming powerful industrial giants.

Further the same FPCCI report says:

"So far as the establishing the Economic Zones adjacent to CPEC is concerned, FPCCI is in strong favor of this idea, however, the incentives to the industries in these zones should not affect the profitability of the existing industries. Particularly fiscal incentives may affect the investment in the other cities. If these incentives are in the form of exemption of direct taxes they will hit the return on investment because attractive profitable projects will be available in the same sectors in industrial zones. The most adverse impact on the existing units may be in the form of exemption from indirect taxes. We will not recommend any exemption from indirect taxes. If government provides any incentive through exemption from indirect taxes (or reduced tax rates) it should be for all old and new units".

These above extracts also converge on part conclusion as to the requirement of policies rationalization in order to attempt win-win situation for country having 200 million people with 50% younger demography, requiring employment to eradicate poverty and achieve economic prosperity. Developing competitiveness of the domestic produce to share with the imports and provide higher growth number as is being claimed by PC to be 7% about is only possible by creating an environment wherein production on the basis of its increased domestic sale share with possible future exportable surplus becomes an eventuality framework of sustainable development policy. CPEC provides a chance to take a chance to align with for win-win situation.



Potential Benefits of CPEC to Pakistan

Waqar Khan, ACMA

Regional connectivity and mobility has become one of the most significant tools in developing the economy of any country. The World's focus is now shifting towards strengthening cross-border relationships and Pakistan is also not behind the race and it is trying to maintain good and beneficial relationships with neighboring countries viz. China, Iran, Afghanistan and Bangladesh.

CPEC has strategic and economic significance for China and Pakistan. It has been correctly termed as a game-changer for Pakistan as it would connect China with markets in Central Asia and South Asia. In Pakistan, CPEC assumes a huge economic development plan and according to few experts the CPEC projects would result in creation of 700,000 direct jobs between 2015–2030 (Saeed Shah – The Wall Street Journal, published 10-04-2016) and expected to add around 2% to 2.5% in the GDP growth.

China's decision to make such huge investments in Pakistan in development of infrastructure and energy projects cannot be termed emotional; rather this decision is based on strategic and economic interests. CPEC is an essential part of China's One Belt and One Road plan. When the Chinese Premier, Li Keqiang, visited Pakistan in 2013, he initiated this project. At present, China is some 12,000 Km. from Persian Gulf with a long shipping time of 45 days. The corridor will reduce this distance to merely 2500 Km (80% reduction), whereas the shipping time will be reduced to 10 days (78% reduction). China is the world's second biggest importer of oil, importing over 80% oil and 30% f natural gas through the Strait of Malacca. Security analysts are of the view that in case of any future war in Asia, United States' Navy may block the Strait of Malacca which will choke the China's trade route. China, through CEPC, is adopting a far sighted approach by providing sea access to its landlocked province of Xinjiang.

China's decision to make such huge investments in Pakistan in development of infrastructure and energy projects cannot be termed emotional; rather this decision is based on strategic and economic interests

CPEC Benefits to Pakistan

CPEC is a potential-rich venture which carries huge benefits for the people of Pakistan and China as well as the entire region. However, there are some external and internal threats and challenges against the successful implementation of CPEC which the government is tackling. The project will serve around three billion people, nearly half of world's population which would lead to emergence of a huge economic bloc in our region. Upon completion of CPEC, Pakistan will turn out to be a connecting bridge to three engines of growth i.e. China, Central Asia, and South Asia. Under the CPEC, various Pakistani industries will much benefit.

The garment and textile industry will be developed in Kasghar. Textile and garment centers or Export Processing Zones (EPZ) will be built in Lahore and Karachi. To enrich cotton textile varieties, investment would focus on producing top grade cotton yarn, printing and dyeing fabrics, jean fabric and knitted fabric. Domestic appliances industry would also emerge. Near Lahore, a domestic appliance industrial park will be established as joint venture. Various Chinese companies have already established plants in Pakistan. Imports of assembling parts will be reduced as it would be produced locally.

With the increase in construction activity, the demand for cement will go up. More investments would be made in cement industry to meet the growing demand for CPEC related construction projects. Mineral exploration is another area where Chinese enterprises will have interest. Industrial park construction along the corridor would also be built.

> CPEC is a potential-rich venture which carries huge benefits for the people of Pakistan and China as well as the entire region. However, there are some external and internal threats and challenges against the successful implementation of CPEC

CPEC Spending Analysis

Sector	Est. Cost in USD Billions
Energy	$ 35.79
Road	$ 6.9
Rails	$ 4.69
Mass transit in Lahore	$ 2.6
Gwadar Port	$ 0.66
China Pakistan fiber optics	$ 0.54
Total	$ 51.18

The CPEC, once implemented, has the potential of transforming Pakistan's economy from a low growth mode (3-4%c) to a higher and sustainable growth economy with low inflation, removing key infrastructural bottlenecks; promoting balanced regional growth and development, shaping new industry clusters, improving living standards and social stability, and promoting regional connectivity. Let's discuss these benefits in detail as under:

Infrastructure development

Ports, roads and highways are the basic requirements for development of economy and these have been widely covered in the CPEC project. It will develop infrastructure network with all sub regions and will remove all trade barriers. Subsequent to the completion of this project, Pakistan will turn into a modernized economy with expanded markets for its goods and services. The areas nearby to the corridor would develop into attractive sites for business investors for manufacturing, services and agricultural industries. The small and medium enterprises (SMEs) would be special beneficiaries.

Economic Development

CPEC will bring huge economic prospects not only to Pakistan but also to china and will actually connect its markets in Asia. CPEC will facilitate to develop a strong and stable economy in Pakistan and create a significant opportunity to revive its industries and advance economic interests. It will also help in overcoming the psychological barriers to flows of foreign investment from other sources. This project will go ahead of regional ambits to bring about enormous changes not only to the national economies but also to the economics of the people at the grass-root level.

Balanced Environment

Regional, economic and geography integrity of the south Asia is rephrasing by the CPEC in a approach that will require strategic and episodic response. Pakistan will have opportunity to act independently of the western influence, especially the US influence that is an irritating factor. The project will also give a prospect to Pakistan for normalization of ties with India, which will keep balance. CPEC is also expected to strengthen prospects of peace and improve socioeconomic class of people of the region.

Poverty Reduction

Small enterprises are considered as the main source for reducing poverty and we hope the government will take some concrete steps to promote this vital sector by way of offering them credit facility on soft basis. Other industries such as textiles, cement, steel, construction, nuclear reactors and networks of railway line and road, will also generate employment and people will take ownership of these projects.

Peace and Prosperity

CPEC is not only the name of road, port and railway system but it is a multi-dollars mega project which will bring peace and prosperity in all the provinces. Dr Shahid Hassan (Economist) said the project will bring more prosperity in the whole country and will reduce unemployment as well. Functioning of the Gwadar Port shall bring an immense economic revolution and business prospects will find a desired boost. CPEC expert said economic zones and industrial site will be established in all the provinces which would be a sign of peace and prosperity and help develop regional cooperation.

Conclusion and Recommendations

China Pakistan Economic Corridor is the game changer project. It is a mutually beneficial project which fulfills the objectives of both the nations. It represents a huge and life time prospect for both countries. Islamabad and Beijing must play their due part to make CPEC a success story.

For Pakistan, CPEC would help revive its industry and advance its economic interests; position it as a major transit point connecting Eurasian region with South Asia and would offer a much needed base to kick start its economic growth that will improve the quality of the life of the people.

For China, CPEC would provide an alternate, short and secure route to import energy and find new markets for its goods and services. It would reduce China's dependency on Malacca route.

The Federal and provincial governments should work jointly for the economic, commercial and cultural development and put utmost effort to maintain the peaceful environment in the country. Political parties must extend full support for the implementation of CPEC by ensuring unity in their ranks.

The federal government must share CPEC project details with all the political parties of the provinces and provide full support, security and assistance to foreign workers of different CPEC projects.

About the Author: The writer is Senior Manager Finance at Maksons Textiles Pvt Ltd, a company of ATL group

Public Awareness for Optimizing CPEC

No doubt CPEC, under the slogan of One Belt One Road [OBOR] is not only important for China and Pakistan but for the entire region. This mega economic venture has jolted the world and divided its opinion in favor and against, exactly we saw in post 9/11 incident. The business community in the region, from a sole proprietor to large corporate entity, is thinking to reposition the business strategy after accepting the paradigm of CPEC.

Mazhar Mahmood, FCMA

Pakistan would be the nucleus, due to best strategic location of world, of this newly conceived maritime silk route by augmenting regional connectivity and linking to more than half of the world's population in Asia, Europe and Africa by cost effective road, rail and sea links to boost industrial sector, employment and to sustain future economic challenges.

Wish List of Pakistan and China to curb the following challenges

Pakistan	Solution	China
For economic development and sustainability		**To alive and stabilize the economic dragon**
Acute energy crises of both power and gas.		Primarily to secure its energy and trade routes.
Outmoded Infrastructure including Seaports, Roads & Rail, Power, Communication & Policies thereof etc.		To become the world's economic power.
Revival of industrial sector including Textile, Apparel, Cement, Fertilizer, Edible Oil and machinery etc.	CPEC	To provide safeguard to its economic & military expansion by getting rid of Malacca Strait Dilemma.
Slow growth in Service Sector including Financial Sector-money market, Transportation, Trade & Professions etc.		To develop western part holding 55% land with 20% population. China already invested $ 512 bn
Unemployment, miserable culture of entrepreneurship, per capita water availability and food security.		To strengthen the financial discipline - major focus is to manage external and internal debts.
Ultimate Goal to achieve debt free economy, surplus budget /BOP, GNP in top 10 ranking and by uplifting living standard of general public.		To engage the construction industry - already over invested.

Advantages of CPEC for the Region

a) About 3.5 billion people of 64 countries would be connected with CPEC.

b) Presently, china has planned to transport 19 million ton crude oil though this rout.

c) This needs 38,000 oil tanks for transportation of oil if each tanker having 20 ton capacity and completes a trip in 25 days.

d) China will cut 16,000km to just 5000km with only half the journey by road and time period from 3 months to reduce to few days.

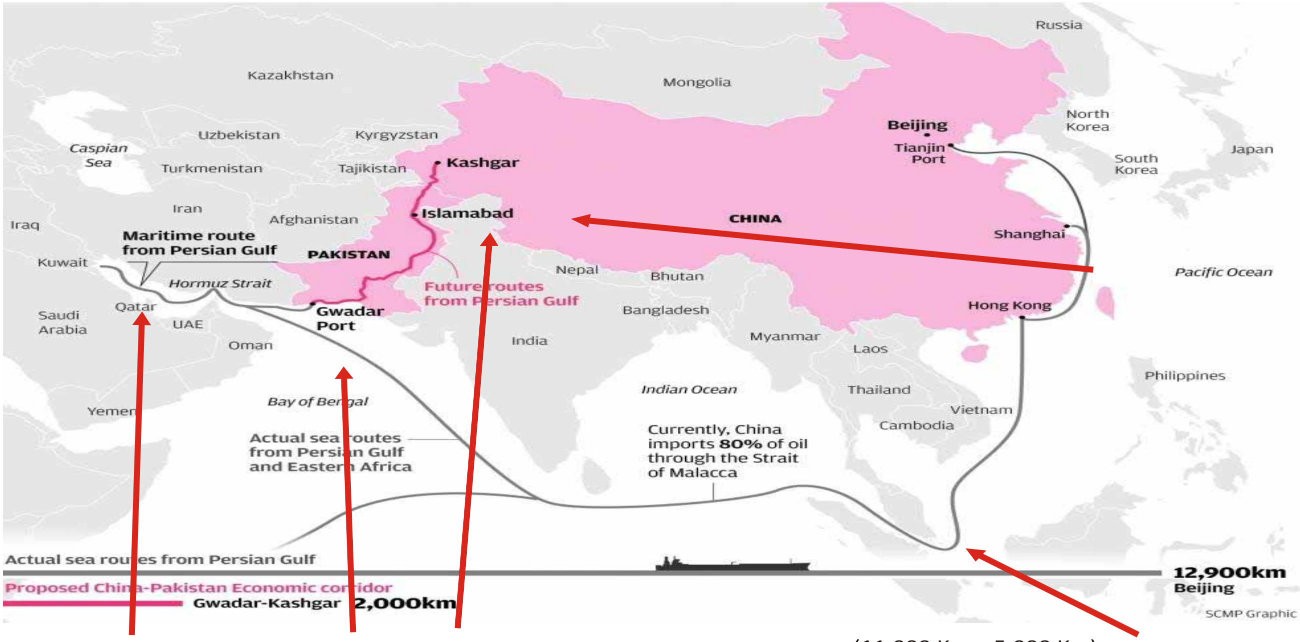
e) Cost of transportation would be reduced to more than 50% to Russian states and up to 40% to China.

f) China to penetrate to Afghanistan, Russian states and Europe through western Corridor.

g) China to get rid of Malacca Strait risk permanently through central corridor – CPEC.

h) China has also planned to open the Eastern Corridor through India, Bangladesh, Malaysia and onward. This third Corridor has least priority for China.

i) A trial caravan left China, as a trial run, on October 31 and reached Gwadar in 11 days - a journey which would otherwise have taken 45 days. Stakeholders' confidence won by demonstration.

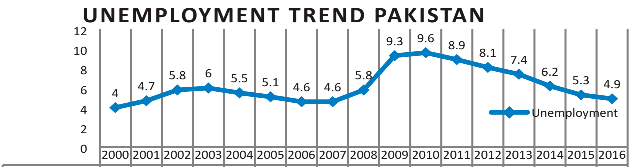


(2,500 Km + 2,500 Km) = 5,000
Persian Gulf to Gwader to Kashgar

(11,000 Km + 5,000 Km)
Persian Gulf to Shanghai to Kashgar through Malacca Strait

Advantages of CPEC for Pakistan

Pakistan is very much optimistic on the basis of past experience, since decades, byenjoying too many successful ventures in term of Heavy Industry Taxila (HIT), Heavy Mechanical Complex (HMC), PAC-Kamra and Chashma Nuclear Power Plant etc.



	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Unemployment	4	4.7	5.8	6	5.5	5.1	4.6	4.6	5.8	9.3	9.6	8.9	8.1	7.4	6.2	5.3	4.9

Following is the brief list of impacts of CPEC in Pak economy in different economic sectors;

a) About 2.30 million direct jobs would be created by reducing the unemployment

b) More than 10.0 million people would be engaged in forward and backward linkage economic activities to support the giant projects in energy sector and infrastructure. CPEC will surely stimulate the decreasing trend of unemployment.

e) Pakistan would receive $ 3.75 billion annually as a Toll Tax for usage of Gwader port. A huge revenue, multibillion dollar, is expected annually from the countries other than China.

f) Spending $ 11 b on infrastructure would increase GNP by $ 55 b if multiplier is accepted to be 5, calculated on the bases of assumption that MPC is 80%.

g) Accelerator will further boost the economy due additional investment to meet the induced demand hence generated by the multiplier.

h) OBOR will narrow down the culture, social and economic disparity not only among the provinces of Pakistan but also entire region.

The gestation period of CPEC is about 15-years which is likely to be completed in 2030 with the initial cost of $46 billion - allocated for energy to the tune of $34 billion and reaming $11 billion for infrastructure including roads, tracks, fiber optics, motorways, Gwadar port and other infrastructure in Gwadar town.

Pakistan has made serious attempts to terminate the power crises and seems to be ended in 2018 when 10,400 MGW electricity, produced by the project mix, shall be connected to national grid. Infrastructure has been started from different locations under the slogan of, "Early Harvest Projects" and committed to accomplish in letter and spirit at or before the dead line. The edifice of success story for other wish list depends upon the strong foundation of first two in priority wish list. Tangible progress is slow on the projects other than first two mentioned in aforesaid list. These are the traditional information which is known to almost all business community and keen observer of economic affairs.

Suggestions to Optimize CPEC

1) Revitalizing the Agriculture Sector

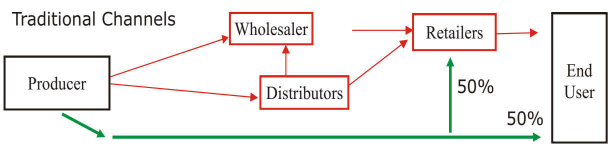
Plan to utilize 100% land whether arable or barren. The entire land should be allocated for the product having comparative productivity advantage. Wheat, maize, pluses, sugarcane, cotton and other crops should be grown in a designated area. For example, Photowar Plateau should be reserved to grow pluses and olive seeds but not for wheat. Present arable land, 23.0 million hectares, should be increased at reasonable pace to meet the next year challenges along with construction of mini dams to create the water reservoirs. This would curtail the imports of deficient commodity to control the waste or export of surplus production.

2) Patronizing the Professional - The real catalysts of economy:

Government should chalk out policy to extend loans to professionals against their degrees/ certificates as collateral in lieu of property. Professionals like Engineers, Cost and Management Accountants, Chartered Accountants, Doctors and IT professionals' etc. should be offered the loans on the basis of their experience and audited accounts for expansion of business, research or Working Capital requirements. This will surely increase the intellectual property that would be a national asset to earn foreign exchange and expansion of business and employment.

3) Shifting Distribution Channel on Chinese model:

A smart number of the businesses fail due to distribution channels as middleman – distributors, whole sellers, agents and stockiest etc. The major risk to manufactures is the receivable pilling up with these middlemen that finally devoid the manufacturers from liquidity - potential working capital. Their bereft working capital position pushes them to marsh of financial crises and takes them to brink of collapse.



Proposed Distribution Channel

The only solution is that manufacturers should persuade the Government through Chambers of Commerce to establish big markets at the suburbs of all metropolitan cities to sell their 50 percent goods direct to the end users. This will ensure enough liquidity with producer that will help the economy to move on smoothly. Tradition and proposed channels of distributions are depicted here.

Types of Business	Manufacturer	Wholesaler	Retailer	Online
Method of business	Credit	Credit+Cash	Cash	Cash
Risk of failure	Above 50%	About 50%	25%	25%
Reason for failure	Credit	Credit	Market	Market

4) Making big Corporations blessing for allied businesses:

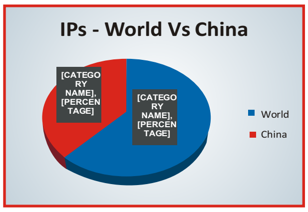
Millions of small firms, including suppliers, contractors, Its, CMAs, CAs and Engineering, are engaged to provide billions of rupees services and different types of raw materials to these few thousands entities and government organizations. Their tedious and lengthy procedure of payment under wake of transparency or officialdom put allied businesses into serious liquidity crises and finally pushes them at the verge of collapse. This needs to be addressed through proper legislation for promotion of business culture in country. Such interaction of small entities and the gigantic organizations would grow many times under the wake of CPEC activities and the need of such legislation may be seriously felt.

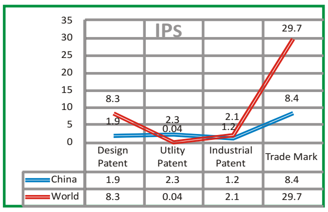
5) Protecting the small industry:

There are sufficient arguments that small industry, where millions of workers already engaged, would not be able to compete with Chinese cost-effective cottage industry. Pakistan should have some MoUs with China not to infiltrate in certain areas to protect small industry. The type of large scale local industry would grow that uses the cheaper raw material either indigenous or imported. Construction, steel, cement, textile, fertilizer, transport services, agriculture, tourism, telecom, professional services and energy producing units etc. Would observe the tremendous growth. Trading would exceed the manufacturing activities which would be the point of concern.

6) Producing Intellect instead of labor:

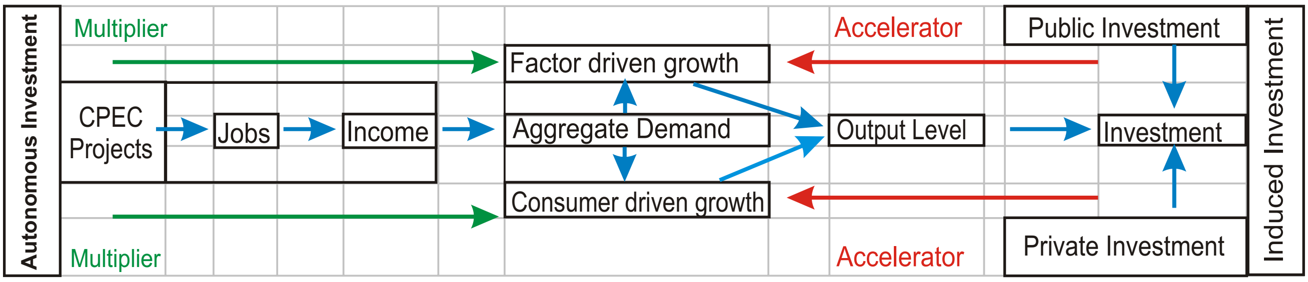
We are for behind world in creation of branding or Intellectual Property. Less intellectuals property creation mean low revenue and bleak image of country. Pakistan is already losing the revenue of millions of Dollars from paying KFC, Mc Donald, Nike, Telenor, U fone and many more others. Producing the labor will not be a tangible advantage of CPEC to Pakistan. A research academy is required to produce the brand to be accepted by the word as copy right, trade Mark and Patents.





7) Clubbing Top down and down top Economic Models:

Pakistan has continued Top Down economic model to reap the CPEC that will innately favors, in first phase, multibillion investors rather than skilled, educated, cottage industry and professional. The money will be spent on the giant projects, as an autonomous investment; will travel from top to down to become the income of people - a long way to travel to create aggregate/induced demand. Investment, from down to top, to meet the aggregate / induced demand is an economic growth in real sense that causes to swell the economy in diversified areas.



Here down top flow of investment should be injected as a small loans to cottage industry, instead of Public Direct Investment or top down, to cater the aggregate / induced demand. Down top investment to cottage industry or small business at this stage would be real success of this entire investment. Pakistan should invest government led funds from top to down to create aggregate/induced demand and then extend loans to small industry to meet the induced demand as down top strategy.

8) Focusing on Consumption driven economy instead of export dependent:

It is also a better option to shift export-dependent manufacturers of low-margin to a consumption-driven economy hence powered by its own internal growth. We are the 6th largest consumer market in the world with a population of 200 million people. Government patronization is more important for equitable wealth distribution, increased domestic consumption, improved social infrastructure, and social safety nets.

9) Controlling trade deficit to optimize CPEC:

Our exporters are losing a big potential of exports opportunity in China. It is pity enough to see less than 1% share of Pakistan in 10 top imports of China. Most of the Chinese import encompasses of mineral and agriculture product in which Pakistan has a comparative advantage of production. Entire province of Baluchistan is abundant of mineral having a big demand in China.

Pakistan must conduct a comprehensive research to position its agriculture and minerals products to target the Chinese Market. By this way, Pakistan would not only be able to reduce the deficit in BoP but can also make it to surplus. Pakistan must sign MoU with China to provide these minerals like Copper, Ores, Slag and Ash etc. as much as Pakistan can. Our government should take measures to unearth these minerals on priority basis to tap the Chinese market.

10 Major imports of China		Pakistan	Share
US $ (b)		US $ (b)	%
Electronic equipment	431.6		
Oil	198.7		
Machine, Engines, Pumps	157.2		
Medical, technical equipment	99.7		
Ores, slag, ash	95.1	0.129	0.14
Vehicles	69.6		
Plastics	65.6	0.043	0.07
Organic chemicals	47.9		
Oil Seed	39.8		
Copper	38.4	0.036	0.09

Top 10 Pak exports to China	US $ (b)
Cotton	1.90
Cereals	0.01
Ores, slag, ash	0.13
Salt, sulphur, stone, cement	0.06
Raw hides excluding for skins	0.06
Plastics	0.04
Food west, animal fodder	0.04
Copper	0.04
Fish	0.04
Gums, resins	0.03

10) Legislation to protect the liquidity of firm:

Legislation now became due for promoting the liquidity in the market to reduce the business start-up failure. A special legislation is required to bind the limited companies, government organization and foreign companies to clear the invoices of suppliers within 15-days and also, reciprocally, this law would be equally applicable on middlemen / traders/agents not to delay the payment of industrialist without business justification. Heavy fines should be imposed on violation from either side.

Public Awareness on CPEC

Public awareness will play a vital role to make the CPEC a successful story and image building of Pakistan. It's obvious that Pakistani is 4th resilience and 16th happiest nation in world ranking according to recently reports issued by different International Ranking Agencies. For example, the biggest civil operation in the world observed when Pakistani outburst to help Kashmiris in devastated earthquake of 2005. Major stimulator behind this civil operation was media for awareness of general public.

The following measures are suggested for creating public awareness about the CPEC in Pakistan;

a) An exclusive TV Channel holding talk shows, documentaries, news, interviews etc. to counter the risks and highlight opportunities associated with CPEC.

b) Debate of major stakeholders, including, business community, professionals, consultants and economists should be opened at all forums.

c) An exclusive Website to upload daily activities, guidelines to tap opportunities on CPEC.

d) Allocation of special budget to hold seminars, workshops, researches and other intellectual work on CPEC for branding.

e) Ministry of planning should conduct research on review economic model under CPEC scenario and its impact on consumer driven, innovation driven and factor driven economy.

Role of Management Accountants

Management Accountants have the capacity to address all business related risks by using different management tools, not limited to preparing the feasibility report, internal controls, planning, product pricing, product costing, process costing, variance analyses, research, integration, budgeting, forecasting and market analyses on one side and providing the services for corporate matters, finance, accounts and tax advisory on the other side. Management accountant can bring synergy in business of manufacturing, service, distribution industry or whatever it may be, in the following three areas;

a) Economy:

Management Accountants are fully equipped with the techniques how to produce the goods and services at lowest possible cost by using different combinations of factors of production. Ratio of actual Expenses to Budget is mathematical tool used to verify the economy in action.

b) Efficiency:

Management Accountant can ensure efficiency in processes with continuation of analytical review of material, labor and overheads. Efficiency in process may be justified when output, in term of percentage, is more than input. Also called," doing the things right".

c) Effectiveness:

Mathematically it's a ratio of Actual output to budgeted output. Time line, budgeting, work and motion study and better management techniques are few of the tool used to achieve the actual output against the targets which is an exclusive subject of Management Accountants.

Conclusion

CPEC will really be a game changer for entire region. Pakistan can take out a big chunk of economic and social advantages out of it if a group of internal stakeholders such as business community, researchers and professionals, are taken on board to be utilized to fight on economic front with their knowledge, experience and business wisdom. Secondly, the other group of internal stakeholders, general public, is to make aware how to collectively address the conspiracies. All Pakistanis, without political affiliations, should strengthen the central government and stand up to support the Pak Army morally and physically. The Government, on the other hand, must sagaciously utilize the electronic and social media for public awareness being real stakeholders, to support CPEC.

The author is a Fellow member of ICMA Pakistan and holds Masters in Economics, FPA and M.Com degrees. He is currently the CEO of Mazhar Mahmood & Co.

CPEC Energy Projects and Changing Fuel Mix

By: Research and Publications Directorate under the supervision of
Mohammad Iqbal Ghori, FCMA, President ICMA Pakistan

Preamble

At the time of independence in 1947, Pakistan had total installed power generating capacity of just 60 MW which was enhanced to 119 MW in next 12 years when WAPDA was established in 1959. By 1970, the power generating capacity further increased to 1331 MW with building of Mangla Dam and functioning of several thermal and hydro power projects. The building of Tarbela Dam in 1976, further added up 3000 MW electricity into the system and by the end of 1990 total electricity generation capacity reached the level of 7000 MW. During the next 15 years i.e. from 1990 to 2005, more thermal power plants running on oil and gas were installed in the country which increased the power generating capacity three times from 7000 MW to 17,500 MW – the share of thermal power being 64% of total capacity, followed by hydro-power (33%). Other energy sources are LPG, coal and nuclear.

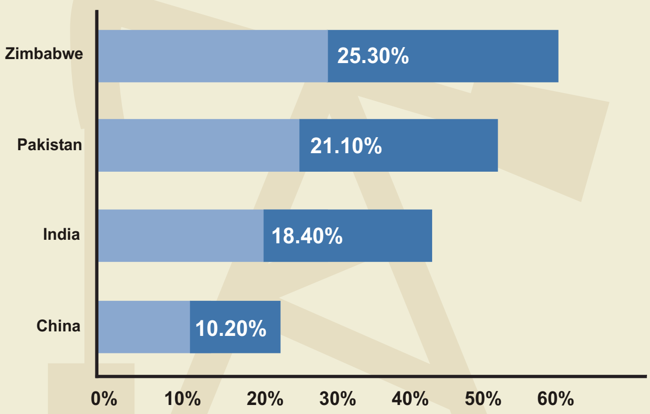
The current power generating capacity of Pakistan stands at 24,830 MW with 53% and 47% share of public and private power companies, respectively. The electricity demand is growing at an average of 6% to 7% per annum and since 2006-07 the electricity demand and supply gap is persistently going up and presently it is estimated at around 5000 MW. The main reason cited by experts for this widening demand supply gap is rising population and over-reliance on fossil fuel for power generation. This has negatively impacted national economy, especially production capacity of industries which are experiencing acute shortage of power and gas to meet timely exports. With fast depleting gas and oil reserves and the impending demand forecasts, it has become indispensible that we must explore avenues to generate more energy to meet the energy challenges and keep our industries running.

In the above backdrop, energy projects, including coal-fired, hydro, wind and solar, planned to be set up under the 'China-Pakistan Economic Corridor (CPEC)' seems a move in the right direction that would generate additional electricity to meet power shortfall. Over USD33 billion investments are to be made in CPEC energy projects under 'Early Harvest Scheme' that would be producing around 10,400 MW of electricity by March 2018. In addition, 1000 MW power will also be imported from Tajikistan and Kyrgyzstan as part of CASA -1000 project by end of 2018. Other non-CPEC energy projects such as 1223 MW Balloki and 1180 MW Bhakki power projects would also be completed. The energy projects under CPEC would be completed by Chinese investors in Independent Power Plants (IPPs) mode and the Pakistan government would only ensure purchase of power from the investors.

> "Excessive reliance on imported fuel oil for electricity Generation has led to Fuel crisis and increased cost of power supply in Pakistan"

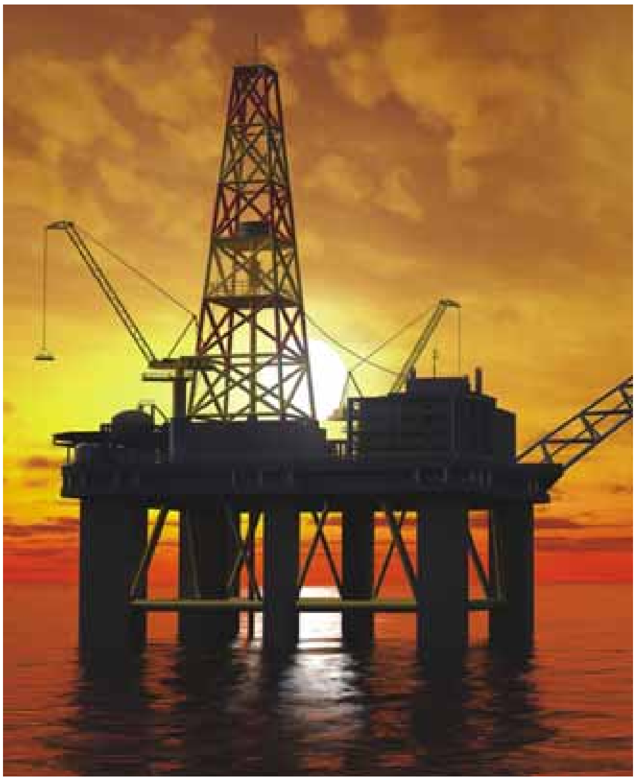
Fossil fuel are a burden on the trade balance of many countries

Share of net fossil fuel imports in all 2015 merchandise imports



Import dependency on Fossil Fuels

Many countries around the world heavily depend on imports of fossil fuels viz. crude oil, coal and natural gas to meet their energy demands. Due to this heavy dependency, many countries, including Pakistan are facing negative balance of trade. This is also evident from the fact that China which the second largest world economy, China, spent around USD 170 billion in 2015 on fossil energy imports which constitutes one tenth of its total import value. According to WTO data, both Pakistan and India are spending around one fifth of their entire net import expenses on fossil fuels. Pakistan is ahead of India in imports of fossil fuels and spends around USD 15 billion i.e. 22 percent of its import bill. In 2015, the share of fuel oil in total import bill stood at 25% i.e. USD 11.79 billion. Excessive reliance on imported fuel oil for electricity generation has led to fuel crisis and increased cost of power supply in Pakistan.



Energy Projects under CPEC

Coal-fired power plants dominate the energy projects to be established under CPEC. Out of 17 power plants, eight are on coal-fire having installed capacity of 8,880 MW which accounts for 64.5% of total capacity. Three hydro-power plants would also be set up that would produce 2,690 MW of electricity. The total estimated cost of all energy projects is USD 21.2 billion. Table-1 summarizes the details of these 17 CPEC-energy projects:

Table 1: Summary of CPEC Energy Projects

No.	Energ Projects	No. of Projects	Total Installed Capacity (MW)	Total Estimate Cost (US Billion)
1	Coal Fired Power plants	8	8,880 (64.5%)	12.35 (58.26%)
2	Hydro Power Plants	3	2,690 (19.5%)	5.62 (26.51%)
3	Wind Farms	4	300 (2.20%)	0.66 (3.11%)
4	Solar Parks	2	1,900 (13.80%)	2.57 (12.12%)
	Total	**17**	**13,770 MW**	**SSD 21.2 Billion**

(Source: Research by R&P Dept., ICMA Pakistan)

Now, let's analyse the different CPEC energy projects in detail.

1) Coal-Fired Power Projects

There are eight coal-based power plants to be set up under CPEC, three in Sindh; three in Punjab; and two in Balochistan as depicted in Table-2. Excepting Gwadar and HUBCO power plants, all the other coal-fired power plants will be generating 1320 MW of electricity. Majority of the coal to be used in these power plants will be imported which could be quite expensive. We will discuss this aspect separately in this paper.

Table 2: Summary of Coal-Fired Power Projects

No.	Projects	Province	Total Installed Capacity (MW)	Estimate Cost (US Billion)	Primary Input
1	Port Qasim Power plant	Sindh	1320 (2*660 MW)	1.98	Imported Coal
2	Engro Thar Power plat	Sindh	1320	2.00	Local Coal
3	SSRL Mine Mouth Power plant	Sindh	1320 (2*660 MW)	2.00	Local Coal
4	Rahim Yar Khan Power plant	Punjab	1320	1.60	Imported Coal
5	Sahiwal Power plant	Punjab	1320	1.60	Imported Coal
6	Gwadar Power plant	Balochistan	300	0.60	Imported Coal
7	HUBCO Power plant	Balochistan	660	0.97	Imported Coal
8	Muzaffargarh Power plant	Punjab	1320	1.60	Imported Coal
	Total		**8,880**	**12.35**	

(Source: Research by R&P Dept., ICMA Pakistan)

2) Hydro Power Projects

Three hydro power stations would be constructed viz. Suki Kinari in KPK; Kohala in AJK and Karot power station that would serve both AJK and Punjab. The total electricity generation would be 2,690 MW and the entire cost of these projects would be around USD 5.62 billion.

Table 3: Summary of Hydro Power Projects

No.	Projects	Province	Total Installed Capacity (MW)	Estimate Cost (US Billion)	Primary Input
1	Suki Kinari Power station	KPK	870	1.80	Hydel
2	Kohala Power station	AJK	1100	2.40	Hydel
3	Karot Power station	AJK/Punjab	720	1.42	Hydel
	Total		**2,690**	**5.62**	

(Source: Research by R&P Dept., ICMA Pakistan)

"Coal-fired power plants dominate the energy projects to be established under CPEC. Out of 17 power plants, eight are on coal-fire having installed capacity of 8,880 MW which Accounts for 64.5% of total capacity"

3) Wind Farm Projects

Four wind farms would be established under the CPEC, all of them in the Sindh Province, being close to the coastal belt. The electricity generated from these small wind farms would be only 300 MW.

Table 4: Summary of Wind Farm Projects

No.	Projects	Province	Total Installed Capacity (MW)	Estimate Cost (US Billion)	Primary Input
1	Dawood Wind Farm	Sindh	50	0.13	Wind
2	UEP Wind Farm	Sindh	100	0.25	Wind
3	Pakistan Wind Farm	Sindh	100	0.15	Wind
4	Sachal Wind Farm	Sindh	50	0.13	Wind
	Total		**300**	**0.66**	

(Source: Research by R&P Dept., ICMA Pakistan)

4) Solar Park Projects

There are only two solar energy projects under CPEC that will be constructed in Punjab. These solar parks that cost around USD 2.57 billion will be generating 1900 MW of Electricity.

Table 5: Summary of Solar Park Projects

No.	Projects	Province	Total Installed Capacity (MW)	Estimate Cost (US Billion)	Primary Input
1	Zonergy Solar Park	Punjab	900	1.22	Solar
2	Quaid e Azam Solar Park	Punjab	1000	1.35	Solar
	Total		**1,900**	**2.5**	

(Source: Research by R&P Dept., ICMA Pakistan)

Coal's Share in Global Electricity Generation

Coal plays a dominant role in electricity generation worldwide. Coal-fired power plants currently produce around 41% of global electricity and in many countries the percentage of electricity produced is more than 50 percent. Table-6 lists down the countries where highest percentage of electricity is generated from coal source.

As can be seen, Pakistan is standing down the list with a meager 0.2% share which point towards the fact that there is huge potential for generating electricity through coal. As estimated, there is potential for 100,000 MW of coal-based electricity generation in Pakistan, highest being from huge coal reserves in Thar. The main reason for hitherto nonutilization of coal as energy source in Pakistan is lack of modern technology and our dependence on imports for coal requirement.

Coal Imports by Pakistan

Pakistan annually imports around 5 million tons of coal, mostly coking coal for the steel industry and non-coking coal for the cement industry. It is expected that with the setting-up and operation of several coal-fired power plants under CPEC during next two to three years, the total volume of coal imports would go up appreciably to 15 to 20 million tons annually. This would definitely add to the cost of imports and impact the trade balance.

"The main reason for hitherto non-utilization of coal as energy source in Pakistan is lack of modern technology and our dependence on imports for coal requirement"

It is important to note here that in anticipation of immense demand for cement in different CPEC-related projects, most of the Pakistani cement manufacturers have announced expansion plans, which means that imports of non-coking coal by the industry will also increase substantially.

Coal – A missing link in Pakistan's Energy Mix

Coal has been and remains the missing link in Pakistan's energy mix. As indicated earlier, the share of coal in electricity generation is just 0.2 percent which is quite negligible, keeping in view huge coal reserves in Pakistan, especially in Thar (Sindh). The following figures bears testimony to the coal potential in our country:

Sindh	186 billion tons
Punjab	235 million tons
Balochistan	217 million tons
KPK	90 million tons
AJK	9 million tons

As part of CPEC's early harvest projects, around USD 5.8 billion worth of coal-fired power projects would be completed by early 2019 which would increase the share of indigenous coal in electricity generation to almost 30 percent by the year 2030. This means that around 30 million tons of coal needs to be mined annually.

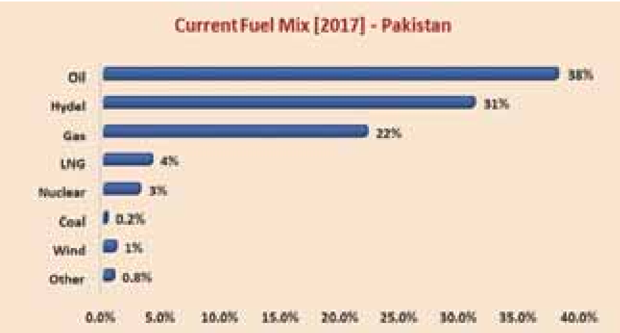
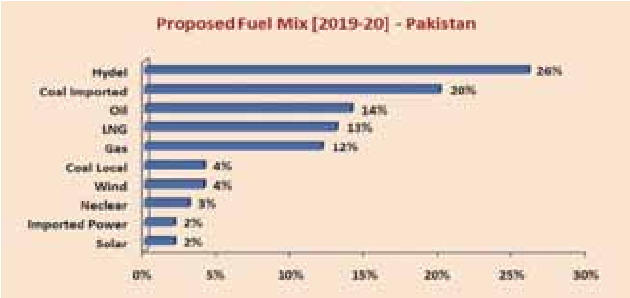


Table 6: Global Electricity Production from Coal (as % of total energy)

No.	Country	% of Electricity from Coal
1	South Africa	93%
2	Poland	83%
3	India	75%
4	China	73%
5	Kazakhstan	72%
6	Australia	61%
7	Indonesia	53%
8	Czech Republic	52%
9	Greece	51%
10	Germany	46%
11	Bulgaria	45%
12	USA	40%
13	Malaysia	38%
14	Japan	34%
15	Denmark	34%
16	Turkey	31%
17	UK	30%
18	Pakistan	0.2%

(Source: World Bank Data)

Pakistan is now moving from gas dominated energy mix to coal. Let's have a look at the current and proposed energy/Fuel mix of Pakistan, keeping in view of increasing coal's share in electricity generation:



Currently, Pakistan is dependent heavily on imported oil for electricity generation which is around 38 percent, followed by 31% from Hydel and 22% from Gas. Other components of fuel mix are LNG, Nuclear, Coal etc.

From the proposed fuel mix 2019-20 chart, it is quite evident that share of imported coal in power generation is likely to be 20 percent, whereas share of local coal would be 4 percent. The reliance on imported coal would not be feasible as it would add to the cost of imports. There are already some after-thoughts in the government circle to reduce the percentage share of coal-fired power projects in the mix of CPEC energy component.

In addition to building up of new dams for producing hydro-electricity, it would also be more feasible for the government to utilize the immense coal reserves potential and increase share of local coal in CPEC projects.

Merits and Demerits of Coal and Thar Coal Project

Let's have a look at the merits and demerits of coal as an energy source with special reference to the importance of 'Thar Coal'

Table 7: Merits and Demerits of Coal as Energy Source and Thar Coal Reserves

No.	Merits	Demerits
	Coal as Energy Source	
1	Coal is cheapest source of fuel for electricity generation	Coal burning is not considered to be environment friendly
2	Coal is mostly available indigenously and easily sourced	Coal-fired power plants are harmful for environment/climate
3	Tariff rate of coal-based power plants are lower	Coal mining is dangerous and explosions are common
4	Many developed countries still rely on coal-based electricity	Countries relying on coal may be accused of eco-dumping
5	Coal energy is affordable due to its stable price unlike others	Pakistan imports coals which is burden on foreign exchange
6	Power generation scale of coal is great as compared to others	
7	Coal mining is a labour-intensive industry and as such create jobs	
	Thar Coal Reserves	
8	Pakistan has one of lowest carbon footprint in the world	Coal reserves at Thar has lower heating values
9	Pakistan is not in top 20 list of countries affecting global warming	Thar coal is only good for mine mouth power generation
10	Thar has highest and best reserves of coal in the world	Coal transport from Thar to other destinations is not feasible
11	Thar coal is far superior than other lignite mines in the world	Absence of rail tracks for coal transportation from Thar
12	Thar is a viable option for Pakistan to produce electricity at Thar	
13	Thar coal project may feed coking coal for steel industry	
14	Thar lignite can be transported to India, China, Germany etc	
15	Thar coal-generated power can reduce power shortage	
16	New technology has enabled environment-friendly coal power	

(Source: Research by R&P Dept., ICMA Pakistan)

Environmental Concerns

Some quarters within Pakistan and abroad are projecting that the government should not opt for coal-fired power plants for electricity generation due to environmental considerations. ICMA Pakistan research reveals that the environment factor is though quite important; however, electricity generation from coal is still a 'choice' for many countries in the world, despite the fact that they are contributing towards environmental pollution. It is worth pointing out here that as per global ranking the top countries which are contributing towards 'global warming' include USA, China, Russia, Brazil, India, Japan and Germany. Pakistan does not come in the list of top 20 countries and even if we go for generating all our energy through coal, Pakistan would still be too behind these countries.

"In addition to building up of new dams for producing hydro-electricity, it would also be more feasible for the government to utilize the immense coal reserves potential and increase share of local coal in CPEC projects"

Conclusion and Recommendation

There is every reason for Pakistan to go for coal-fired power plants to generate electricity for resolving the energy crisis in the country, subject to the condition that modern technology be used for minimizing the environmental hazardousness. The Integrated Gasification Combined Cycle (IGCC) technology is being adopted by coal power plants these days which need to be acquired by Pakistan.

Secondly, the government should re-visit the energy portfolio of CPEC by insisting the Chinese government to bring modern technology for utilizing the indigenous coal, especially in Thar for reducing dependence on imported coal. Though, for time being, imported coal may also be used by CPECenergy projects with option to convert to the local coal in due course of time. At the same time, CPEC energy projects should also make it mandatory for Chinese firms to transfer technology and capacity building of human resource for local industrialization.

Survey Report

Implications of CPEC on Economy

"90% predicts that energy projects to be set-up under CPEC would eventually resolve persistent power crisis in the country and trigger industrial productivity"

By Research and Publications Directorate, ICMA Pakistan

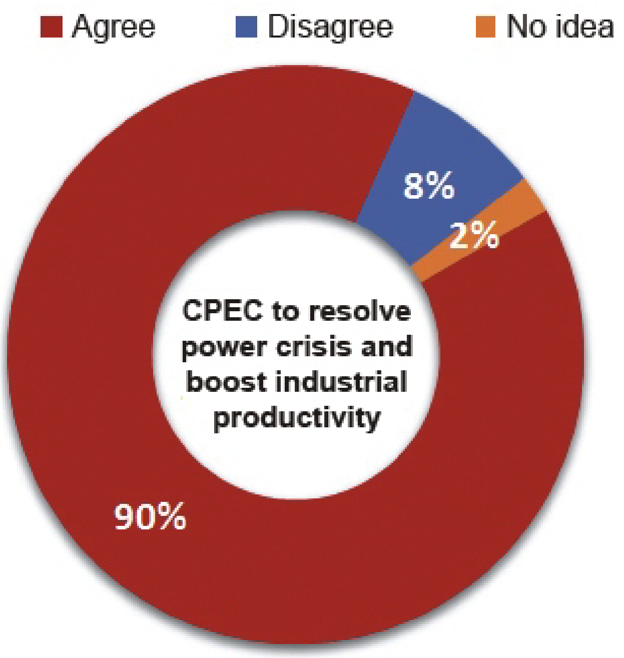
Preamble

In relevance to the theme of 'China-Pakistan Economic Corridor (CPEC)' selected for March-April 2017 issue of Management Accountant Journal, the Research and Publications Directorate of ICMA Pakistan thought it prudent to conduct a feedback survey with regard to the implications of CPEC on the national economy and industry. This survey also aimed to ascertain how our members can contribute towards success of CPEC.

The results of the survey are quite encouraging and majority of the respondents have termed 'CPEC' as a 'Game Changer' and a means to trigger economic growth in the country. Some 96% of members have posed high level of trust on CPEC and indicated that notwithstanding few threats, CPEC would open up vistas of opportunities not only for our businesses and industry in the region but also for the professional community, including the management accountants.

Majority of respondents have admitted that as a result of CPEC, businesses will flourish; local industry will get a big boost; new job opportunities would be created; exports may go up; energy problem to be resolved and economic growth would be stimulated. The areas identified where CMAs can play a role in CPEC include employment, consultancy and cost audit.

> "Government must treat the local industry at par with the projects being set-up under CPEC"



Methodology

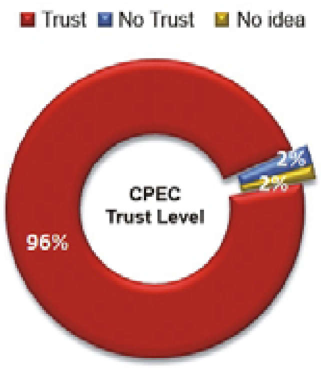
The feedback survey questionnaire was uploaded on Institute's website on March 15, 2017 and placed on Google Drive to provide an opportunity to members and other professionals to submit their responses online. The responses were also invited via email from members. The survey questionnaire comprised of eighteen specific questions related to CPEC. These questions covered the trust level of members on CPEC; CPEC's impact on local industry; job market; exports; cost of doing business; market competition; energy crisis and on overall economy. It was also asked in survey in which areas CMAs can play their role for the success of CPEC. The members were given the deadline of 28th March 2017to submit responses.

Survey Statistics

In total, 136 responses were received from members, out of which three responses were found invalid and not considered for the survey. Out of 133 valid responses, 92 were from members of ICMA Pakistan, constituting 69% of total responses, whereas 43 responses (31%) were from nonmembers, mostly high and middle level executives of business enterprises.

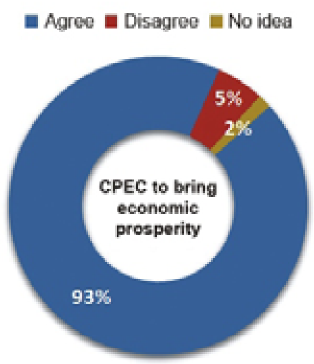
As far as designation level of respondents is concerned, majority of responses have come from Manager/Executive level i.e. 70% whereas 20% responses are from Director/CFO/GM level. Around 6% respondents holding positions of CEO/MD also participated in the survey, comprising both members and non-members. If we look at survey results demographics, we find that majority of responses i.e. 77% is from the members residing in three major cities i.e. Karachi (36.8%); Lahore (22.6%) and Islamabad (17.3%). Around 14.3% responses have also been received from overseas Pakistanis, mostly from UAE and Saudi Arabia.

Survey Results



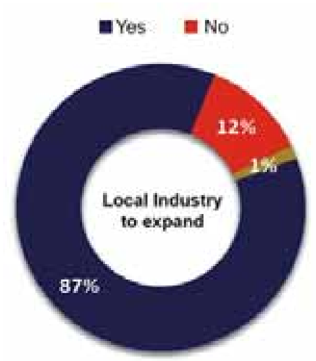
96% shows trust level on CPEC projects

A dominant segment of survey respondents i.e. 96.24% have shown high and partial trust levels on energy and other infrastructure projects being setup by China under CPEC. Out of this 96.24%, around 49.62% have evinced full trust, whereas 46.61% have indicated partial trust.



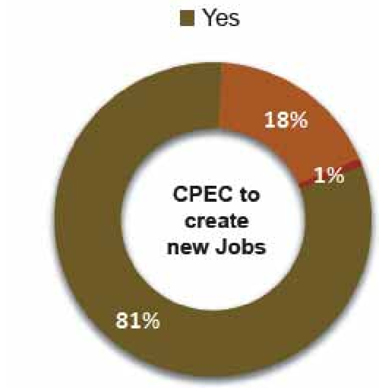
93% predicts economic prosperity from CPEC

More than ninety percent (93%) of survey respondents have predicted that successful implementation of CPEC projects would bring overall economic growth and prosperity in Pakistan.



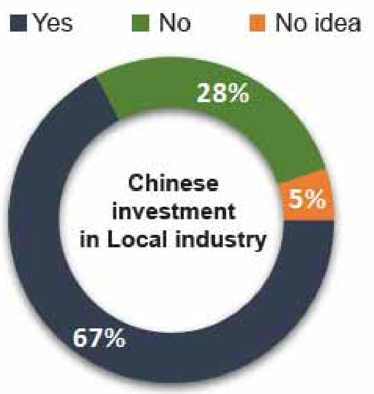
87% expects expansion in local industry

Around 87% of survey respondents expect expansion in the local industry to meet the input requirements of infrastructure and energy projects to be setup under CPEC.



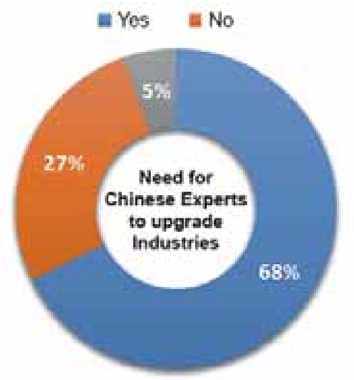
81% expects CPEC to create new job opportunities

Almost 81% of respondents have indicated that with setting up of CPEC projects, new job opportunities would be created for skilled and semi-skilled labor force in Pakistan, either directly in CPEC projects or in the local industries that would go for expansion to support such projects. Around 18% have not agreed with this and believe that CPEC would not generate much employment opportunities for Pakistanis.



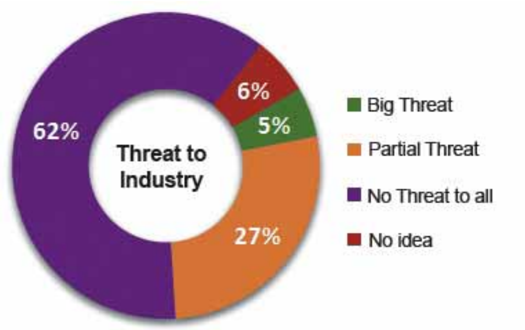
67% expects local investment by Chinese firms

Around 67% of respondents are of the view that there is good scope for Chinese investments in local industry as CPEC projects will become operational in next few years. This would boost the industrial production. Around 26% of respondents did not agree.



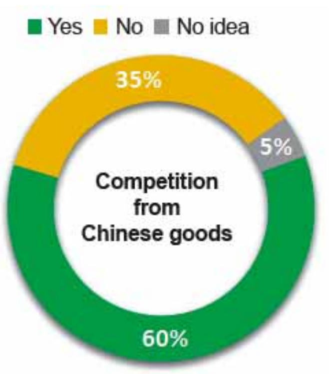
68% favors Industry upgrading with Chinese help

Almost 68% respondents have evinced desire that China should help Pakistan in upgrading and capacity building of industries for enhancing their production and improving technical efficiency. However, 27% respondents believe that Pakistan is fully capable to perform this task without the help of China.



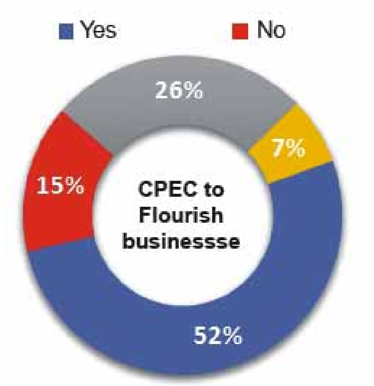
62% foresees no threat to industry from CPEC

Around 62.4% of survey respondents have indicated that they foresee no threat to the Pakistani industry from CPEC whereas 27% thinks that there would be partial threat. Only a negligible segment of respondents i.e. 5.26% predicts a big threat from CPEC to the industry and national economy.



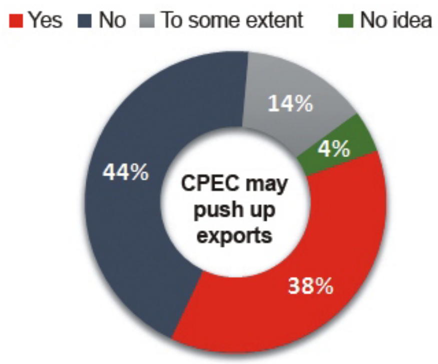
60% fears competition from Chinese goods

Almost 60% respondents have expressed fear that inflow of Chinese imported goods into Pakistan would make it quite difficult for some industries to compete in view of price factor. This is due to the fact that Pakistan is pre-dominantly a price conscious market.



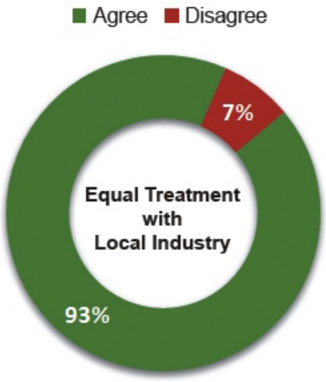
52% thinks CPEC will flourish businesses

More than 50% respondents have stated that CPEC would flourish businesses in the country, leading to reducing the cost of doing business, whereas 26.32% are of opinion that businesses will flourish to some extent. Only 15% have not agreed that CPEC would stimulate business and industry.



52% says CPEC may push up exports

Around 42% respondents are of the view that with boost in industry productivity from CPEC, our national exports may go up which is presently on downward slide. Out of this 42% responses, 28% respondents are fully confident about export growth, whereas 14% say exports may go up to some extent. On the contrary, a good percentage of respondents i.e. 44% observe that CPEC would not have any positive impact on exports as majority of CPEC projects are in energy and infrastructure sector. Hence, the viewpoints of respondents are quite mixed on this question.



93% says local industry be treated at par with CPEC

Majority of respondents (93%) have supported that local industry should be treated at par with the Chinese firms and be given similar concessions and exemptions as being offered to the Chinese investors in the special economic zones being setup under CPEC.

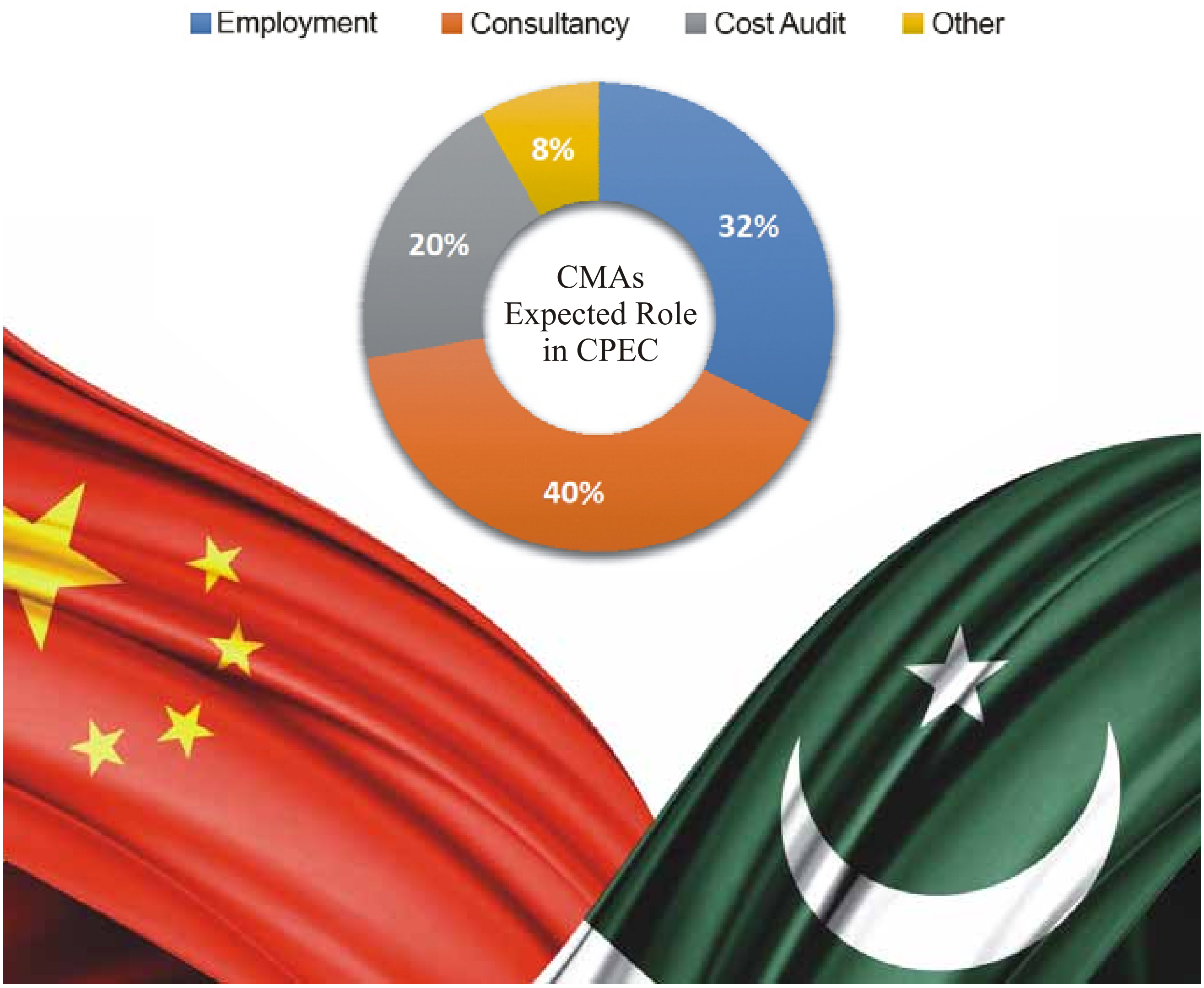
100% expects CMAs have a wider role in CPEC

Almost all the respondents have specified CMAs role in CPEC related projects and indicated that ICMA Pakistan may take initiatives with the concerned ministries to create opportunities for the qualified members. The following areas have been identified by the respondents where the management accountants can contribute role in CPEC projects;

(a) Employment (32%)
(b) Consultancy (40%)
(c) Cost Audit (20%)
(d) Others (8%)

To an another question about capacity building of members for CPEC, majority of the respondents have suggested that ICMA Pakistan should hold Seminars on CPEC in different cities to create awareness about the emerging opportunities and also arrange Chinese language course for the members so that they can play their role towards success of CPEC.

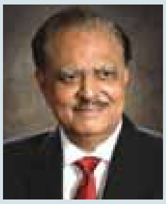
CMAs expected Role in CPEC



China-Pakistan Economic Corridor (CPEC)

News & Events

"We are ready to share benefits of the CPEC project with other nations"



H.E. Mamnoon Hussian, President, Islamic Republic of Pakistan at the inauguration of SAFA International Conference organized by ICMA Pakistan at Islamabad [28th April 2017]

"CPEC is an economic undertaking open to all countries in the region. It has no geographical boundaries".

H.E. Muhammad Nawaz Sharif, Prime Minister, Islamic Republic of Pakistan at the Plenary Session of One Belt, One Road (OBOR) Summit 2017 at Beijing, China [14 May 2017]

"Out of Rs. 46 billion investments under CPEC projects, Rs. 34 billion are being spent on energy projects which would help to overcome energy and power crisis in country"

Mr. Mohammad Ishaq Dar, Federal Minister for Finance & Economic Affairs at the Concluding Session of SAFA International Conference organized by ICMA Pakistan at Islamabad [29th April 2017]

"CPEC is the center piece of Pakistan's vision 2025 and the first node of China's Vision of One Belt-One Road initiative. CPEC has changed global narrative about Pakistan".

Mr. Ahsan Iqbal, Federal Minister for Planning & Development at a Seminar on "CPEC Myths & Realities" [26th April 2017]

OBOR SUMMIT 2017 CONCLUDES AT BEIJING, CHINA

A two-day summit of world leaders in Beijing concluded on May 15, 2017 with promises and high hopes that the Belt and Road Initiative will be the beginning of the building of a better world. The Summit ended on a positive note and that "all are united behind the initiative and on course for the shared future of mankind."

The Chinese President in his opening speech said that "Through the initiative, we hope we can find new driving forces for growth, create a new platform for global development, and re-balance economic globalization,"

A total of 29 foreign heads of state and government leaders attended the forum, including Russian President Vladimir Putin, Prime Minister of Pakistan, Mian Muhammad Nawaz Sharif and others.

Around 68 countries and international organizations signed cooperation deals with China to carry forward the Belt and Road Initiative. Many deals were signed during the forum. An outcomes list of more than 270 items was formulated at the Leaders Roundtable of the forum, setting the way forward. The world leaders will gather again to gauge the progress in 2019.

India skipped the summit as it voiced displeasure at the China-Pakistan Economic Corridor, a Belt and Road project aimed at linking northwestern China to the Arabian Sea. The route cuts through Gilgit and Baltistan in Pakistan-occupied Kashmir, a disputed territory that India claims is illegally occupied.

UK DESIRES TO BECOME KEY PARTNER IN CPEC

The United Kingdom has expressed its desire to become a key partner in the multibillion-dollar China-Pakistan Economic Corridor (CPEC). A Roundtable on UK Participation in the CPEC was organized at Islamabad where the UK Minister of State for International Trade, Mr. Greg Hands said that Britain is a country of global influence and can be an important partner for China and Pakistan in the delivery of the China-Pakistan Economic Corridor which has the potential to build closer links between our countries. He further said that UK has clear ambition to increase trade with both China and Pakistan and UK businesses are well placed to capitalize on the new opportunities in the region.

CALL FOR INDEPENDENT FINANCIAL REPORTING BODY

Mohammad Iqbal Ghori, FCMA

The Audit Oversight Board (AOB) established under the SECP Act, 1997 to regulate audit profession in the country and the Accounting Standards Board (ASB) recently formed under control of Institute of Chartered Accountants of Pakistan (ICAP) as a self-regulated model, would not serve the purpose of justice and independence. It may rather create doubts about the standard setting process and adoption of financial reporting best practices in view of absence of all the stakeholders in the composition of these bodies and undue influence of the SECP and ICAP. It is high time that the government should seriously think of establishing an autonomous 'Financial Reporting Council', independent from accounting profession, in order to uphold the quality and standard of financial reporting in Pakistan and to safeguard the interests of all the stakeholders, including the business, trade, industry, professionals and the public at large. The creation of this autonomous audit super-regulator has become crucial due mainly to regulator's inadequacy in terms of capacity, capability, lack of independence and its lackadaisical attitude towards discouraging the existing monopolistic practices of one professional body.

Ideally, the proposed Financial Reporting Council (FRC) should be under the leadership of Ministry of Finance, Government of Pakistan and shall have powers and authority to frame accounting and auditing standards; monitor compliance with established standards; review auditors' practice and enforce sanctions on violations. As far as its composition is concerned, the global practice may be followed by inducting representatives from the government i.e. Ministry of Finance; Ministry of Commerce; Auditor General of Pakistan and State Bank of Pakistan; from the professional accounting bodies i.e. ICMA Pakistan, ICAP and PIPFA; representatives from other organizations such as Pakistan Stock Exchange, Federation of Pakistan Chambers of Commerce and Industry (FPCCI) and Pakistan Banks Association. The Chairman of the FRC should be nominated by the government and he should not be a member of any of the professional accounting bodies, otherwise the neutrality of FRC would be compromised.

Several advanced and emerging economies such as USA, UK, Canada, Hong Kong, Australia, Mauritius, Sri Lanka, Japan etc have already established such financial reporting authorities which have resulted in strengthening their financial authorities which have resulted in strengthening their financial sectors and attracting global investments. The creation of an independent financial watchdog in Pakistan would also stimulate private sector growth and foreign investments. It would allow investors to evaluate corporate prospects in Pakistan and make informed decisions resulting in lower cost of

"It is high time that the government should seriously think of establishing an autonomous 'Financial Reporting Council', independent from accounting profession to uphold the quality and standard of financial reporting in Pakistan and to safeguard the interests of all the stakeholders, including the business, trade, industry, professionals and the public at large" capital and better allocation of resources. It would also facilitate integration into global financial and capital markets and strengthen country's financial architecture and reduce the risk of financial market crisis and its negative economic impact. Above all, with the opening up of Pakistani market in backdrop of CPEC, the proposed FRC would definitely help build market confidence in the value and quality of audit and promote sound audit practice and regulations.

Failure of Self-Regulation Model in Audit Profession

Auditing has always been a self-regulated profession, however, emergence of corporate failures and scandals in recent past has raised question about the validity and suitability of self-regulation in auditing not only in advance economies, but also in emerging economies in South Asia, including Pakistan, where the auditors have to perform their duties in a very complex risk management environment.

The self-regulation model is now being challenged as it has not resulted in any significant improvement in the audit quality due to absence of any penal provisions against noncompliance of financial reporting lapses and submission of incorrect or false audit report to regulators. At the professional bodies' level, there are inherent weaknesses as far as disciplining and enforcement is concerned. It is in this backdrop that to improve overall audit quality and restore public confidence, many countries have either established or intending to create some kind of 'super regulatory or oversight bodies' to frame accounting and auditing standards and regulate the performance of auditors in the larger public interest.

Many examples can be cited from around the globe where outside regulation of auditing profession have been introduced and working effectively, prominent among them are the Financial Reporting Council (FRC) of UK; Public Company Accounting Oversight Board (PCAOB) of USA; Financial Reporting Council of Nigeria; Financial Reporting Council of Mauritius; Financial Reporting Council of Australia; Financial Services Agency of Japan; Abu Dhabi Accountability Authority (ADAA); Botswana Accounting Oversight Authority; and Sri Lanka Accounting and Auditing Standards Monitoring Board (SLAASMB).

In the context of South Asia, we observe that Sri Lanka is pioneer in taking the timely and prudent initiative of establishing an independent financial reporting body way back in 1995. The Monitory Board is responsible for monitoring compliance of accounting and auditing standards in relation to financial statements as specified in the Act and is also empowered to impose fine. In case of non-compliance, the Courts in Sri Lanka may impose penalties extending upto five years imprisonment. The Chairman of the Monitoring Board is a nominee of the Governor, Central Bank of Sri Lanka whereas Board's composition is diversified i.e. ex-officio members including Registrar General of Companies; Commissioner General, Department of Inland Revenue and DG Securities and Exchange Commission of Sri Lanka; whereas the nominees are from the Institute of Chartered Accountants of Sri Lanka (ICASL); CIMA UK (Sri Lanka Division); Bar Association of Sri Lanka; Ceylon Chamber of Commerce and Sri Lanka Banks Association.

In Bangladesh, a 'Financial Reporting Act, 2015' was passed by the national Parliament on 6th September 2016. As per latest information available, the Finance Minister of Bangladesh has already approved the formation of a high-powered Financial Reporting Council which is expected to start functioning soon after vetting by the Ministry of Law of Bangladesh. The Financial Reporting Council shall act as the sole watchdog to oversee work of auditors and monitor financial matters of various government, autonomous and non-government institutions. The Council will consist of twelve members representing Ministry of Finance; Ministry of Commerce; Institute of Chartered Accountants; Institute of Cost and Management Accountants; National Board of Revenue; Chambers of Commerce and Bangladesh Bank.

In India, the government is all set to establish a new regulatory body by the name and title of 'National Financial Regulatory Authority (NFRA)' which would oversee the quality of service of professionals and monitoring and enforcing compliance with accounting standards. The proposed NFRA would have same powers as vested with a civil court under the Code of Civil Procedure. It shall have power to investigate matters of professional misconduct by CA's or firms and such investigation could be not be challenged. The formation of an independent Financial Reporting Council was realized in 2012 when the Standing Committee on Finance of Parliament proposed the need for a quasi-regulatory body for supervising the quality of audit in India. Accordingly, the Indian Companies Act, 2013 incorporated this proposal under Section 132 to form a new regulatory authority with wide powers to recommend, enforce and monitor compliance of accounting standards. The Ministry of Corporate Affairs of India has also issued Rules that will give NFRA an overarching role to regulate chartered accountants and set standards.

This new provision in the Indian Corporate Act was strongly opposed by the concerned professional body which is presently charged with developing of accounting and auditing standards but the Indian government is quite adamant on its stance of forming this independent regulatory body in the larger public interest. Evidently, this move was also supported by the sane members of the chartered accountants community such as Mr. Yogesh Sharma, Partner, Grant Thornton India LLP [one of big four firms] who is of the viewpoint that introduction of NFRA is in line with the international practice of having an independent regulator, which monitors the auditors.

In one of his presentations made on 20th September 2013 after the promulgation of Indian Companies Act, 2013, he said that "the constitution of the NFRA and powers being conferred to NFRA will bring in a significant change to the current structure of standard setting regulations". There is, however, some final negotiation going on between the government and ICAI with regard to jurisdiction of NFRA and its representation. With the formation of NFRA, significant regulatory powers of ICAI will be shifted to new super regulator and ICAI's role would be limited to holding exams for CAs and recommending accounting standards to the new authority.

Abysmal Quality of Audit Practice in Pakistan

The abysmal quality of audit practice and weak oversight by the financial regulator merits immediate action by the government to bring radical changes in the existing legal financial audit and reporting framework of the country. The pathetic performance of both the auditors and regulator has put the interests of all the stakeholders at stake. The existing monitoring system lacks stringent mechanism to check malpractice by audit firms to compromise on audit quality. Due to lack of transparency and compromising attitude of regulators, the investors, audit firms and accounting bodies are being denied a level playing field. Recently, the default by statutory auditors of brokerage houses is an ample proof of deteriorating quality of audit. It has been observed that few auditing firms were acting as statutory auditors for large number of stock brokers. This necessitates critical assessment of role of auditors and stringent legal action by the regulator against such auditing firms.

"The existing monitoring system lacks stringent mechanism to check malpractice by audit firms to compromise on audit quality. Due to lack of transparency and compromising attitude of regulators, the investors, audit firms and accounting bodies are being denied a level playing field".

Another glaring example of pathetic audit practice in Pakistan is that many statutory auditors or auditing firms, in order to avoid comprehensive audit, normally adopts the option of 'test checking' in which only few transactions are selected at random from a large number of transactions, for doing audit. In the auditing profession, this test checking is considered a substitute for detailed checking of company records and if these are found to be correct, the auditor 'presumes' that all other transactions would also be correct. This sort of assumption is altogether contrary to norms of justice and transparency as the choice for adoption of testing methods is fully dependent at the discretion of the auditor. This creates complacency on part of auditor and provides avenue or excuse for them to ignore investigation aspect in even those transactions which seem to be requiring attention for detailed checking.

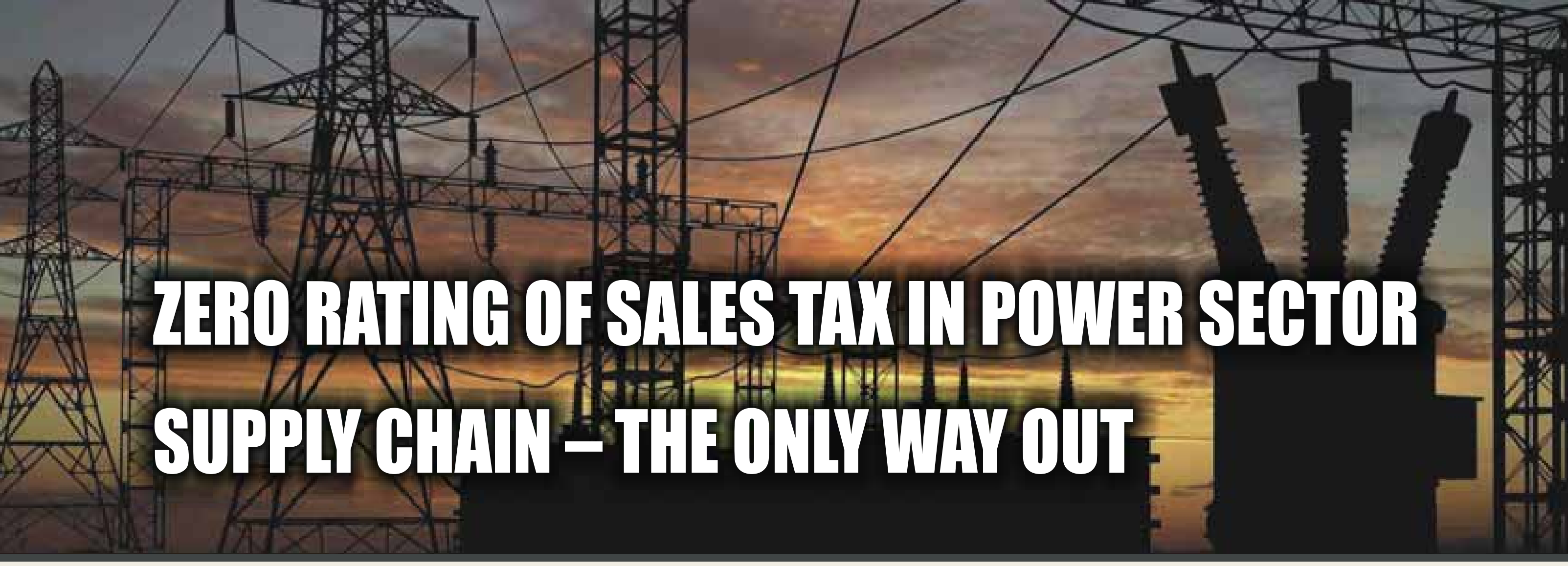
Accordingly, the audit judgment and report given by the auditor is based on an overall opinion acquired and in many cases it is qualified. In the absence of any internal check and control mechanism, the lapses or negligence on the part of statutory auditors could results in dangerous consequences for corporate sector. In this backdrop, it is absolutely important that the regulator should scrutinize 'test checks' in audit programs to improve the quality of statutory audit in Pakistan. Self regulation

There is need for promoting the audit quality to enhance public confidence in audit process and financial reporting. Quite unfortunately, the audit of financial statements by statutory auditors has become an annual ritual and over the years the term 'audit report' has lost its credibility as it merely represents an 'Accounting Compliance Report'. The auditors focus mostly on compliance of international standards on accounting, reporting and audit, which has limited application in Pakistan. There is no reporting by auditors on the mismanagement, frauds or leakages of funds.

"The auditors should have powers and mechanism to report significant matters, including fraud and mismanagement to the SECP directly".

While the proposed Financial Reporting Council comes into legal effect and starts functioning in Pakistan, the existing financial regulator must take the initiative to make reporting on fraud and mismanagement an integral part of audit report by making necessary amendments in the Companies' Law. The auditors should have powers and mechanism to report significant matters, including fraud and mismanagement to the SECP directly. The mechanism for appointment of statutory auditors should also be made transparent and more independent of the majority shareholders.

Further, in order to safeguard the interests of all investors and stakeholders, the regulator must also make it legal binding on companies to have credible cost-based and operational audits for better performance. It is to be realized that financial audit alone would not suffice as it just reports compliance with the so-called regulatory requirements. By credible audit, I mean that financial audit should be reliable and credible and may lead to good governance; better performance and improved service delivery of public and private sector entities to general public and the national economy.



ZERO RATING OF SALES TAX IN POWER SECTOR SUPPLY CHAIN – THE ONLY WAY OUT

Syed Ahmed Ashraf, FCMA

The Value Added Tax (VAT) was introduced some fifty years ago in France. It was rarely heard outside of France at that time, but presently in over 120 countries, 70% of the population is covered by this form of taxation. Now it raises about 20 percent of the world's tax revenue, and affects about 4 billion people.

There are arguments in favor of and against the VAT. Those in favour make the argument that a VAT system encourages payment of taxes and discourages attempts to avoid proper tax payments, because the businesses that have previously paid the VAT are encouraged to collect the tax from consumers, as this is the only way for them to obtain credit (input tax) for the VAT they have paid for production cost.

Critics of the VAT maintain that it is costlier to implement, more complex and the evasion can be widespread if the general public does not understand and does not give its wholehearted support. The strongest argument against the VAT is that it is a regressive tax the burden of which heavily falls on the low income individuals who spend major part of their income on necessities. The arguments of the critics of VAT are very much a reality for Pakistan VAT system in general, but are very forceful and valid when we see them in the perspective of the VAT in the power sector supply chain (PSSC). The VAT in PSSC is discussed in the later part of this proposal with the intention to point out the flaws and inefficiencies of the system.

Before that and for better understanding of the issue it is desirable to explain (i) the difference between the VAT and Sales Tax (ST) and (ii) the operation of VAT system.

Difference between VAT and Sales Tax:

The distinction between the VAT and ST is that the latter is only collected once from the consumer at the final point of sales or purchase which essentially is the retail level.

While that in VAT, the same is collected at several points in chain of production and is invoice-based. At each stage when the value is added and the sale is made the seller in the production chain charges a VAT tax to the buyer, which it then remits to the government.

In Pakistan the Sales Tax Act 1990(Act) gives the impression that it falls in the category of ST, which is not so. From the very beginning ST was introduced as a VAT. However ironically over the years various amendments are made in such way that it has become a hybrid of VAT and ST. In its present form it is neither a horse nor a camel. For the sake of generality the term VAT is used in the proposal referring it to the ST.

From the very beginning ST was introduced as a VAT. However ironically over the years various amendments are made in such way that it has become a hybrid of VAT and ST. In its present form it is neither a horse nor a camel.

The Operation of VAT System:

In order to explain the mechanism of VAT three stages of production is assumed and explained. With a 17% VAT at each of the three stages of production. The following table illustrate the generation of VAT at each stage at the net which goes to the government.

It can be seen from the Table that at each stage the VAT charged @ 17% is Rs. 5.10, Rs. 11.90 and Rs. 17 and a total of Rs.34. The VAT charged at first and second stage of Rs. 5.10 and 11.90 a total of Rs. 17 becomes the input tax adjustment at second and third stages. Thus the net to government is RS. 17 (Rs. 34- Rs. 17) which is the same as charged at the final stage from the end consumer.

The basic assumption behind the VAT model as illustrated is that there is no missing invoice or supply that is not invoiced in the chain. That the VAT is accounted for and paid at each stage.

EXAMPLE OF VALUE ADDED TAX IN NORMAL BUSINESS

	Fuel Suppliers	Power Producers	Distribution Companies	Total
PURCHASES	30.00	30.00	70.00	130.00
VALUE ADDITION		40.00	30.00	70.00
SALES	30.00	70.00	100.00	200.00
SALES TAX RATE	0.17	0.17	0.17	0.17
OUTPUT TAX	5.10	11.90	17.00	34.00
INPUT TAX		5.10	11.90	17.00
NET TO GOVERNMENT	5.10	6.80	5.10	17.00

> The basic assumption behind the VAT model as illustrated is that there is no missing invoice or supply that is not invoiced in the chain. That the VAT is accounted for and paid at each stage.

Implication of VAT in Power Sector:

Generally in our economy and specifically in the power sector the situation is not according to the basic assumptions of the VAT system. The VAT system in PSSC is full of inconsistencies, hence, giving rise to huge refunds standing at different stages of the PSSC. Additionally the government gets a very meagre amount form the whole PSSC. For example the general consumer of power pay VAT at 17% on their billed amount, which in normal course of VAT system should go to the government. However in actual fact the government is getting the net revenue of less than 3% in the PSSC. This figure of 3% is authenticated by the figures and calculation in the last section of this proposal.

Interestingly the whole PSSC from supply of fuel to distribution of power is the monopoly of the Federal Government. The Federal Government is for major part the fuel supplier, the buyer of power and the distributor of power.

> For example the general consumer of power pay VAT at 17% on their billed amount, which in normal course of VAT system should go to the government. However in actual fact the government is getting the net revenue of less than 3% in the PSSC.

The PSSC has the following four major segments:

1) Supply of fuel by oil marketing and gas companies for power generation.
2) Supply of generated power to transmission company.
3) Supply of purchased power by the transmission company to distribution companies.
4) Supply of power to Consumers by distribution companies.

The government monopoly ends from the fourth stage onward i.e. the supply of power to consumers by distribution companies. From this stage onward there are variety of consumers including the industrial consumer who use power for further value addition. The impact of VAT at four stages of PSSC has been discussed as below:

1) First stage of VAT; Supply of Fuel for Power Generation.

The generation of power in Pakistan is a mix of hydel, furnace oil, diesel, gas, coal, nuclear and wind. For VAT purposes the hydel and the wind have no fuel cost and the rest i.e. furnace oil, diesel, gas and coal are subject to VAT at import and or local stage of supply.

According the National Electricity Power Regulatory Authority (NEPRA) State of Energy Report 2015 (the Report) the generation mix from various sources on the average of for five years is hydel 30%, gas 35%, FO/HSD 29%, nuclear 5% and others 1%. The hydel and wind which are not chargeable to VAT (as they have no value) constitute around 31% of total generation. This within the meaning of VAT system means that the 31% of fuel supply is zero rated. Due to this factor in the fuel mix the effective VAT on the first stage decreases by the same percentage and comes to around 11.73%.

2) Second Stage; Generation of Power and Supply of Power to Transmission Company.

As the 31% of generation is from hydel &wind and the rest is fuel based, therefore the input of VAT at generation stage is a split. At this stage the companies having fuel cost (furnace, diesel, and gas) have higher inputs rate while the companies having no fuel cost (hydel and wind) are having no input tax credit. Due to the power tariff structure the companies with no fuel have also lesser value of supply hence the advantage of lesser input tax credit is counter balanced by the lesser value of supply.

Additionally the tariff of generation companies is so structured by the NEPRA that it is a sum of energy charge and capacity charge. The energy charge consist of fuel plus conversion charges (O & M) and the capacity charge consist of fixed charges, interest, return on equity and some other factors. The value of supply by to generation companies consists of these two components but paid separately as a part of cost of supply of energy. In the energy charge the fuel cost is a pass through item, meaning thereby that the generation companies are reimbursed to the extent of fuel usage on standard usage. Accordingly their value addition is limited to the conversion (O& M) charges.

The fiction of VAT at this stage is that capacity charge portion of the tariff is not deemed as a component of the value of supply

The fiction of VAT at this stage is that capacity charge portion of the tariff is not deemed as a component of the value of supply in terms of the Chapter III of the Sales Tax Special Procedure Rules, 2007(special procedure for collection and payment of sales tax on electric power). In the words of VAT system the Capacity charge in the value of supply by generation companies is zero rated. The un-official data of the purchase and sale of power of Central Power Purchase Company (CPPA) which is the conduit entity between the generation and distribution companies shows that 39% of the value of power of generation companies consists of capacity charge and the rest is energy charge(fuel and O & M), which translates into the fact that the36 % of value of power supplied by generation companies is zero rated.

The impact of this zero rating of capacity charge at this stage is synonym to the zero rating of hydel in fuel components i.e. bringing the effective VAT down from 17 % to10 %. This deviation coupled with the deviation at first stage of VAT further add to the narrowing of the gap of input and output.

3) Third Stage: Transmission Company Supplying Purchased Power to Distribution Companies:

The third stage in the PSSC is just a channel. The transmission company is just a conduit entity and only acts as an intermediary between the distribution companies and generating companies. Probably this channel was created for strategic reasons. For its services as intermediary the transmission company charges System of Usage Charges (UOSC) which is the cost of transporting bulk electricity from power generators to power distributors. In commercial language the transmission company is a wholesaler. The impact of VAT at this stage is that transmission company receives the supply of power from generation companies on which the VAT is charged at 17% but as discussed earlier on energy portion only and capacity portion which constitutes 39% of value of supply is not chargeable to VAT(zero rated).

The distribution company add UOSC and supply power to distribution companies with the same mechanism i.e. charging VAT on energy plus UOSC and zero rating capacity. The UOSC which is the value addition at this stage are very nominal i.e. around Rs.0.30 /kWh or 3 % of cost. Sowing that value addition at this stage is also very nominal. Hence the impact of this mechanism on VAT is the same as that of the second stage; thatis the effective VAT rate on supply comes to around 12% instead of normal 17% as illustrated: The column 3 shows that the VAT standard rate is 17% in the hypothetical situation, however its effective rate comes down to around 10% column 5 by still not including the capacity charge in the value of supply.

The deviation (i.e. the difference in effective and normal VAT) from the normal VAT system hypothesis in the first two rather three stages of supply chain is a major cause of problem for the PSSC regarding VAT output/input and refunds.

However for distribution companies the difference in effective VAT rate provides a shield for counter balancing the output tax caused by heavy line losses. Further discussion on this in last part of this proposal.

4) Fourth stage; Distribution Companies supplying purchased power to end consumers

At this stage of the PSSC the monopoly of the government ends. The power goes to end consumers and to the industrial consumers who use the power to do further value addition and are entitled to claim input tax credit. According to NEPRA report 2015, 50% of the power is consumed by domestic consumers, 31% by industrial consumers and the rest by others.

Up to this point what was elaborated earlier can be re-capitulated as follows:

1) The fuel mix of generation companies contains around 40% hydel, which is not chargeable to VAT (zero rated).
2) The 40 % of capacity charge of generation companies is also not chargeable to VAT (zero rated)
3) The transmission company makes minimal value addition around Rs. 0.30 and supply the power to Distribution Company with charging VAT on energy price plus UOSC and the capacity charge at this point also escapes VAT.
4) Thus at three stages the effective VAT is around 11% instead of normal 17%.

At last stage i.e. the distribution stage of PSSC, the amount of capacity charge which does not form the part of the value of supply at production and transmission stage becomes by fiction of law the part of the value of supply of distribution companies

At last age i.e. the distribution stage of PSSC, the amount of capacity charge which does not form the part of the value of supply at production and transmission stage becomes by fiction of law the part of the value of supply of distribution companies. Although it is debatable as how if one element at two stages in the chain do not form the value of supply, becomes a value of supply at third stage. But that debate can be left aside at this point. The issues of VAT at distribution stage are very multifaceted. According to the unofficial figures of 2014-15, the nine distribution companies:

1) Have average line losses of around 19%.
2) Have units billed which is less than units purchase.
3) Have units billed value which is less than unit purchase price.
4) Are not charged VAT for payment of capacity purchase price by the transmission company.
5) Charge VAT from their consumers on the value which includes capacity purchase price.
6) Supply power to certain sectors at zero rate.

Depending on the situation of a distribution company the net VAT paid by the distribution companies is most of the time negative i.e. refunds or is very minimal of the sales price. To back this statement with data, the following table is constructed form the un-official figures of 2014-15.

Distribution Companies Sales, Purchase and VAT Data FY 2014-15(un-official)

	Column A	Column B	Column C
	Purchased	Sold	Difference (A-B)
1 Units Purchased Mln. kWh	89,386	72,644	(16,741)
2 Power Purchase/Sale Price (Rs. Mln.)	837,343	770,510	(66,833)
3 Per UnitSale price (2B/1b)(Rs.)		10.61	
4 Per unit Cost for units sold (2B/1A)		11.52	(0.91)
5 VAT (Rupees Mln.) Net to Government	95,248	108,065	12,817
6 Purchase Effective VAT % (5A/2A)x100	11.38%		
7 Sale Effective VAT % (5A/2B)x100		14.03%	
8 Net to Government VAT % (5C/2B)x100			1.66%
9 Net to Government(5C/2A)(Rs.)			0.17

The crux of the system of whole PSSC is illustrated in Table. This is the bitter point of VAT to digest in the whole of PSSC. The VAT figures in the system of PSSC runs into billions of rupees in the intermediaries stages, but comes down to just meagre a net collection of Rs.12, 817million which is 1.66 % of the sales value of distribution companies because of the following:

1) The units sold by distribution companies are 16,741 M. kWh less than the units purchased.
2) The sale value is Rs. 66,833 Mln less than the purchase price.
3) The distribution companies receive power price in which capacity charge OF 36% is zero rated, their input tax has an effective rate of 12%.
4) The effective output rate of distribution companies is 14% as they have subsidies and zero rated supplies.
5) The net VAT paid to government is Rs. 12,817 Mln. Which is just 1.66 % of the sales price of distribution companies. (It is important to note that the general consumer pays 17% VAT on sales price)
6) The net per unit VAT paid to government is Rs. 0.17 per unit as compared to Rs. 1.80 paid by the general public.

The Impact of Difference in Effective VAT Rate

The difference in effective tax rate of input and output for distribution companies is a blessing for them. As is illustrated in the Table the effective VAT rate charged to distribution companies by Transmission Company is 11.38%.While the VAT charged by the distribution companies has the effective tax rate of 14.03 % due to the various factors including the zero rated supply to various industrial sectors.

All other things remaining the same this differential is saving the distribution companies from going into cash starvation. The distribution companies includes the capacity charge in the value of supply thus increasing the value addition which they have not done.

The Dark Side:

The dark side, rather very dark side of that what is discussed in preceding paragraph about difference in effective tax rate is that if for any reason the effective tax rates become the same i.e. 17 % (rather it should have been so) all the distribution companies due to their line losses and lesser effective tax rate will be in trouble. The table below depicts the seriousness of the issue in which the effective VAT rate and capacity charge are uniform for two stages i.e. the transmission and distribution with the units and value of the data for the year 2014-15.

	Column A	Column B	Column C
	Purchased	Sold	Difference (A-B)
1 Units Purchased Mln. kWh	89,386	72,644	(16,741)
2 Power Purchase/Sale Price (Rs. Mln.)	837,343	770,510	(66,833)
3 VAT at Uniform 17%	142,348	130,987	(11,362)

In the above hypothetical situation with same effective VAT rate of 17% and inclusion of capacity charge in the value of supply by the transmission company the output tax of the distribution companies is less than the input tax. Consequently the distribution companies has VAT as refundable. Hypothetically, therefore the net paid to the government is also negative. With the assumption of uniform effective tax rate and the unit and value of distribution being less than the purchase the net paid to government will always be a negative figure. Here it is an assumption but in fact it is a reality in the PSSC. It is an illusion that the government is getting any VAT from the PSSC and needs a thoughtful consideration. This is the red signal for the whole VAT system of PSSC.

Proposal

After elaborating at length the whole system in the PSSC with its complexities and shortcomings and backing it with data. The only possible and logical way-out from the above discussion and which seems workable within the system without causing loss of revenue to the government is that the whole chain of the power sector be made zero rated and the average net VAT which the government collects from the chain may be charged as (a) per unit or (b) as a percentage of sales by the distribution companies and be collected form the consumer as Sales Tax The illustrated figure as per table F below is 2.5% but if we also take into account the value addition in the intermediaries stages also it may change but according to rough estimates based on tariff structure it will not be more than 5% of sale value of distribution companies.

Benefits of the Proposal:

The first benefit is that the government can collect net more revenue than in the present system without increasing the cost per unit. If the VAT in the supply chain is zero rated and the end consumer is suggested to pay 2.5% of the value of supply, then consequently the unit cost for general public will be decreased by the reduction in VAT.

The comparative of the present and proposed is shown in the following table.

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	CURRENT POSITION	PROPOSED SCENARIO
Units Sold (M. kWh)	72,644	72,644
Power Purchase Value (Rs.Mln.)	770,510	770,510
Per Unit Sale price (A/B)(Rs.)	10.61	10.61
VAT % 14.03% 2.5 %	14.03%	2.5 %
Per Unit VAT (Rs) 1.48	1.48	0.26
Per Unit Sale Price (C+ E)	12.09	10.87
Output Tax (B x D)(Rs. Mln)	108,065	19,265
Input Tax (Rupees Mln)	95,248)	
Net to Government (G-H)(Rs. Mln)	12,817	19,265
Percentage To Sales (I/B)	1.66%	2.5%

In the above proposed scenario the VAT per unit charged by distribution companies will comes down from Rs. 1.48 per unit to Rs. 0.26 per unit, while the effective VAT per unit for domestic consumers will come down from Rs. 1.80(17% of Rs.10.61) to Rs. 0.42(2.5% of Rs. 10.61). Thus giving a relief of Rs. 1.53 per unit to them. This translates into Rs. 55 billion on the basis of units sold to general consumers. This amount and is equal to 50% of the subsidy given by the government to various sectors.

It is also proposed that the government can use this benefit partially to reduce the subsidy and partially togive relief to domestic consumers.

The Second Benefit is that the receivables of the distribution companies will be reduced by the percentage reduction in VAT. The NEPRA Report of 2015 mentioned that the receivables of the distribution companies stands at whopping Rs. 613 billion. In these receivables is the element of 17% of VAT which means that actual amount of receivables distribution companies is around Rs. 524 billion and the balance Rs. 89 billion VAT, and is government portion. If the VAT is reduced to 2.5% the receivables will be Rs. 537 billion including VAT of Rs. 13 billion. The reduction of Rs. 76billion in receivables will be on account of VAT. Ironically the distributions companies have to deposit the amount of VAT to government before they actually collects it and fact are carrying this burden of receivables on behalf of the government.

Interestingly because of the NFC award the shares of revenue of federation out of VAT is not more than 20% of net collection of around Rs. 12 billion or just Rs. 2.4 billion. This net collection of Rs. 2.4 billion if definitely less than the cost of collection, because enormous resources are deployed at each stage of the supply chain of PSSC and at FBR for compliance and enforcement of VAT.

The third benefit of the proposal is that the circular debt will also be reduced as the receivables will go down by 17% at each stage as the VAT value will be zero rated in the intermediaries' stages. This will provide a relief for the cash starved fuel suppliers as well as others in the chain like IPP'. The government which is over burden with circular debt of the power sector will have some sigh of relief.

The fourth benefit of the proposal is that the net payable of the consumers who use power for value addition will increase, as they will have less input claims. The hidden advantage will be that the input on auxiliary power used by such consumer will also be curtailed.

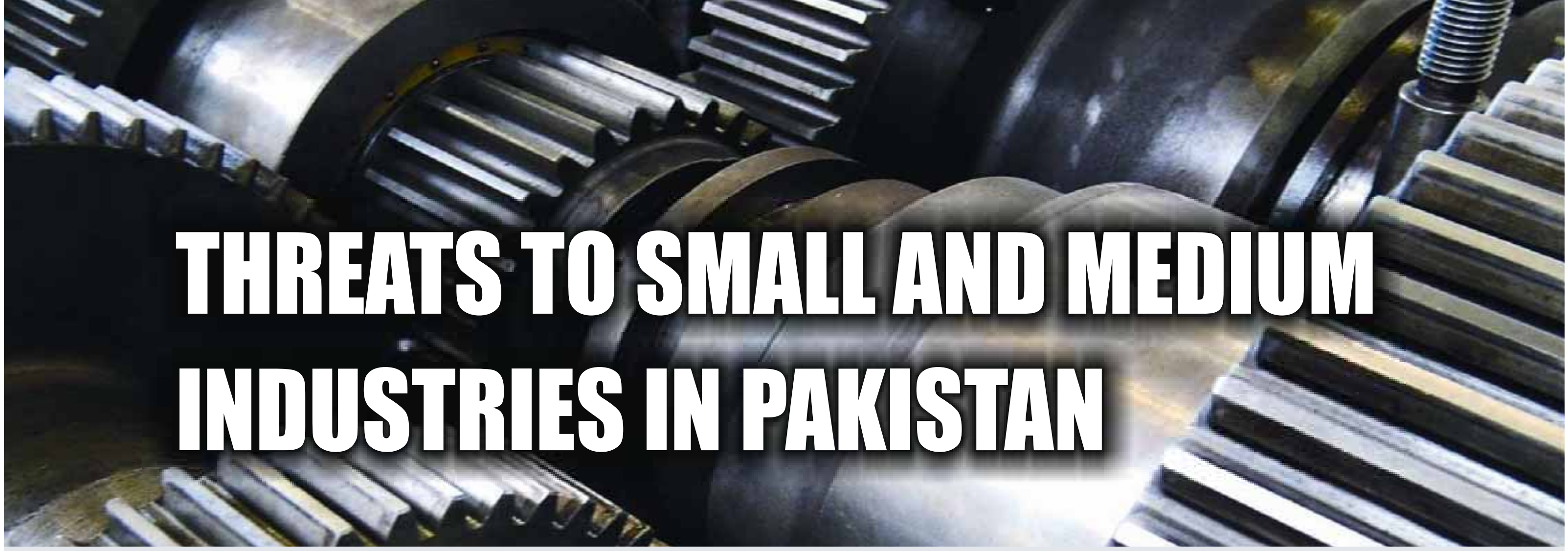
Last but not the least benefit is that this proposal will also reduce the financial expenses of the whole PSSC. It is pertinent to mention that some critique will say that the zero rating of supply chain and reduction of VAT at distribution level will discourage the documentation of economy. For this it may be stated that the supply chain of power sector is highly regulated sector where each pint of oil and each unit of energy is fully documented. Secondly the zero rating also require the full documentation and there is no chance of any missing record.

Note:

1) The above working and hypothesis is near to actual except that the value addition (input/put difference) of intermediaries stage has be ignored which can be taken into account at the time of making the final decision.

2) Further that the sales tax being charged and collected through electricity bills other than the normal rate of 17% is not taken into account due to the non-availability of the figures.

3) This proposal is the intellectual property of Syed Ahmad Ashraf(0336-4851701)



THREATS TO SMALL AND MEDIUM INDUSTRIES IN PAKISTAN

Saeed Ahmed Siddiqui

The economy of Pakistan has greatly been shocked by global slowdown and down turn and small and medium industrial units have been affected much as compared to corporate sector which has better access to the financial institutions. Banks in Pakistan, due to involvement of huge finances, are more interested in corporate customers and this is the reason that the government also assigns more importance to corporate entities. On the contrary, small and medium business and industrial units depend on corporate sector to a greater extent and have weak shock observers to bear the severe shocks of high cost of production.

Here, we highlight some problems being faced by small and medium manufacturing units coupled with the entire industrial sector of Pakistan:

1. Financial Problem: The existing Financial Classification Criteria of the State Bank of Pakistan, in the light of precarious condition of small and medium industrial entities, needs to be revised. The industries which are victim of crisis and global downturn should be provided financial relief. The SME Prudential regulation, with the joint consultation of representatives of commerce and industries as well as the government, should be reviewed so that industrial sector may be relieved from the deep crisis.

2. Energy Crisis: Exemplary electricity load-shading and regular disconnection in Sui gas supply is the biggest problem of small and medium industrial units. Small and medium manufacturing units, like those with the corporate sector, don't possess alternative resources like their own power generating houses. The level of unemployment has rapidly been increased to energy crisis in Pakistan. Majority of work force/labor work in most of the sectors on daily wage basis who have been deprived even two times meal. For protection and survival of small and medium industrial entities, the SBP should take issue to the government soon so that effective measure may be taken to increase the power generating resources and to find the new resources of energy.

3. High Cost of Inputs: The trend of ever increasing input cost has not left the small and medium industrial sector to compete in local as well as international markets. As consequence of increase in input cost like electricity and natural gas cost, small and medium entities are not able to sell their products on increased prices or to complete in the markets. On the other hand, smuggled and imported goods are available comparatively on the much lower prices. For instance, Chinese products are available in the entire county at lower prices. The Chinese products have today become a very tough challenge. Although policy makers are fully

aware of this problems but they don't turn their ears to it. The SBP, through government, should reach to the policy makers demanding the action and policy to come out this problem.

4. Socio-political Unrest: One of the main and severe problem of small and medium industrial units is persistent political crisis and social unrest. Industry, in the environment of fear and frustration, not only development but the survival is also impossible.

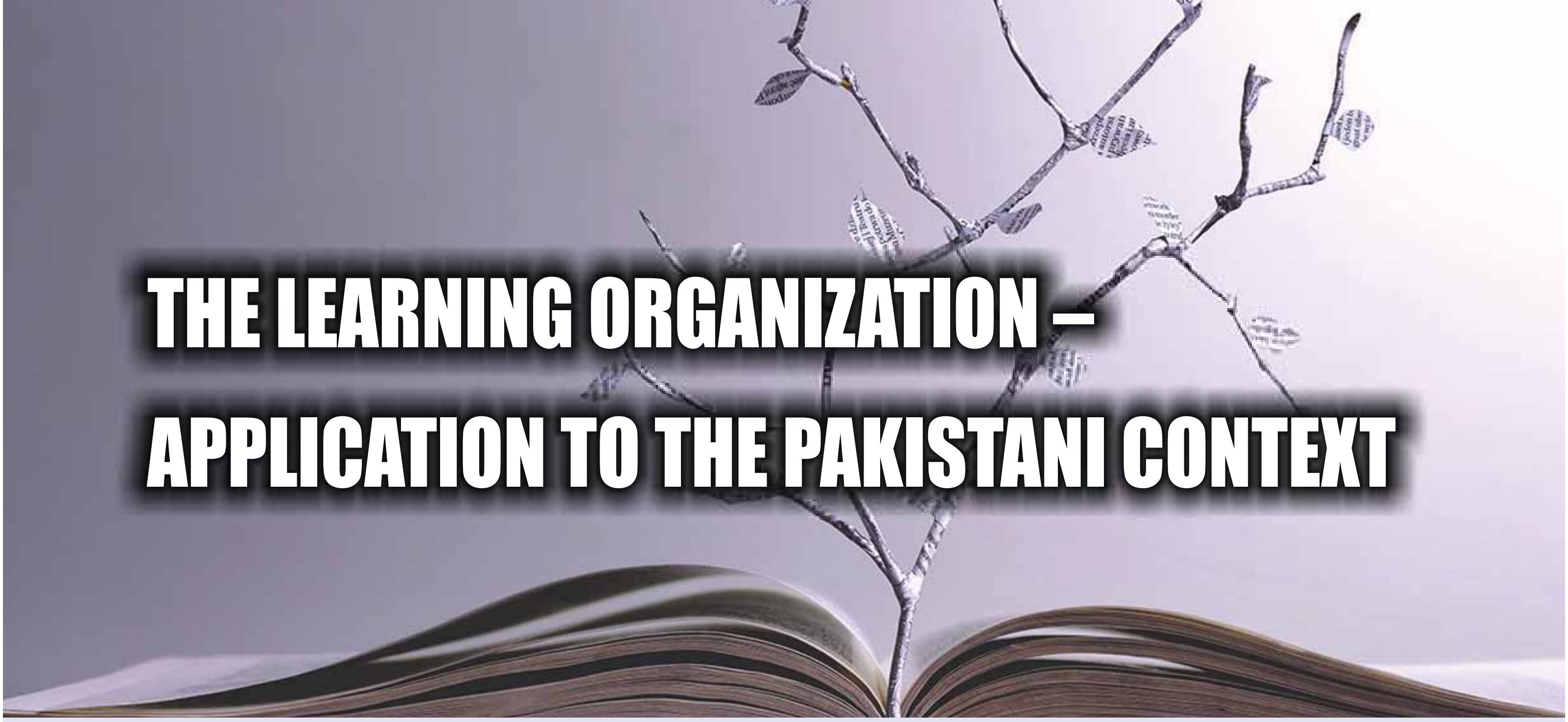
5.Textile Crisis: Textile is the biggest and important industry of Pakistan which is being affected through global recession and down turn. Our textile industry is heavily export oriented and its sale is being affected badly in the international market. Consequently, the manufacturers of goods and services to be supplied to the exporters have been suffering from heavy losses. Such providers who supply directly to the exporters are generally operating small or medium industrial units therefore they live on the mercy of export houses. Power loom sector is the glaring example of this phenomenon which are being affected by these direct operators because the majority of these direct operators are the part and parcel join the corporate sector. According to the business and trade norms, without documentary arrangements, small suppliers of gray cloth supply to the exporters directly to the exporters. They carry business on 'Kachchi Parchi' basis having no security of their debt due on exporters. The State Bank of Pakistan, abolishing this system, should adopt the documented system.

6. Other Problems of Textile Sector: Textile weaving sector, in addition to above, has been facing other problems also. Small and medium weaving units in the past, for their survival in the market and complying their orders, supplied at prices much less than high cost incurred. Presently, they are not capable to continue their weaving process because price offered is extremely less than the cost of production. The main reason of this situation is high price of electricity in Pakistan. As consequence of these causes, labor crisis is becoming more serious day by day. For instance, the factory which used to run 24 hours now is running hardly for 12 hours only. Consequently, production is decreasing but permanent and temporary labor cost remains unchanged. Wages, to keep the worker on roll, are bound to pay even during shut down period. In other words, wages are paid at zero production.

7. Rapid Changes in Policies: Pakistan is a country where government policies change rapidly in weeks and days. The objective of Past monetary policy was the expansion in credit. All loans were issued on the nominal rates. A 'quick liberal' atmosphere was created for lending and use of credit was not monitored at banks level. Not only this, but SBP also continued to adopt soft behavior in this respect. In the near past, we observed vertical shift in the monetary policy of SBP. KIBOR rates, coupled with the increase in banks, were enhanced many fold. The loans acquired at low rates were invested in real estates and so the objective of finance was totally failed. Presently, such type of industrial and business entities are facing deep crisis due to two prominent reasons; first, slump is being experienced in real estate sector and second, mark-up rate of banks is fairly high.

The State Bank of Pakistan, for keeping out the investors from this vicious circle, will have to sought out a device coordinating with the representatives of small and medium industrial entities.

About the Author: The writer is the most senior faculty member of ICMA Pakistan and teaching 'economics' since last forty years at Karachi Campus.



THE LEARNING ORGANIZATION – APPLICATION TO THE PAKISTANI CONTEXT

Muhammad Rashid Shah, ACMA

Peter Senge has been credited as the pioneer of the learning organization (Senge, 2006). A learning organization has been characterised as one where learning is facilitated. Therefore, in a learning organization, employees work towards creating, acquiring and transferring knowledge and skills, which in turn helps their organization to respond to the dynamic changes in the marketplace (Garvin et al., 2008).

The concept of a learning organization is based on the pillars of organization, people, knowledge and technology, all of which uphold learning in the organization. Although this concept has been discussed widely by academicians in the developed countries, the effect of the learning organization has yet to be felt in the Pakistani marketplace. Multinational companies are compelled to follow the regional strategies that direct them, and in this sense are likely to adapt principles of a learning organization. However, the focus of this paper is on the local Pakistani organizations and how these companies have adopted the principles of the learning organization. The paper will highlight both Family Owned Enterprises and other private sector companies in outlining how these companies can adapt these principles to their business practices.

It has been noted that 77 per cent of the commercial banking sector and nearly 100 per cent of the four main industries of Pakistan sugar, cement, automobile, and fertiliser belong to the private sector (Asian Development Bank, 2008). But the sector is not very robust as business stagnation is commonplace, and many private sector companies especially family-owned enterprises, don't survive beyond the third generation of entrepreneurs (Piracha, 2012). The reasons for stagnation in business are far-ranging: experts have cited reasons for this failure as being lack of a formal structure, lack of succession-planning, organizational politics and so forth (Central Depository Committee, n.d.; Siddiqui, 2015). However, this research holds that lack of learning in the organization is the root cause of all these problems and that adherence to the principles of a learning organization can help local organizations progress. The paper seeks to apply the theory of learning organization to practice in local companies in Pakistan and discusses the practical implications of the adoption of the concept. Finally recommendations are made.

Advantages gained by a learning organization

The concept of learning organization is based on the ideology that firms should be able to proactively respond to business challenges based on their approach of continuous learning. There are many advantages in being a learning organization which can multiply the potential of local Pakistani companies manifold.

Adoption of the learning organization philosophy enables proactive response to external factors such as environment, economy, technology, politics and legislation. The political situation in the country is already volatile; however, a close study of emerging trends and historical patterns that can enable a company to formulate a strategy that can take advantage of the opportunities presented and that can circumvent the threats. For instance, the political sphere in Pakistan is dominated by two leading democratic parties which have a set of objectives and strategies that they follow. The PML-N follows a pro-industrialist stance, whereas the PPP is more closely associated with a socialist stance; therefore, businesses can prepare strategies that can enable them to respond proactively to potential changes in regulations that are expected under each party's regime.

Another advantage of a learning organization, especially in the context of Pakistan, is that it can give the firm a first mover's advantage when a company is able to rely on its knowledge base to introduce innovations in the market ahead of other players. The knowledge base serves as an organic source to tap into emerging trends and enables the firm to stay ahead of the competition. For instance, the restaurant business in the city of Karachi has many different outlets, but the trends in the businesses come mainly from imitating other businesses. To illustrate this, consider that restaurants that have Italian items on their menu have been established all over the city, with menus in different restaurants being similar, if not the city, with menus in different restaurants being similar, if not identical in design. Health food also isone significant trend that has become adapted dominantly. Customers who frequent the restaurant have similar experiences and similar foods at all the eateries. However, if a company was to adapt to the trends by studying the demands of the customers, the trends in the international markets, and the potential health issues, the response generated would be original, would be creative, and would have the potential to make the firm stand-out from the crowd.

The Learning Organization

So what is the learning organization which seems to be a panacea for Pakistani businesses? The learning organization is committed to learning and has communicated clearly to the employees and managers that learning is crucial to success. Although early theories were based on the idealists' view of an organization, later research has focused on applicability at the lowest levels of management, which is where critical organizational decisions are made (Garvin et al., 2008).

A learning organization is one where top executives carve a careful strategy that takes obstacles into account and works towards removing these obstacles so that learning can be facilitated. Moreover, careful managerial attention is paid to avoid creation of silos which can hinder transfer of information from one to the other.

The five disciplines of a learning organization are: systems thinking, personal mastery, mental models, shared vision, and team learning. Systems thinking entail management to take a holistic view of the organisation and shift from being silos oriented to being a connected organization. Personal mastery refers to people internalizing the value of continuous learning, while mental models require paradigm shifts in deeply held beliefs. Shared vision refers to need for commitment in good and bad times from the entire organization, and this is possible only through lateral communication. Team learning, as the fifth discipline refers to people in teams coming together and learning from each other (Senge, 2006).

Learning organizations can be understood better in light of an example. Snapchat is one of the latest social media platforms which allow shared media to disappear 24 hours after it was shared. The ephemeral nature of the shared media has attracted many youngsters to the platform. Being a highly responsive and adaptable organization, Snapchat has amassed a lot of popularity, and has even turned down an offer from Facebook which was worth $3billion (Yarow, 2013). The company has achieved astounding success through learning. This learning allows the company to understand its customer market and in return offer alluring services for customers. For instance, the medium uses sponsored lenses which are basically an innovative way for brands to advertise on the platform by incorporating the brand logo and symbol in the live stories posted by customers. The platform enables brands to interact closely with customers and this allows for customers to be able to play with the logo rather than simply consider it as a nuisance (Sloane, 2016).

Recommendations for Pakistan

Learning organizations rely on sound leadership in order to be established, but in the case of Pakistani organization, most firms lack visionary leadership. It was noted in a list of the hundred fastest growing companies in Pakistan, published by the All World Network, that the mean age of the 100 companies is 11 years only (Jajja, 2012). A deeper analysis shows that it is a lack of a forward-thinking approach that is preventing the organization to survive beyond the first generation. It also shows a lack of learning in the organization causing companies in Pakistan to fail to astoundingly in the second and third generations (Jajja, 2012).

The first thing that Pakistani companies need to fix is the leadership approach, and this can only come through an application of formal business education, and the creation of an awareness regarding choosing suitable successors based on merit to lead the company forward. Businesses passing down leadership from one generation to the next are likely to reach the end that most companies in Pakistan have faced over the 70 years of the country's existence. The second and main aspect that needs to be looked into for local organizations to become learning organizations is to consider the blue collar workers' suggestions, opinions and feedback when formulating business strategy. As a nation, we are highly status conscious, and there is a divide among the elite and the poor that plays a negative role in social interactions. This is the divide that prevents management from learning about what goes on at the shop floor. Toyota Motor Corporation has made this knowledge into its strength, where improvements and innovations are driven from thebottom up rather than from the top down. The company realizes that people who are doing a certain task are in a better position to improve it based on their experience rather than managers who are removed from day to day operations (Miyamoto & Nisbett, 2005).

The 'seth' culture, then, needs to be removed as it is an obstacle that prevents an organization from being connected and from being a learning focused organization. Managers and executives are not exposed to the factory floor and hence are exiled from the operations. This in turn leads to uninformed decision making that has proved detrimental to local family decision making that has proved detrimental to local family owned businesses. Therefore, companies should have a managerial training programme that requires all managers to have experience working on the factory floor, in case of industries and with customers in case of a services organization. This will help the employees to align their tasks to the overall objective of the firm in a more holistic manner and will encourage a systems thinking approach.

Conclusion

There is a lot of ground that local organizations need to cover in order to succeed in the highly dynamic and competitive international market. One of the ideologies that will help in this regard is that of a learning organization as proposed by Peter Senge. A learning organization protects itself from uncertainties by being prepared through creation and dissemination of knowledge, and this is what is needed for Pakistani companies to survive. The paper has suggested a few remedies for the development of learning organizations, but the crux of the matter is that there needs to be a shift in mind-sets of managers through committed leadership.

It is hoped that this short paper can demonstrate the viability of learning organizations for local companies, where further research and work is needed in order to establish the importance of continuous learning in the business world.

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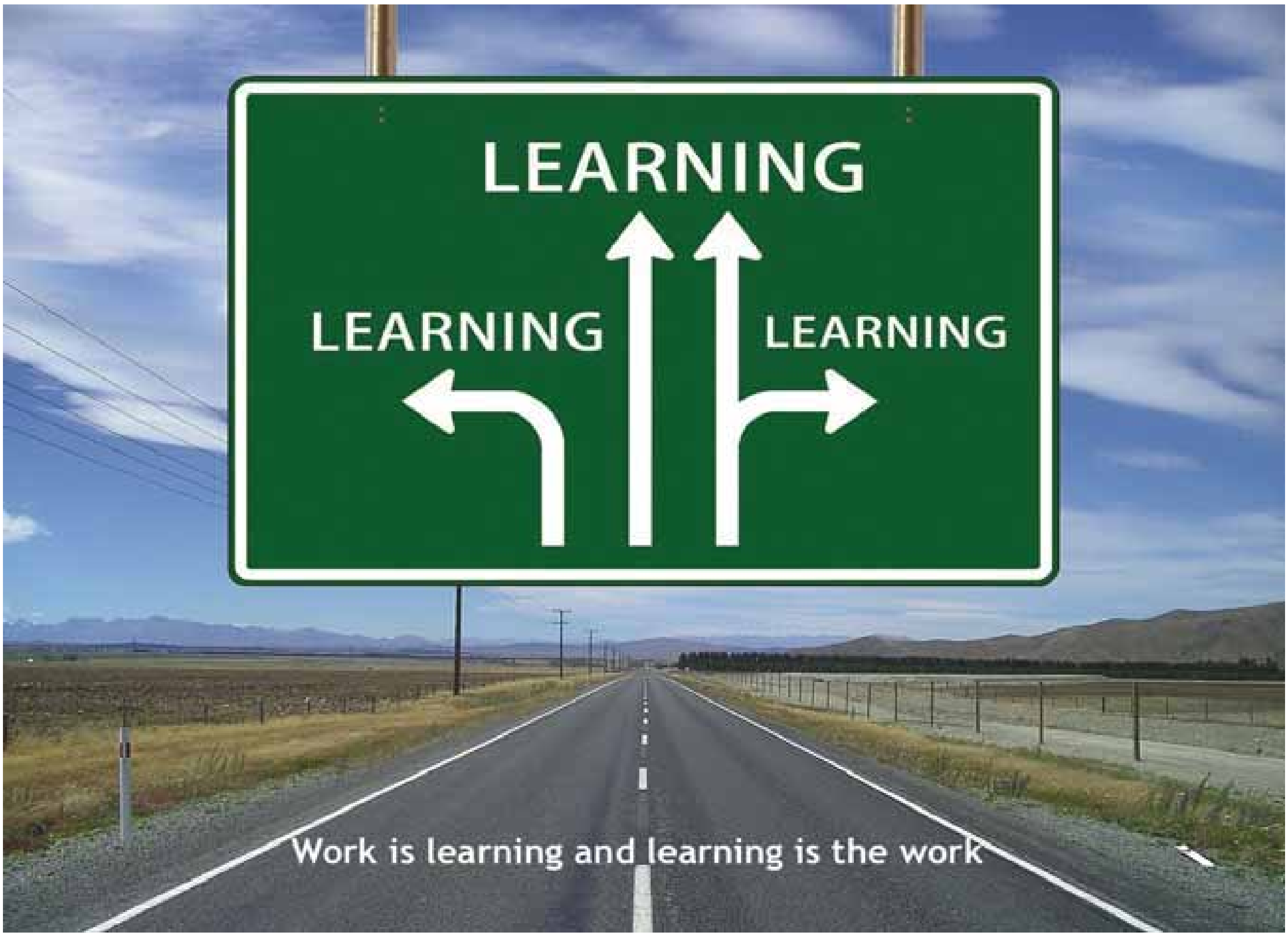


TELLTALE SIGNS
Intelligent or a fool!

Shiraz Noordin, FCMA

A telltale, or tell-tale, is an indicator, signal, or sign that conveys the status of a situation, mechanism, or system. Noticing a chill in your office recently? I am not talking about temperature, exactly, but rather the overall vibe. May be you are being left out of discussions, or your workload is lightening, and there is no real reason for either to be happening. It may not be all in your head your company might be hoping you quit.

But if your company or employer no longer has a need for you, then why wouldn't your boss simply let you go? Well, from on employer's perspective, it is much easier for them if you can be encouraged to leave on your own. Whether via a firing or a layoff, if a company takes the initiative to cut an employee loose, there is more paperwork and issues involved and it creates a stressful atmosphere for those left in the office.

Think your company or employer may be trying to goad you into quitting? Check out these five telltale signs.

1. Your boss is turning into a micromanager:

You are used to being left alone to do your work and have enjoyed the supportive feedback of your boss for as long as you can remember. Suddenly your boss begins nitpicking all your work and doling out frustratingly vague criticisms. Bad sign.

Your boss may have lost confidence in you or is looking for justifications for letting you go. If your boss's micro-managing is accompanied by constructive recommendations or specific feedback, then they most likely want you to improve. However, if the criticism is nonspecific, excessive or focused on issues that have little importance, they may be more interested in seeing you leave.

2. Your company suddenly wants to document everything.

Feedback on your work used to be informal and undocumented, and any mistakes you made were pointed out to you in private, with a friendly talk. Now everything suddenly involves paperwork. You are being asked to fill out time sheets so the company can keep track of how you spend your hours and minutes; feedback that used to transpire over a phone or informal meeting or lunch break now requires an email chain, with your boss's boss cc'd.

Most employers have some sort of progressive discipline process that, when used properly, gives an underperforming employee the opportunity to improve. However, if the company wants you gone and implements this with little advance notice, it may be an attempt to psych you out or a form of intimidation to make you feel insecure or stressed enough to start looking for a move.

3. You are not being groomed for the future.

Your professional development is essential to your value as an employee. So if your company has pulled back on growth opportunities for you, then it likely does not see you as being around long term. When you are not getting assigned new projects, it is a sign the boss or your employer is not interested in your future with the company. Similarly, if you see others in your office receiving more professional development, it may be time to reassess your career path.

4. You are getting the silent treatment.

Communication is vital to every department in every company. Your presence at meetings, on call and at events, as well as on email correspondence, gives you access to this constant flow of information. When you are abruptly cut off or pushed out of the circle, this may be a sign. Take note especially if other co-workers remain in loop. Your boss or your employer leaves you out of key meetings, and perhaps keeps rescheduling your meeting date. Perhaps the frostiness is coming from your peers too, and they too are trying to evade you. That could indicate that those colleagues have picked up on your status as person non grata, and do not want to become tainted by association.

5. Your boss is taking your work away.

A company is like a big team, so if you are used to being a starting player and then all of a sudden you get benched in favor of other players, you are right to feel suspicious.

Whenever a boss starts giving away tasks that you always do, or that they know you enjoy without some type of explanation, they are communicating that they either do not value you or do not trust you to do it anymore. The same goes if they are giving you grunt work that is not normally your job.

In a nutshell, trust your gut. If it feels like your company wants you gone, they probably do. Do not wait to find out if you are right. Start searching for a new and better job today. Control the narrative, and work for a company that appreciates just how awesome you are at what you do.

Economy Watch

Compiled by Research and Publications Directorate, ICMA Pakistan

SECP: Senate Standing Committee approves Companies Bill 2017

The Senate Standing Committee on Finance, Revenue & Economics Affairs has approved the Companies Bill, 2017, after proposing certain changes. The Bill, which would be replacing the Companies Ordinance, 1984, was passed by the National Assembly on February 6, 2017. The committee discussed the Bill clause by clause and proposed changes which aim at empowering women, enhancing rights of disabled people and ensuring ease of doing business. The Bill along with the amendments will soon be placed before the Senate.

The major changes proposed by the committee include provisions for mandatory presence of a female member on the board of companies to be notified by SECP. The procedures regarding signing of statutory returns and making changes in the memorandum of association of the company have been simplified. The provision for winding up of companies by the Courts has been rationalized. Further, any major change in the shareholding of company shall be reported to SECP expeditiously. A mechanism has been introduced to enable companies to indemnify their officers through insurance cover. SECP has been empowered to increase the limit of paid-up capital beyond ten million rupees for mandatory filing of audited financial statements by the private company. Every public interest company, which has 50 or more employees, will be required to hire two percent disabled individuals.

The Bill intends to encourage and promote corporatization in Pakistan based on the best international practices. It contains provisions, including, simplifying the procedure for incorporation of companies, enabling maximum use of technology, and encouraging paperless environment at all levels and relaxations to small and medium enterprises. The law will facilitate growth of economy in general and the corporate sector in particular by providing simplified procedure for ease of starting and doing business, greater protection of investors and augmenting corporatization in the country.

SECP: Amendments in Corporate Governance Rules for Public sector companies

The Securities and Exchange Commission of Pakistan has issued notification for amendments to the Public Sector Companies (Corporate Governance) Rules, 2013. The amendments are aimed at facilitating compliance and ensuring conformance to good corporate governance principles in public sector companies. The amended rules have introduced a criteria for sound and prudent management of public sector companies; rationalized the composition of board of directors by requiring a minimum of one third independent directors; specified additional grounds for improving performance of directors, including the requirement for the government to enter into performance contracts with directors at the time of their appointment; revised the criteria for appointment of chairman and chief executive, optimized the fit and proper criteria for directors, etc. The amendments would further improve standards of good corporate governance in public sector companies by facilitating them in improving their performance, ensuring sound and prudent management of such companies.

SECP: Certification for Research Analysts

The Securities and Exchange Commission of Pakistan (SECP) has prescribed certification requirement for all persons who are involved in preparation and distribution of research reports to the public. The objective of this initiative is to inculcate good governance practices; promote investor protection and ensure skilled personnel providing recommendation to investors of the capital market. Such persons will be required to obtain the Research Analysts Certification offered by the Institute of Financial Markets of Pakistan. All existing research analysts have been given six months to obtain the said certification, while new entrants will be required to obtain such certification within six months of intimation to the SECP as a research analyst/research entity. The certification requirement will also be applicable to chief executive or head of research function of the entities involved in research report publication. The certification will promote investor protection and bring Pakistani capital market at par with global jurisdictions.

FBR: Launching of Directory to monitor tax collections from withholding agents

The Federal Board of Revenue (FBR) has launched a digital directory across the country for the withholding agents. The directory would serve as a management information system (MIS) to monitor real-time tax collection received under various sections of withholding tax. The system has the capability to analyze current withholding data with historical withholding collections. It enables FBR to broaden the withholding tax regime by enforcing withholding agents to comply with tax laws. FBR can benefit from this system by increasing revenue collections from withholding tax regime, and reducing the tax evasion pertaining to non-compliant withholding agents.

The salient features of the directory include Withholding Tax Collection Report (RTOs/LTUs); Withholding Tax Collection Report (Range/Units); Sectorial Withholding Tax Collection Report; Section wise Withholding Tax Collection Report; Withholding Agent's Monthly Tax Collection Report; Withholdee's Monthly Tax Collection; Graphical Dashboards; Comparison of Withholding Tax Collection with Preceding Year's Withholding Tax Collection; and Sending Reminders to field officers for enforcement.

FBR: Launching of Customer Complaint Management system

Federal Board of Revenue (FBR) has launched a state-of-the-art Customer Relationship Management (CRM) system to respond to queries and complaints of taxpayers and general public promptly and efficiently. FBR will now respond to all queries, complaints and concerns of taxpayers within 48 hours through the CRM. The installation of CRM will bring vast improvement on the previous arrangement which lacked a proper mechanism for tracking, categorizing, monitoring and archiving taxpayers' complaints which took two to three months for their resolution.

SBP: Remittances from overseas Pakistani workers

Overseas Pakistani workers remitted US$ 15,596.28 million in the first ten months (July to April) of FY2016-17, compared with US$ 16,044.25 million received during the same period in the preceding year. During April 2017, the inflow of worker's remittances amounted to US$ 1538.61 million, which is 9.2% lower than March 2017 and 7.11% less than April 2016. The country-wise details for the month of April 2017 show that inflows from Saudi Arabia, UAE, USA, UK, GCC countries (including Bahrain, Kuwait, Qatar and Oman) and EU countries amounted to US$ 439.13 million, US$ 344.01 million, US$ 199.69 million, US$ 191.62 million, US$ 175.18 million and US$ 41.89 million, respectively compared with the inflow of US$ 488.78 million, US$ 345.99 million, US$ 189.88 million, US$ 221.88 million, US$ 199.53 million and US$ 39.85 million, respectively in April 2016. Remittances received from Norway, Switzerland, Australia, Canada, Japan and other countries during April 2017 amounted to US$147.09 million together as against US$170.55 million received in April 2016.

China Pakistan Economic Corridor (CPEC) Update

Nine Industrial Zones to be set-up along CPEC Rout

As many as nine industrial zones have been planned to be set up along the rout of China Pakistan Economic Corridor (CPEC) from Gwadar to Chitral to utilize the natural resources throughout the country. These industrial zones would be set up in a period of two to three years with the ownership of the respective provinces. To take advantage of Pakistan's natural resources, economic zones will be established under CPEC, one each in all the four provinces, FATA, Azad Kashmir, Gilgit-Baltistan, and two by the Federal Government in Islamabad Capital Territory and Port Qasim at Karachi. The 6th Joint Cooperation Committee held last year had approved nine special economic zones directing the joint work group on industry to ensure its speedy implementation. It is hoped that relocation of Chinese labour intensive industry would help in generating huge employment in Pakistan.

Chinese Keen to explore opportunities in Manufacturing in Karachi, Lahore

Chen Weiming, Vice President of People's Association for Friendship with Foreign Countries during a meeting with the Lahore Chamber of Commerce and Industry recently has stated that Chinese investors are interested in setting up manufacturing units in Lahore and Karachi. Chen informed that the Chinese investors are keen to open a trade office in Karachi and would like to extend cordial relations with the Pakistani investors. He encouraged the two communities to join hands to promote the education, health, sports, and science and technology sectors. It was indicated by the Chamber that there is good scope for Chinese investments in Pakistan in priority sectors such as oil and gas, mining, infrastructure, power (coal, hydel, gas), IT and telecom, chemicals (fertilizer (urea), etc

Malaysian Investors eye stake in CPEC boom

Malaysian investors are mulling to claim a stake in the myriad of projects to be launched under China-Pakistan Economic Corridor (CPEC) so that they can take full advantage of the emerging regional integration. They are also interested in projects like ferry service operations; construction of dedicated terminals at Pakistani ports and establishment of industry in Gwadar Port Free Zone.

Management Accounting Terms

Activity	A basic unit of work performed within an organization. It also can be defined as an aggregation of actions within an organization useful to managers for purposes of planning, controlling and decision-making.
Batch-level activities	Activities that are performed each time a batch is produced.
Casual factors	Activities or variables that invoke service costs. Generally, it is desirable to use casual factors as the basis for allocating service costs.
Direct method	A method that allocates service costs directly to producing departments. This method ignores any interactions that may exist among support departments.
Empowerment	The concept of encouraging and authorizing workers to take the initiative to improve operations, reduce costs, and improve product quality and customer services.
Financial planning model	A set of mathematical relationships that expresses the interactions among the various operational, financial and environmental events that determine the overall results of an organization's activities.
Gainsharing	Providing cash incentives for a company's entire workforce that are keyed to quality and productivity gains.
High-low method	A method for fitting a line to a set of data points using the high and low points in the data set. For a cost formula, the high and low points represent the high and low activity levels. It is used to break out the fixed and variable components of a mixed cost.
Incentives	The positive or negative measures taken by an organization to induce a manager to exert effort toward achieving the organization's goals.
Joint products	Products that are inseparable prior to a split-off point. All manufacturing costs up to the split-off point are joint costs.
Kaizen Costing	Efforts to reduce the costs of existing products and processes.
Line positions	Positions that have direct responsibility for the basic objectives of an organization decision-making.
Managerial accounting	The process of identifying measuring analyzing, interpreting, and communicating information in pursuit of an organization's goals.
Non-value-added activities	All activities other than those are absolutely essential to remain in business.
Operating activities	All activities that are not investing or financing activities. Generally speaking, operating activities include all cash transactions that are involved in the determination of net income.
Performance reports	Reports that compare the actual data with planned data.
Qualitative Characteristics	Factors in a decision analysis that cannot be expressed easily in numerical terms.
Relevant information	Data that is pertinent to a decision.
Sales mix	The relative combination of products (or services) being sold by an organization.
Theory of constraints	A management approach that focuses on identifying and relaxing the constraints that limit an organization's ability to each a higher level of goal attainment.
Unused capacity variance	The difference between acquired capacity (practical capacity) and actual capacity.
Value chain	An organization's set of linked, value-creating activities, ranging from securing basic raw material and energy to the ultimate delivery of products and services.
Work-in-process file	A file that is the collection of all job cost sheets.
Zero defects	A quality performance standard that requires all products and services to be produced and delivered according to specifications.

Reader's Comments

We believe that the readers are the best judge to highlight the areas where improvement in 'Management Accountant Journal' can be made. The Research and Publications Committee invite your valuable comments and suggestions on the editorial, articles and other contents of the Journal. These comments/suggestions will be published in the Journal on a regular basis.

The Committee reserves the right of editing the comments and suggestions.

The intellectual and research based inputs may be sent on email: rp@icmap.com.pk

Letter to the Editor

Dear Mr. Mohammad Iqbal Ghori Sahib,

It was indeed a pleasure to receive the official bi-monthly ICMA Pakistan's Journal “Management Accountant”. It is an excellent work. The achievements of ICMA Pakistan are commendable. I pray for the ICMA Pakistan to continue excelling in its research and professional pursuits.

With profound regards,

Yours sincerely,

Rear Admiral (Retd)
Engr. Prof. Dr. Sarfraz Hussain, TI(M), SI(M)
Vice Chancellor
DHA Suffa University

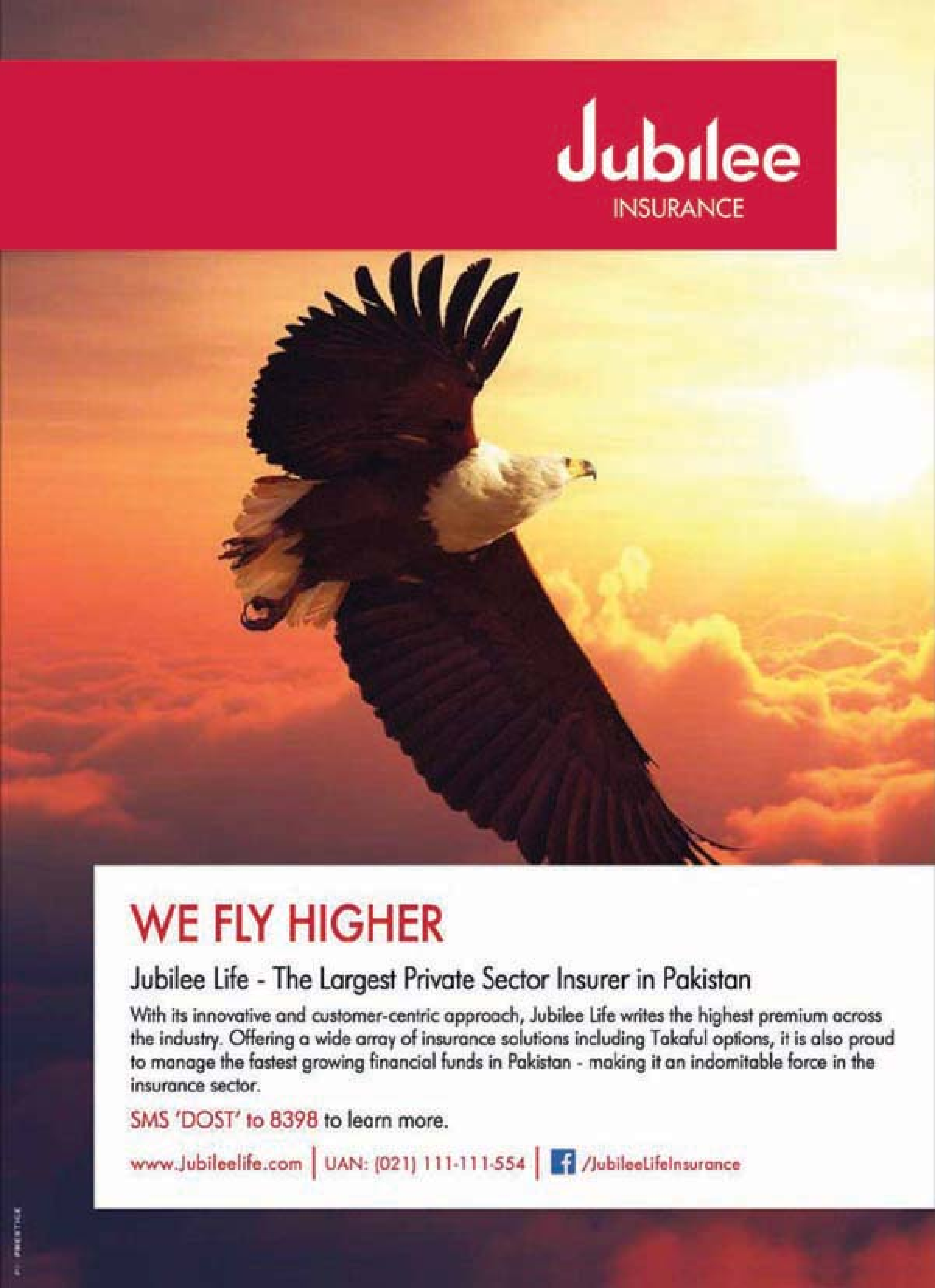
Dear Mr. Mohammad Iqbal Ghori,

Thank you very much indeed for sending me latest issue official Journal, Management Accountant titled “Islamic Finance” containing remarkable research articles and interviews of the heads of major banks. The quality of the journal reflects an excellent job done by the editorial board under your able leadership. In this regard, I offer my felicitation to you and the members of your team.

In the meantime, please be apprised that the publication has been placed in the Bait al-Hikmah, Main Library of Hamdard University, for the benefit of faculty and student body.

With regards,

Prof. Dr. Hakim Abdul Hanan
Vice Chancellor
Hamdard University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