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# The Economist Survey of Pakistan 2030

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Ist Draft

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## Vision 2030

What is a vision?

- ✍ A vision statement encompasses the desired future for the concerned enterprise.
- ✍ A vision statement provides a basis on which the people involved can work towards.
- ✍ The purpose of a vision statement is to inspire members to a common desirable and happy future.
- ✍ A vision is more than an aggregation of the views of all participants in that it is also informed of the global knowledge pool and technological possibilities that might be available.

With this notion of 'vision' in mind, we are only proposing an ideal for Pakistan in 2030 that provides all Paksitanis with opportunity, freedom, economic well being and a high quality of life.

Many stories can be written to lead to a situation where the country has reached the following consensus for a framework for a civilized sustainable society that can unleash productivity.

With this in mind, here is the vision in the form of the next Pakistan Survey from the 'Economist' magazine

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**July 8, 2030**

James Astil returns to Pakistan to survey the economy after 25 years.

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### **Making the Miracle**

Since the last Economist Survey (25 years ago), Pakistan has achieved a miracle. From one of the poorest countries in the world it is now well into the ranks of a middle income country. From a 'failed state' with poor institutions ruled mainly by military dictators, it has founded strong institutions and developed a sustainable form of governance. At the time of the previous survey, inequalities were extreme and widening with the proportion of the poor increasing; in this survey we find an egalitarian society of opportunity.

How did this happen? Several factors contributed to these favourable outcomes. Perhaps the most important was the soul searching done by the country to come to terms with several recurring themes that rendered it a failed state at the turn of the century. This soul searching led to the dismantling of the state apparatus that essentially kept the country from developing much needed modern institutions.

#### **A state at peace with all**

For decades, the Kashmir dispute had led to a form of siege mentality in the country. In developing its defence capabilities the country had developed a large and powerful armed force that had become politically and economically powerful. About 30 percent of the budget was spent for

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defence. The defence establishment was also heavily involved in business owning real estate, banks, and airlines among others.

For decades there was a power struggle between the rich and powerful defence establishment and civil society. Political and civil institutions remained immature in this struggle leading to the development of many internal conflicts in the country.

IN 2015, the Kashmir Dispute was resolved and peace with India was achieved. As part of the peace process all restrictions on the movement of goods and people were removed. The two neighbours who shared centuries of history and trade were finally able to restore those human and cultural linkages.

One important aspect of this peace was the final scaling down of the defence establishment in Pakistan. However, the peace alone would not have been enough to reduce the economic and political power of the defence establishment if other factors had also not fallen into place to change the power structures in the country.

## **Removing the rentseeking, entrenched elite**

Before the reform, Pakistan was rentseeking elitist state Despite several attempts at land reform and nationalizations, the country's elite essentially remained intact. Feudal landholdings remained intact and the industrial elite was essentially created through the license and protection raj and continued to grow strong over time. The result was that the ruling elite remained firmly entrenched through the first 70 years of the country's history: election after election returned members from the same rich and powerful families.

Social mobility was severely restricted as the elite continued to capture resources. Development policy was used as a means for obtaining subsidies and protection for those who had political influence. Donor funding was garnered by the rich for their own welfare. During this period the only community facilities that the government developed and nurtured were various clubs that were elite preserves. The price of elite schools such as Aitchison College too declined relative to that of private schools.

Government involvement in markets and government policies such as protection and licensing favoured the rich. Bank loans were easily written off, insider trading and privileged access to land and other government licensing and tendering all favoured the power elite. The quickest way to wealth in the country was access to government distributed rents.

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Rentseeking was not only destroying work ethic and investment culture, it was also eating into government service delivery. The country appeared to be caught in equilibrium, where poor governance was being reinforced by rentseeking.

The elite state was totally unfriendly to the middle class. In the development of the cities no space was allocated for them. Nor was any space provided for community activity for the middle class. In all cities the zoning laws favoured the rich, their estates and leisure clubs. There were no libraries, theatres, meeting halls, or playing grounds for the middle class. Apartment buildings were not allowed to be built in city centres keeping the price of housing too high for the middle class.

Five important reforms happened that broke the rentseeking trap.

- ✍ First globalization was fully and wholeheartedly accepted. The economy was fully opened out with no favourites with a nominal uniform tariff of 5% on all goods.
- ✍ Second all distortions where the government could pick or aid market participants were discontinued.
- ✍ Third, the role of government was reoriented away from the planning “government knows best” approach of the earlier era. Government was now expected to focus on its job of providing market infrastructure – mainly property rights, law and order and justice.
- ✍ Fourth the wealth that the rich and powerful had accumulated in the rentseeking era was being used for manipulating government and capturing political power. At least three attempts at land reform had failed to break the power of feudalism and rentseeking. Wealth was accumulated across generation and the parliament of 2015 just before the reform period, sported the same surnames as the parliament of the 1952. Three generations of the rich had done nothing else but political rentseeking politics and were continuing to remain in power. Finally, an inheritance tax of 60 percent on estates over 2 million dollars has been adopted. Of course people have the choice of dedicating their wealth to a public cause of choice instead of giving it to a tax payer. The possibility of a reduced inheritance is focussing all succeeding generations on adopting education and personal labour rather than an inheritance as a basis of success. Large estates are now truly in danger of being broken up when each succeeding generation passes away.
- ✍ Fifth, the system of power and privilege was dismantled. Symbols of power such as high visibility housing, police escorted motorcades, VIP

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lounges, membership of clubs based on power were all done away with. In other words payments through perks now do not exist; government only pays cash.

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## The New Government and Governance

The developmental government had got used to justifying all manner of rights violation, market intervention and rentseeking in the name of development. Long ago, government functionaries had stopped attending to justice, property and human rights in the name of the next development project. Courts were starved of resources while no effort was made to put in place a system of property rights.

A consensus is now developed that development projects would no longer supercede the provision of these social contract goods such as security of life and property and the provision of justice. Government performance is now judged by the security of life and property it provides and the quality and speed of justice provided and not by the growth rate or its export targets. People have finally understood that the government is not an effective helmsman of economic development unless it provides social contract goods effectively.

### Constitutional reform

Pakistan faced many a constitutional hiatus in its first 75 years to reach a situation where a large scale consultation on a constitutional reform was adopted. This consultation involved all segments of society and was fully guided by leading intellectuals. A wide ranging process was setup for more than a year to develop principles of stable representative government. Then through a series of referenda, these proposals were adopted and the constitution amended. The referenda and the discussion made sure that the people understood the constitutional principles that were being adopted.

Some important constitutional changes that have contributed to the development of a stable democracy are.

- ✍ The size of the cabinet is limited to fifteen obviating political bargaining through ministerial appointments. Cabinet members need not be from parliament.
- ✍ All government appointments—cabinet ministers, judges, heads of agencies and departments to be confirmed by parliament.

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- ✍ Rules of representation to include parliamentary performance disallowing being a MNA and yet not showing up in parliament or participating in legislation. There are rules for minimum attendance in parliament and voting for retaining your seat in parliament.
- ✍ Very important and clear rules for judicial independence including a non-political judicial commission for making appointments, a well compensated judiciary with added performance bonuses and generous indexed retirement benefits. Retirement age would be fixed at 75 with no further hope of appointment.
- ✍ The power of the executive has finally been limited. The ability of the executive to legislate at will has been limited. The executive's control of resources and its control over appointments have been severely limited.
- ✍ Private member bills are now the basis for legislation rather than those originating from the executive.
- ✍ There is a ban on cabinet members and other government officials on attending private functions such as weddings, funerals and birthdays. Such attendance has to be at personal rather than state expense.
- ✍ Decentralisation was finally adopted fully with a very clear division between the functions and resources between Islamabad and local administrations.

## The New Islamabad

Since the economy has been completely opened with a convertible rupee, the role for government interventionist policy has been substantially reduced. In any case, the country has learnt that distorted markets, favourite sectors and subsidy and incentive regimes did not work in the past. Consequently, the large infrastructure of the federal government for facilitating development—planning, economic affairs, commerce—was all dismantled.

Islamabad is converted into being a policy place and not a development management, resource monopolizing and rentseeking domain. The main purpose of ministries is now to review what markets and decentralized governance is doing to inform the people of the state of public service provision. Most of these reports are now made public in important parliamentary debates and change of policy takes place only through public debate. In this architecture, only a few ministries remain at the centre

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- ✍ Foreign office which is seriously reduced only about 20 foreign missions—small missions mainly econ intelligence work. Unnecessary and costly diplomacy has been eliminated. There is now an annual parliamentary review of all diplomatic activity, including foreign trips and participations in international conferences by senior government officials. An interesting by-product of this downsizing is that Scheherzade hotel is back to being a hotel!
- ✍ Social sector ministry which merely researches and the state of social sectors and reports to parliament annually. It has no oversight or management responsibility of the social sectors.
- ✍ Department of economy to include industry, agriculture, trade and commerce only for reviewing state of market and competition---(no expensive missions for export promotion---no bilateral free trade agreements)
- ✍ Ministry of finance focused on budget management. Contrary to the earlier period this ministry is not allowed to take over other ministries.
- ✍ Ministry of reform---to review state of reform and try to remain ahead of the reform curve.
- ✍ Ministry of institutional development to keep the framework for market regulation and the legal and judicial areas under review to inform people of progress and service provision.
- ✍ Department of justice reviews the state of law and order and justice in the country.

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## Decentralisation and the New Administration

All government functions are now devolved out of Islamabad to local governments. These now own all social sector functions and institutions. They are the first step in law and order and justice. They maintain and develop property rights. They compete for business.

A number of important decisions have been made in this regard.

- ✍ Federal government now runs only on a 5 percent income tax, 10 percent corporate and the 5 percent tariff on all goods. Local governments collect property taxes, sales tax which varies from 5 to 12 percent. Local government can also levy additional corporate or income tax on people living in their communities.



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- ✍ Local governments have to run balanced budgets but they can raise money for projects which are economically feasible. There is now a thriving municipal bond market. Of course this means that a city or local administration can go bankrupt.
- ✍ Property taxes not just on land but on development of land as well as on cars and other expensive items. These assessments are based on low rates and market assessments and are publicly declared.
- ✍ There is a large use of user fees for public service provision; to ensure equity, widespread use of coupons is made.
- ✍ Police is now locally owned: Local police chiefs and sheriffs are now elected
  - .1. Federal law agency like FIA is now clearly separated from the local police with a jurisdiction that is not superior to local police
  - .2. No local police to guard VIPs—VIP management service separate item in budget and clearly revealed to people
- ✍ Local judiciary and magistracy are now elected officials in some jurisdictions

## **Administrative reforms for the new decentralization**

One important colonial legacy that was centralizing the system and acting as a bulwark to reform and modernization was the civil service. A major overhaul of this system to make it amenable to modernization was undertaken over the course of 2 years. Specifically, the following was achieved.

- ✍ The old system of unified pay scales put all government servants from the local administration to the federal government on a scale that defined relativities, seniority and access to power. The system was defined to put all federal government officials on top and among these all federal government employees with no technical skills or jobs on top. The system ensured that all local government employees and all managers of service delivery were relatively junior to the federal bureaucracy. This system was eliminated to allow all government agencies and levels of service and governance delivery to be treated at par. Thus there was no reason why the treasurer of Lahore was junior or answerable or even paid less than the finance secretary in Islamabad. Lahore was now allowed to fix its own pay scales and human resource management policy.



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- ✍ The system of transfers the federal government controlled all administrative positions is also eliminated. The old system of transferring civil servants on a bureaucratic whim from lasbella to landikotal with no say from the local administration is now discontinued. Local governments now hire from the market which also includes the federal government. If they want some one from there a move following a resignation will do the trick.
- ✍ This essentially means that the old civil service system that protected the key appointments for itself essentially has been done away with. So is the old method of work leading to Babudom and rentseeking. The old system has been opened out so that at all levels people compete for a positions. Pensions are portable, the system is well paid and there is now a lot of movement between the public and private systems.
- ✍ Gone too are the old rules of business that made government opaque and unfriendly and procedure ridden. New freedom of information acts and requirements for reporting to parliament have all developed an atmosphere of a more responsive civil service.
- ✍ For 75 years the civil service was poorly paid in salary terms but allowed to be very rich in perks, privilege and rentseeking. The result was that productive people with little ability to maximize rentseeking and perks were leaving the civil service to make room for rentseekers and perk maximisers. To set the balance right perks were eliminated as was privilege. Civil servants were now paid internationally competitive salaries but without houses, cars and privileged access to clubs or rest houses.
- ✍ The power of the executive and the civil service was further eliminated through the use of institutional autonomy. Self renewing boards now ran organizations like universities, regulatory bodies, hospitals and other public agencies. Government interference was on the basis of complaint to parliament or through judicial action. Such agencies are now all independent beyond executive control; their access to public funds is through clear transparent performance criteria.

## The New Macro-Framework

Fiscal responsibility is the new buzzword. Following many debt crises and the constitutional consultation, the people are fully educated on the need for fiscal responsibility. While there are global and annual limits on debt accumulation, there are also limits on how much each government can

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accumulate in its term. A government remains liable for wasteful accumulation of debt well beyond its tenure to ensure no manipulation of debt for political cycle purposes.

As mentioned above the tax code has been totally simplified. There are only 4 taxes in Pakistan—income tax, corporate income tax, sales tax and property tax—an they are all expected to remain at a very low rate.

There are also severe limits on borrowing for development in view of the waste on this account in the past. Donors are all expected to finance their development expenditure through the local municipal bond market and take their risks on the projects. The previous situation where donors took no risk on their lending and loans were agreed on with federal guarantees in secret agreements is now not allowed. Parliament has to approve sovereign guarantees and sovereign loans.

SBP autonomy has been increasing over time. Now the bank is completely and fiercely independent. The executive and the finance ministry has no role in the making of monetary policy. They now recommend names for appointment to the board of the SBP to parliament which after review makes the appointment.

The currency which is now convertible is fully floating. SBP is now conducting monetary policy on an 'inflation-targeting' basis.

There is now a single regulator for all financial markets relieving the SECP from bank supervision. This makes for cleaner inflation targeting regime.

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## The Problem of Land

Much of the rentseeking that occurred in Pakistan was tied to the regime of land ownership and management. The elite which operated like a mafia seriously resisted any change in the land management regime for a long time. The uncertain situation helped them accumulate lucrative positions

In the old situation, many systems of land titling prevailed with none of them clearly conferring an open transferable title on the owner. In addition, ownership records allowed land to be held in some one else's name. The result was that all ownership and transactions could be manipulated by bureaucratic whim or political power. Qabza (landgrabbing) had become a common preoccupation for advancement.

Land had become Pakistan's problem from day one. Mass migration at the time of independence left a lot of evacuee property and a large number of claimants of this property. This set in motion rentseeking. Later the

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government got into the act of developing property when it undertook schemes like Gulberg in Lahore and then the development of Islamabad. Government allotment of this developed property led to rationing which further intensified rentseeking. The army was quick to catch on and there have been many defense housing schemes to allow the army personnel to benefit from the rentseeking.

Land development was also undertaken through the cooperative housing schemes using a law that was meant for the development of poor housing. Many influential people from time to time developed cooperatives that would then use the government power of eminent domain to acquire land and distribute the large portion of benefit to themselves.

In the rural areas, large landholdings allowed local power to be concentrated in a few households. This feudal regime where a few families continued to rule the country through much of its history was maintained through these large landholdings. In addition, the weak land titling regime helped the feudal by keeping rural land immobile and in their political hands. Land reform had not worked. Hence the new thinking was that a land market would contribute to breaking the back of the feudal.

Several initiatives were taken up on the issue of land.

- ✍ Privileged access to land and land development was abolished. In the earlier era, land was easily made available on concessional terms for clubs where only the rich had access to play polo and golf. This was strongly discontinued and these activities were now to be properly priced and taxed.
- ✍ Privileged access to government development schemes is now a part of insider trading laws
- ✍ Islamabad and defense models of land development to be discontinued. Land development to be pursued by the private sector as an activity.
- ✍ Cooperative act was abolished.
- ✍ Land acquisition laws were tightened so that eminent domain was clearly defined for public purpose and would be done transparently through open public hearings
- ✍ Benami titling was eliminated.
- ✍ All land titles secure and strictly guarded by state
- ✍ Transparent open land titling with title companies and title insurance

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- ✍ All public land to be made available for development will now be auctioned to private developers through an open transparent process.
- ✍ All land development private activity—severe penalties for malfeasance through courts

The result is that there is a thriving market for land and land development has really taken off. A construction boom is now taking place in the country.

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## A Secular Pakistan

After a long ideological struggle, a consensus on a secular Pakistan was reached. It was recognized that Pakistan was a homeland for Muslims but that other faiths could live and contribute in Pakistan. Diversity was to be cherished for it made for human productivity.

The result was that the state took a decision to do away with the previous attempts at Islamization. The earlier Zia legislation was finally abandoned and syllabi made more amenable to a modern state. Spiritual education was considered important but given the sectarian divides was best left to the family.

To check the clergy which had gone overboard on fundamentalism, a set of reforms for the organization of the clergy were put in place. Clearly the fundamentalist episode had shown the population that there was a need to set professional standards for the clergy if a high quality of service was required.

The government therefore set about setting up a framework for the funding, certification and professional improvement of the clergy. The result was

- ✍ A licensing regime was established for the moulvis muezzins and fatwas.
- ✍ Departments of theologies were established in all universities. A degree in Islamic studies was needed to qualify as a moulvi and that degree included a fair humanities curriculum.
- ✍ Hierarchy of clergy was established so that only senior moulvis took over important mosques and they were the only ones who could deliver important sermons
- ✍ A system of postings and transfers was established to allow the moulvi to go to new communities and learn more about society.

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- ✍ The building and running of mosques was run under a regulation by the department of auqaf in all local governments
- ✍ Clerics were regarded as government servants and they should only be allowed to enter politics when they leave public service and if they have served a cooling period.

The result is an erudite clergy that is getting more and more research oriented and developing a whole new set of ideas for developing the country.

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### Cities of Development

For too long the country tried to keep a tight rein on development hoping to earn enough through exports to keep the traditional elite society funded. For many years mercantilist policies had been pursued with little debate and thinking. Like other episodes of mercantilism, Pakistan too never succeeded with either import substitution or with developing a substantial portfolio of exports.

The government had too many ambitious projects for rural development and poverty alleviation that were not clearly thought out. These projects were indebting the government while keeping the bureaucrat well funded.

What was missing was productive, busy, commercial cities that would act as a magnet for rural population and trade and commerce. At the time of the great reform, it was decided that development was truly a city phenomenon

The result was a decentralized city based development. In the previous regime, the economic and administrative unit was the district which combined both urban and rural areas. In the new regime urban and rural areas were clearly delineated. Cities were made important units of decentralization and autonomously and competitively run.

In the earlier land-grab regime cities were fast becoming unmanageable urban sprawls. In the great reform period, city limits were established for preservation of the countryside. However, establishing city limits required that army control of land in the form of cantonments needed to be clarified. The reduction in the size of the army which followed peace settlements allowed a lot of idle and poorly developed cantonment land to be reclaimed into cities for serious commercial development.

But to accommodate the rush on growing commercial metropolises, city centers had to be liberalized. Basically priority in city centers was given to

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poor and middle class housing and commercial development. The MIMBY<sup>1</sup> saying by rich households was now not given preference. Rich housing estates in city centers were discouraged through high taxation. Thus like all mature and growing cities, schools, flats, commercial development were given priority in city centers. To facilitate private sector development of all these city centers, rent control has been abolished. A legal framework for flat development and ownership has been strengthened.

Professional city management was hired to run cities on modern lines. Urban zoning rules were laid out to take the arbitrariness out of development. Consultative processes were to be employed in city development of cities and land. Priority, however, was to be given to urban density. City taxes will now be used for developing city services such as transport and sanitation and amenities for human and social capital development such as libraries and community centers. Where necessary, congestion taxes are now used while urban amenities for the rich are now taxed for distributional purposes.

Government ownership of city center land has been seriously reviewed by parliament. Government owned buildings such as governor houses, staff colleges and navy war colleges are no longer exempt from taxation. In fact cities have the right to increase their taxation on such real estate. Parliament has taken a decision that government owned land in city centers should be made available for commercial development to promote employment generation.

All cities are paying international prices to their management teams. Lahore has even imported a retired police chief of London to manage and develop its police team. Sialkot is seriously developing its schools system and has an Austrian School system manager to come in at a very expensive price for a period of three years.

The new regime has allowed cities to develop their own competitive edges. For example,

✍ Lahore returns to being a city of entertainment and intellectual activity. The Mall has a large number of theatres and restaurants. The old governor house, Zoo, GOR and Mayo gardens now have large mixed use developments with a variety of entertainment shopping. The walled city has become a haven for tourists and students. Indians are now again saying “jene Lahore nahin dekhia oh janmia hi nahin.” Sikhs

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<sup>1</sup> NIMBY is a term coined by Mayor Koch of New York. It stands for “not in my back yard!”



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have started moving back to Lahore with capital. Basant is a week long festival to match the Mardi gras.

- ✍ Nankana Sahib is now visited by millions of Sikhs. It has a large infrastructure for shopping and hotels for the pilgrims to spend their spare time in. It also now sports a Walmart and major discount outlets for Lahories and other major city dwellers to visit on weekends.
- ✍ Multan is now a major mystical and desert experience. The festival of the Sufis is a great attraction for tourists of all countries.
- ✍ Jehlum is now a retirement place choice in Pakistan. With topography of Arizona this is not surprising.
- ✍ The hills have numerous places that are offering a winter and summer holidays of all varieties. A large number of foreign tourists are coming there.
- ✍ Moenjo Daro, Taxila and Harrapa are all now sporting tourist infrastructure (5 5 star hotels, resort hotels and many other resort facilities including an international airport). International tour operators have already sold out package tours for the next 5 years.

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## Booming new Markets

The reform has led to a boom in Pakistan. In the previous era, generations of kids had not seen a tower crane. Now all cities sport a number of tower cranes. There is a serious building boom on!

Several new markets have been opened out and several activities which previously were in a state of slumber are now showing sharp and rapid growth. For example, Pakistan in the past used to make a hotel almost every decade, now there are about 20 5 star and 50 4 star and 100 lesser quality hotel under construction.

Pakistan has become a destination of tourism. Religious tourism is on the rise as Sikhs Buddhists, sufis and Hindus are all coming to visit their holy places. Pakistan's rising middle class is traveling within and outside the country. Visitors from India, Central Asia and the middle east are discovering Pakistan.

Leisure industry which previously was confined to restaurants is growing. Theatres, cinemas, activity centers, sports facilities, bars, water-based activities are all growing rapidly.



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For many years sports were the domain of the bureaucracy and the army. Cricket was owned by the cricket board appointed by the government as were virtually all other sports. This over regulated bureaucratic regime had killed wrestling, hockey and squash. Competition was stifled and the ratio of managers to players was always too high at international meets. Pakistan not only did not win any medals but it also made little money from sports.

In the new regime sport is a decentralized, market activity. Stadiums and pavilions are all privately owned. The process began with the privatization of the fortress stadium and Gaddafi stadiums. No longer are they a confusion of shopping centers and stadiums that are seldom used. Now the stadiums have been converted into convention centers and hotels and shopping complexes. The spaces are fully utilized at least twice a day. Their revenues are all from performances and sports not from rents on shops under staircases and awnings.

Sporting contests are now providing entertainment in about 50 cities in Pakistan. City cricket now rivals county cricket in England and a cricket team sold last month for a surprising sum of 2.9 billion dollars. Soccer is now a city level sport filling a stadiums to bursting points. Punjab has re-discovered wrestling and a Punjabi tag team is now the champion on WWF. Kabadi is a spectator sport which is even gaining international attention.

Not only is all this activity leading to a double digit GDP growth but it is also creating a labor shortage in the economy. Wages at the lower end are growing at about 20 percent per annum.

Large scale construction—hotels, apartment and commercial buildings, shopping malls, convention centers and community centers—is leading to a large boom in employment.

Services such as retail, wholesaling and entertainment now being developed are rapidly expanding, another factor contributing to a sharp rise in employment.

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## **A Society for all the people**

The elite society is coming apart! Used to be a time that the entrenched elite would show off its servants, access and wealth! They were very visible since they owned society. Elite weddings and parties were displays of wealth often attended by the president and prime ministers.

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Gone are those days as the elite is discovering work!

Already a middle class is becoming visible in Pakistan. After a long spell of mercantilist policies which discriminated against the domestic consumer, a consumer society is now being born. Pakistani consumers who for years had to buy poor quality heavily protected locally produced consumer goods now are able to buy quality international goods. And they are doing that in nice international quality shopping malls and department stores and not the small dusty little poorly stocked shops of the past.

Entrepreneurship is now taking root! Since the dismantling of the system of protection of the rich, and the establishment of the justice system including clear property rights, risk assignment and risk-taking is now clear.

Government is no longer interfering in the risk taking game and the court and legal system are now clearly neutral.

Growth is now a result of competition among markets, companies and individuals. And the market is clearly led by consumer demand.

## **Welfare**

Before the reform, there was a lot of talk of social protection and poverty reduction with absolutely no results. Yes policy was concerned with employment but yet unemployment remained high.

Now a new market based regime of targeted subsidies is truly helping the disadvantaged. No longer is the government involved in trying to deliver education and health. Instead a scheme of coupons for the poor allows them to get the best private education, health and other services at subsidized prices. These schemes are all locally developed and delivered. All the federal ministry of social sectors does is review and report to parliament and use moral suasion to influence localities in the direction of equality of subsidy.

The reform era also set up a wonderful system of pensions for an aging population. The system also helps with the needs of a rapidly developing state. Legal framework for privately administered and owned pension funds was put in place. These private pension funds now own most of the major real estate, retail, hotel, sports and other facilities that are coming up. The financial regulator ensures transparency and clear accounting principles. The large scale construction and the development of new activities are thus financed. The resulting cash flows will provide pensions to an aging population.

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None of this would have been possible without the cleaning out of the legal and judicial system. Nor would it have been possible without the development of a property rights system.

## **Human Development**

Many plans and announcements had been made in the earlier era for the development of education. Universal literacy was a slogan commonly used. Yet education standards and extension declined constantly. The rich were voting with their feet sending their kids to foreign schools and universities. Inequality was increasing as education was not performing its role of an equalizer. The best jobs were reserved for the kids of the elite who had a foreign education.

One important reason for this poor quality of local education was that the teacher or the professor was a government employee, poorly paid and subject to all manner of government restrictions. Moreover, universities were centralized bureaucracies with no research funding and the professor at the bottom of the totem pole. Even the university system itself was centralized through the control of the Higher Education Council.

All this was changed in the reform. University autonomy was enacted and professor salaries, research budgets and importance were allowed. Universities were competing on the basis of results.

Similar reforms were enacted at the school level,

## **Social Capital**

To develop social capital, the growing middle class was to be provided with social amenities at the local level. Thus it was expected that all local administrations would provide libraries, community centers, play grounds, conference and entertainment centers.

Development in the earlier era was considered to be a drain or a water system. In the reform period social capital development activities such as those listed above are now very much a part of development.

The signs of social capital development are visible as when you go to the local library at Thata and see it full of people reading and browsing the internet in a nice congenial air-conditioned atmosphere. In the conference center next door, the local doctors are holding a seminar on cardiology. The play ground is hosting a soccer meet. You can see the community come together—and this is not the elite in the polo club.

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## The Results are Visible

- ✍ For the last decade Pakistan has had a double digit growth rate.
- ✍ Employment is no longer a problem. In fact anecdotal evidence suggests a shortage of labor.
- ✍ Exports which used to languish at about 13% of GDP are now at 25%. In the old days, basic textiles and commodities were the main export. Today it is high quality fruit and vegetables, software, medical equipment, processed agricultural goods and Pakistan branded goods.
- ✍ Remittances have tripled. However, only about 30% of all remittances are originating from overseas Pakistani workers. The rest is the earnings of Pakistani multinationals. Three Pakistani companies are in Asia's 500 and they have offices and distribution networks in 25 countries. Pakistani retail has really developed and now operating large shopping malls in Dubai.
- ✍ Tourist receipts which were negligible are now nearing a billion dollars. Growth is expected to be strong in line with the infrastructure for tourism being planned. The inflow of tourism is also helping the spread of liberalism as people see more dollar inflow associated with tourism.
- ✍ A new middle class is emerging and is estimated to now be about 25 % of the population. The new liberal commercial friendly city administration is helping the middle class obtain cheap housing. A growing economy has already increased wages of the middle class making all consumer goods more easily accessible to them. The provision of local public good such as transport and community facilities has already made their life visible. The new middle class is now very visible in flats in all city centers and in the new shopping malls that are emerging.
- ✍ Education and professionalism are now visible everywhere from hotel lobbies to airplanes. Libraries, universities and seminar halls are perennially full of people engaged in all manner of discussion. Theatres are operating in all cities. Pakistani professional societies are engaged in conferences and research in line with global research infrastructure.
- ✍ University faculties are now only about 40% Pakistani and the student body is about 7% Pakistani. A healthy climate of debate now

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- exists. The clergy is fully involved in this debate in a serious intellectual dialogue.
- ✍ The inheritance tax is working: charitable contributions have increased substantially. Universities and hospitals are flush with donations.
  - ✍ University attendance is now almost 20 percent whereas high school attendance is 97 percent. Pakistani contributions to journals are up by 225 percent over the last 10 years. Now most high school students speak English and one other foreign language. Chinese is rapidly being adopted by Pakistani schools.
  - ✍ No longer are airplanes full of VIPs. Instead they are full of foreign businessmen. No longer are hotel lobbies full of security guards to facilitate a VIP visit for a VIP function. I counted about 25 nationalities discussing business in the Four Seasons lobby in Lahore.
  - ✍ A visit to the secretariat was very interesting. Gone are the symbols of power. Gone is the old style method of work with dusty files which impeded work and an unfriendly work environment. Now there are professionals eager to complete a task using all available modern technology. No long meandering meetings with no agendas. Even the cabinet is not longer than 2 hours. Most business is done by email.
  - ✍ Indeed the government has become invisible and efficient. No longer do you see symbols of power like staff cars, high visibility government housing and choice real estate preserved for polo and golf for the rich and powerful. Instead you see libraries, community centers, places for intellectual and social activity of the middle class.
  - ✍ In the past white collar crime was never punished. It was regarded as an achievement. Now white collar crime is harshly punished.
  - ✍ Justice is now speedily delivered and judges are scrupulously honest. They are extremely well paid and harshly punished if corruption is proven. There is no backlog in the court schedule. All cases are concluded within a calendar year of institution. Judges get a bonus on speedy dispensation of justice.
  - ✍ Financial regulators are active, well compensated and often drawn from the international market. The current chief of Financial Regulatory Authority was formerly the head of the Singapore

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exchange. He was brought in on a multi-million dollar salary. Gone are the days when people worried about salaries and nationalities. Now it is results they are looking at.

- ✍ Financial markets are booming. With the new risk architecture where the government is not protecting favorites and a professional government, entrepreneurship has taken off. Last year, there were 166 new listings on the stock exchange. All manner of instruments are now being traded.
  - Pension funds are doing very well being the key players in the building of the new cities.
  - Municipal bond market is thriving
  - Securitization is thriving with several new markets based on mortgages and student loans.
  - Venture capital is now the fourth largest market in the world following USA, India and China
  - The Faisalabad commodities exchange is flourishing with several large international brokerage houses taking a stake in it. The largest stakeholder is the Chicago Mercantile exchange. There is a thriving hedge fund industry that is now emerging.
  - The derivative market is doing very well indeed.
  - The mutual fund industry is growing rapidly.
- ✍ No longer are bureaucrats of government eager to be the leaders of rent distribution networks such as clubs and housing cooperatives. No longer are they maximizing perks and rents. Instead they are clearly focused on their work. Their performance is clearly visible in parliamentary debates.
- ✍ No longer is parliament distracted by rents and power. The quorum bell does not ring in vain. MNAs too have their performance being monitored and have responded to the incentives. Last year average attendance in parliament was 75% and voting record was 69% while about 385 private member bills were presented and voted upon.
- ✍ Five years ago, Abdus Salam, the Nobel laureate was finally accepted by Parliament as a great Pakistani and Government College University Lahore was named Abdus Salam University. This

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has indeed vindicated the old slogan “the pen is mightier than the sword!”

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