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From: McHale, Judith A <McHaleJA@state.gov>
Sent: Wednesday, September 15, 2010 4:59 PM
To: H
Cc: Sullivan, Jacob J; Mills, Cheryl D; Abedin, Huma
Subject: FW: Tax reform essential for rescuing Pakistan's economy
Attachments: pakistan_tax.pdf; pakistan_tax.pdf

Fyi, in case you have not seen this. Interesting piece. I've attached a copy of the full article.

jm

From: Carnegie South Asia Program [mailto:claw@ceip.org]
Sent: Wednesday, September 15, 2010 4:46 PM
To: McHale, Judith A
Subject: Tax reform essential for rescuing Pakistan's economy



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Tax reform essential for rescuing Pakistan's economy

S. Akbar Zaidi is a visiting scholar in the Carnegie Endowment's South Asia Program. A visiting professor at Columbia University, with a joint appointment in the School of International Public Affairs and the Department of Middle Eastern, South Asian, and African Studies, his research focuses on development, governance, and political economy in South Asia.

Zaidi taught economics at the University of Karachi from 1983 to 1996 before becoming a visiting scholar at the University of Oxford (1998) and later a research fellow at the University of Pennsylvania's Institute for

Unable to sustain solid growth, Pakistan's economy is teetering on the brink of collapse, with one-third of the population living below the poverty line. S. Akbar Zaidi writes in a new brief that Pakistan's economic instability stems in large part from low government revenue due to the elite's use of tax evasions, loopholes, and exemptions. Without tax reform, Pakistan will continue to run an unsustainable debt and be forced to rely on Western donors for bailouts.

the *Advanced Study of India in New Delhi* (2002–2003). From 2004 to 2005 he was a visiting professor at Johns Hopkins School of Advanced International Studies (SAIS) and in 2008 he was a Reagan-Fascell Democracy Fellow at the National Endowment for Democracy.

Zaidi's twelfth book, *Military, Civil Society and Democratization in Pakistan*, is to be published by Vanguard Press, Lahore in October 2010.

Policy Recommendations:

- **Eliminate exemptions.** Fewer than three million of Pakistan's 175 million citizens pay any income tax, and the country's tax-to-GDP ratio is just 9 percent. By eliminating tax exemptions for the rich, politicians can fund essential social services.
- **Increase tax revenue.** Pakistani legislators must build a consensus to tax the rich and elite if they want to match growth rates in nearby developing countries.
- **Spend more on development.** Pakistan has spent twice as much on defense during peacetime as it has on education and health combined—this needs to change.
- **Stop the bailouts.** Donor countries must put conditions on funding and should emphasize tax and economic reform to help Pakistan develop long-term economic plans for sustainable growth.

"Pakistan's lack of a proper tax and revenue regime has resulted in high rates of tax evasion, burdening the country with unsustainable debt and undermining its development priorities," writes Zaidi. "The key to the country's economic prosperity—even its survival—is a far-reaching program of tax reform."



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