THE WAY TO SUSTAINABLE DEVELOPMENT, PROSPERITY AND SOVEREIGNTY

# ECONOMIC VISION 2030

## Objectives and Targets in Global Scenario

**EMPLOYERS' FEDERATION OF PAKISTAN**

# PREAMBLE

Employers' Federation of Pakistan (EFP) is the only organization of employers in Pakistan that is a member of International Organization of Employers (IOE) based in Geneva and affiliated with International Labor Organization (ILO), Dutch Employers Cooperation Programme (DECP), Confederation of Asia Pacific Employers (CAPE) and South Asian Forum of Employers (SAFE). EFP, as the tripartite constituent of ILO, has the mandate, among others, to interact with Government, business organizations, social partners and stakeholders in its advocacy role on the issues of social, economic, environmental, industrial relations and human resource development.

EFP took the initiative in 2013 and 2018 to prepare the National Business Agenda for presentation to all relevant political parties with the sanguinity that they would consider it in a positive mode and, if suited them, to include in their manifestos. EFP has been assured that due consideration would be accorded to EFP presentations.

EFP has now embarked on a mission to prepare and present EFP Economic Vision 2030. This is the output of the recently formed EFP Economic Council that after lengthy discussions, deliberations, and brainstorming by the members has formulated this document. The presentation traces the history, the comparative analysis with other countries, the economic malaise faced by the nation, the availability of natural and human resources, and taper these towards pragmatic, doable, and concrete solutions.

EFP requests the readers to critically peruse the document and ascertain for themselves the rationale undertaken by EFP, the Voice of Employers.

MAJYD AZIZ
**President**

# I: GLOBAL ECONOMIC TRENDS: REVIVAL OF HISTORY?

The sustainable economic growth, prosperity and sovereignty are the desirable goals of the nations but the determinants of these goals cannot be defined in a simple way. These are determined by the combination of several complicated and complex factors and to transform these complicated relations into an economic model is a difficult task. The long term historical trend in the economic growth of various countries shows a very crystal-clear picture of the future scenario and development ranking of the countries. History indicates how global development rankings of the nations have changed. Historically, China and India have been recognized as the top most countries in the world development ranking (in term of GDP) from 1550 to 1850. At that time, Pakistan was a part of United India. Later on, USA, UK, Japan and USSR have followed the path of economic development and arrived at the top of world development ranking from 1850 to 2000. China which had lost its path in development ranking during the nineteenth century has gained momentum again and has now become the second largest economy of the world after USA.

The causes of the development of countries may vary from time to time and country to country but the common thing is the dynamic nature and technological advancement. The revival of the history can't be isolated from the technological advancement of the nation. Economic development, technological advancement, business competitiveness and investment in human capital are the interrelated variables. In economic planning we will have to consider and incorporate the mechanism of change in development factors.

## **HISTORY OF DEVELOPMENT RANKINGS** (in term of GDP)

| **Period** | **Top Ranked Countries** | | |
|---|---|---|---|
| | **1** | **2** | **3** |
| 1550-1700 | China | India | France |
| 1700-1725 | India | China | France |
| 1725-1825 | China | India | France |
| 1825-1850 | China | India | UK |
| 1850-1875 | China | USA | UK |
| 1875-1900 | USA | China | UK |
| 1900-1925 | USA | UK | China |
| 1925-1950 | USA | USSR | UK |
| 1950-1975 | USA | USSR | Japan |
| 1975-2000 | USA | Japan | Germany |
| 2000- till now | USA | China | Japan |

During the period of Mughal Dynasty from 1550-1700, China ranked at first place in terms of development and India was placed at second. At that time, the GDP of India was one-fourth of the World GDP. During this entire period, the GDP of India increased more than the GDP of China. Initially, the GDP of India was 40 percent of GDP of China which increased to 90 percent of GDP of China in 1675. By this time, the Mughal dynasty had expanded to include almost 90 percent of South Asia, and enforced a uniform customs and tax administration system. At that time the annual revenue exceeded £100 million in 1700 (twice that of Europe then) and India came on the rank of number one in GDP, China at second and France at third in world development ranking.

## 1550-1725: MUGHAL DYNASTY

| Period | India in Global Economic Ranking (GDP) | Largest / Top Ranked Country (GDP) | Economic Indicators |
|---|---|---|---|
| 1550 - 1575 | 2 | China | GDP of India was estimated at about 40 per cent that of China. |
| 1575 - 1600 | 2 | China | The GDP of India was estimated at about 50 per cent that of China. |
| 1600 - 1625 | 2 | China | • GDP of India in 1600 was estimated at about 60 per cent that of China.<br>• Government revenue in 1600 was estimated at £17.5 million, in contrast to £16 million the entire treasury of Great Britain in 1800 |
| 1625 - 1650 | 2 | China | GDP of India was estimated at about 70 per cent that of China. |
| 1650 - 1675 | 2 | China | GDP of India was estimated at about 80 per cent that of China. |
| 1675 - 1700 | 2 | China | GDP of India in 1675 was estimated at about 90 per cent that of China |
| 1700 - 1725 | 1 | China was 2nd and France was 3rd Largest Economy | • Mughal Empire expanded to almost billion acres (or 90% of south Asia).<br>• A uniform tax administration system was enforced for almost the whole of south Asia.<br>• Annual revenue reported by the exchequer exceeded £100 million in 1700 (twice that of Europe then). |

In the eighteenth century the Mughal Dynasty were replaced by Maratha Dynasty. By this time, India had again become the second largest economy in the world and their GDP was estimated at about 70 percent of China's GDP. During that period, Maratha's rule replaced Mughal Empire in central India while the Mughal tax administration system was left largely intact.

## 1725 – 1775: MARATHA DYNASTY

| Period | India in Global Economic Ranking ((GDP) | Largest / Top Ranked Country (GDP) | Economic Indicators |
|---|---|---|---|
| 1725-1750 | 2 | China was 1st and France was 3rd largest Economy | • Collapse of the central authority of the Mughal Empire and the resultant chaos triggered India's long but slow decline on the world stage.<br>• GDP of India was estimated at about 90 per cent that of China. |
| 1750-1775 | 2 | China was 1st and France was 3rd Largest Economy | • GDP of India was estimated at about 70 per cent that of China<br>• Maratha rule replaced Mughal rule in central India. However, the Mughal tax administration system was left largely intact.<br>• Maratha empire expanded to 35% of India<br>• About two-thirds of the civil service in India was still dominated by Muslim officers |

In the last quarter of eighteenth century the British Empire began to grow in India, which brought tax administration reforms in a fast expanding empire spread over 35 percent of India. Indirect rule was also established on protectorates and buffer states. The British colonial rule created an institutional environment that stabilized the law and order situation to a large extent. Well-developed system of railways, telegraphs and a modern legal system were introduced in British rule period. During this period, India could not get benefits from British policies of industrialization, exploitation of natural resources and international trade. India changed from being the exporters of processed goods (which brought huge foreign exchange) to exporters of raw material and importers of manufactured goods. During this period, the share of India in World GDP declined which also affected the value of its currency.

## 1775-1850: EAST INDIA COMPANY RULE

| Period | India in Global Economic Ranking ((GDP) | Largest / Top Ranked Country (GDP) | Economic Indicators |
|---|---|---|---|
| 1775-1800 | 2 | China was 1st and France was 3rd Largest economy | • GDP of India was estimated at about 60 per cent that of China.<br>• East India Company began tax administration reforms in a fast expanding empire spread over 35 percent of India. Indirect rule was also established on protectorates and buffer states.<br>• The British colonial rule created an institutional environment that stabilized the law and order situation to a large extent.<br>• Well-developed system of railways, telegraphs and a modern legal system were introduced<br>• The British foreign policies however concentrated on exploiting the resources .of India to their advantage. India could not benefit from major changes in the world economy - industrialization, growth in trade and production, and new thinking on economic policies followed by states. |
| 1800-1825 | 2 | China was 1st and France was 3rd Largest economy | GDP of India was estimated at about 50 percent that of China. |
| 1825-1850 | 2 | China was 1st and UK was the 3rd Largest economy. | • GDP of India was estimated at about 40 percent that of China.<br>• 'Industrial Revolution' in UK catapulted the nation to the top league of Europe for the first time ever.<br>• English replaced Persian as the official language of India. |

In 1857, the British crown rule was established which ended in 1947 after independence of United India. During this period, the British rule brought many changes in India in the fields of education, economy, social sector, judiciary, civil administration, communication, law & order, etc. Communication was considered as the basic means for economic progress and was given due priority for development of trade and industry. There was no industrialization and agriculture sector was dominant in the economy of India. During this period, the economy of India remained stagnant and grew averagely one percent same with population growth. Moreover, the share of India in world GDP drastically declined which dropped down its ranking from second to seventh in global ranking. At that time, USA was 1st, USSR 2nd, UK 3rd, China 4th, France 5th and Germany was at 6th in Global ranking of GDP.

## 1850-1950: BRITISH CROWN RULE

| Period | India in Global Economic Ranking (GDP) | Largest / Top Ranked Country (GDP) | Economic Indicators |
|---|---|---|---|
| 1850-1875 | 4 | China was 1st, USA was 2nd and UK was 3rd largest economy | • GDP of India was estimated at about 30 percent that of China<br>• Formal dissolution of Mughal Empire.<br>• Massive railway projects were started, and government jobs and guaranteed pensions attracted a large number of people. |
| 1875-1900 | 5 | USA was 1st, China was 2nd, UK was 3rd and Germany was 4th largest economy | • GDP of India was estimated at about 20 percent that of USA.<br>• China's short but rapid decline on the world stage. |
| 1900- 1925 | 7 | USA was 1st, UK 2nd, China 3rd, France 4th, Germany 5th and USSR 6th economy of the world | • GDP of India was estimated at about 10 percent that of the USA. Zoroastrian business conglomerates Tata and Godrej begin to dominate textile, mining and durable goods industries (Now, Tata may refer to Tata Motors, Tata Steel, world's fifth largest steel producer, Tata Consultancy Services, India's largest IT company, Tata Airlines, now Air India Tata etc). |
| 1925-1950 | 7 | USA was 1st, USSR 2nd, UK 3rd, China 4th, France 5th and Germany 6th economy of the world | • GDP of India was estimated at about 7 percent that of the USA. |

After independence, the Indian economy grew on average three percent which is also called 'Hindu Rate of Growth' from 1950 to 1980 because of the unfavorable comparison with growth rates in other Asian countries. In this period, the Indian economy was a mixed economy with inward looking, centrally planned, protectionism and import-substituting model which dropped down the share of Indian economy to less than one percent in Global GDP. From 1980, the annual growth rate was accelerated to 5 percent which further increased to 8 percent in late 1990s. The growth of the Indian economy in terms of investment, exports, and foreign exchange reserves in this period was also remarkable.

## 1950-2000 POST INDEPENDENCE INDIA

| Period | India in Global Economic Ranking (GDP) | Largest / Top Ranked Country (GDP) | Economic Indicators |
|---|---|---|---|
| 1950-1975 | One of the poorest and Illiterate in the World | USA was 1st, USSR 2nd, Japan 3rd, Germany 4th, and China 5th economy of the world | • GDP of India was estimated at about 6 percent that of the USA<br>• Socialist Reforms in India<br>• Less than 3 percent rate of Growth |
| 1975-2000 | — | USA was 1st, Japan 2nd, Germany 3rd and China 4th Largest economy | • GDP of India was estimated at about 4 percent that of the USA in 2000 but about 12 percent in 2011; and 15 percent if include Pakistan and Bangladesh<br>• Privatization reduced the role of the state and public sector in business.<br>• Globalization made it easier for the MNCs to operate in India. |
| 2000-till | Included in top 13 nations | USA is 1st, China 2nd, Japan 3rd | • Shifting FDIs to India<br>• Abolishing Indian Planning Commission and transfer to private sector under the new name 'Aayog' |

## ANNUALIZED INFLATION (%)

| Duration | United India | Britain | USA | Japan | Germany |
|---|---|---|---|---|---|
| 1750-1758 | 0.02 | 0.19 | -- | -- | -- |
| 1758-1782 | 1.78 | 0.96 | -- | -- | -- |
| 1782-1825 | 0.36 | 0.14 | -- | -- | -- |
| 1825-1857 | 0.77 | 2.37 | -- | -- | -- |
| 1858-1880 | 1.71 | -0.65 | -- | -- | -- |
| 1880-1900 | 2.88 | -0.12 | -- | -- | -- |
| 1900-1910 | 0.10 | 0.33 | 2.50 | 1.77 | 1.84 |
| 1910-1940 | -0.70 | 4.63 | 3.43 | 4.67 | 1.29 |
| | | | Pakistan | | India | |

| | | | | | | |
|---|---|---|---|---|---|---|
| 1940-1970 | 5.27 | 5.27 | 1.00 | 2.30 | 259.33 | 0.73 |
| 1970-1990 | 9.80 | 5.55 | 12.05 | 5.15 | 6.90 | 3.15 |
| 1990-1998 | 14.75 | 14.13 | 4.75 | 3.75 | 1.61 | 3.38 |
| 2003-2004 | 4.50 | 4.60 | 1.30 | 2.70 | - 0.20 | .80 |
| 2010-2011 | 8.8 | 6.0 | 2.1 | 2.6 | -0.1 | 1.6 |
| 2012-2013 | 7.7 | 10.9 | 2.6 | 1.5 | 0.4 | 1.5 |
| 2017-2018 | 3.2 | 4.4 | 2.7 | 2.4 | 1.5 | 1.6 |

The annualized inflation indicated there was low inflation and even deflation (during 1910-1940) in the United India compared to the inflation of other nations like Britain, USA, Japan and Germany. After independence, the annualized inflation in India and Pakistan are similar in different periods i.e. 1940-1970, 1990-1998, 2003-04 etc. The nature of inflation in India and Pakistan is cost push which generally occurs due to rising of input prices and shortage of essential items of daily necessities.

## STOCK MARKET INDEX (1969 =100)
(Based on S & P/Global Equity)Index

| Year | United India | Britain | USA | Japan | Germany |
|---|---|---|---|---|---|
| 1899 | -- | 77.68 | 6.54 | -- | 37.62 |
| 1919 | 600.43 | 45.66 | 9.47 | 431.05 | 4.25 |
| 1939 | 238.23 | 40.29 | 13.57 | 167.81 | 15.39 |

| | | | Pakistan | | India | |
|---|---|---|---|---|---|---|
| 1969 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 |
| 1989 | 192.76 | 659.59 | 543.78 | 383.88 | 4317.16 | 608.04 |
| 1998 | 143.72 | 1031.24 | 1257.64 | 1335.25 | 1955.97 | 1187.98 |
| 2004 | 830.33 | 1928.18 | 1012.91 | 1511.33 | 1615.90 | 985.72 |
| 2011 | 2248.45 | 6401.21 | 1444.51 | 3510.98 | 3069.65 | 1625.20 |
| 2013 | 3714.34 | 7395.45 | 2610.98 | 5159.96 | 5911.66 | 2633.15 |
| 2016 | 4940.07 | 7380.66 | 2986.96 | 5655.32 | 5935.30 | 2814.84 |

The stock market index generally shows positive growth trend in case of Pakistan since 1969. Overall, the Indian stock market is a big global market due to number of stock exchanges and their trading activities. The Stock markets in Pakistan are performing well but it is still underdeveloped due to weak capital market. At present, Pakistan has a unified stock market 'Pakistan Stock Exchange (PSEX)'. Though growth in its index does not reflect the investment in the stock market in the presence of low trading volume, it is an indicator of the investors' expectations. Stock market index is considered a barometer of the economy but in case of Pakistan sometimes it does not even correlate with the inflow of Foreign Direct Investment (FDI).

## VALUE OF NATIONAL CURRENCIES IN TERM OF US $

| Year | United India | Britain | Japan | Germany |
|---|---|---|---|---|
| 1825 | 0.41 | 0.21 | -- | -- |
| 1858 | 0.76 | 0.21 | -- | -- |
| 1880 | 1.30 | 0.21 | -- | -- |
| 1899 | 3.07 | 0.20 | 2.03 | 4.20 |
| 1909 | 3.08 | 0.20 | 2.02 | 4.19 |
| 1939 | 3.33 | 0.25 | 4.27 | 2.49 |

| | | Pakistan | | India | |
|---|---|---|---|---|---|
| 1969 | 10.25 | 11.10 | 0.42 | 376.00 | 3.68 |
| 1989 | 21.39 | 16.93 | 0.63 | 143.68 | 1.74 |
| 1998 | 49.02 | 42.50 | 0.60 | 112.88 | 1.67 |
| 2004 | 60.20 | 45.80 | 0.56 | 111.00 | 0.81 |
| 2011 | 96.0 | 54.0 | 0.62 | 79.8 | 0.71 |
| 2014 | 101.12 | 60.97 | 0.60 | 105.96 | 0.75 |
| 2018 | 116.00 | 65.20 | 0.70 | 107.00 | 0.81 |

It is noteworthy that in its earlier history, Pakistan has been considered as economic miracle with an annualized growth of 7 %. This continuous faster growth for 30 years was a record in the global developing history. During this period the rate of growth was 3 percent for Indian economy. A drastic decline in growth of Pakistan economy was observed since 1990s and in 2001. Even per capita income of Pakistan was at less than per capita income of India. (Before 2001 per capita income of Pakistan was greater than India).

## India vs. Pakistan (Real Growth in GDP)
Outcomes of Economic Policies?

| Decade | India | Pakistan |
|---|---|---|
| 1950s | 3.9 | 3.1 |
| 1960s | 3.7 | 6.8 |
| 1970s | 3.0 | 4.8 |
| 1980s | 5.8 | 6.5 |
| 1990s | 4.6 | 4.6 |
| 2000s | 7.3 | 4.8 |
| Latest (2018 Estimated) | 7.2 | 5.4 |

## INDIA VS. PAKISTAN (per Capita income in US$)

| Year | Pakistan | India |
|---|---|---|
| 2001 | 490 | 463 |
| 2002 | 481 | 484 |
| 2003 | 544 | 563 |
| 2004 | 629 | 668 |
| 2005 | 691 | 762 |
| 2006 | 789 | 857 |
| 2007 | 871 | 1,105 |
| 2008 | 979 | 1,065 |
| 2009 | 950 | 1,195 |
| 2010 | 1,007 | 1,477 |
| 2013 | 1,275 | 1,499 |
| 2014 | 1,386 | 1,625 |
| 2018 (Estimated) | 1650 | 1900 |

*Source: World Bank (Data Bank files)*

The economy of Pakistan performed well in earlier years of its independence. The average economic growth rate was 6.8 percent in the 60s stabilizing the economic development and exports despite the fact that newly established country faced problems of resources mobilization and infrastructure development. While on the other side, the growth rate of Indian economy was on average 3.7 percent in 1960s and 3.0 percent in 1970s. However, the trade and financial liberalization in India has improved the economic growth rate after 1980s and placed the Indian economy on the track of fast development.

While in Pakistan the economic growth rate had started to decline and stood at 4.6 percent average in 1990s, 4.8 percent in 2000s and 4.1 percent in 2014. The ground behind the declining of growth rate of Pakistan is political instability and weak economic and infrastructural policies.

The comparison of per capita income between India and Pakistan indicates the per capita income of Pakistan was more than the per capita income of India before 2002. Thereafter, the per capita income of India was increased and also crossed the per capita income of Pakistan. At present, the per capita income of Pakistan is around US$ 1400 while it is US$ 1700 in India.

The economy of Pakistan in the first decade of 21st century clearly indicates the unsustainable development. High economic growth rate, impressive inflow of foreign investment, improvement in stock market index and market capitalization, increase in foreign remittances, growth in export and enhancement in the foreign exchange reserves in the first seven years of 21st century have neither transformed in the socioeconomic improvement in the lives of common peoples nor sustainability in macroeconomic indicators has been achieved. During the era of macroeconomic growth, the economy had been facing the distress of higher inflation, severe incidence of poverty, disparities in income inequalities, trade imbalances and fiscal deficits. It has always been a usual practice that burdens of the policy measures and unwise decisions have been shifted towards common people, and particularly to lower class groups.

In recent history, the targeted growth rate of Pakistan's economy was 7 percent, but the average actual growth rate of economy was 4 percent. This clearly indicates the difference between the target and actual growth rate i.e. 3 percent. In term of monetary value, the economy of Pakistan has incurred a loss of US$ 175 billion during the last 25 years. This loss of GDP not only affects the economic development of country, it also affects the social development in term of rising poverty and unemployment. Without trickle down effects, the macroeconomic growth will not provide desirable results. There is a need to develop a mechanism to transfer the effects of macroeconomic growth to the poor segment of society.

The exchange rate trend indicates that Pak rupee has depreciated very fast in term of US dollar since independence. In 1969, the value of Pakistan Rupee and Indian Rupee in term of US dollar was almost same and later on the currency of both countries depreciated due to rising of imports, lowering foreign exchange reserves and inflation. Officially, both countries depreciated their national currencies in different years due to different reasons but did not follow the same path of exchange rate policies. The depreciation of Pakistan Rupee in term of dollar is more than the Indian Rupee and now Pakistani currency is half of the Indian currency. It is astonishing that the dollar is depreciating in relation to other currencies globally but has noticeably appreciated against the Pakistani rupee since last two decades.

# II: BACK TO THE FUTURE OR LIVING IN THE HISTORY

Now the current global trends of economic growth indicate that history of economic development ranking will take an about-turn and Asia will again become the affluent region in economic term. India and China are considered as economic miracles in future. Historically speaking Pakistan is a part of the affluent economy, but the important is its future. The future of Pakistan economy is closely associated with the economic planning and policies. What rate of growth is required to bring Pakistan at its historical rank in economic development? This is the central point of this plan. Our all estimates, recommendations and strategic proposals are based on this point.

## CHANGING TRENDS IN ECONOMIC POLICIES AND DEVELOPMENT RANKING:

The long-term trend of growth in the economies shows a very crystal-clear picture of the future scenario and development ranking of the countries. History indicates that how global development rankings of the nations have been being changed. The causes of development may vary from time to time, but the common thing is the dynamic nature and adaptability of technological advancement by the nations. The share of natural resources was more than 70 percent in the late nineteenth century, now it is less than 5 percent. The knowledge based products contribute more than 70 percent in the global trade. But the production of knowledge based products depends on the industrial competitiveness and technological advancement. The revival of historical ranking cannot be isolated from the technological advancement of the nations. Economic development, technological advancement, business competitiveness and academic excellence are the interrelated variables. In economic planning we will have to consider and incorporate this mechanism.

During the cold war regime of 20th century, the world was divided into three parts: First part belongs to the capitalistic societies which covers Western Europe, North America, Australia, New Zealand and Japan. NATO, CENTO, G5 (then G7) were offshoots of the first world. Soviet Union, China, North Korea and other Socialists countries were included in the second world, while the underdeveloped countries have been classified as third world. This distribution was not based on religion, culture or race; economic ideology was the only base of this bipolar division of the world. The surprising aspect of this division was the disappearance of classical (supply side) school of thought in economic policies in capitalist world, where Fiscalist School of thought (demand side) played a leading role in economic development and planning during 20th century. It is notable that in most of the cases supply side approach advocates the economic freedom, deregulations, cross border movement of goods and services, individual liberty, business competitiveness, free market mechanism and allocation of all economic resources on the bases of 'invisible hand' of market mechanism. It does not allow any intervention from government in the economic mechanism. On the contrary, Fiscalist School allows governments' interventions in the form of subsidies, grants, managed interest rate, stipends and tax exemptions etc. This approach invites the intervention in business sector by monetary and fiscal policies.

Fall of Soviet Union in late 20th century led to the emergence of world economies and a new era of economic transformation was originated. In fact, it was a rebirth of classical school of thought in 'New Economic Order (NEO)'. The emergence of NEO classical regime in late 20th and early 21st century has moved the focus of policy makers on the improving productivity, competitiveness, good governance and infrastructure development. These become the major tools of economic development. The journey of NEO classical thoughts from denationalization to globalization has been passed through the stages of Denationalization, Privatization, Deregulations, Liberalization, and New Public Management including Lean government, Lean administration, and Decentralization.

## TRENDS OF ECONOMIC GROWTH

(GDP/Billion US $)
Based on historical rate of growth 2000-10

| Country | 2000 | 2010 | 2015 | 2020 | 2025 | 2030 | Growth Rate |
|---|---|---|---|---|---|---|---|
| USA | 9899 | 14587 | 15948 | 17436 | 19062 | 20841 | 1.8 |
| Japan | 6667 | 5459 | 5709 | 5970 | 6244 | 6530 | 0.9 |
| China | 1198 | 5927 | 9897 | 16527 | 27600 | 46089 | 10.8 |
| UK | 1477 | 2262 | 2473 | 2703 | 2956 | 3231 | 1.8 |
| Germany | 1886 | 3280 | 3447 | 3623 | 3808 | 4002 | 1.0 |
| India | 460 | 1727 | 2538 | 3729 | 5479 | 8050 | 8.0 |
| Pakistan | 74 | 177 | 227 | 291 | 373 | 478 | 5.1 |
| Bangladesh | 47.1 | 100 | 134 | 178 | 237 | 316 | 5.9 |

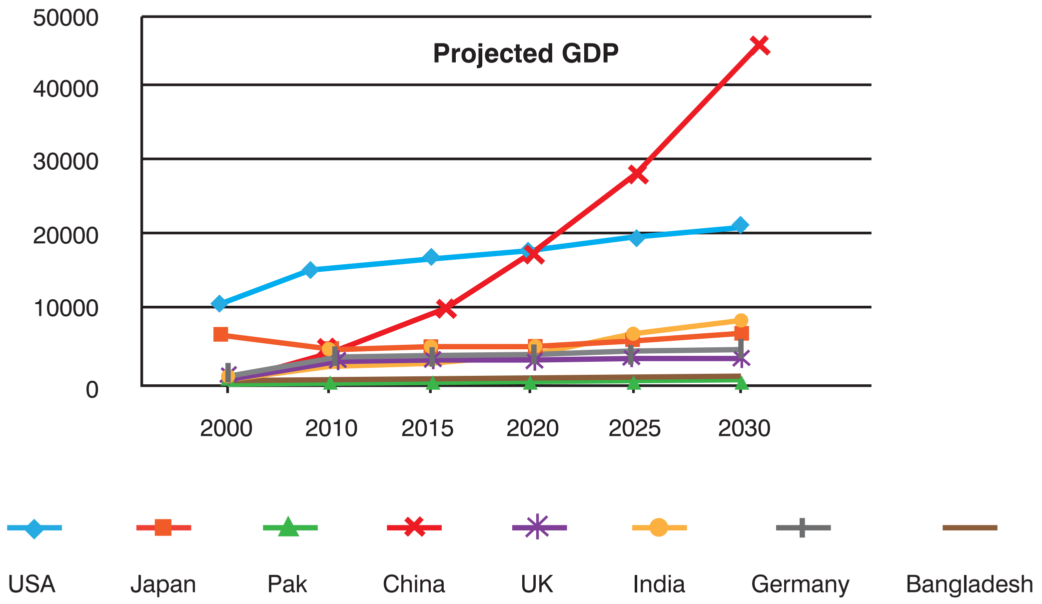
## POPULATION, GDP and PER CAPITA INCOME

Based on historical rate of growth 2000-10

| Country | Population Growth Rate % | Population (Million) 2010 | GDP Billion US$ 2010 | GDP Growth Rate | GDP per Capita US $2010 | Population (Million) 2030 | GDP 2030 | GDP per Capita US$ 2030 |
|---|---|---|---|---|---|---|---|---|
| USA | 0.9 | 309 | 14587 | 1.8 | 46811 | 402 | 20841 | 51896 |
| Japan | 0 | 127 | 5459 | 0.9 | 42917 | 128 | 6530 | 51016 |
| China | 0.6 | 1338 | 5927 | 10.8 | 4423 | 1592 | 46089 | 28952 |
| UK | 0.6 | 62 | 2262 | 1.8 | 36418 | 74 | 3231 | 43553 |
| India | 1.5 | 1225 | 1727 | 8 | 1356 | 1886 | 8050 | 4268 |
| Pakistan | 1.8 | 174 | 177 | 4.7 | 1030 | 291 | 478 | 1644 |
| Bangladesh | 1.4 | 149 | 100 | 5.9 | 723 | 223 | 316 | 1417 |

The trend of Economic growth revealed that the economic growth of China is the highest (10.8 percent) followed by India (8.0 percent). Based on the historical rate of growth from 2000-2010, EFP has forecasted GDP of USA, Japan, China, UK, Germany, India, Pakistan and Bangladesh for 2015, 2020, 2025 and 2030. The forecasted GDP indicates that the GDP of China will surpass USA after 2020 and it will become more than twice the GDP of USA in 2030. Moreover, the average eight percent growth rate of India will surpass Japan's GDP growth rate in 2030.

# TRENDS OF ECONOMIC GROWTH (WHO WILL OVERTAKE WHOM?)




Based on predictions about the future development ranking of the countries, the experts opinions are divided into three categories:

• According to the first category, South Asia will re-gain its development rank as joining 'G8 plus 5' by India is a reflector of future direction. It creates a supplementary question about the future of Pakistan about what will be the positioning of Pakistan in the future in term of economic development ranking.

• Another school of thought describes that the variation in development stages and current patterns of technological advancements will not allow South Asia to re-gain its historical ranking. It emphasizes on filling the gaps in fiscal resources and technological advancement which are the primary requirements to revive the development ranking. It suggests a supply side policy based on the development of human resources.

• According to the third school of thought, accelerated development is not possible in the countries in South Asia because of the complicated barriers in their economic integration. These barriers limit the efficient utilization of resources and advantages of big market from Almaty to Kolkata. During the golden ages of South Asia there was a common and shared economy from Almaty to Kolkata while political administrative units were different. Now, economies are performing in isolation. So, big market advantages cannot be materialized.

Before contemplating these alternative thoughts, it will be better to review the global economic development scenario in terms of the economic ranking and resources.

## SHIFTING FROM RESOURCE BASED PRODUCTS TO HIGH TECH IN GLOBAL TRADE

Historically, the global trade comprised of mainly low technology, resource based and primary commodities. But with the development of knowledge based economies and rising investment in human capital particularly in the developed nations, the share of high and medium technology products was significantly increased in the global trade. Historically the share of primary products in global trade basket was 70 percent while 30 percent coved low technology based manufactured products.

## SHARE OF TECHNOLOGY IN GLOBAL TRADE

| Type of Commodity | Before 1857 | 1978 | 1998 | 2016 |
|---|---|---|---|---|
| High Technology | 00 | 11 | 22 | 27 |
| Medium Technology | 00 | 22 | 32 | 38 |
| Low Technology | 30 | 21 | 18 | 12 |
| Resource Based and Primary Goods | 70 | 45 | 24 | 22 |
| Miscellaneous | 00 | 01 | 04 | 11 |

Later on, the share of resource based and primary goods and low technology commodities was declined in global trade and share of high and medium technology based commodities was increased. In 2016, the global trade comprised of 27 percent share of high technology based products, 38 percent medium technology based products, 12 percent low technology based products and 22 percent belonged to resource based primary goods. The share of high and medium technology based products depends on the technological advancement and industrial competitiveness of the participating countries.

## STAGES OF ECONOMIC DEVELOPMENT

| Country/Stage of Development | 1 | | 2 | | 3 |
|---|---|---|---|---|---|
| | Factors Driven | Transition | Efficiency Driven | Transition | Innovation Driven |
| Bangladesh | X | | | | |
| India | | X | | | |
| Pakistan | X | | | | |
| Sri Lanka | | X | | | |
| China | | | X | | |
| USA | | | | | X |

*Source: World Economic Forum*

According to this ranking Pakistan and Bangladesh are at the first stage of development i.e. Factor Driven Stage. In this stage, these countries are competing in the global trade based on their endowment factors primarily unskilled labor and natural resources. They produce primary commodities and sell at low prices due to low productivity and unskilled labors. While India and Sri Lanka have started development and now are at the transition stage (transformation from first stage to third stage). China is at the third stage of development (Efficiency Driven) and now has become competitive in the global market. In this stage of development, the countries begin to develop more efficient production processes and improve the quality of their products (because of rising wages and declining prices after achieving the economies of scale). The last and final stage of development is the innovation driven stage. At this stage the businesses are able to compete with new and unique product.

## FINANCIAL ASSETS

The distribution of financial assets indicates that the large amount of financial assets of Pakistan belong to public debt securities followed by bank deposits and equity securities while in India most financial assets are in the equity securities and bank deposits. The large amount of public debt securities indicate the larger amount of government borrowing from the banking sectors to finance its budget deficit. This reflects that people in Pakistan prefer generally to invest in the government securities. Its major incentive is the higher rate of return without taking undue risk. While investors in USA prefer to invest in private sector securities. The largest portion if investable funds in China belongs to the bank deposits.

## FINANCIAL ASSETS BY MAJOR TYPES

(GDP/Billion US $): 2016

| Assets | Pakistan | India | USA | China |
|---|---|---|---|---|
| Public Debt Securities | 90 | 821 | 9124 | 973 |
| Private Debt Securities | 0 | 151 | 21163 | 1479 |
| Bank Deposits | 57 | 1129 | 11175 | 10340 |
| Equity Securities | 38 | 1616 | 17139 | 4763 |
| **Total Financial Assets** | **185** | **3717** | **58601** | **17555** |
| Gross Investment as % of GDP | 15 | 35 | 15 | 48 |
| Gross Savings as % of GDP | 22 | 34 | 11 | 53 |

Moreover, Pakistan is also facing a gap between investments to GDP and saving to GDP ratios which indicates underutilization of financial resources in Pakistan. This underutilization or low investment may be a cause of the bad law and order condition, uncertain policies, high cost of doing business and energy crisis. While in India almost all of the public savings are transformed into investment. In USA, the investment is greater than the saving which indicates the inflow of foreign investment from abroad.

Pakistan is among those countries wherein the society is consumption oriented and this is the main reason of low saving compared to other countries in the region. Despite lower savings, the government has been utilizing public money to finance its budget deficit; which reduces availability of funds for aggregate investment in the country. Lower investment leads to lower economic growth and fewer employment opportunities while lower savings leads to lower loanable funds for investment which lead to low business activities and low employment opportunities.

# DIRE NEED OF ECONOMIC PLANNING IN PRESENT GLOBAL REGIME

The present scenario of the country and the global environment does not allow to restrict the economic development, regulating the businesses, dependency on SROs culture and dictating the policy interest rates. The visionary planning and economic freedom are the tools of economic development in present scenario. Before preparing the Economic Vision Framework, it was noted that:

- Present growth rate (5.0 % based on last decade average) cannot solve the problems of poverty, unemployment and under development. There are no visible signs of any trickle-down effect in Pakistan economy. The trickle down of growth is not possible at the present rate of growth.
- In recent past IMF and other international institutions have indicated that '7' %' rate of growth should be maintained to reduce the economic miseries of the people in Pakistan by trickle down mechanism.
- However, now it is estimated that 10 % rate of growth is required to revive the economy. It will ensure that the economy of Pakistan will turn around to the point where it was before 1990 in term of Per Capita Income, in the region.
- So all efforts and targets (including tax-to-GDP ratio, budget deficit-to-GDP ratio, growth in investment, money supply, and export targets etc should be based on this targeted rate of growth. It is a requirement, which should not be compromised.

At this stage, economic planning has become an important and critical aspect for sustainable social, economic and political development of countries like Pakistan. The various types of decisions involved in planning are partly political but mainly they are technical and need political will and stability.

During the cold war regime the capitalist world was used to 'demand management economics' where main emphasis was on monetary and fiscal policies in terms of subsidies, tax exemptions, transfer payments, interest rate management were the popular tools to run the economy. After the fall of Soviet Union now the global economies are following 'Supply Side approach' and now creating competitiveness, efficient allocation of resources, development of infrastructure, improving governance and institutional development are the major areas of concerns. In this context it is highly recommended that government of Pakistan should focus on supply side policies.

As it was envisaged in the above-mentioned analysis that Pakistan will has to focus on Supply Side policies. Medium-term planning is the most effective component of economic strategies in supply side regime. Economic planning determines the ultimate business competitiveness and provides the infrastructure for sustainable growth. The task of economic planning requires a nexus of nation's ideology, constitutional constraints, political system and economic requirements. Hundreds of the decisions are collaborated in long-term economic planning. These decisions may be political but mainly they are technical and needs political will and stability.

The most important point of this doctrine belongs to achieving the accelerated growth. Historically, the rate of growth of Pakistan's economy was higher than the countries in the region. It was almost twice of the rate of growth in Indian economy. Pakistan has been considered as the fast growing economy. The scenario was changed in early 1990s, and now we have been facing lowest rate of growth in the region. In the end of first decade of twenty-first century we lost our highest position in the region in term of per capita income. Now, we are facing the problem of economic survival.
We have been strongly recommended that 7 percent rate of growth is required for the survival of Pakistan economy. The trickle down effects of growth are not possible at a growth less than 7 percent. It means if economy grows at less than 7 percent, the growing poverty will not reduce. We should work together to achieve this targeted growth, but we should not compromise on a growth less than this target.

Here it is notable that 7 percent rate of growth is not wishful thinking it is a realistic target. In fact, it was the annual rate of growth of Pakistan economy up to the end of 1980s and the economy of Pakistan has been considered as one of the fast growing economies in the world. This rate of growth was highest in South Asian countries. The decline in annual growth was initiated in early 1990s. Now, Pakistan is witnessing the lowest growth rate in South Asia. The increase in poverty is the ultimate consequence of lower GDP growth.

The accelerated economic growth in long-term and providing the short-term relief to the over-burdened people in the society are the basic principles which have been adopted in the formulation 'Economic Vision 2030'.

## ESTIMATING THE REQUIRED RATE OF GROWTH
(Simulation Analysis: Targets for 2030)

| Historical | | Projected | |
|---|---|---|---|
| **Rate of GDP Growth (%)** | | | |
| 5.1 | 7 | 10 | 12 |
| **GDP/ Billion US $** | | | |
| 478 | 685 | 1190 | 1706 |
| **Per Capita Income US $** | | | |
| 1929 | 2760 | 4798 | 6880 |

Moreover, lack of political will power to take unpopular decisions, influence of feudalism, a large parasitic society (including ransom, charity seeking, corrupt economic practices and laziness) and misleading image of the country are the major barriers in economic development which can create behavioral problems in the society. Without changing these socio-political problems economic planning cannot achieve its goals.

According to the current economic scenario of Pakistan, services sector's contribution in the economy has arrived at 63 percent. Fiscal deficit averaged 7.5 percent during the last 10 years. Low tax-to-GDP ratio and uneven distribution of burden among sectors, unplanned bailouts to public sector enterprises (PSEs) like railway, PIA, Pak steel etc, use of the domestic banking sector as a major source of financing the fiscal deficit, and strong roll over risk because around 54 percent of domestic debt has less than one year maturity are the severe issues of Pakistan economy. A one percent rise in interest rate will increase interest payments bill by Rs.70-80 billion on existing stock of debt. Fluctuation in foreign exchange reserves due to political uncertainties can lead the accelerated inflation in country.

It is expected that the recommended rate of growth will help the country to revive its level in global development ranking. However, some short term measures are also required from the immediate survival point of view as the following indicators reflect the crisis of survival at present:

- Fast Diminishing of Foreign Exchange Reserves (Risk of external default)
- Higher Deficit Financing (Risk of internal default)
- Higher lending-to-deposit ratio (Risk of Banking default)
- Unusual higher level of 'Absolute Poverty' (Risk of Social default)

Pakistan's economy achieved high level of growth in different decades but that level of growth rate was unsustainable and didn't impact on economic and social development of the country.

# III: EFP ECONOMIC VISION 2030

In Pakistan more than 90 percent share of GDP is generated by the private sector which is an indicator of the private sector contribution in economic activities including employment, social services, consumption, savings, investment, foreign exchange earnings, bank deposits and developmental works. It reflects the importance and concern of private sector in the economic planning and policies. Several organizations represent the private sector in Pakistan. **EFP is the representative of the main stake holders of the national economy who are contributing and enhancing the Gross Domestic Product (GDP) and providing employment opportunities in industrial, agriculture and service sectors. In this way, it is the largest body which represents the private sector nationwide.** In economics' terminology, it is the platform of those who optimize the capital and labor combination for the growth of national economy. The competitiveness, investment, productivity, trade, monetary and fiscal policies, workers' facilitation, education, training, implication of globalization and infrastructure development are our concerned areas. In this context it is not possible for EFP to isolate itself from the development, planning and public policies of the country. No doubt, EFP should be concerned with every aspect of economy: from ideology to constitutional developments; from monetary and fiscal policy to development planning; from energy policy to infrastructure development; from investment policy to building the reserves of foreign exchange; and from political unrest and law and order situation to inflation and unemployment. Due to the importance of medium and long-term planning in the present global and national context and consecutive failures of planning experience in Pakistan, EFP has decided to prepare and present an integrated long term development plan for the national economy. This plan was titled 'Economic Vision 2030'.

It is an important aspect of the present global trend of economic planning and policies that private sector representative bodies in the 'Demand Management Regime' during 20th century have been playing their role as collective bargaining agents of business community, partner of government in demand management policies in determination of the subsidies, tax exemptions and interest rate etc, and they have also been considered as the associates of political marketing and trade diplomacy. However, their role has also been changed in 'New Economic Order'. Now, they have become partners in supply side policies, catalyst for capacity building, effective source of achieving competitiveness and efficient resource allocations and a proactive leader in overall socioeconomic development

Before suggesting the recommendations of policy measures to implement EFP Vision 2030, our dedicated team has studied the successful economic models and development plans of other economies. We have discussed the visions, objectives, strategies, targets and implementing mechanisms of the developments in Indonesia, Saudi Arabia, UAE, India, China and other countries. We have discussed their effects and side effects on the different segments of those economies. Then we carefully studied the economic environment, institutions, and available resources in Pakistan. In the lights of these available resources we prepared our recommendations.

We considered all possible philosophies and alternative strategies to achieve the development targets including 'supply side approach (which has become most popular in the present globalization and free trade regime), 'demand management policies (which describe the short term measures to achieve the objectives in earliest possible times), balanced growth model, urban-led growth and trickle down effects etc.

We are fully aware that economic development, constitutional changes and ideological constraints are inseparable. So, in recommendation of planning strategies we have covered the historical background of ideological and constitutional development in Pakistan and then linked those aspects with the development planning. We believe in the philosophy that economic development is not an ultimate goal; its ultimate destination is overall welfare and improvement in the social and economic status of the people.

We prepared our economic recommendation at the time when economy of Pakistan is passing through a transformation regime. Global development rankings are being rapidly changed. G7 (or G8) club has extended to G13 by including 5 fast growing nations. Historically, the rate of growth of Pakistan economy was higher than the growth of those five nations which now have been included in G13. We lost the track of faster growth two decades before. The present deteriorated physical and governance infrastructure do not allow us to run at the fast track of development. Now, our domestic economy is under extreme pressure due to severe energy crisis which has damaged the 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 contemporary history of world politics indicates that economic powers lead the nations on all fronts including politics, education, culture, military and technology. We are well aware about the fact that responsibilities of private sector have been changed and enhanced in the "Globalization Regime". Now, the social and economic development of a society is directly linked with the developmental activities of private sector. In this scenario, EFP feels its responsibility to help the policy makers by presenting the **'Economic Vision: 2030'**.

## POSITIVE SIGNS IN GLOBAL SCENARIO

The most important point of EFP's revival plan belongs to achieve the accelerated growth. Historically, the rate of growth of Pakistan's economy was higher than the countries in the region. It was almost twice of the rate of growth in Indian economy. Pakistan has been considered as the fastest growing economy. In 1950s it was recognized as 'miracle of economic development' by Harvard University Group, it was also considered as 'Heart of Asia'. According to Kofi Annan, the former Secretary-General of the UNO, Pakistan is a source of world peace and stability', while Craig Baxter, an American diplomat and expert on South Asia has recognized the economy of Pakistan as 'a shockproof economy'. The scenario was changed in early 1990s, and now we have been facing lower rate of growth. In the end of first decade of twenty-first century we lost our highest position in the region in term of per capita income. Now, we are facing the problem of economic survival. Despite several issues and economic deterioration Pakistan is still included in the 'high ranked GDP at purchasing power parity (PPP) basis. World economic stability is attached with the economy of Pakistan; the global economy has to face hyper-inflation in the absence of Pakistan's food, sports goods and textile and clothing industry. For the revival of economy and achieving the fast growth in the shortest possible time, EFP has prepared a complete integrated plan.

## BINDINGS AND CONSTRAINTS

EFP is not in favor of any violation of international contracts and bindings. EFP has honored the Conditionalities in IMF policy framework papers (these conditions have been discussed in the attached appendixes) and the obligations for sustainability in GSP Plus Status granted by European Union.

Just after resuming the office in 2014, the present government has signed a 36 month agreement with IMF under the Extended Fund Facility with the view to bring stability and development in the economy of Pakistan. The main conditionalities of this agreement are as follows;

- To bring the fiscal deficit to around 3.5 percent of GDP by 2016-17 and place the debt to GDP ratio on a firmly declining path.
- To increase the tax revenue to GDP ratio by 1 percent annually. In this context, various tax measures were decided in order to create efficient and equitable tax system.
- To phase out the electricity subsidy by increasing electricity tariff over the life of program.
- To introduce the various tax reforms for improving the revenue collection.
- To enhance and better targeted assistance for the poorest households.
- To strengthen the Public debt management.
- To address the declining reserves and projected rebound in inflation with the adjustment in monetary and exchange rate policies.
- To enhance the independence of Central Bank in order to improve formulation of monetary policy
- To strengthen the long-term stability of the banking system, Ministry of Finance in consultation with the SBP plans to introduce a deposit insurance scheme.
- Revising the regulatory and supervisory frameworks for financial stability.
- To implement a comprehensive energy policy covering all elements of the energy supply chain, demand management, and pricing policies for better functioning of the sector.
- Public sector enterprise (PSE) reform in terms of restructuring and privatization.
- To liberalize the trade and improve business climate in order to increase domestic and foreign investment in Pakistan.

EFP wants strict implementation of the 'Fiscal Responsibility and Debt Limitation Act, 2005' legislated by the national assembly of Pakistan. The government of Pakistan decided to adopt rule-based fiscal policy in response to rising of fiscal deficit as percent of GDP and public debt in FY03, which was later approved by the parliament in June 2005 as the Fiscal Responsibility and Debt Limitation Act, 2005. The key elements of this Act are:

- The public debt will not exceed 60 percent of GDP within a period of 10 years beginning from July 1, 2003 beyond June 2013
- Elimination of budget deficit to nil not later than June 2007 and thereafter maintaining a surplus
- To reducing public debt by at least 2.5 percentage point of GDP each year until June 2013
- To not issue the guarantees to the borrowing of public service enterprises (PSEs) by more than 2.0 percent of GDP in a given year
- To maintain the level of spending on social sector and poverty-related programs above 4.5 percent of GDP in a given year and ensuring that expenditure on education and health is doubled in terms of percentage of GDP by June 2013

The law performed well until June 2007 and later on missed all targets. Until 2007, Public debt declined from 75.1 percent of GDP in FY2003 to 55.4 percent in FY2007 and revenue balance was reduced to 0.9 percent of GDP by 2007 and was projected to achieve a surplus of 1.0 percent of GDP in the target year (2007-08). Social sector and poverty-related expenditure continued to receive top priority and the amount allocated was close to 6 percent of GDP. The government remained within the required limit of issuing new guarantees up to 2 percent of GDP. Later on, the Public debt as a percent of GDP increased and even crossed 60 percent of GDP and fiscal deficit also increased to 6-7 percent of GDP. At present, it can be observed that this law is being violated and no political party is discussing it.

EFP cannot suggest any proposal which deteriorates the revenue targets of FBR and does not want to damage the popularity or vote bank of any political party at all. At the same time EFP knows that the present global scenario does not allow restricting the economic development or to regulate the businesses, depending on SROs culture and dictating the policy interest rates. The visionary planning and economic freedom are the tools of economic development in present scenario.

We understand that the lack of fiscal resources, serious lacking in technological advancement, influence of powerful vested interest groups in preparation and implementation of public policies, a malignant parasitic society (including ransom, charity seeking, corrupt economic practices and laziness), psychological pressure and misleading perception of the country and the lack of will power to take hard decisions are the major obstacles in determining a fast path of economic development. Which projects are important for the economy, which sectors should be prioritized, what should be patterns of investment, how funds should be allocated and what direction should be followed in monetary and fiscal policies; all these parameters should be finalized by the planning authorities. All economic policies and macro decisions should be integrated. To oblige MNAs, MPAs, and power lobbies should not be the criterion in allocation of funds and prioritization of important sectors.

Moreover, Pakistan has to pay 37 percent of our public expenditures in debt servicing; this share is 13 percent in India, 17 percent in Bangladesh and 13 percent in Sri Lanka. About 65 percent of our current expenditures are consumed for interest payment and defense services. How can the remaining 35% fulfill the requirement of health, education, administration, law and order, economic, social and community services of an economy of more than 220 million inhabitants. These statistics show our limitations and causes of the problems of lower growth, uncompetitiveness, unemployment and poverty in the country.

## DOCTRINE OF EFP'S ECONOMIC VISION

Mainly the framework of 'EFP's Economic Vision' depends on achieving the higher rate of GDP growth without disturbing the low income group of the society. This higher rate of growth can be achieved through implementing the supply side economic policies which covers investment policy, industrial policy and labor policy. At the same time, for providing immediate reliefs to the weaker segments of the economy, we have suggested some short term measures in the proposed monetary and fiscal policies. Conservatively speaking, at least 500000 new job opportunities will be created because of 7 percent growth in GDP. After enhancement in economic activities including infrastructure development, fast track privatization program and lower rate of GST, further acceleration in growth is expected.

In order to analyze the future trend of economic growth, EFP performed different simulation exercises on the basis of 5.1 percent, 7 percent, 10 percent and 12 percent rates of growth in GDP. On the basis of these growth rates EFP forecasted GDP volume and per capita income for the year of 2030.

EFP's strategy is divided into two parts: first belongs to providing immediate reliefs through demand management (Fiscal and monetary) policies. The second part belongs to the supply side policies to achieve the targeted rate of growth for sustainable development.

We are not in favor to create unemployment or any compromise on the economic, social and community services. As we know that Pakistan spends only 4 percent of public expenditures in account of salaries and wages, while this ratio is 8 percent in India, and 25 percent in Bangladesh. Unfortunately, we have to pay 37 percent of our public expenditures in debt servicing; this share is 13 percent in India, 17 percent in Bangladesh and 13 percent in Sri Lanka. About 65 percent of our current expenditures are consumed for interest payment and defense services. How can the remaining 35 percent fulfill the requirement of health, education, administration, law and order, economic, social and community services of an economy of more than 220 million inhabitants?.

These statistics show our limitations and causes of the problems of lower growth, unemployment and poverty in the country. We have emphasized on the growth of economy through private investment. It will create employment opportunities. To enhance employment opportunities we have focused on investment; particularly FDI from expatriate Pakistanis. At initial stage government has to develop the basic infrastructure to boost the private investment. Now, we are lacking the development finance institutions (DFIs). In the absence of these institutions we suggested a 'New Development Initiative program'. It should not be a part of PSDP and will be governed by a separate board of governors including representation of stakeholders from private sector.

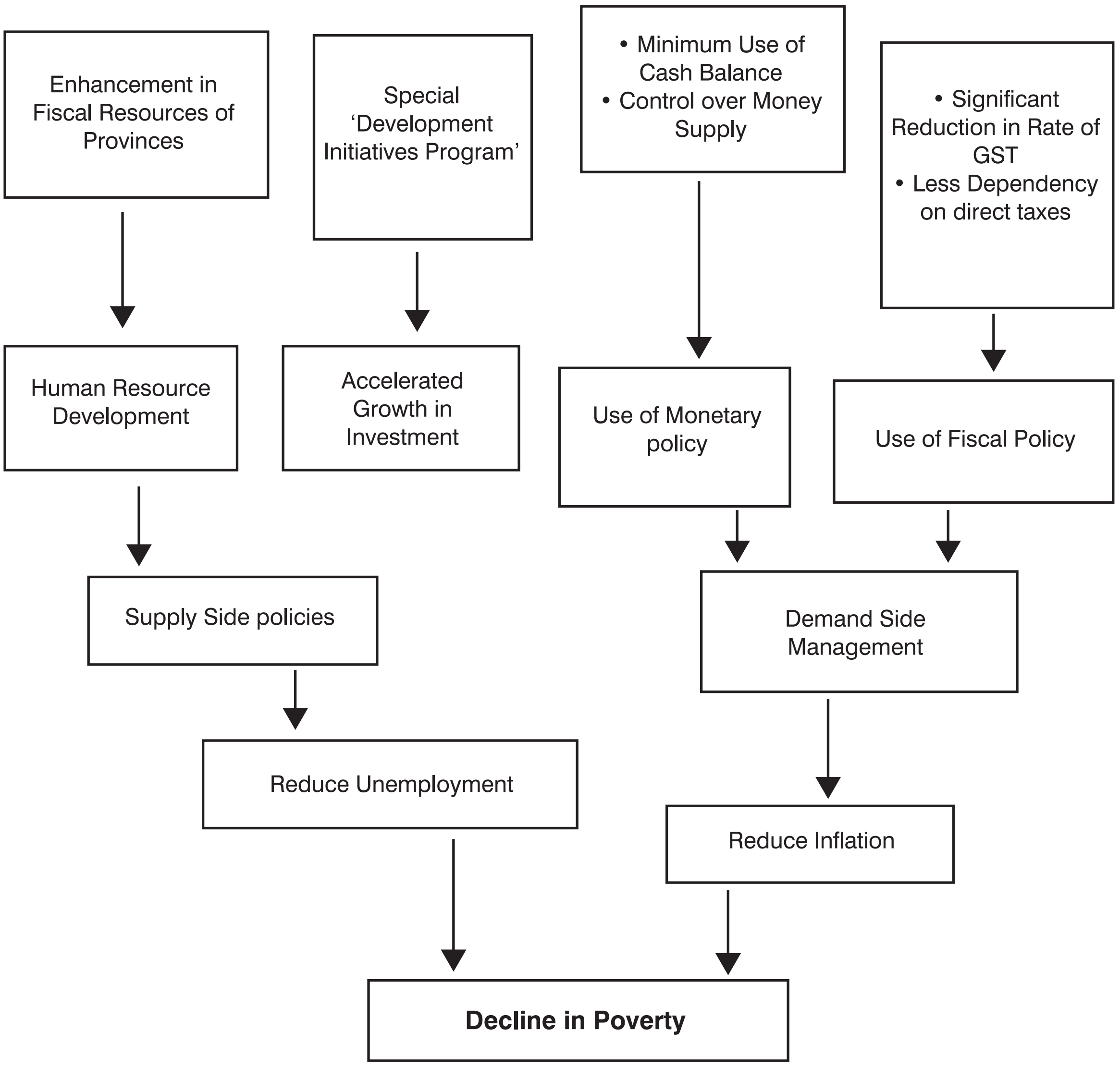
Here, it is noteworthy that inducement of private investment particularly foreign direct investment is the only feasible option to develop the badly deteriorated infrastructure in

Pakistan. Greenfield investment and capitalization of the savings of expatriate Pakistanis are also included in this program. The stagnancy of traditional fiscal policies in Pakistan has failed to revive the economy and we do not have fiscal space for badly needed development projects.

It is important to note that tax system in Pakistan emphasizes on indirect taxes and surcharges. The traditional approaches for financing the deficit and mobilization of resources through heavy indirect taxes have been damaging the economy of Pakistan. This approach leads to poverty and inflation. The share of direct taxes in central government revenue is around 25 percent in Pakistan, 47 percent in India, 46 percent in Malaysia, 38 percent in UK and 50 percent in USA. The lower share of direct taxes in Pakistan is because of exemptions and less efforts for tax collections from agriculture, services, real estates and retail trading activities. This situation leads to dependency on indirect taxes. The indirect taxes hampered the industry in multiple ways: they increase the cost of production and reduce the demand of manufacturing goods, because of higher market prices of those products after adding the sales tax. In this way, they damage the industrial competitiveness and induce inflation in the economy. EFP has recommended the shifting of dependency from indirect to direct taxes.

To increase its revenue, government should not depend on indirect taxation. We should encourage revenue enhancement through direct taxation on equity and egalitarian basis. Tax should be paid according to the magnitude of earning regardless the source of earning.

# EFP ECONOMIC VISION 2030: SIMULTANEOUSLY IN THE DEVELOPMENT MODEL



The badly deteriorated physical infrastructure in Pakistan does not support the economic progress and industrialization. To accelerate investment and industrialization in the country, we have to develop physical infrastructure of ports, means of transportation, energy and communications. It is obvious that fiscal space in public sector is not available for these badly needed projects. We suggest that such developmental works should be based on private sector investment. Particularly, foreign direct investment should be promoted for these developmental works. Though, government has introduced Greenfield Investment scheme for such developmental projects, necessary legal framework and administrative measures have not been taken to implement those investment policies till now.

There is no doubt that supply side policies require investment in physical infrastructure, industrialization, equipment and other mega projects. The energy policy and construction of economic zones are part of the supply side polices. China Pakistan Economic Corridor (CPEC) and its associated projects are the main supportive components of supply side polices. These projects include the provisions of connectivity through railway links, motorways, highways, construction of dams, energy producing and transmitting networks, and expansion in ports capacity. These are the basic requirements at the initial stage of accelerated development process. These projects will lead the enhanced activities in construction, energy, steel, mining, transport and financial sector. Vested interests of various groups at national and international levels may be involved in this fast developing process. We suggest avoiding politicizing these economic ventures. It is possible only when we create transparency and liberalization for all stakeholders on competitive basis without discrimination.

## ADMINISTRATIVE HINDRANCES AND REQUIRED CHANGES

It was observed that major irritants in the systems are not based on economic policies; these are based on administrative measures and procedural requirements. These procedural hindrances have been discussed in the appendixes. To avoid such administrative and regulatory obstacles in the developing process, we initiated a 'New Development Initiatives Program', which is a disparity from traditional approach. It is a major change in the public sector investment in development programs.

In the present state of affairs in Pakistan, development planning cannot be much depended on the fiscal policy. In past, fiscal policies have failed because of the clashes of interests among the vested interest groups. Moreover, no fiscal space is available for development planning by the public sector. Foreign assistance and external debt are also not a feasible or recommendable option. They restrict the political freedom of the country. We suggest that FDI (Particularly investment by ex-patriots) is the most feasible option for development planning. Financial Liberalisation is required to attract FDIs. It is a soft option for resource mobilisation to develop deteriorated infrastructure. It is notable that India's faster development since 1990s is primarily based on FDIs, and more than 60 percent of this FDI belong to Indian expatriates. At the same time we have to focus on regional economic integration. We think it is a sustainable source of economic prosperity in the longer term.

Moreover, in planning we cannot ignore the requirement of regional and global linkages and their strategic importance. Economic development and planning has two way relationships with the regional and global environment. Strategic importance of Pakistan emphasize that Pakistan should develop strong connectivity with the countries in Central and South Asia.

To achieve the targeted rate of higher growth, several measures are required. The following basic steps may be catalysts to boost the rate of economic growth and achieving the targets of economic planning:

- Private sector-led growth through incentivizing innovation, quality and productivity enhancement
- Modernization of existing infrastructure
- Strengthening governance through institutional reforms
- Human resource development to reap demographic dividend
- Revival of Confidence
- Bridging Investment-saving gap (through mobilizing FDIs particularly induced investments by expatriate Pakistanis)

- Harmonizing trade deficit and fiscal deficit within the tolerance limits to stabilize the value of Pak rupee
- Uninterrupted supply of energy at competitive prices: new energy mix and construction of big dams are required
- Fast Connectivity among the urban areas, ports and rural areas
- Developing a Big global market by trade corridors in central Asian countries, SAARC region and China

# MONETARY AND FISCAL (DEMAND MANAGEMENT) POLICIES FOR RELIEFS IN SHORT-TERM

On the basis of detailed analysis we have suggested the following principles for monetary and fiscal policies and we believe that these principles will provide reliefs to the general public and stake holders of the economy:

- It is important to note that tax system in Pakistan emphasizes on indirect taxes and surcharges. This approach leads to poverty and inflation. The share of indirect taxes in federal government revenue is around 70 percent in Pakistan, 53 percent in India, 54 percent in Malaysia, 62 percent in UK and 50 percent in USA. The lower share of direct taxes in Pakistan is because of exemptions and less efforts for tax collections from agriculture, services, real estates and retail trading activities. This situation leads to dependency on indirect taxes. The indirect taxes hampered the industry in multiple ways: they increase the cost of production and reduce the demand of manufacturing goods. In this way, they damage the industrial competitiveness and induce inflation in the economy. EFP has recommended the shifting of dependency from indirect to direct taxes. We strongly suggested a significant reduction in GST. It will reduce the rate of inflation, provide relief to general public, accelerate economic activities and improve economic efficiencies. This step will improve the buying power of general public, enhance the magnitude of economic activities and will help the industry in revival process. The reduction in the rate of sales tax will enlarge the size of consumer markets and government earnings will definitely increase. This is the pivotal point of our taxation policy. It is noteworthy that FBR sources indicate that the effective tax rate of GST is less than 5 percent, which indicates that 71 percent of total collection of sales tax is paid back in account of input adjustment and refund claims. We suggest that this culture of refunds should be abolished and government should collect GST at the rate of 5 percent. It will transfer the benefits to the end consumers, and lead the decline in poverty and inflation.

- To increase its revenue, government should encourage revenue enhancement through direct taxation on egalitarian and equity basis. Tax should be paid according to the magnitude of earning regardless the source of earning. Tax rates in Pakistan are considered as major hurdle in investment. Tax as percentage of gross profit is 57 percent in Pakistan, while it is 43 percent in India, 11 percent in Malaysia, 21 percent in USA, and 50 percent in Bangladesh. The average tax rate on corporate sector in Pakistan is 41 %; it is 36 % in India, 28 % in Malaysia, and 35 % in USA. In recent past government has taken a bold initiative to reduce income tax liability for individuals. While, corporate tax rates are still higher in Pakistan as compared to other countries, the shareholders of corporate entities also have pay to tax on dividend income and capital gain tax in case of the sale of their shares. The significant higher difference in the tax rates on individuals and corporate entities will discourage corporate culture in the country and investors will prefer to sole proprietorship. To reduce this dichotomy and anomaly, the government should reduce the rates of taxes on corporate incomes and capital gain tax should be abolished.

- We support the fiscal expansion without excess use of cash balance and public borrowing. For fiscal expansion government should use administrative measures to find the new tax payers and enhancement in tax basis. However, unplanned expansion will lead to the shrinking in investment activities. Before planning the fiscal expansion, government should always consider the reduction in public sector expenditures. The size of government must be as minimum as possible.

- We strongly reject financing the deficit through banking system; it creates several problems for industry. Liquidity crunch in financial markets, higher rate of interest and higher inflation are the ultimate outcomes of the use of cash balance to finance fiscal deficit. Revenue generation by the federal government through bank borrowing is an indirect tax on the industry and general public. This tax is paid by the public and industry in the form of higher spending due to inflation created by the use of cash balance by the government. In last 5 years the trend of financing was changed but it was merely a shift from the State. Bank of Pakistan to the commercial banks. Commercial banks are encouraged to utilize public deposits for deficit financing of federal government at a higher rate of interest. In this way they avoid risk management and evaluating the business plans and feasibility reports for investment activities in private sector. The public money and surplus savings which should be utilized for investment in the country are used for financing public sector activities. It leads to the unusual and irrational rise in the interest rate and shortage of investable funds in capital market. The higher interest cost payable by the government to banking industry is ultimately paid by the public through higher taxes. The multiple adverse effects of this practice are hampering the economy. We suggest that government should avoid bank borrowing and use of cash balance. The parliament has passed 'Fiscal Responsibility and Debt Limitation Act' in 2005. This act should be implemented in its true spirit, and government, opposition parties and judiciary should be responsible for implementation of this act. It will create financial discipline in the economy. Several negative externalities of external borrowing create irritants in the economy. They shift the burden of repayment to the forthcoming generations. So these options should also be avoided.

- To finance the fiscal deficit, we suggest the use of proceeds from privatization of public sector commercial entities. This fund should be utilized to finance those development projects which are required for the accelerated growth of private sector investment including FDI. According to a conservative estimate, government can earn 200 billion dollars through privatization of those 32 public sector entities which have been approved for the privatization by the federal cabinet. (Out of these 20 billion worth projects, we suggested privatization of 9 institutions from financial and energy sector. It will generate 2.02 billion dollars).

# SUPPLY SIDE POLICIES FOR SUSTAINABLE DEVELOPMENT

For long-term sustainable development, EFP recommends the Supply Side Strategy. It is the set of integrated policies for investment, human resource development and industrialization. These policies cover the development of infrastructure, competitiveness, productivity improvements and developing a knowledge-based economy. The main strategies and background scenario of these policies are summarized in the following points:

- The badly deteriorated physical infrastructure in Pakistan does not support the economic progress and industrialization. To accelerate investment and industrialization in the country, we have to develop physical infrastructure of ports, means of transportation, energy and communications. However, there is no fiscal space to provide required infrastructural facilities through public sector. The history of public finance in Pakistan indicates the misuse of funds for the development of politically-motivated projects: to offset the losses of commercial institutions in the public sector, to create inflated employment opportunities, to subsidise public services and to finance unnecessary populist projects. The cost of these bad decisions is ultimately paid by the middle and lower middle class people in the form of indirect taxes.

- The present scenario of public finances in Pakistan indicate that fiscal resources in public sector are not available to develop the country. Foreign assistance and external debt options are no longer available in present global scenario. So, development planning should be based on private sector investment. It is the only feasible option to develop the badly deteriorated infrastructure in Pakistan.

- Greenfield investment and capitalizing on the savings of expatriate Pakistanis are also included in this option. The miracle growth of Indian economy after 1990 was achieved mainly through inflow of foreign investment in India, while flow of this investment was not from foreign funds' managers and MNCs. More than 60 per cent inflow of FDI in India belongs to expatriate Indians. Major part of FDI in Indian economy belongs to Singapore and Mauritius (not from USA, UK or developed countries). The biggest part of this investment in India belongs to expatriate Indians who live abroad. We should also encourage Pakistanis who live abroad to contribute in the economic development of their country through investment in the national rebuilding projects including construction activities, steel industry, energy sector, and financial services.

- The declining rates of return in industrialised countries provide comparative advantages to invest in Pakistan. In the present global scenario, to invest in Pakistan is a rational decision for fund managers, investment advisors and investment companies.

- In past, Development Finance Institutions (DFIs) have been playing an important role in the development of infrastructure in Pakistan. NDFC, PICIC, PIDC, IDB and BEL are included in these institutions. Now, the role of DFIs in the economic development is almost negligible, while monetary policy and banking system do not support the mega projects in Pakistan. In its monetary policy, Pakistan has been adopting a quantitative easing to finance the budget deficit. To fill this gap, the government should help to re-initiate the formation and development of DFIs. **In the absence of these institutions we suggested a 'New Development Initiative program'**. It will not be a part of PSDP and will be governed by a separate board of governors including representation of stakeholders from private sector.

- It is important that several regulatory changes in economic and social set up are required for the success of supply side policy. Financial openness, economic freedom, trade liberalization, and changes in the social and political policies are required to attract foreign investment for long-term projects. Global and regional integration, new public management, the lean government are also the associated policy measure for economic liberalization.

- There is no doubt that China Pakistan Economic Corridor (CPEC) including its components - Gwadar-Kashgar railway link, motorways, several highways, construction of big dams and energy producing and transmitting networks, and expansion in ports capacity- will support the sustainable development policies. These are required at the initial stage of accelerated development process. However, the benefits of these developmental activities must be passed on to the common people of Pakistan. The significant participation of Pakistani investors, industrialists and businessmen in such developmental works will ensure the share and interests of common people. It has been seriously noted that real participation in these projects from Pakistani business community is still missing. It is because of the lack of awareness about the mechanism and development plans. Most of the activities related with the CPEC are limited to exhibition, seminars and photo session. EFP is seriously considering the participation and ownership of Pakistan's private sector in CPEC related projects. A separate report on this subject will be presented on this subject. The report will reveal the required policy measure to ensure the safeguards of local investors and common people.

- **It is quite obvious that these policies will lead the enhanced activities in construction, energy, steel, mining, transport and financial sector. Vested interests of various groups at national and international levels may be involved in this fast developing process. We suggest avoiding politicizing these economic ventures.** It is possible only when we create transparency and liberalization for all stakeholders on competitive basis without discrimination.

- Though, government has introduced Greenfield Investment scheme to induce foreign investment in developmental projects, necessary legal framework and administrative measures have not been taken to implement those investment policies till now. It was observed that major irritants in the systems are not based on economic policies; these are based on administrative measures and procedural requirements. In fact, the

'Greenfield Investment Polices' require constitutional amendments. We will have to highlight and amend those administrative obstacles which are discouraging investment. Those obstacles may be at local, provincial or federal government levels.

- Other than 'Greenfield Policies' some administrative measures are also required for improving 'Law and Order', and solving the Energy Crisis. It includes proper inventory management for uninterrupted supply of oil, gas and electricity on competitive prices.

## ACCELERATED GROWTH IN GDP
(After Incorporating EFP Plan)

| Policy Measures | Incremental GDP (%) | | |
|---|---|---|---|
| | **Industry** | **Services** | **Agriculture** |
| Fiscal Policy Measures: Short term | 0.5 | 1.0 | 0.5 |
| Monetary Policy Measures: Short term | 0.5 | 0.5 | 0.0 |
| Revival of Idle Capacity: Medium term | 1.0 | 2.0 | 1.0 |
| Higher Education and Technological Advancement: Long term | | | Accelerated growth |
| Infrastructure Development and Mega Projects: Long term | | | Accelerated growth |

## PRECAUTIONS AND LIMITATIONS

How energy crisis should be solved, how to avoid from a severe water crisis, how issue of food security will be addressed, how to deal with the environmental and climate change issues, what should be patterns of tax collection, what should be the parameters of fiscal policies: all these should be integral parts of long term planning. The dedicated team of EFP understands the problems, limitations and obstacles in the implementation of planning. We are fully prepared to face the challenges and to support the government and statesmen in taking actions for fast and sustainable development of the economy by policy advocacy at different platforms and lobbying at national, regional and international levels.

In implementation of the long-term development plans, some disturbances in social and economic indicators, side effects and undesirable changes may be expected. To avoid these undesirable outcomes, the policy makers have to prepare for taking corrective measures in short term. A summary of the successes, side effects and corrective measures of the development models experimented in other countries will help the policy makers during the implementation stages. We have prepared a list of those success, side effects and corrective measures. For precautionary purposes we have indicated the problems during the implementation of following models:

- Indonesian Model (Unusual, uncompetitive and high cost of energy)
- Saudi Model (Dependency of fiscal and monetary policies- Petro-dollar approach)
- Panama and Egyptian Model (undesired involvement of external sector in trade corridors- canals)
- Hyper-inflation or sudden increase in the prices of some commodities due to demand pull factor because of higher growth.
- There is a strong requirement of the implementation of CSR policies to protect less privileged groups and localities

## MODULES AND COMPONENTS OF EFP PLAN

No doubt, the implementation and success of these plans require political will and changing the social environment. Economic miseries of the people in Pakistan will significantly reduce by achieving the recommended rate of growth. However success in achieving the targeted growth requires integrated planning, and particularly some basic questions should be properly addressed:

- Who will be responsible to implement the program and what constitutional, legal and administrative mechanism is required?
- How China Pakistan Economic Corridor (CPEC) will support this program?
- How the framework for supply side policies (Industrial Policy, Investment Policy, Education Policy) will be prepared?
- What are the requirements for regional and global integration and quantification of their impacts on economic growth and sustainable development?
- What will be the sectoral distribution of GDP growth?
- How will this growth affect poverty, unemployment, inflation, debt burden, and internal and external deficits?
- How much investment is required to achieve the targeted growth?
- What will be the optimal sectoral distribution of the required investment?
- How these investments will be induced and who will be responsible for which part?
- How uninterrupted supply of energy and other utilities will be managed?
- Which raw materials will be required and how these requirements will be fulfilled?
- How supply of required skilled and unskilled workers, technicians, professionals, and scientists will be channelized?
- Which types of upgrade and changes are required in physical infrastructure and how these changes will be incorporated and who will be responsible for these changes?
- What will be the role and responsibilities of the public and private sector institutions?
- What mechanism should be adopted to synchronize the finance and banking sector to cater to the requirements of the development plan?
- And most importantly, which types of changes are required in the legal infrastructure,

organizational structures, institutional set up and perceptions and attitudes of the people to understand the new scenario and a peaceful transformation of the society?

The details, mechanism and quantification of such questions are not possible in this short version of the comprehensive plan. We have prepared the modules to cover all these areas. We are ready to share these details with the media, policy makers, statesmen and political parties. However, the following supplementary documents on the policy frameworks are available in the EFP Vision office and we will share these documents through our official website also:

- For Second Alternative Hypothesis in Section I: Filling the Knowledge Gap (Study on Missing Links between Higher Education and Economic Development)
- Technological-based Industrial Vision
- For Third Alternative Hypothesis in Section I: Filling South Asian Linkages Gap (Study on South Asia in New Economic Order)
- Supply Side Policies Framework: (Including Infrastructure Development, Industrial Vision, Investment Policy and Labor Policy)
- CPEC and Economic Zones
- Integration and Requirement of Demand Management Policies: Monetary and Fiscal Policies
- Role of Private Sector as Catalyst

# IV: EVOLUTION OF DEVELOPMENT PLANNING IN PAKISTAN: LEARNING FROM EXPERIENCE

# PLANNING FOR ECONOMIC DEVELOPMENT SINCE 1947: INDIAN EXPERIENCE

After fall of British colonialism in South Asia, Shanmukham Chetty was appointed as Head of Planning and Finance Minister of India by Nehru. Chetty was not a supporter of independence and his appointment reflected that economy is important than ideology in India. Indian Planning Commission was formed in 1950 and Shanmukham Chetty was appointed as Head of Planning and Finance Ministries by Nehru which reflected that economy is more important than ideology in India. Since then head of planning was always a world renowned economist. Its last head was Montek Singh Ahluwalia– an internationally renowned economist and professor of economics in top US universities.

However, Indian economic policy was largely based on centeralized planning and socialists policies since its independence to late 1990s. These policies are considered the introducers of 'License Raj' and underdevelopment of Indian economy. The continuous lower growth (less than 3 percent) introduced 'Hindu Rate of Growth' a derogatory term. 'Hindu Rate of Growth' by Indian economist Raj Krishnahigh & Robert McNamara, referred to the supposed contentedness. This Hindu Rate of Growth is a derogatory term referring to the low annual growth rate of the Indian Economy before 1990s which was stagnated around 3.5 percent.  This term, popularized by Robert McNamara, referred to the supposed Hindu outlook of contentedness.

During the same period, t he economy of Pakistan at its earlier stage led by Liaquat Ali Khan, I.I. Chundrigar, Ghulam Muhammad (Secretary Finance) and Zahid Hussain (Governor State Bank of Pakistan). Success of this team was remarkable and international community surprised on the fast development and growth in Pakistan. First two five years plans of India were scrapped, and according to Indian policy makers it was due to non-cooperation from Pakistan, when India devalued its currency, faced draught, and wanted to free trade with Pakistan.

However, since 1991 Indian government decided to move toward liberalization. In 2013, the Government of India has replaced Indian Planning Commission with National Institution for Transforming India Aayog (NITI Aayog).  The institution is serving as a 'Think Tank' a directional and policy dynamo of the Government of India. This institution will provide policy advocacy to the central and state levels with relevant strategic and technical advice across the spectrum of key elements such as national and international imports on the economic front, dissemination of best practices from within the country as well as from other nations, the infusion of new policy ideas and specific issue-based support.

# ECONOMIC PLANNING IN PAKISTAN

The economic planning in Pakistan was always based on the nexus of foreign influence, ideology and feudalism. Since its inception, Pakistan was compelled to adopt a Balance growth strategy which indicates the need and importance of regional equality in Pakistan. Pakistan's historical economic development and planning begins in 1948. The planning boards and planning advisory boards jointly started the process of planning. The history of economic planning can be divided into seven regimes:

- Conceptualization;
- Foreign Influence;
- Adhocism;
- Revival of Planning;
- Construction of Social Accounting Matrix and Macro Econometric Models by Planning Commission;
- Promoting PCI and PCII culture, and
- Existence of Planning Commission as an ineffective organ of the state.

Mehboob-ul-Haq, leading economist and former minister for planning, finance and economic affairs has described the seven sins in the planning experience in Pakistan. These 'sins' are: Fascination with numbers; Love for excessive controls; Preoccupation with investment levels; Addiction to development fashions; Divorce between planning and implementation; Economic growth without justice; and Neglect of human resources.

Initially a six years development plan was formulated on the basis of the Colombo Plan in 1950 for the period of (1951-1957) wherein main focus was given to agriculture sector. But this plan was not implemented due to lack of political support and changes of regime. However, the first five year plan (1955-60) was developed which laid emphasis on achieving national income. In practice, this plan was not implemented because of political instability which led to adhocism in the country.

The second five year plan (1960-65) was a continuation of the first five year plan with more focus on agriculture and industrial sector. This plan was implemented properly and surpassed all its goals and all sectors showed a substantial growth.

The third five year plan (1965-70) was designed along the lines of its immediate predecessor and more emphasis was given to heavy industries and creating infrastructure. Moreover, a substantial increase was projected in the inputs for the agricultural sector, especially the availability of water, fertilizer and agriculture credit. This plan showed modest growth. The fourth five year plan (1970-75) was abandoned as East Pakistan came into being as an independent country Bangladesh and then the annual development plan was replaced by the five year plan.

The fifth five year plan (1978-83) was an attempt to stabilize the economy and improve the standard of living of the poorest segment of the population. The Soviet invasion of Afghanistan and an increase in oil prices diverted the resources away from planned investment. However, some of the goals of plan were attained but the plan was unsuccessful in stimulating the private investment and rural infrastructure development.

The sixth five year plan (1983-88) focused on the pro-poor growth concept and significant shift towards private sector. The plan envisaged significant de-regulation of the economy. During this plan period, the economy grew with an average of 6.5 percent growth rate. The seventh five year plan (1988-93) also focused on the renewed role of the government to provide public services and manpower training. The promotion of private sector activity through further deregulation was focused in this plan. In this plan, total planned private investment was Rs292 billion and the private-to- public ratio of investment were expected to rise from 42:58 to 48:52. It was also intended that public-sector corporations finance most of their own investment programs through profits and borrowing.

The eighth five year plan (1993-98) was prepared by the working group by the government but this plan promoted PC-I and PC-II culture, red tapism and stagnancy in the economy. This plan recognized the role of government as a catalyst and manager rather than the main vehicle of economic growth. The overall focus had been on strengthening individual initiative and private enterprise. The plan also focused on a social action programme and augmenting energy and physical infrastructure. The ninth five year plan (1998-2003) was also failed to bring the economy into fast track of development.

Later on, the Government developed Medium Term Development Framework (2005-10) which relied on upgrading physical infrastructure for accelerating output growth. Specific spheres were identified where support to private sector were decided to extend and finally social sector policies were envisaged for timely achievement of millennium development goals.

Government has prepared tenth five year plan (2010-15) with the objective to use an available resources in the most efficient and effective manners, to overcome energy and water shortages, ensure food security, and reducing poverty through better targeting of income support and social protection measures and creation of productive and decent employment. With the next five year plan, government also prepared Vision 2025; a long term plan for economic development of Pakistan. It is unfortunate that the recommended targets in the Vision 2025 seems the wishful thought of the government because no feasible measures were described to implement the recommended targets.

Overall, the lack of coordination between economic planning and policies has become a common observation since last two decades. First lack of coordination can be clearly observed between fiscal and monetary policies. Fiscal policy is announced in the budget speech before the beginning of a new fiscal year. Monetary policy statement does not follow or coordinate with the fiscal policy parameters in Pakistan. The same phenomenon can be observed in case of supply side policies –trade, investment and industrial policies. Such lack of coordination leads the failure of economic policies. The disparity between the targets set by planning commission in 5-years medium-term development frameworks and annual budget reflects the major lack of coordination.

Pakistan's economic development planning began in 1948. The development board and planning advisory board jointly started the process of planning in Pakistan. The history of outcomes and fortunes of developed plans in Pakistan indicates that:

- Initially, a Six Year Development Plan (1951-57) was prepared on the recommendations of Colombo Consultation Committee. The plan envisaged a total expenditure of Rs. 2600 million.

- However, the First Five Year Plan (1955-60) was released in 1957. It was the beginning of systematic planning in Pakistan. In practice, this plan was not implemented, mainly because political instability led to adhocism in the country.

- The Second Five Year Plan (1960-65) surpassed its major goals when all sectors showed substantial growth.

- The Third Five-Year Plan (1965-70), designed along the lines of its immediate predecessor, produced only modest growth.

- The Fourth Five-Year Plan (1970-75) was abandoned as East Pakistan became independent Bangladesh, and the annual development plans have replaced this five year plan.

- The Fifth Five-Year Plan (1978-83) was an attempt to stabilize the economy and improve the standard of living of the poorest segment of the population.

- The Sixth Five-Year Plan (1983-88) represented a significant shift toward the private sector.

- The Seventh Five-Year Plan (1988-93) could not succeed to revive the economic growth of Pakistan. This plan provided for total public-sector spending of Rs. 350 billion. Of this total, 38 percent was designated for energy, 18 percent for transportation and communications, 9 percent for water, 8 percent for physical infrastructure and housing, 7 percent for education, 5 percent industry and minerals, 4 percent for health, and 11 percent for other sectors.

- The Eight Five Year Plan (1993-98) was prepared by a working group established by the government but this plan promoted PCI and PCII culture and red tapism and stagnancy in the economy Pakistan.

- The Ninth Five Year Plan (1998-2003) has also failed to bring economy at the fast track of economic development.

- Present Government has prepared working draft of Tenth Five Year Plan (2010-15). The key objectives of the Tenth Plan (2010-15) are to use the available resources in the most efficient and effective manner, overcoming serious energy and water shortages, ensuring food security, and reducing poverty through enlarging and better targeting of income support and social protection measures and creation of productive and decent employment.

- Now, the present government is preparing Eleventh Five Year Plan along with a long-term Plan for economic development (Vision 2025). It is unfortunate that the recommended targets seem the wishful thoughts of present government because no feasible measures have been described in the documents disseminated by the Planning Commission.

In fact, the lack of coordination between economic planning and policies has become a common observation since last two decades. First lack of coordination can be clearly observed between fiscal and monetary policies. Fiscal policy is announced in the budget speech before the beginning of a new fiscal year. Monetary policy statement does not follow or coordinate with the fiscal policy parameters in Pakistan. The same phenomenon can be observed in case of supply side policies –trade, investment and industrial policies. Such lack of coordination leads the failure of economic policies. The disparity between the targets set by planning commission in 5-years medium-term development frameworks and annual budget reflects the major lack of coordination.

The unfortunate experience of medium-term and long-term planning in Pakistan indicates that successive governments in Pakistan have put greater stress on the formulation of policies and projects than on their timely and cost-effective implementation. Moreover, Pakistan's success partially depends on foreign aid, particularly from the United States and donor agencies.

# APPENDEXIS

# STAGES OF ECONOMIC INTEGRATION

| No. | Degree of Integration | Scope of Integration |
|---|---|---|
| 1 | Preferential Trading Area (PTA) | A partial abolishment of custom tariffs on the inner borders of the member states |
| 2 | Free Trade Area (FTA) | A full abolishment of custom tariffs on the inner borders of the member states |
| | **Role of NTMs/NTBs and MFN Status** | |
| 3 | Custom Union | A unified (common external) tariffs on the exterior borders of the union |
| 4 | Common Market | Inclusion of the movement of services, capital and labor into an FTA |
| 5 | Economic Union | A combination of the customs union with a common market |
| 6 | Fiscal Union | Introducing a shared fiscal and budgetary policy |
| 7 | Monetary Union | Introducing a shared currency |
| 8 | Complete Economic Integration | Unification of economic policies (tax, social welfare benefits, etc.), reductions in the rest of the trade barriers, introduction of supranational bodies, and gradual moves towards the final stage, a "political union" |

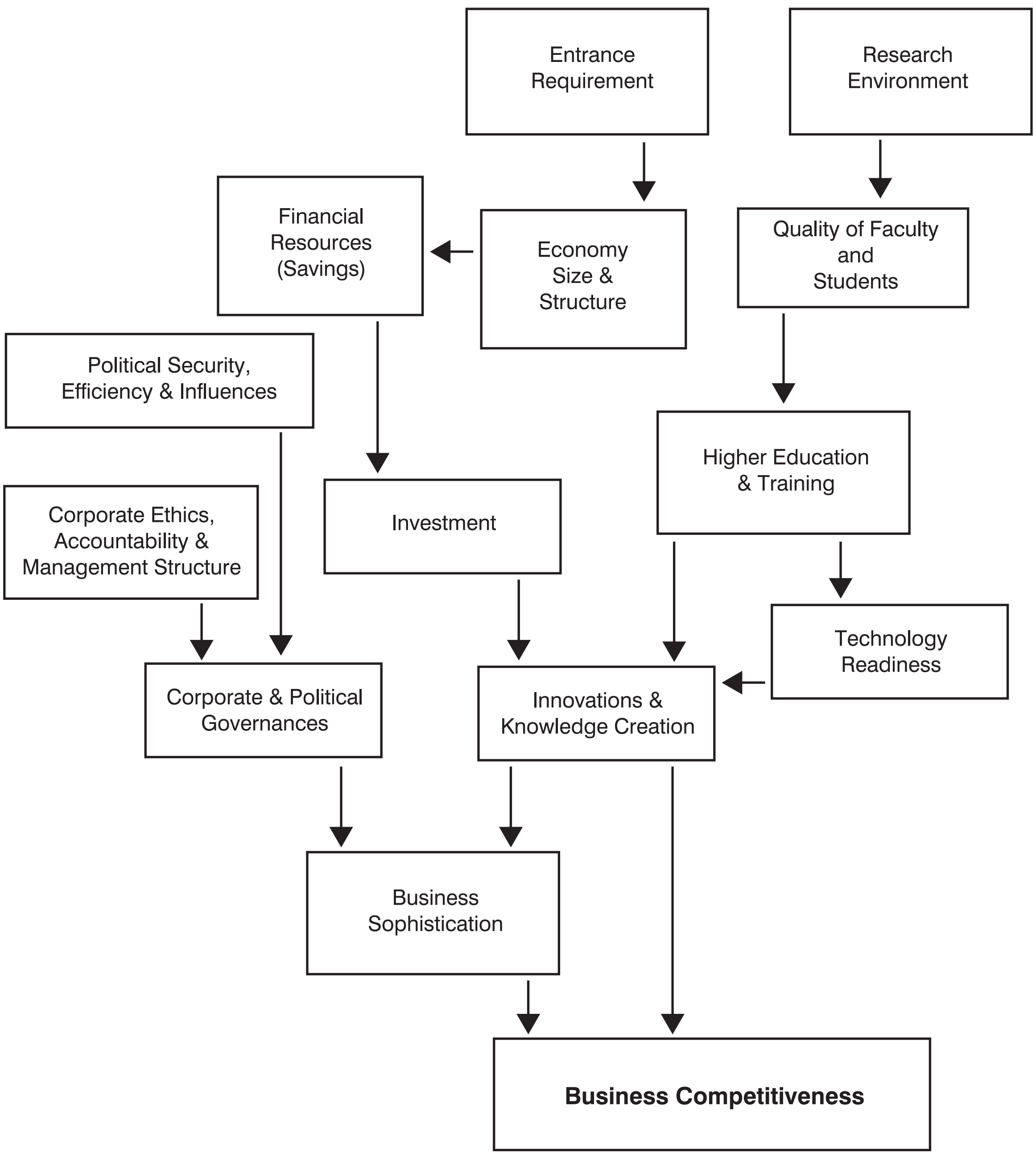
# TECHNOLOGICAL ADOPTIVE CAPACITY MAY RESTRICT THE DIFFUSION OF FUTURE TECHNOLOGIES

| Technology Application | Most of Africa, Middle East, Oceania | Latin America, South Africa, Turkey, Indonesia | China, India, Russia, Eastern Europe | Industrial Countries |
|---|---|---|---|---|
| Cheap Solar Energy | √ | √ | √ | √ |
| Rural Wireless Communication | √ | √ | √ | √ |
| Genetically Modified Crops | √ | √ | √ | √ |
| Filters and Catalysts | √ | √ | √ | √ |
| Cheap Autonomous Housing | √ | √ | √ | √ |
| Rapid Bioassays | | √ | √ | √ |
| Green Manufacturing | | √ | √ | √ |
| Ubiquitous RFID Tapping | | √ | √ | √ |
| Hybrid Vehicles | | √ | √ | √ |
| Targeted Drug Delivery | | | √ | √ |
| Improved Diagnostic & Surgical Techniques | | | √ | √ |
| Quantum Cryptography | | | √ | √ |
| Ubiquitous Information Access | | | | √ |
| Tissue Engineering | | | | √ |
| Pervasive Sensors | | | | √ |
| Wearable Computers | | | | √ |
| RFID: Radio Frequency Identification | | | | |

*Source: World Bank (2008): Global Economic Prospects (Technology Diffusion in Developing World)/ Silberglitt and others 2006*

## LINKS BETWEEN CORPORATE & POLITICAL GOVERNANCES, HIGHER EDUCATION AND BUSINESS COMPETITIVENESS

(Simultaneity in the Model)



# ECONOMIC PLANNING IN PAKISTAN

## First Five Year Plan: 1948-55/ 1955-60- Conceptualization

- The first plan was based on the theory of Cost of production value and Trickle-down system.
- The Korean War led the boom of country's economy.
- In 1953, the program collapsed after serious shortage of food, clothes, medicines and other essential consumer goods.
- Program was built entirely in the absence of much essential information and basic statistics.
- Over 90% (80 % in West Pakistan) of the population was living in rural areas.
- In practice, this plan was not implemented because of the lack of physical and personnel assistance, shortage of technical knowledge, shortage of foreign exchange, and unable to find outside assistance.

## Second Five-Year Plans (1960-1965)- Foreign Influence

- Heavy industrial development, advancement in literature and science. As priority areas
- Improvements in railways, communications, and transportation.
- More attention was given to private sector industrial development and agricultural industries;
- The unemployment was tackled with the industrialization.
- Plan surpassed its major goals when all sectors showed substantial growth
- Development of water and power utilities in East and West Pakistan.
- The financial services heavily depended on the foreign investment and aid from the United States.

## Third Five Year Plans (1965-1970)- Foreign Influence

- Promoted the activities of private sector investment and tend to increase the investment for the stable financial sector development.

- Dramatically, the agriculture growth sharply declined and desperately devastated the farming class of the country.

## Fourth Five Year Plans (1970-1975)- Adhocism

- Virtually, all fourth five-year planning was by passed by the government. Only annual plans were prepared.
- Plan was replaced with the nationalization program which featured an intense level of government-ownership management on private entities.
- Only scientific aspects of fourth five-year plan were adopted in a view to turn Pakistan into a major "scientific superpower" in the world.

## Fifth Five-Year Plans (1978-1983) – Revival of Planning

- An attempt to stabilize the economy and improve the standard of living of the poorest segment of the population
- Many of the controls on industry were liberalized
- Pakistan became self-sufficient in all basic foodstuffs with the exception of edible oils.
- Yet the plan failed to stimulate substantial private industrial investment.

## Sixth Five-Year Plan (1983-88) SAM and Macro Econometric Modeling

- A significant shift toward the private sector.
- It was designed to tackle some of the major problems of the economy: low investment and savings ratios; low agricultural productivity; heavy reliance on imported energy; and low spending on health and education.
- The economy grew at the targeted average of 6.5% during the plan period and would have exceeded the target if it had not been for severe droughts in 1986 and 1987.

## Seventh Five-Year Plan (1988-93)- PC I, PC II Culture

- Much greater emphasis on private investment in all sectors of the economy
- Public-sector corporations encouraged to finance most of their own investment through profits, borrowing and private equities

## Eight Five Year Plans (1993-98)- Ineffectiveness

- In 1991, the government established a working group on private investment for the Eighth Five-Year Plan (1993–98). This group, which included leading industrialists, presidents of chambers of commerce, and senior civil servants.
- Frequent changing in governments forced the authorities to focus on short-term issues

## MTDF (since 2004)

- From June 2004, the Planning Commission gave a new name to the Five Year Plan - Medium Term Development Framework (MTDF). Thirty two Working Groups then produced the MTDF 2005-2010

## Current Economic Scenario

- Services sector contribution in economy reached at 63%;
- Fiscal deficit averaged 7.3 percent during the last three years; Low tax-to-GDP ratio and uneven distribution of burden among sectors ;
- Unplanned bailouts to PSEs like railway, PIA, Pak steel etc.
- Domestic banking sector remained the major source of financing the fiscal deficit which is adding pressure on maturity profile, interest cost and crowding out the private sector.
- Around 54% of domestic debt has less than one year maturity which exposes the country to strong rollover risk.
- A one percent rise in interest rate will increase interest payments bill by Rs.70-80 billion on existing stock of debt.
- The foreign exchange reserves fell below $6 billion which is hardly sufficient to finance 1.4 months of imports

## Eleventh Five Years Plan 2013-18- Macroeconomic Targets

- Around 25 per cent increase in real per capita income based on an average GDP growth rate of 7 percent per annum through adding dividend of innovation, knowledge and productivity augmentation
- Overcoming energy shortages and ensure smooth and affordable energy supplies by end of the plan period

- Building most modern infrastructure to support dynamism in economy
- Improved Pakistan's standing in international comparison of the cost of doing business and business environment for private and foreign investors.
- Substantial reduction in debt burden to a sustainable level through professional management of public debt.

## Recommended Measures by Planning Commission:

- Private sector led growth through incentivizing innovation, quality and productivity enhancement.
- Modernization of existing infrastructure and Improving regional connectivity through trade corridors, motorways, energy, water and urban infrastructure.
- Improving Competitiveness in Industry & Trade.
- Improving tax to GDP ratio through broadening tax base and curbing tax evasion
- Strengthening governance through institutional reforms
- Fully harnessing potential of Social capital especially human resource development to reap demographic dividend
- Revival of Confidence with extensive stake holder's consultation, fiscal incentives and establishment of Business & Economic Councils.

## TRENDS OF ECONOMIC GROWTH

(GDP/ Billion US $ - for 2030)
Alternative Scenario (Assumed rates for Pakistan & historical growth for other countries)

| Growth Rate | Historical | 7% | 10% | 12% |
|---|---|---|---|---|
| USA | 20841 | 20841 | 20841 | 20841 |
| Japan | 6530 | 6530 | 6530 | 6530 |
| China | 46089 | 46089 | 46089 | 46089 |
| UK | 3231 | 3231 | 3231 | 3231 |
| Germany | 4002 | 4002 | 4002 | 4002 |
| India | 8050 | 8050 | 8050 | 8050 |
| Pak | 478 | 685 | 1190 | 1706 |
| Bangladesh | 316 | 316 | 316 | 316 |

## TRENDS OF ECONOMIC GROWTH

(Per Capita Income US $ for 2030)
Alternative Scenario (Assumed rates for Pakistan & historical growth for other countries)

| Growth Rate | Historical | 7% | 10% | 12% |
|---|---|---|---|---|
| USA | 56326 | 56326 | 56326 | 56326 |
| Japan | 51217 | 51217 | 51217 | 51217 |
| China | 30555 | 30555 | 30555 | 30555 |
| UK | 46094 | 46094 | 46094 | 46094 |
| Germany | 49916 | 49916 | 49916 | 49916 |
| India | 4881 | 4881 | 4881 | 4881 |
| Pakistan | 1929 | 2760 | 4798 | 6880 |
| Bangladesh | 1609 | 1609 | 1609 | 1609 |

# INVESTMENT CLIMATE

## Major Constraints % (Survey)

| Country | Policy uncertainity | Corruption | | Courts | Crime | Regulation and tax administration | | | Finance | Electricity |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | Major constraint % | Lack confidence courts uphold property rights % | Major constraint % | Tax rates as major constraint % | Time dealing with officials % of management time | Average trime to clear customs days | | |
| Pakistan | 40.1 | 40.3 | 20.00 | 62.60 | 21.50 | 45.6 | 8.7 | 8.9 | 47.5 | 39.2 |
| Bangladesh | 44.3 | 57.6 | - | 83.0 | 39.1 | 35.3 | 3.7 | 8.3 | 56.7 | 72.9 |
| India | 9.2 | 25.0 | 2.7 | 25.3 | 11.8 | 27.5 | 6.7 | 113.6 | 19.4 | 32.0 |
| Sri Lanka | 34.0 | 16.9 | - | 31.2 | 14.0 | 19.1 | 3.5 | 3.1 | 28.0 | 41.3 |

# BUSINESS ENVIRONMENT:
## Doing Business Indicators

| Country | Starting a business | | Registring property | | Dealing with licenses | | Enforcing contracts | Protecting investors | | Closing a business | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Number of procedures | Time required days | Cost % of per capita income | Number of procedures | Time required days | Number of procedures to build a warehouse | Time required to build a warehouse | Number of procedures | Time required days | Disclosure Index (less disclosure) to 10 (more disclosure) | Time to resolve insolvency years |
| Pakistan | 11.0 | 24.0 | 21.3 | 6.0 | 50.0 | 12.0 | 218 | 55.0 | 880.0 | 6.0 | 2.8 |
| Bangladesh | 8.0 | 37.0 | 87.6 | 8.0 | 425.0 | 13.0 | 185 | 50.0 | 1442 | 6.0 | 4.0 |
| India | 11.0 | 35.0 | 73.7 | 6.0 | 62.0 | 20.0 | 270 | 56.0 | 1420 | 7.0 | 10.0 |
| Sri Lanka | 8.0 | 50.0 | 9.2 | 8.0 | 63.0 | 17.0 | 167 | 20.0 | 837 | 4.0 | 2.2 |
| Nepal | 7.0 | 31.0 | 78.5 | 3.0 | 5.0 | 15.0 | 424 | 28.0 | 590 | 6.0 | 5.0 |
| **World** | **9.0** | **48.0** | **69.0** | **6.0** | **86.0** | **18.0** | **205** | **35.0** | **540** | **5.0** | **2.9** |

## PRIVATIZATION PROGRAM

| No | Entity | Government Ownership | Estimated Value of Government Ownership (US$ Million) | Size of Potential (US$ Million) | % to be Sold |
|---|---|---|---|---|---|
| 1 | Pak Petroleum (PPL) | 78% | 2,900 | 102 | 5% |
| 2 | Mari Gas Company (MARI) | 20% | 36 | 36 | 18% |
| 3 | Habib Bank Ltd (HBL) | 42% | 906 | 216 | 10% |
| 4 | United Bank Ltd (UBL) | 20% | 299 | 157 | 10% |
| 5 | Allied Bank Ltd (ABL) | 10% | 88 | 88 | 10% |
| 6 | National Bank of Pakistan | 76% | 869 | 301 | 26% |
| 7 | State Life Insurance Corp. | 100% | 15 | 8 | 51% |
| 8 | Kot Addu Power (KAPCO) | 46% | 216 | 216 | 40% |
| 9 | Oil & Gas Dev. Co (OGDC) | 85% | 8,400 | 896 | 8% |
| | Total (US Billion dollar) | -- | -- | 2.02 | -- |
| | Total (Billion Rupees) | -- | -- | 234 | -- |