

Chapter 1

BACKGROUND AND VISION

The 11th Five Year Plan (2013-2018) is being issued at a time when Pakistan is facing multiple challenges on the economic, security, and development fronts. These provide compelling reasons to make fundamental changes in the growth and development paths treaded in the past.

The previous strategies have delivered spurts of high economic growth. Unfortunately, these were unsustainable, and only led to boom and bust cycles. In most cases, these surges were ignited by fortuitous international developments, which caused increases in foreign resource inflows. Once these flows slowed down, so did the momentum of the economic growth. This is because of the reasons that growth has been consumption-led and import-dependent, and did not generate desirable levels of investment and exports.

More importantly, this growth has not met people's expectations, and there is an ever-increasing disillusionment with the development process, while progress in human and social indicators has been disappointing as well. Poverty levels have remained high, while income and regional inequalities have widened in the recent years. Serious infrastructural lacunae and shortages have emerged, especially in energy, water and communication sectors, which have raised the cost of doing business, impeded growth and added to people's hardships. This situation is compounded by a lack of job opportunities that meet the citizens' aspirations.

Reasons of demography, equity, and the necessity to maintain a cohesive society require that this situation be urgently and vigorously rectified. A strategy to address these issues will be that of a rapid and sustainable economic growth, which provides equal opportunities for everyone to work as per his potential; in other words, it will be a strategy of 'inclusive growth'.

Why is it urgent for Pakistan's economy to grow rapidly? The short answer is: to respond to the pressures of demography. Time seems to be not on Pakistan's side. Every year Pakistan adds a New Zealand to its population; every two years, a Switzerland; every three, a Greece; every four, a Netherlands; and every five, an Australia. Regrettably, when these figures are being added to the existing population, a little is supplementing the capital assets or the institutional capacity equivalent of these countries¹.

The population of Pakistan is expected to be about 227 million by 2025. The age-distribution is another substantial factor for acting quickly since about 50 per cent of the population is below the age of 20 years, while about 65 per cent is below 30. The demographic projections show that the youth bulge will continue to dominate the population for another 30 to 35 years. It has been estimated that Pakistan will need to create about 1.5 million new jobs every year only to keep the unemployment constant at the existing rate.

¹ Framework for Economic Growth 2011

Providing employment is not only important for increasing the country's production, it is also necessary in order to raise family incomes, and thus providing the wherewithal to acquire food security and adequate nutrition. Unless Pakistan can generate the required number of jobs through sustained high GDP growth, its streets will be crowded with young men and women seeking jobs, justice, education and medical care for themselves and their families. Eclipsing their hopes will mean abandoning them to become vulnerable to the blandishments of extremist philosophies; thus ultimately posing a serious threat to Pakistan's stability.

Ensuring food security and adequate nutrition to the population constitutes one of the major challenges the country will face in the coming years. The National Nutrition Survey of 2011 found two-thirds of Pakistan's children falling into the malnourished category along with a substantial increase in stunting rates. The nutritional inadequacies are also likely to hinder development of intellectual faculties of the school-going children and young adults, who are consigned to such diets, and could thus perpetuate intergenerational inequalities of opportunity and income. It is totally unacceptable that the land of Pakistan, which was considered to be the bread basket of the subcontinent, should be home to such findings.

The Plan will play a pivotal role in bringing about fundamental changes in the development paradigm followed so far. In the new concept, ordinary people, especially of the less developed regions, will have ownership in the development, and be at the centre of the process. The government will redefine itself in order to play an effective part in steering the economy towards achieving these goals.

The present situation resulted from a combination of external events, such as security situation in the region, and internal shortcomings, especially weak and dilatory policymaking, poor implementation, and weakened institutions because of an ineffective governance. Given that these deficiencies have accumulated over a period of decades, it will require a sustained and focussed effort over the next several years to fully overcome their adverse effects. Such a medium-term framework has been developed in the form of the Vision for Pakistan in 2025, together with a number of strategies, which will help in realising the Vision. The 11th Five Year Plan is a major step to actualise the Pakistan Vision 2025.

Vision 2025

An important reason for Pakistan's inability to achieve sustained and rapid economic growth is the lack of a national vision charting the shared and aspirational destination. Leading growth-makers of the world, such as China and Malaysia, were inspired by visions of their great leaders. Pakistan was founded on the Quaid-e-Azam's vision – spelled out in his address to the Constituent Assembly on August 11, 1947. It was, however, never followed through. The Vision 2010 was an effort to restore the tradition of perspective planning in Pakistan, but unfortunately the then democratic dispensation was overthrown in October 1999, and thus the process was discarded. There was another aborted attempt in the 2000s in the form of the Vision 2030.

Without a vision and in the absence of medium-term planning, the economy has been on a downhill path since 2006. Serious internal and external problems made their own contribution, but their impact would have been far less if a systematic framework had been in place. The issues of energy, water, human capital, institutional decay, and security of life and property cannot be resolved through short-term measures. The Vision 2025 is intended to end this

myopia. It is being seen as the first stage of a greater and long-term vision leading up to the first centenary of the country.

The Vision aims to serve as an aspirational document visualising the destination of balanced human, social, and economic progress throughout Pakistan. It emphasises revival of growth, strengthening of the country's development foundation and enabling it to reach the status of an upper middle income country. It is not a static vision. In a dynamic setting, the period beyond 2025 will continue the momentum and mount a big push towards attaining the status of a developed economy by 2047, the first centenary of Pakistan.

The government has already undertaken measures to fulfil short-term prerequisites to stabilise the economy. Inflation is decelerating, the fiscal deficit has come down, increase in foreign reserves has made exchange rate movements more predictable for investors and exporters, the stock market is buoyant, the international capital market received Pakistan with oversubscription of the Eurobond issue, an Islamic bond is in the offing, the successful auction of 3G and 4G licences established credibility with investors, and remittances from overseas Pakistanis continue to rise. In the real sector, the Large Scale Manufacturing (LSM) has grown at an unprecedented rate in the last eight years, while the agricultural growth remains respectable. The decks have thus been cleared for the launch of a long-term vision, implemented through five-year plans.

In a multi-party democratic set up, the ownership of a national vision is as important as its technical soundness. The Vision was drawn up after extensive consultations with a very wide range of stakeholders, which comprised political parties, federal ministries, provincial governments, national and international private sector entrepreneurs, international development and financial institutions, academia, think-tanks, independent experts, Non-Governmental Organisations (NGOs), parliamentarians and the civil society. A major national consultative conference, which included over 1,000 invitees, was held in November 2013, which was chaired by the Prime Minister of Pakistan, and attended by the PM of the Azad Jammu and Kashmir (AJ&K), Chief Ministers of the four provinces, and leaders from all walks of life.

The Vision divides its challenges and goals into a set of seven pillars, identified as the key drivers of growth, which will transform Pakistan into a vibrant and prosperous nation by 2025. In addition to these seven pillars, the government is also working towards the restitution of key enablers, such as political stability and continuity of policies, peace and security, rule of law, and social justice. The seven pillars are explained below:

Pillar-I: Putting people first: Developing human and social capital

The Vision seeks to provide every citizen with opportunities to improve his or her choices and quality of life. This requires capitalising upon the existing social capital, strengthening it and improving the human skill-base of the population to optimally contribute to and effectively benefit from the economic growth. Pakistan has to make significant leap forward in areas, like education, health and social development to catch-up with its peers. The Vision presents a comprehensive approach to addressing human and social development gaps with an emphasis on developing human and social capital to take full advantage of Pakistan's youth bulge. In addition, the Vision recognises the rising power of a socially aware population and seeks to move towards a knowledge-based society. It aims at substantial expansion in levels of education as well as improvements in the quality of education. A larger share of the GDP, at least four per cent to education and at least three per cent to health, will be allocated.

The key goals under this pillar are to

- achieve universal primary education with 100 per cent net primary enrolment,
- increase higher education coverage from seven per cent to 12 per cent, and
- enhance proportion of population from 48 per cent to 90 per cent with an access to improved sanitation.

Pillar-II: Achieving sustained, indigenous, and inclusive growth

An objective of the Vision is to provide better living standards to every Pakistani irrespective of caste, creed, area, religious or political affiliation by mobilising indigenous resources. All efforts will be made to make every Pakistani better off by 2025. Pakistan has many horizontal and vertical, intra and interprovincial, as well as rural and urban inequalities. The Vision envisages a strategic direction for developing a united and equitable society through a balanced development approach, social uplift, and rapid broad-based growth. This will ensure provision of opportunities and fruits of the economic development to all segments of the society. The thrust of the macroeconomic framework will be to support inclusive growth based on harnessing full potential of the economic factors, adequate resource availability, private sector as an engine of growth, sustainable fiscal and current account deficits, modern infrastructure to support growth process, provision of affordable energy, knowledge-driven economic value-addition, modernising agriculture and the SME sector and, not the least, an effective system of social protection.

The key objectives are to

- become one of the 20 largest economies in the world, leading to Upper Middle Income country status, and
- increase annual exports from \$25 billion to \$150 billion

Pillar-III: Democratic governance, institutional reform and modernisation of the public sector

A responsive, inclusive, transparent and accountable system of governance is envisaged through adoption of a holistic approach, from policy to strategy to implementation and delivery, encompassing all administrative levels — federal, provincial, regional, district and local — in a rule-based, result-oriented perspective. The Vision seeks an efficient and transparent government, which operates under the rule of law and provides security of life and property to its people. The goal is to strengthen and streamline institutions in order to enable consistent excellence in the management of the political, economic and administrative infrastructure. The Vision strives to develop a skilled, motivated and result-focused civil service, an effective regulatory framework, and an infrastructure that leverages supporting technology and best global practices. Further, it is designed to take advantage of the immense strength inherent in the 18th Constitutional Amendment, and the consequential focus on tailoring and deploying reforms, specifically suited to each federating unit and the local bodies.

The key goal is to

- attain a place in the top 50th percentile in the following measures of the World Bank's Worldwide Governance Indicators, that is, political stability, no violence and terrorism, and control of corruption.

Pillar-IV: Energy, water and food security

Sufficient, reliable, clean and cost-effective availability of energy, water and food is indispensable for ensuring sustainable economic growth and development. These key sectors have suffered historically from severe failings of policy and execution. Meeting this challenge has been further complicated by severe impact of the climate change. A renewed national consensus exists to commit new major investment through unprecedented public and private sector collaboration to bridge very large gaps threatening the well-being and progress of Pakistan. While investments to ensure the much-needed additional supply are being made, the country is equally committed to creating and encouraging a culture of conservation and efficiency in the usage of energy and water. Two major water and energy related projects — Diamer-Bhasha Dam (4500 MW) and Dasu Hydro Power Project (2160 MW) — have already been included in the Public Sector Development Programme.

The key goals under this pillar are:

- *Energy*: Double power generation to 45,000 MW and provide uninterrupted, affordable and clean energy for all, and electricity access from 67 per cent to 100 per cent of the population
- *Water*: Increase storage capacity to 180 days and improve efficiency of usage in agriculture by 20 per cent
- *Food*: Reduce the food-insecure population from 60 per cent to 30 per cent

Pillar-V: Private sector and entrepreneurship-led growth

The Vision aims to make Pakistan a highly attractive destination for the private sector investment by contouring conducive conditions, which allow private investors to successfully participate in its development. In the past, the private sector has been inhibited from playing an active role in the country's development owing to a variety of factors, such as energy deficit, strained security situation and lack of an enabling environment. Moreover, low-skilled labour, slow and costly judicial procedures (contract enforcement), factor market (land, labour and capital) rigidities, intrusive regulations and inadequacies in the system of land purchase and registration have reduced private sector effectiveness. The Vision seeks to achieve sustained engagement of the private sector, where the resources and skills, available across all sectors, are fully deployed to achieve defined targets.

The key goals are to

- rank Pakistan in the top 50 countries on the World Bank's Ease of Doing Business Rankings, and
- increase Diaspora investment (via remittances) in the private sector to the tune of \$40 billion.

Pillar-VI: Developing a competitive knowledge economy through value-addition

The national competitiveness refers to the ability to produce and deliver products and services effectively and profitably relative to the competing countries. Competitiveness is also about achieving efficiency and productivity to enable self-sustaining enterprises; thereby boosting their share in the international market. Improving the national competitiveness is, therefore, critical to the nation's ability to utilise resources in a productive manner, based on merit, quality

and innovation instead of rent-seeking behaviours. The Vision envisages fundamental improvements in competitiveness across the industrial, manufacturing, services and agricultural sectors.

The key goals of this pillar are to

- quadruple contribution of the Total Factor Productivity to growth, and
- improve Pakistan's score on the World Bank Institute's Knowledge Economy Index from 2.2 to four.

Pillar-VII Modernising transportation infrastructure and greater regional connectivity

The Vision aims at establishing an efficient and integrated transportation system, which facilitates the development of a competitive economy. A strategic programme of regional connectivity is envisaged to connect Pakistan with regional partners through enhanced physical infrastructure development (physical connectivity), effective institutional arrangements (institutional connectivity) and empowered people (people-to-people connectivity). Building enhanced regional connectivity requires not only the development of new strategies and institutions, but also investment in more effective implementation of the existing and future initiatives. The China-Pak Economic Corridor (CPEC) offers a unique opportunity for Pakistan to integrate regional developments and become a hub for trade and manufacturing with the Gwadar Port being developed as an international free port.

The key goals under this pillar are to

- increase road density from 32 Km/100 Km² to 64 km/100 Km²,
- share of the Pakistan Railways from four per cent to 20 per cent, and
- ensure reduction in transportation costs, safety in mobility, effective connectivity between rural areas and markets and urban centres, interprovincial high-speed connectivity, integrated road and rail networks between economic hubs (including air, sea and dry ports), and high-capacity transportation corridors connecting major regional partners.

Realising the Vision 2025 will require a well-defined coordination mechanism among the federating units, including four provinces and Special Areas, which comprises Federally Administered Tribal Areas (FATA), Gilgit-Baltistan (G-B) and AJ&K. Moreover, steps towards providing an enabling environment for the realisation of this Vision have been taken. The Zarb-e-Azb Operation, dialogue process with political parties for stabilisation of the democratic process and reforms are a few initiatives in the right direction.