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# Can Pakistan become a Prosperous Country?

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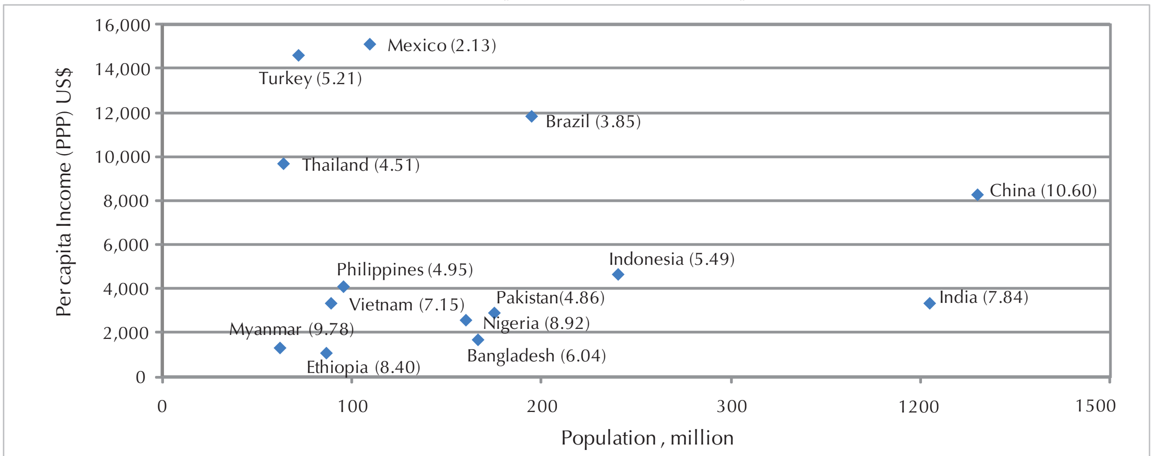
Deutsche Bank has recently published a report where it discusses the concept of income convergence. The simple logic is that countries with relatively large populations and very low income levels have a very good chance of a substantial rise in their per capita income due to their low base. However, to achieve this objective, these countries need to (i) liberalize their economies from centralized control; (ii) allow free flow of information, goods and capital; and (iii) access international technology and best practices. The study identifies seven such potential countries where population is 60 million or more, annual per capita income is US$5,000 or less, and these countries are geographically located around the Indian Ocean. The study predicts that "With a combined population of 2 billion, these Indian Ocean economies are bound to emerge as a major center of economic gravity over the course of this century." This group with favorable medium term economic growth prospects constitutes Pakistan, India, Bangladesh, Myanmar, Vietnam, Philippines and Indonesia.

**Chart - Population vs Per Capita Income (PPP)**



(10 - year average real GDP growth in parenthesis)

Economist, Jim O'Neill of Goldman Sachs predicted in 2001 that four emerging markets, commonly known as BRIC – Brazil, Russia, India, and China – would drive the world economy due to improvements in productivity and relatively low income levels. To a large extent this prediction has come true. China's per capita income has almost tripled from US$2,700 in 2000 to US$6,800 in 2010. The Deutsche Bank study predicts that in only three decades Indonesia's economy has the potential to surpass Germany, which is the largest economy today in Europe. High economic growth rate and large and growing population will make this possible. Economist, Robert Barro of Harvard University states that a poor country could expect to grow faster than a rich one, but only if the rule of law prevails, the terms of trade are favorable, inflation and government wasteful spending remains low, and families are sufficiently small, healthy and educated.

Pakistan's per capita income of about US$ 3,000 (based on PPP methodology) and its population of 180 million makes it probable that our economy can grow at a rate of 8%-10% per annum in the coming decades. At this rate, the per capita income in Pakistan can cross US$ 10,000 by 2030 from about US$ 3,000 at present. However, for this to materialize, we need to take the following steps:

1. All sources of income including agriculture, real estate and services need to be taxed. Tax to GDP ratio has to rise from under 9% at present to 15%.
2. The government needs to learn to live within its means, and drastically cut non-development spending and its own size.
3. State-owned enterprises that are costing the government Rs 400 billion per annum need to be privatized.
4. National security will have to be defined in a broader sense to also include education, health care, population planning, flood protection, energy, clean drinking water, etc., rather than a narrow focus on military security.
5. Over 30 million children who are presently out of school primarily because their parents cannot afford, will have to be sent back to school by government committing to finance their education. It will only cost an additional 1% of GDP to achieve this objective. Further, the quality of education for those already in school needs to be improved drastically. Again, this will cost less than 1% of GDP if governance can be improved.
6. Pakistan will have to work on a war footing to exploit alternative sources of energy such as hydel, coal, wind, which are in abundance in the country.

In the absence of the above steps, Pakistan's dream of becoming a prosperous, stable and safe country will not become a reality, and we will continue to lag behind even the African countries in the coming decades.