

## **Documents**

*January-June 2007*

### ***I. Foreign Policy***

#### **A. PAKISTAN INDIA RELATIONS**

##### **1. The meeting between the Foreign Ministers of Pakistan and India, opening remarks and decisions**

It was a great pleasure to receive H.E. Mr. Pranab Mukherjee in Pakistan. We had a useful exchange of views in a cordial and constructive atmosphere. H.E. Mr. Parnab Mukherjee's visit has provided a good opportunity to review the status of our bilateral relations and it is a matter of satisfaction to note the overall improvement in relations between the two countries.

2. Mr. Pranab Mukherjee called on the President and the Prime Minister of Pakistan. He also delivered letters inviting the Prime Minister and myself for the 14th SAARC Summit to be held in New Delhi from 2-4 April 2007.

3. We reviewed the progress on all issues on the composite dialogue framework comprising Peace and Security, Jammu and Kashmir, Siachen, Sir Creek, Terrorism and Drug Trafficking, Wullar Barrage/Tulbal navigation project, promotion of friendly exchange and Trade & Economic Cooperation.

4. We also took certain decisions. I would request His Excellency Mr. Pranab Mukharjee to read out the decisions before you.

Decisions taken at the meeting between the two Foreign Ministers We met and agreed as follows:

- I have invited Foreign Minister Khurshid Kasuri to visit New Delhi in connection with the meeting of the Joint Commission which will be held in February 2007. Foreign Minister Kasuri has accepted my invitation.
- We agreed to establish a Committee on Prisoners comprising retired judges of the superior judiciary to visit jails in the two countries and propose steps to ensure humane treatment and expeditious release of prisoners who have completed their prison terms.
- We agreed to expedite the Liberalization of Visa Regime and agreed to complete the work in February.
- Several Agreements which are near or close to finalization will be concluded during the February visit of Foreign Minister Kasuri to New Delhi. These will include: (a) The Agreement on Reducing the Risk from Accidents relating to Nuclear Weapons etc.; (b) Speedy return of inadvertent Line Crossers; (c) Prevention of Incidents at Sea.
- On Siachen, we discussed the issue and decided that the officials will meet at an early date to address the issue.
- We agreed to facilitate movement of diplomats to Noida and Gurgaon in India and Taxila and Hasanabdal in Pakistan. Procedures for this will be worked out.

- We agreed that the First Meeting of the Joint Anti-Terrorism Mechanism will take place before end of March 2007.
- Regarding Sir Creek, the officials concerned will be directed to expedite their work. The joint survey for Sir Creek will begin on 15th January 2007.
- We have decided to launch the 4th Round of the Composite Dialogue will be held on 13-14 March 2007.
- I thank Foreign Minister Kasuri for the warm hospitality extended to me and my delegation in Islamabad. I look forward to receiving him in New Delhi.

Islamabad, 13 January, 2007. Source: [www.mofa.gov.pk](http://www.mofa.gov.pk)

## **2. Joint statement issued at the end of Pakistan-India anti-terrorism mechanism meeting**

In pursuance of the decision taken during meeting between the President of Pakistan and the Prime Minister of India in Havana , Cuba on 16 September, 2006 , the first meeting of the Anti-Terrorism Mechanism was held in Islamabad on 6<sup>th</sup> March, 2007. The Pakistan delegation was led by Mr. Tariq Osman Hyder, Additional Secretary (UN&EC), Ministry of Foreign Affairs. The Indian delegation was headed by Mr. K.C. Singh, Additional Secretary (IO), Ministry of External Affairs of India.

2. The two sides discussed the parameters of the Anti-Terrorism Mechanism and agreed that specific information will be exchanged through the Mechanism for:

- i) Helping investigations on either side related to terrorist acts and,
- ii) Prevention of violence and terrorist acts in the two countries.

3. It was also agreed that while the Anti-Terrorism Mechanism would meet on a quarterly basis, any information which is required to be conveyed on priority basis would be immediately conveyed through the respective Heads of the Mechanism.

Islamabad, 07 March 2007. Source: [www.mofa.gov.pk](http://www.mofa.gov.pk)

## **3. Text of Foreign Secretary's remarks at the start of fourth round of Composite Dialogue between India & Pakistan**

It has been a privilege and pleasure for me to welcome H.E. Shivshanker Menon and his delegation to Islamabad for the start of fourth round of Composite Dialogue between Pakistan and India.

The fourth round of Composite Dialogue is coinciding with the 60th year of the Independence of Pakistan and India. The fact that in the 60th year of independence we are having dialogue to promote peace between each other underscores the need for turning a new page in our relations. 2007 is a critical year and can prove to be a watershed. In the past few years we have taken steps and engaged each other in serious discussion of issues that have divided us that along with the change of international environment make it possible that we move from problem and dispute management to resolution of issues. The quality

and scope of discussions that we are now having on these problems have strengthened the prospects of success.

It would be a pity if for whatever reason, lack of focus or lack of political will, we are prevented from crossing the hurdle. There is a need to seize the opportunity.

H.E. Shankar Menon and I have two sessions of talks. H.E. Shankar Menon has also met the Prime Minister and the Foreign Minister yesterday. The first session was devoted to a review of the third round and peace and security. The second session today focused on Jammu and Kashmir.

On Jammu and Kashmir, as you are aware, discussions are taking place at various levels. At the leadership level, at the Foreign Ministers level, within the composite dialogue and in addition to other channels and interaction among civil society of the two countries. There have been many ideas which have shaped the broad parameters of these discussions.

During this round of composite dialogue while recognizing the need to make progress towards a solution to sustain the peace process, the focus has been on the Kashmir related confidence measures. We review in some details the steps that had been taken for interaction across the Loc and how we can facilitate implementation. We have suggested new measures for consideration.

On peace and security we acknowledged the agreements that have been concluded and reviewed progress on suggestions that are under consideration. It is agreed that there should be regular expert level discussions on doctrines for ensuring security in an environment of strategic deterrence that is maintained by the two countries and is a fact of life in South Asia.

We also noted that the first meeting of the anti terrorism mechanism was held in Islamabad and that the mechanism has agreed on the modus operandi and objectives. I had the opportunity to reiterate our request for sharing of findings with us on the Samjhuta Express terrorist incident. Today we have received a list of additional passports numbers that should help us identify victims.

The Indian side has provided us a schedule of the meetings to be held under the fourth round. This includes dates for meetings of Defence Secretaries and DG MOs on Siachen and meeting of hydrographs to complete their survey of Sir Creek and adjoining areas.

We will give confirmation about these dates shortly.

Some of the steps that have been agreed by the two sides include:

#### **Peace and Security**

- Expedite negotiations to conclude an Agreement on Prevention of Incidents at Sea.
- To fully observe the ceasefire.
- Conclude and sign an Agreement on Modalities for the Conduct of Quarterly Flag meetings at the Sectors to be agreed upon.
- Conclude and sign a Framework Agreement on Speedy Return of Inadvertent Line Crossers.

- Conclude an agreement on No Development of New Posts and Defence Works along the LOC.
- Proposed draft for new border control guidelines along the International Border.

#### **Nuclear CBMs:**

- Hold discussions on security doctrines.

#### **Jammu and Kashmir**

- Ensure implementation of the already agreed Jammu and Kashmir related CBMs.
- Ensure operationalization of Truck service.
- Ensure operationalization/rationalization of the five crossing points.

#### **Siachen**

- Defence Secretaries of the two countries assisted by respective Directors General (Military Operations) to meet to hold talks.

#### **People to People Contacts**

- Conclude during the Fourth round bilateral Visa Agreement, Agreement on Consular Access, and revise the Protocol on Visits to Religious Places.
  - The Committee on Prisoners composed of four judges from each side to ensure humane treatment and expeditious release of prisoners on both sides.
- Islamabad, 14 March 2007. *Source:* www.mofa.gov.pk

#### **4. Joint Press Statement issued in Islamabad at the end of Defence Secretary level talks on Siachen between India and Pakistan**

1. The Defence Secretary level talks between Pakistan and India on the Siachen issue within the framework of the Composite Dialogue were held in Rawalpindi on April 6-7, 2007. The Pakistan delegation was led by Mr Kamran Rasool, Defence Secretary while the Indian delegation was led by Mr Shekar Dutt, Defence Secretary.
2. The discussions were held in a candid and constructive atmosphere. The two sides reaffirmed their commitment to the November 2003 ceasefire between the two countries which is holding successfully.
3. The Indian Defence Secretary also called on Rao Sikandar Iqbal, Senior Minister for Defence.
4. The Defence Secretary agreed to continue the discussions to resolve the Siachen Dispute in a peaceful manner.

Islamabad, 7 April 7, 2007. *Source:*

#### **5. 'India-Pakistan: Understanding the Conflict Dynamics', speech by Foreign Secretary, Shri Shivshankar Menon at Jamia Millia Islamia**

Vice Chancellor Murshirul Hasan, Prof. Rashmi Doraiswamy, Faculty and the Researchers of the Academy of Third World Studies, International participants, Students, and Friends

Thank you for asking me to speak to your seminar on 'India-Pakistan: Understanding the conflict dynamics'. From the abstract of the papers and the agenda that I have seen, you would have had a stimulating discussion over the last two days. Perhaps I can offer you the limited view of a practitioner, of someone who tries to practice what you analyze.

Let me begin with the fundamental premise that India seeks a peaceful and prosperous periphery. We do so in our own self-interest. Without a peaceful and prosperous neighborhood, we cannot concentrate upon the urgent task of improving the lives of our people through continued and rapid social and economic development. It therefore follows that good-neighborly relations with Pakistan, or at least normalized relations and a *modus vivendi*, are in India's interest as a part of durable peace and stability in the sub-continent.

In seeking this goal, we have indeed moved forward considerably in the last three years, making progress through high level visits, the composite dialogue and other institutional mechanisms such as the Joint Commission. As a result trade and travel have been partially normalized, a ceasefire is in place and holding since November 2003, and, for the first time in sixty years over four thousand people have been permitted to travel across the LOC. Our formal bilateral trade has increased to just over one billion dollars last year and possibly three times that amount informally. Differences and issues between the two countries, including Jammu and Kashmir, are being discussed by both countries in a dialogue that is unprecedented in its depth and quality.

And yet, as we all know, India's relations with Pakistan at present are not normal, let alone good neighborly. We have yet to achieve our objective of durable peace and stability.

I would therefore like to examine why India-Pakistan relations have been so unsatisfactory for so long, and what we might do about them. To clarify my standpoint at the outset, I believe that thanks to the peace process we stand at a moment of opportunity to remake our relations fundamentally, breaking out of past patterns, and that we need not repeat the past if we learn from it.

While both India and Pakistan feel that India-Pakistan relations are unsatisfactory, each of our societies has its own received wisdom on why they are so. To an outside observer these ideas might appear as self-reinforcing and self-perpetuating myths, or self-fulfilling prophecies.

In Pakistan, for instance, I have heard three kinds of arguments that seek to explain the unsatisfactory nature of our relations:

- One might be called the foundation myth. This believes that India wants to undo Partition, is inveterately hostile to Pakistan, and attempts through hegemonic behavior to destroy Pakistan. I am afraid that this argument flies in the face of the reality of the last sixty years and of India's evident self-interest. No political party or responsible or influential person in India wishes to undo Pakistan. Just thinking through the political, demographic,

and other consequences of any such attempt proves that it would be against India's self-interest.

India has quite enough to do trying to develop herself and to transform her own society without adding a complicated attempt to re-integrate portions of the sub-continent that were separated sixty years ago. Instead, India needs a stable, prospering Pakistan, at peace with herself, on India's periphery. India sincerely believes that a stable, prosperous and moderate Pakistan is in the interest of India and the sub-continent. When our neighbors live in peace, we live in peace. I would assume that the same is true of Pakistan. A stable, prospering India could actively assist Pakistan's quest to develop herself.

- The second argument might be called the national security myth. This argues that the asymmetry in size, power and development between the two countries makes India-Pakistan hostility inevitable. This is a rather strange argument since no two states in the world are evenly matched or identical. In fact it is the differences between them that create the complementarities that allow them to work, live and trade together. Nor do much greater asymmetries with Pakistan's other partners like the US and Western Europe and China prevent Pakistan from working with them. If, however, despite the possession of nuclear weapons and India's no-first-use policy there are feelings of insecurity in Pakistan, India is ready to discuss these issues in a dialogue on nuclear doctrines, military-to-military contacts, and military CBMs, both conventional and nuclear, either officially or through think tanks and other less official means. A small beginning has been made in the last two years, but we would be ready to build on this rapidly if Pakistan wishes to.
- Thirdly, the Kashmir issue is sometimes used to argue that India-Pakistan hostility is inevitable. Kashmir is sometimes even described as the unfinished business of Partition, or as a reflection of a fundamental religious divide between two communities that cannot live together. This is patently false, as over thirteen centuries of Islam in the sub-continent prove. The social practice of religion in the subcontinent is in no way mutually antagonistic, whether it is Islam or Hinduism or Christianity or Buddhism or any of the myriad religions that have coexisted peacefully in India for centuries. It is the mixture of politics in the sphere of religion that has made differences over issues like Kashmir incendiary.

This is not to say that no inaccuracies are purveyed in India about Pakistan.

- One of them is that Pakistan has a fundamental identity problem and can therefore only define herself in anti-Indian terms. This is clearly not the case in reality. There are several instances which one can cite which show that at the popular level there is no instinctive hostility or revulsion towards each other in either Indian or Pakistani society. This suggests that there is no real identity problem in the populace, whatever some intellectuals may like to think. In fact what one sees when Indians and Pakistanis are together

is a common and spontaneous celebration of cultural affinities formed by a common history and geography rather than fear of the other.

- The other argument that one hears in India questions the role of Pakistan Army, arguing that the Pakistan Army needs hostility towards India in order to justify its hold on power in Pakistan. To me this too does not seem a sufficient explanation. The Pakistan Army's dominance over Pakistan's internal political space has now lasted for so many years, and is so complete, that it seems no longer to need an external threat to justify its rule. The leaders of Pakistan themselves acknowledge today that Pakistan does not face external threats and that the real threats to Pakistan are internal.
- As in Pakistan, there are also some in India who present India-Pakistan hostility as somehow a reflection of the communalism versus secularism paradigm. As I said before, this ignores the social reality of the sub-continent, the history of religious tolerance, and the current reality where it is a small handful of organizations and people who attempt to communalize politics and the situation in each of our countries.

I have gone through this in some detail in order to show that none of these purported reasons is a wholly satisfactory explanation for a sixty year long unhappy relationship. It is therefore necessary for us to dig deeper and perhaps to think a little more seriously about the causes of this situation. I would be very happy to hear your views on this. To start off a discussion, I would like to suggest four aspects that seem relevant to me.

Though India and Pakistan differ in how we make foreign policy in our countries, it is clear to me that our national goals and grand strategies need not necessarily be in conflict. There is, however, an asymmetry that operates here, or what might be called a vision deficit in the relationship. India has been relatively clear and open since the forties in enunciating a grand strategy for her foreign policy that attempts primarily to develop her own society and economy and seeks to use foreign policy to maximize this welfare function, creating strategic autonomy. When it comes to Pakistan, it has also been the Indian practice to attempt to outline a broader vision of the relationship and to describe the sort of relationship that India would like to enjoy with Pakistan. The most recent examples are a series of speeches and statements by Prime Minister Manmohan Singh, particularly that in Amritsar on March 24 2006, when he outlined his vision of a cooperative relationship between India and Pakistan which would benefit both countries and the region. I am not aware of a similar description of Pakistan's larger or longer-term vision for a relationship with India apart from Jinnah's wish that Pakistan should be to India as Canada is to the USA. Does this vision deficit matter? It matters because even the issues that divide us would be easier to solve if one had a common goal or purpose or vision of the sort of relationship that we wish to build in the future. In theory, one can envisage several futures for India and Pakistan, ranging from a cold peace to active cooperation to regional economic integration. It would certainly be useful if we had a shared vision of where we wish to be on that spectrum of choices.

Real peace is more than an absence of violence. And to be secure, peace must be based on shared interests and common prosperity. I think that we already have some common interests, even in what now divides us. Unfortunately much more remains to be done by Pakistan to curb cross-border terrorism, which continues, despite some fluctuations and variations over time. In fact, the tragic earthquake in 2005 saw the rehabilitation and increasing public prominence of terrorist organizations in Pakistan and J&K. Even on the river waters that we spend so much time arguing about, the Indus Waters Treaty itself envisages a cooperative future of joint development of the river basin by both countries.

It therefore seems to me that we already have common interests. We could also have common prosperity if we chose to make that our goal. As Prime Minister Manmohan Singh has said, instead of looking at each other as adversaries, we must have the courage to see each other as supporting the other for the realization of a better tomorrow.

Secondly, the vision for India-Pakistan relations that I speak of enjoys consensus across the broad political spectrum in India. Hence the surprise that is often expressed in Pakistan when opposition politicians from India sound like members of the government. This occurs not just because of the opposition's expectation, which is reasonable in the Indian system, that they may form the government one day. It is due to the consensual basis of foreign policy that we work to create and maintain in India. The point I am trying to make is that India's domestic politics do not make India-Pakistan hostility inevitable. (One cannot say the same for Pakistan.) This requires that India-Pakistan relations should not become a subject of intra-party dispute or grandstanding in domestic political competition in either country. That is only possible if, as I said, there is an overarching vision of the sort of a relationship that one seeks with the other. It also requires strict non-interference in each other's internal affairs.

Thirdly, each of us has a tendency to project upon the other our own political experience and attitudes. For instance, I have often heard Pakistani leaders speaking about Indian intelligence agencies in terms of respect and awe that no Indian would use. We need to learn to recognize the differences in our systems and in the way we work, and the effect that this has upon our ability to handle the relationship. Otherwise, these projections become self-perpetuating. Over the last sixty years we have had very little experience of working together successfully to solve problems. This needs to be built up and can only be done if we are willing to accept the differences in our approaches while building on our commonalities. For instance, we have heard a great deal from Pakistani commentators recently of some form of India-Pakistan competition in Afghanistan, using outdated nineteenth century notions from the Great Game. These reflexive reactions fail to reflect today's reality. India's commitment to the peaceful reconstruction of Afghanistan is considerable, extending to a US \$ 750 million cooperation programme. India, Afghanistan and Pakistan have a common interest and should actually be working together to bring peace and defeat extremism in our periphery. And we have an opportunity to do so together now that Afghanistan is also a member of SAARC.

Lastly, it seems to me that for too long a limited military strategist's view of the relationship has prevailed, which reduces it to a zero-sum game. National sovereignty and territory have always been the hardest terms in which to resolve issues. To deal successfully with our issues involves changing the terms in which we think and approaching them flexibly, or thinking outside the box. We have begun doing so. Over the last two years both leaders have started a process of dialogue and contact which has led to widespread debate in both our countries on a solution to the Kashmir issue. Contact across the LOC has resumed. Opening a new bus route between Poonch and Rawalakot, beginning truck traffic between Srinagar and Muzaffarabad, and for meeting points on the LOC are being implemented. India is also ready to open the Gilgit-Skardu bus route.

If we define our own security in the broader terms of people's welfare rather than the hard power of the state, many of the issues that divide India and Pakistan would be much easier to resolve. This is a lesson that India, China and other states have come to through experience over time, which we can see being implemented in our neighborhood. Every successful experience of overcoming differences and resolving problems in the rest of the world suggests that issues are easier to resolve when a cooperative atmosphere exists between the parties. If we were to grasp the opportunity that rapid economic growth in both our countries has created, opening up trade and transit, we would be enlarging constituencies for peace.

The experience of the last three years suggests that the people of India and Pakistan are actually ahead of their establishments, and have provided the driving force for the peace process. People-to-people contacts and CBMs should continue unconditionally and whole-heartedly if the harder issues are to be resolved. Let us move step by step, doing much more to create an environment in which we can move forward. As the old saying goes, 'A road is made by walking.'

You would notice that I have made no mention of the rest of the world in looking at India-Pakistan relations. You might find this strange from a diplomat. The reason is simple. Even as we are more integrated with a globalised world, our dependency on the world is less today than before. Today India and Pakistan have more independent agency in the world system than ever before. I hope and expect that this will grow in the future. The outside environment, regional and global, is supportive to our attempt to remake India-Pakistan relations, to an unprecedented extent. But in the final analysis, it is for India and Pakistan to take responsibility for our own relationship and our future.

I have raised these issues honestly with you because I do believe that those who do not learn from history are condemned to repeat it. There would be nothing worse for India and Pakistan than to repeat in the future the sterile pattern of hostility of the last sixty years. Thanks to the peace process, we today have an opportunity to break out of this pattern. I do hope that we will take it.

11 April 2007. *Source:*

**6. Joint Press Statement issued in Rawalpindi after India-Pakistan talks on Sir Creek under the Fourth Round of the Composite Dialogue**

1. India-Pakistan talks on Sir Creek under the Fourth Round of the Composite Dialogue were held at Rawalpindi from May 17-18, 2007. The Indian delegation was headed by Maj.Gen.M.Gopal Rao, Surveyor General of India and the Pakistan delegation was led by Rear Admiral Tanveer Faiz, Additional Secretary, Ministry of Defence
2. The talks were held in a cordial and friendly atmosphere.
3. The two sides expressed satisfaction at the successful completion of the joint survey of Sir Creek and adjoining areas.
4. The two sides discussed the delimitation of the maritime boundary as well as the delineation of the boundary in the Sir Creek in the light of the results of the joint survey. They exchanged maps/charts showing their respective positions on the delineation of the boundary in the Sir Creek and delimitation of the maritime boundary.
5. The two sides agreed to continue discussions for amicable settlement of the issue.
6. The Indian delegation also called on Mr. Kamran Rasool, Secretary Defence.

18 May 2007. *Source:*

**B. SINO-PAKISTAN INDIA RELATIONS**

**Text of Pakistani Prime Minister address at Communist Party School, Beijing**

‘Mr. Vice President,  
Distinguished faculty members and participants,  
Excellencies,  
Ladies and Gentlemen,

It is a great pleasure and privilege for me to speak at this great institution, which has traditions rivalled by few in the world. The Communist Party School has inspired several generations of China's leaders and intellectuals who have helped to build your country into a global power.

I am particularly touched by these idyllic surroundings. The serenity and beauty of this institution reflects in many ways the innate spirit of harmony of the great Chinese civilization.

This School has been the nursery for all those dedicated men and women who have transformed China. It has provided philosophic vision and inspiration that permeates the rank and file of the Communist Party of China and imparts the Party with tremendous vitality to achieve the Chinese miracle.

I take this opportunity to express my heartfelt gratitude to the Chinese leadership, Government and people for the warm welcome and gracious hospitality accorded to us since our arrival. We feel completely at home and among our close friends and dear brothers.

I have had very fruitful talks yesterday with Premier Wen Jiabao and I look forward to my meetings with other State leaders. Our discussions have advanced Pakistan-China dialogue on all issues of common interest. My visit has contributed to further fortifying our age-long and time-tested ties.

Ladies and Gentlemen,

The topic of my speech today is: 'Pakistan-China Partnership for Harmonious Relations in the 21st Century.' Pakistan and China are bound in a profound relationship that is unique for its depth, scope, stability and dynamism. It holds important lessons in developing harmony, trust and friendship among peoples and nations.

The Pakistan-China partnership now spans over five decades. It has withstood the test of time and remained unshakable in the face of international vicissitudes. It is reinforced by common goals and a sense of common destiny. It is characterized by harmony, vibrancy and vitality. In essence, it is a living example of the Confucian philosophy of 'Harmony without uniformity.'

Ours is a friendship rooted in the popular ethos and based on complete trust and mutual understanding which has, over the years, matured into a comprehensive strategic partnership for peace and development. It is today a factor of peace and stability in Asia and beyond.

Relations between our two peoples go back to antiquity when the fabled Silk Route served as a conduit not only for commerce but also for ideas and knowledge. Famous Chinese scholars Xuan Zhuang and Fa Xien traversed the same route to the famous University of its day located in Taxila, just thirty miles north of our capital. Their experiences are celebrated in your popular literacy work 'Journey to the West' – which is a journey to the present day Pakistan.

By the opening decade of the 21st century, four generations of Pakistani and Chinese leaders and people have been friends with each other. Your great leaders - Mao Zedong and Zhou Enlai, Deng Xiaoping and Jiang Zemin – and now President Hu Jintao and Premier Wen Jiabao and our leadership - have enjoyed and continue to enjoy close personal relations. This shows the resilience and deep-rooted nature of our bilateral ties.

We have different political systems, different cultures, and different traditions. Yet, together, we have created a beautiful mosaic – vibrant with colour and warmth. It is not an exaggeration when we say that the friendly relations between Pakistan and China are a model of relations based on principles of peaceful coexistence and among countries with diverse systems.

Ladies and Gentlemen,

The people of Pakistan draw strength from and rejoice over the great accomplishments of the Chinese nation. These accomplishments attest to the genius, wisdom, skills and talent of the Chinese people and their sagacious leadership.

We are witnessing today a splendid renaissance, in all domains, of the ancient Chinese civilization. The Chinese economic miracle is not new in that it

is merely restoring what historically over millennia had been China's share of the global production.

China once again enjoys a position of pre-eminence in the comity of nations. We believe that the Chinese civilizational resurgence will have a profoundly constructive impact on the world and, in particular, on Asia.

China's moral voice, its economic dynamism, its entrepreneurial spirit, its innovative genius and its commitment to shaping a peaceful and prosperous world remain indispensable for ushering in a harmonious world order.

China is a model for developing countries: A model of good neighborly relations, a model of economic and social development, and a model for realizing the vision for a better world, as enshrined in the Charter of the United Nations. As China grows in strength, it is taking more concrete steps to help and assist the developing countries of Asia, Africa and Latin America.

Ladies and Gentlemen,

For Pakistan, friendship with China is the corner-stone of our foreign policy. Since the establishment of diplomatic relations between our two countries in 1951, Pakistan-China relations have been growing from strength to strength. This unique friendship has been an indispensable factor for peace and stability in Asia and has contributed to greater amity and international understanding.

Today, the leadership and people of our two countries are determined to take Pakistan-China relations to an even higher level.

In November 2003, President General Pervez Musharraf and President Hu Jintao signed in Beijing the historic Declaration on Directions of Bilateral Cooperation. This Declaration charts the trajectory of our bilateral cooperation in the 21st century and lays out a solid basis for the continuous strengthening of our friendship.

In April 2005, Premier Wen Jiabao and I signed in Islamabad the Treaty of Friendship, Cooperation and Good Neighbourly Relations. This Treaty is indeed unique and one of its kind for Pakistan. This Treaty not only provides strong legal foundations but also delineates in solemn terms the depth and direction of our strategic partnership.

During President Musharraf's state visit to China in February 2006 the two governments signed three separate Framework Agreements covering economy, trade, energy and defence.

President Hu Jintao paid a landmark visit to Pakistan in November 2006, during which Pakistan and China signed the Joint Five Year Programme for trade and Economic Cooperation. We also signed the bilateral Free Trade Agreement and decided in principle to establish a Joint Investment Company.

These agreements together form the new architecture for strengthening and deepening of our remarkable relationship. They also reflect our common resolve to forge a robust economic and trade partnership for common development and win-win cooperation.

The profile of our strategic economic engagement now encompasses several grand projects and would further leverage our natural economic

complementarities, conferred by geography, history, shared values as well as a distinct sense of common destiny.

We desire to further our economic relations and make them commensurate with our political relations. The two countries have pledged to triple bilateral trade in the next five years. Chinese companies are investing in Pakistan in projects ranging from mining and energy exploration to infrastructure development and manufacturing.

Ladies and Gentlemen,

Pakistan is fast transforming into an economic, energy, trade and communications hub linking the neighbouring regions of South Asia, Central Asia and West Asia. We are actively promoting multi-sectoral and intra-regional cooperation between Pakistan and China.

Pakistan provides the shortest access to the sea for Western China. Our friendship highway over the Karakoram and road and rail networks to our deep water ports at the Arabian Sea are fast becoming a conduit for trade and energy transactions. These connect Western China as well as Central Asia to the Gulf and the Middle East. A major component in this strategy was the development of the Gwadar Port.

It gives me great pleasure to mention that the Gwadar Port completed with the assistance of China was inaugurated on 20 March 2007. We gratefully acknowledge the critical assistance and help provided by the Government and people of China. This port, like the Karakoram Highway, is yet another illustration of the enduring Pakistan-China partnership.

The Karakoram Highway is being upgraded. Feasibility studies are being undertaken to establish Pakistan-China rail links. We are also working to establish fiber-optic connectivity.

We also plan to develop oil and gas pipelines and electricity grids which could satisfy our growing energy needs and become energy corridors for China and other regional countries.

Yesterday, we agreed to launch a Joint Investment Company. This is another important milestone in our economic relations. The Company shall play the role of a catalyst in further promoting project cooperation.

We applaud the great contribution made by Chinese corporations to the economic development of Pakistan. There are some 100 Chinese corporations based in our country and more than 3000 engineers, technicians and Chinese entrepreneurs are working on a range of projects from minerals and manufacturing to Information Technology and telecommunication.

Ladies and Gentlemen,

The pattern of China's economic interaction with the developing world follows the example it has set with Pakistan. Chinese economic assistance has focused on tangible development that strengthens economic fundamentals as opposed to handouts or conditional aid that reinforce the vicious cycle of dependency. Thus, over the years, China and Pakistan have together built the edifice of a relationship on the rock solid foundation of mutual trust and common benefit.

Pakistan and China have also worked closely at international forums to promote peace and development. International peace, security and development is a holistic concept. It calls for mutually beneficial cooperation, sustained and harmonious engagement, building commonalities and resolving differences.

As our bilateral relationship goes from strength to strength, the need to understand and reflect on the global strategic and political landscape becomes all the more important.

Ladies and Gentlemen,

Even a cursory look will reveal that turbulence and uncertainty mars the global political landscape. There are dangerous trends and impulses motivated by hegemonies and intolerance. Many regions of the world are afflicted by civil wars and other forms of conflicts. In addition, these are the new dangers of extremism, terrorism and sectarian violence posing a grave threat to human civilization.

Terrorism has become a truly global problem. It destabilizes societies, engenders fear, and destroys individual lives. Its pernicious effects are being felt all over the globe.

Equally dangerous are the attempts being made to give currency and wider acceptance to the so-called clash of civilizations. The proponents of this sinister theory perhaps are seeking to promote another form of extremism that blends intolerance, certitude and millenarian beliefs. This doctrine is spreading Islam- phobia in its wake. Such trends are dangerous and must be countered effectively.

Compounding this general insecurity is the deviation from multilateralism. Tendency towards unilateral action justified on the basis of dangerous doctrines of pre-emption, lack of respect for other political and value systems are sharpening contradictions among different societies and countries. Attempts to impose political and economic uniformity alien to local tradition and cultural milieu disturb the social order and natural harmony of societies. More than ever before, there is need to promote global harmony and understanding and to build bridges between different countries and people.

Ladies and Gentlemen,

Pakistan believes in the promise of the Charter of the United Nations. Multilateral cooperation is the only realistic way to deal with contemporary global issues.

I am happy to say that Pakistan and China share the same perspectives and work closely at international for a to promote peace and development.

Like China, our national priority is socio- economic development. We wish to create an environment of peace and stability for ensuring unimpeded progress.

We must endeavor to create a prosperous and harmonious Asia, at peace with itself and the world. We must work towards a framework for Asia-wide cooperation. This calls for real democratization of the international system. For instance, Security Council reform and expansion must not become an issue

of 'privilege and power.' These issues should be decided by consensus on the basis of 'equity and real democratization.'

We must firmly reject and defeat the notion of clash of civilizations. We must affirm the indivisibility of the human race. Cherish unity in diversity. We must re-assert common humanity and common universal values. We must guard against the symbiosis of power, ideology and values for the pursuit of personal or parochial agendas. We must develop a reasoned synthesis of civilizations as a mature response to the evil doctrines designed to spread hate and intolerance.

Ladies and Gentlemen,

Let me now turn to Pakistan's role in promoting the vision of common security and prosperity.

Pakistan remains in the forefront of the international campaign against terrorism. The fight against terrorism and extremism is in line with our national interest and our vision of Pakistan as a moderate, modern and progressive society. We believe it is essential to pursue a comprehensive approach for combating terrorism - combining military, political and socio-economic tracks. It is equally essential to address the underlying causes that lead to acts of desperation and terrorism. Terrorism has no religion, no race, and no nationality. It is wrong to associate it to a religion, culture or people. The common teaching of all religions is peace and attempts to misrepresent any faith must be resisted.

We are engaged in promoting peace and security in South Asia and have taken several initiatives to that end. The process of building confidence and trust continues. We are engaged in dialogue with India to address all issues including the Jammu and Kashmir dispute. A just solution of this longstanding problem will usher in a new era of peace and prosperity in South Asia.

Pakistan also hopes to realize cooperation in the field of energy, poverty alleviation and a free trade regime under the SAARC auspices. We welcome China's close association with the SAARC.

We desire to see a peaceful and stable Afghanistan which is in the vital interest of the region. The international community must help the Afghan people with national reconciliation and reconstruction in Afghanistan.

We are reaching out to East Asia and Central Asia through ASEAN and the Shanghai Cooperation Organization. Pakistan has excellent relations with all members of these Organizations.

We wish to play a constructive role in promoting security in the Indian Ocean region. As member of the ASEAN Regional Forum, we are engaged in addressing issues of maritime security. We will continue to contribute positively to the Asia-Pacific security construct.

Pakistan enjoys close and friendly ties with Islamic States. We have also reached out to the states of Africa and Latin America. We seek to build closer bonds of friendship with all countries of the world.

Ladies and Gentlemen,

I also wish to take this opportunity to once again unequivocally reiterate Pakistan's adherence to the 'one-China' policy and its recognition of the People's Republic of China as the sole legal government representing the whole of China and Taiwan as an inalienable and indivisible part of Chinese territory. The Pakistan government fully supports China's great cause of national unification and all the efforts of the Chinese government in safeguarding national sovereignty and territorial integrity.

The friendship between Pakistan and China will gain in strength, fortified by our common resolve to expand and intensify mutual cooperation especially in the economic field. We need to focus on developing joint ventures, investments and trade.

What also binds us together is our shared idealism for a safe, secure and prosperous neighbourhood, our regions free from strife and conflict, and a world embracing peace, harmony and understanding. We want this vision to be translated into our immediate neighbourhood covering the many regions of Asia. We have faith that the Twenty First Century will be the Asia's Century.

It has been a special privilege to share my thoughts with the intellectual elite and Communist Party of China. I request you to continue your contribution to the further blossoming of Pakistan- China friendship.

The people of Pakistan will always stand with their Chinese friends, as you have always stood with us. We shall together contribute to promoting a harmonious world in the twenty first century.

Thank you very much.

Long live Pakistan-China Friendship!

18 April 2007. *Source:* Embassy of the People's Republic of China in the Islamic Republic of Pakistan.

### C. SAARC

#### **Address by Prime Minister Shaukat Aziz at the fourteenth SAARC summit in New Delhi**

Your Excellencies the Heads of States and Governments of SAARC Members,  
Mr. Secretary General,  
Excellencies,

Ladies and Gentlemen,

As we gather in this historic city of Delhi for the Fourteenth SAARC Summit, we should begin by recalling the vision of our predecessors 22 years ago for South Asia. It is now high time to make this dream a reality.

Today, the eyes of over a billion South Asians are upon us. We, the leaders of South Asia, bear on our shoulders the hopes and aspirations of our peoples. It is our responsibility to ensure for them and our future generations, a region blessed with peace, progress and prosperity; an environment free of unger and disease; and a life of hope and opportunity.

We are today at a crucial crossroads. We have achieved much and have the potential to achieve even more. But we also face challenges in a fast

changing world. We must analyse our strengths and weaknesses and do a reality check of what we have achieved and what still remains to be done. It is time for us to seize the moment, to leverage our potential and overcome our challenges. Let us move from debate and deliberations to concrete actions.

Excellencies, Ladies and Gentlemen,

We are all committed to the SAARC process. It is our collective responsibility to demonstrate the courage and commitment as well as the wisdom and foresight to transform South Asia into a vibrant, progressive and prosperous region. To achieve this will require a paradigm shift in our thinking and our attitudes. I am confident that we South Asians have the ingenuity, the determination and the imagination to make such a transformation.

Already in different parts of South Asia, there exist islands of affluence and centres of excellence. These underscore the capabilities and the potential that exists amongst us. Our endeavour should be to build upon and harness our potential thereby converting South Asia into a region of affluence and excellence.

Excellencies, Ladies and Gentlemen,

With these initial remarks about our vision for South Asia, I take this opportunity to congratulate Prime Minister Manmohan Singh on assuming the office of the Chairperson of SAARC. I am confident that under his able leadership, SAARC will make substantial progress towards realizing the great future that we envisage for our organization.

I also express our deep appreciation for the effective and dynamic stewardship of SAARC by Bangladesh. Since the Dhaka Summit, the SAARC family has expanded and there has been a remarkable increase in international interest and support for our Organization. I also wish to commend our Secretary General for his diligence and commitment in guiding the work of the SAARC Secretariat.

On behalf of the people and Government of Pakistan and on my own behalf, I would also like to extend a very warm welcome to President Hamid Karzai and to the people of the Islamic Republic of Afghanistan for joining the SAARC fraternity. Historical linkages and cultural affinities with the region make Afghanistan a natural and indispensable member of the SAARC community and I am sure that Afghanistan would play its valuable role to enrich and strengthen our Organization.

An equally warm welcome should be extended to the representatives of the Peoples Republic of China, Japan, Republic of Korea, the United States and the European Union for their formal association with SAARC. Their presence here underscores the growing relevance of SAARC in the international community and the extent of its footprint in the world. Pakistan has always advocated such interaction, as we believe that this would open up vast possibilities and opportunities for mutually beneficial cooperation. We look forward to your valued contribution and I am sure that your keen interest in the region would greatly benefit our Association.

We also welcome the interest expressed by our neighbour, the Islamic Republic of Iran, to be associated with our organization as an Observer and we look forward to their participation.

Excellencies, Ladies and Gentlemen,  
SAARC has entered its third decade. Over the years, we have succeeded in developing and elaborating a framework for regional cooperation. From small beginnings limited to technical cooperation, we have now agreements and decisions for substantive interaction and programmes aimed at social uplift, poverty alleviation, enhanced people to people contacts, establishment of a free trade arrangement and environmental protection.

We have travelled a long distance, but much remains to be accomplished. Our progress remains short of our aspirations. South Asia has yet to forge the quality and intensity of regional cooperation that we have witnessed in many other regions of the world, bringing about revolutionary transformation in the lives of their people.

Most importantly, Ladies and Gentlemen, we need to ask ourselves as to how relevant is SAARC to our people? How has it impacted their lives? In other words, where is the SAARC dividend for our people? These are some of the challenging questions that we, as leaders of South Asia, must answer. They can no longer be ignored or denied.

The reason why we have been slow in catching up with the other regional organizations is evident. The political environment in South Asia has remained vitiated by disputes and mistrust. We have remained mired in conflict management. The consequent drain on our energies has held us back from achieving the goals that we have set for ourselves in the SAARC Charter.

Excellencies, Ladies and Gentlemen,

We South Asians must come to grips with our challenges, both individually as nations and collectively as members of SAARC. We need to evolve a roadmap for the region that will enable us to leverage our assets and our advantages while overcoming our limitations. Only then will we be able to make a difference in the lives of our people.

Permit me to put before you the essential milestones of this proposed roadmap.

- First: It is essential that we promote an environment of genuine peace and security in South Asia, since there is clearly a direct co-relation between security and development. This requires us to resolve the differences and disputes within and between our countries through dialogue and compromise.
- Second: And as a consequence of the first; build mutual trust and confidence, thereby removing the obstacle of the trust deficit which has hampered meaningful cooperation in the region.
- Third: Reinforce and uphold the principles of peaceful coexistence – especially to ensure respect for sovereign equality among member

- States of SAARC;
- Fourth: Build inter-dependencies and sharing of best practices so that we help each other to help ourselves. A shared desire for regional cooperation will not suffice – we need to have real and tangible benefits that accrue equally to all sides in order to make such cooperation possible.
- Fifth: Promote a level-playing field for a truly effective regional division of labour and production. As a first step, this would require a truly open environment for regional trade – devoid of all types of barriers to free trade.

Excellencies, Ladies and Gentlemen,

The suggestions put before you are, in our opinion, practical and doable measures that are not beyond the grasp of our collective endeavours. Several examples exist before us where even greater hurdles to regional integration have been overcome. The initial requirement is for us to have the necessary political will. We must be able to rise above our differences for the greater good of our people and our future generations. These future generations will judge us by our actions and not by our words.

Excellencies, Ladies and Gentlemen,

We need to build on the momentum gained by our Organization in recent years largely due to the evolving propitious environment in the region. The SAARC Development Goals, our social agenda, our plans for enhancement of trade and regional connectivity as well as commitment to promote people to people contacts, all have the potential to transform the socio-economic landscape of our region. To realize their promise, we should make SAARC goal oriented, practical and pragmatic. The focus should be on implementation of our decisions, translating the potential of SAARC into tangible terms and prioritising its activities.

Let us begin by taking a few tangible and focussed measures. These could include:

- Enhancement of trade and economic activity, which must, however, show sensitivity to the need for creating a level playing field, market access and requirements of development in each member state.
- Promoting interconnectivity especially through improvement of infrastructure, region-wide transportation and communication links.
- Promotion of energy security, including the concept of an Energy Ring, as proposed by the Islamabad Summit in 2004.
- Poverty alleviation and promotion of health and education, which must remain a high priority.
- Protection of the environment and sustainable development with particular focus on conservation and management of water and natural resources.
- Ensuring food security through measures such as the SAARC Food Bank, which is the first step towards achieving food security in our region.

- Reach out to other Organizations and countries and adopt an inclusive approach with openness to interaction, especially with our larger Asian neighbourhood.
- Take immediate measures to strengthen the Secretariat regarding which we have made several proposals aimed at bringing greater efficiency and business like, result oriented approach in the working of our Organization.

Excellencies, Ladies and Gentlemen,

We are convinced that the leaders of South Asia assembled here today have the necessary courage, determination and commitment to change the course of South Asian history towards a better and brighter future for our peoples.

In conclusion, let me say that it is time to place our people at the centre of the SAARC process. The impulse towards such a paradigm shift of our Association can only come from concerted action by our governments, our legislatures and our civil societies. A reservoir of trust that can be continually drawn upon in dealing with difficult issues would unleash the true potential of the peoples of our region. SAARC must capture the imagination of our peoples in order for us to be assured of success.

As we look to forge ahead on the roadmap that I have put before you. I sincerely hope that the Delhi Summit will be remembered as the turning point in SAARC's history. Let this Summit breathe new life for SAARC.

I thank you for your indulgence and I thank the government and people of India for their warm welcome and generous hospitality.

3-4 April 2007. *Source:*

#### D. PAKISTAN & AFGHANISTAN RELATIONS

##### 1. Ankara Declaration

His Excellency General Pervez Musharraf, the President of the Islamic Republic of Pakistan, and His Excellency Hamid Karzai, the President of the Islamic Republic of Afghanistan, visited Ankara on 29-30 April 2007 at the invitation of His Excellency Ahmet Necdet Sezer, the President of the Republic of Turkey.

President General Pervez Musharraf and President Hamid Karzai held comprehensive, cordial and useful talks, together with President Ahmet Necdet Sezer and Prime Minister Recep Tayyip Erdogan, on regional and international issues. They emphasized that the international community must work together to promote the objectives of Afghanistan Compact. They pledged to cooperate towards promoting peace, security, stability and economic development in the region.

During the talks, the Presidents of Pakistan and Afghanistan agreed to continue to have dialogue and cooperation in all dimensions between the two brotherly countries and to combine their efforts to enhance prosperity of their peoples.

The two Presidents Agreed that their historical ties serve as a common basis to address all challenges hampering the stability, security and the

development of their region and to enhance their cooperation, building upon the 'Joint Press Statement' of 07 September 2006 issued during President Musharraf's visit to Kabul .

Agreed to further strengthen bilateral relations on the basis of good-neighborliness, respect for territorial integrity and non-interference in each other's internal affairs. Acknowledging the great opportunity that exists for progress and economic development in the region, they pledged to work together to improve and strengthen the climate of trust and cooperation.

Agreed that extremism and terrorism are a common threat to both Afghanistan and Pakistan , as it is a danger to the region. They reiterated their commitment to continue supporting moderation, fighting all forms of extremism and terrorism through coordinated action. They expressed concern at the alarming increase in poppy cultivation in Afghanistan and underlined the connection between terrorism, drug-trafficking and organized crime in the region, and emphasized the need for concerted efforts to combat these menaces.

Agreed to deny sanctuary, training and financing to terrorists and to elements involved in subversive and anti-state activities in each other's country and to initiate immediate action on specific intelligence exchanges in this regard.

Reaffirmed their commitment to enhance goodwill and create further confidence building measures and mechanisms, including through interaction between political representatives, civil society, academicians, media, and sports and cultural links.

Resolved to work jointly for facilitating orderly repatriation of Afghan refugees from Pakistan.

With a view to monitoring progress on the above agreed matters and coordinating the confidence-building measures and mechanisms, the Presidents established a 'Joint Working Group (JWG)' with the participation of high level representatives of the three countries.

President Karzai expressed the gratitude of the people of Afghanistan to the people of Pakistan for continuing to host millions of Afghan refugees. He also appreciated Pakistan's offer to host the next meeting of Regional Economic Cooperation Conference on Afghanistan (RECCA).

The Presidents of the Islamic Republic of Afghanistan and the Islamic Republic of Pakistan commended the initiative of Turkey for hosting the summit meeting and appreciated the offer to organize further meetings towards the end of 2007 or early 2008.

30 April, 2007. Source:

**2. Joint Statement issued in Potsdam by the Foreign Ministers of the G8 and the Foreign Ministers of Afghanistan and Pakistan on the 'G8 Afghanistan-Pakistan Initiative'**

1. The Foreign Ministers of the G8, Afghanistan and Pakistan came together today to reiterate their strong commitment to security, stability and lasting peace in Afghanistan and the region. They recalled the commitments made

in the Afghanistan Compact in January 2006. Continued support of the international community to the region is a vital element in the global fight against terrorism and for the promotion of freedom, democracy, rule of law, human rights, and economic growth and opportunity.

2. They underlined their common interest in working together to promote peace, security and development in the region and stressed the need for the international community to support this objective.
3. In this context, the Foreign Ministers of the G8 recalled the Kabul Declaration of Good Neighbourly Relations of 22 December 2002 and their statement of 23 June 2005. They commended the joint Peace and Security Jirgas (gatherings) between Afghanistan and Pakistan as well as the commitments Afghanistan and Pakistan have taken on in the 'Ankara Declaration' on 30 April 2007 to enhance their cooperation and combine their efforts to enhance the security and prosperity of their peoples. They also appreciated the Government of Pakistan's offer to host the next meeting of the Regional Economic Cooperation Conference on Afghanistan (RECCA).
4. The Foreign Ministers of the G8, Afghanistan and Pakistan reinforced their commitment in the fight against all dimensions of terrorism and stressed the vital importance of security for long-term reconstruction and development in the region and in Afghanistan in particular. They further committed to continue supporting moderation, fighting all forms of extremism and terrorism, including its financial, training and ideological centres through mutually agreed and coordinated action.
5. They highlighted the connection in the region between terrorism, drug-trafficking, and organized crime, and emphasized their determination for concerted efforts by all concerned parties to combat these menaces.
6. The Foreign Ministers of Afghanistan and Pakistan renewed their Governments' commitment to strengthen cooperation and dialogue between their countries and governments at all levels, in particular in the field of security, refugee issues, economic development and increased contacts between civil societies.
7. The members of the G8 commit themselves to work closely with the Governments of Afghanistan and Pakistan in support of their endeavour through concrete projects and targeted assistance in various fields.
8. The Foreign Ministers of the G8 highlighted the importance of practical cooperation between Afghanistan and Pakistan in matters of security concerns they share as neighbours.
9. They reiterated the importance of long-term and sustainable development and towards that end of joint initiatives in the economic field, reconstruction, agriculture, enhanced regional trade with appropriate import and export controls and transport links between Afghanistan and Pakistan as well as to other neighbouring countries, in particular those in Central and South Asia. They underlined the importance of engaging and developing the private sector, including through financial and technological assistance, to help build a vibrant local economy and the necessary infrastructure.

10. They commended the UNHCR and the governments of Afghanistan and Pakistan for their important work towards a repatriation of Afghan refugees from Pakistan. They stressed the commitment of the G8 to helping with arrangements towards enhancing the sustainability of return and pledged to further assist and complement already ongoing efforts in particular by helping to improve conditions for returnees in Afghanistan and in refugee-impacted areas in Pakistan.
11. Likewise they highlighted the importance of promoting increased contacts between civil societies as a further confidence building measure between Afghanistan and Pakistan and offered to support stronger interaction between political representatives, parliamentarians, the media, universities, as well as contacts in the field of sports and civil society at large.
12. They underlined that the G8 will build on and work with existing UN, regional and bilateral mechanisms to support Afghanistan and Pakistan and that as a follow-up to the initiative concrete projects will be identified and further pursued by the G8 in close consultation and in agreement with Afghanistan and Pakistan. To this effect, an expert meeting is to be convened at an early date with the task of specifying the projects in detail. A final list of projects is to be evaluated and endorsed at a meeting in Berlin in autumn.

30 May 2007. *Source:*

#### E. PAKISTAN & OIC

##### **Press Statement by the Foreign Minister of Pakistan on the conclusion of the 34th Islamic Conference of Foreign Ministers**

The Islamic Conference of Foreign Ministers (ICFM) has concluded its 34th session in Islamabad today. I chaired the session in my capacity as the Foreign Minister of the host country after my election by the Conference. Delegations from 57 Member States of the Organization of Islamic Conference (OIC), observer states, communities and organizations as well as OIC institutions attended the meeting.

Owing to its importance, the Session was inaugurated by the President of Pakistan, General Pervez Musharraf, who delivered an inspiring Inaugural Address. The concluding session was addressed by the Prime Minister Shaukat Aziz.

The 34th ICFM reviewed the implementation of decisions of the Islamic Summit and provided direction for the future work of the Organization. The outcome documents adopted at the concluding session of the Conference today include: (i) the resolutions of the Conference pertaining to a host of issues confronting the Muslim Ummah; (ii) Final Communiqué' of the Conference; and (iii) the Islamabad Declaration.

Pakistan feels greatly honoured at the privilege of hosting the Conference. The people of Pakistan have deep historical, religious and cultural ties with the Muslim world. OIC is the sole representative organization of the Ummah and has articulated its positions on issues of our common interests.

Pakistan as a founding member of the Organization has always actively contributed to the advancement of OIC's objectives. Pakistan has hosted this ICFM as a mark of the abiding commitment of our people to Muslim causes and Islamic solidarity.

You would recall that Pakistan had the honour of hosting 2nd Islamic Summit in Lahore in 1974, Extraordinary Summit in Islamabad in 1997 as part of golden jubilee celebrations of Pakistan's independence as well as a number of ICFMs. The last regular ICFM hosted by us was in Karachi in 1993.

The Islamabad ICFM took place at a critical juncture for the Muslim world. It addressed all issues of concern to the Ummah, including Palestine , Iraq , Afghanistan , Sudan , Somalia , and Kashmir . It also reaffirmed the resolve of the Islamic world to combat terrorism in all its forms and manifestations, and stressed the need for addressing its root causes. The ICFM also took serious note of increasing trend of Islamophobia and emphasized the imperative of addressing misperceptions about Islam. The ICFM also adopted a number of resolutions in the economic, social, cultural and information fields. There was a unanimous view for accelerating the process of reform of the OIC.

In his Inaugural Address, the President of Pakistan, General Pervez Musharraf, stressed the need to focus on three specific areas: (i) addressing socio-economic disparities through greater attention to enhanced education and science & technology thus creating knowledge-based economies and societies; (ii) addressing the internal religious upheaval by neutralizing the challenges posed by obscurantist, extremist and sectarian elements and strengthening the forces of moderation and enlightenment; and (iii) resolving political disputes facing the Islamic Ummah, including Palestine, Iraq, Afghanistan, Lebanon and Kashmir.

The Prime Minister also underscored the imperative to address the challenges faced by the Muslim world through a proactive approach and joint action. He also stressed the need for revitalization and reform of the OIC.

All participating Ministers addressed the Conference and expressed full confidence in the leadership of Pakistan to steer the OIC in becoming an effective organization capable of playing an effective role in global affairs. The Ministers hailed in particular the efforts of President Musharraf to address the Palestinian and other issues of interest to the Muslim Ummah, reduction of tensions in the Muslim world, and promotion of unity and harmony in the Ummah.

The three day meeting was successful and has attained its objectives:

Firstly, the session was attended by all 57 Member States.

Secondly, at a time when the Muslim world is faced with daunting challenges, the Islamabad meeting provided a timely forum to comprehensively discuss all issues of current importance to the Muslim world.

Thirdly, the meeting reaffirmed full support to Pakistan on issues of particular concern to us, including Kashmir. All resolutions sponsored by Pakistan have been adopted.

Fourthly, it reinforced the call by the President to lay special emphasis on science and technology. In this regard, a resolution was adopted to transform the Secretariat of COMSTECH (OIC's standing committee on science and

technology chaired by Pakistan) into a specialized organ of the OIC to serve as a primary vehicle for implementing OIC's joint programmes in the field of science and technology. You will recall that Pakistan has been trying for this for quite a few years and we are grateful to the Conference for agreeing Pakistan's proposal. This will enable the Secretariat of the COMSTECH to pursue the joint programmes in the field of science and technology in a number of Muslim countries more effectively by enabling them to have more predictable funding.

The ICFM reaffirmed the call to restructure and reform the OIC in order to make it more effective in accordance with the reform programme contained in Makkah Declaration of December 2005 and Ten-year Programme of Action. You would recall that over the past few years, the President of Pakistan has spearheaded the efforts for reform and restructuring of the OIC, including through a review of its Charter. The Meeting agreed on the need to revise the OIC Charter to adapt it to the needs of the 21st Century and decided to continue discussions with a view to finalizing the text by the next Islamic Summit in Senegal early next year.

During the ICFM, an interactive Ministerial Brainstorming Session was held. The Ministers discussed the theme of 'Countering Discrimination and Intolerance against Muslims and Defamation of Islam'. The Ministers provided useful guidance and ideas for the OIC to engage constructively in the ongoing multilateral discourse to counter discrimination against Muslim and defamation of Islam. The need for dialogue among civilizations and dialogue with the Western world were also emphasized.

I would like to acknowledge in particular our profound thanks to the OIC Member States for their continued strong support to the people of Jammu and Kashmir in their longstanding and just struggle. The ICFM lauded the constructive approach shown by Pakistan in addressing this longstanding dispute and called upon India to reciprocate the initiative of Pakistan to find a solution to this and other bilateral issues between India and Pakistan.

During the Conference, the Contact Group on Jammu & Kashmir met to discuss the Kashmir issue. The Contact Group was chaired by Secretary General of OIC, H.E. Prof. Ekmelledin Ihsanoglu, and addressed by Her Excellency Madam Aichatou Mindaoudou, Foreign Minister of Niger, H.E. Mr. Mehmet Aydin, Senior Minister of Turkey, H.E. Dr. Nezar bin Ubaid Madani, Minister of State for Foreign Affairs of Kingdom of Saudi Arabia. I also addressed the meeting representing Pakistan. Agha Syed Hassan Al Moosvi Al-Safvi representing All Parties Hurriyet Conference, Raja Zulqarnain Khan President of Azad Jammu & Kashmir and others addressed the Contact Group meeting and presented a Memorandum to the Secretary General.

Agha Syed Hassan Al Moosvi Al-Safvi also addressed the Plenary meeting of the ICFM on behalf of All Parties Hurriyet Conference.

The Conference provided a unique opportunity to me to interact with my counterparts from all over the Muslim countries.

During its Chairmanship, Pakistan will make utmost efforts to the strengthening of the OIC and forging solidarity amongst all its Member States. Specifically, we would concentrate on measures to collectively address challenges

confronting the Muslim world and revitalization and reform of the OIC so that it effectively promotes and protects the interests of the Ummah.

Here I would like to place on record my great appreciation for the young men and women of this Ministry who worked tirelessly to make this conference a success.

May 17, 2007. *Source:*

#### F. PAKISTAN & ARAB LEAGUE

##### **President Musharraf's address at 19th Arab League summit**

Your Majesty Khadim Herman-al-Sharifan King Abdullah bin Abdul Aziz al-Saud, excellencies, dear brothers:

I am indeed honoured to be invited on this important Arab League Summit in Riyadh. It is a special privilege to be able to share my views with this very distinguished assembly of my brothers and leaders of the Arab world. I am grateful to Khadim-ul-Herman-al-Sharifan His Majesty King Abdullah, the government and people of brotherly Saudi Arabia for their very warm and gracious hospitality. I wish our brothers at this Summit every success in taking important decisions to address the common challenges and difficulties that confront the Middle East. Your challenges are our challenges. Your success in addressing them is our success. Peace and security in the Middle East is indeed fundamental to interests and aspirations of the entire Muslim Ummah.

The tragedies of Palestine and Iraq cause the same anguish and anger in our homes as they do in your home. Despite the vast diversity of culture and historical experience, collectively as the Muslim Ummah, all of us Arab and Non-Arab Muslims feel each other's pain and face similar challenges. The great transformation of the last century also changed the Muslim society. Large parts of the Muslim Ummah that came under colonial subjugation, gained freedom through their own struggle. But several legacies and disputes from that dark era continue to inflict sufferings and have aggravated with time. They have formed new conflict and new dangers.

My dear brothers!

The Middle East peace has remained disturbed for over six decades mainly because of the suffering of the Palestinian and denial of their fundamental right to live in freedom. The aggressive Israeli actions are increasing the volatility of the environment and impeding progress towards the just settlement. The crisis in Iraq has implications far beyond the Iraqi borders. Tensions in the Gulf region are shaping and communist confrontation that could have incalculable consequences globally, regionally and within the Muslim Ummah.

We cannot remain helpless spectators, mired in these and other conflicts and crises afflicting the Islamic World. We need to join hands to work for solutions on the basis of fairness, justice and realism. On the larger canvas, apart from the disputes and conflicts Muslim countries are facing new dangers in the rise of extremist and obscurantist thinking and tendencies. Sectarian and ethnic divisions are tearing the fabric of many of our societies and draining our

energies needed to ensure progress and development within our countries. Also we must not allow a handful of fringe elements to malign our culture of moderation and our noble religion of peace, tolerance and compassion through their acts of senseless terrorism.

In the West we are witnessing campaigns to defame Islam. There are attempts to destabilize our society through provocation. There are forces scheming to push Islam and the West towards a clash. These dangerous trends must be discouraged and countered to prevent a global disaster. In these grave circumstances we need harmony and peace, understanding reform and reorientation to move in step with modern time and revive our glorious traditions and role for the good and advancement of human stabilization at large.

Dear brothers!

These thoughts and concerns had prompted me to visit several Muslim Capitals some weeks ago. I was encouraged by the discussions I had with my brothers that led to the possibility of seven Muslim countries working jointly to help peace efforts in the Middle East, facilitate solutions to problems, seek reduction of tension and work for harmony in the Entire Islamic World. This initiative is supportive of other endeavors. The seven countries representing a powerful voice from within the Islamic Ummah could develop a mechanism to promote objectives that are important for all of us.

We believe that the issues of Arab World deeply impact on the entire Muslim Ummah and our collective effort will prove to be more effective in addressing them. We are happy to see that since my visit the situation in Palestinian Territory has improved with conciliation between Fatah and Hamas through wise and sincere mediation by Khadim Herman-al-Sharifan. Since then Palestine has a national unity government. We hope that this Summit will help forward towards the goal that you had together stated in the Beirut declaration five years ago.

The tragedy of Palestine cannot be allowed to pester indefinitely. We must set the timeline and work with the International Community for the establishment of an independent Palestinian State with Al-Quads as its capital living side by side with Israel in peace and security. Towards this end United States and Europe have a historic responsibility more than any other issue the failure to find a just solution of Palestine has damaged principles and moral content in contemporary politics.

In South Asia we are working to promote an environment of peaceful and stable Afghanistan in the vital interest of Pakistan and the entire region. We are also addressing the long standing Kashmir dispute for a just settlement which is imperative for a brighter future of our region.

My dear brothers!

We are happy at the Summit meeting between Saudi Arabia and Iran that has had a salutary influence over the Gulf region. It is vital that countries of the region work together to prevent a new conflict that would have very serious consequence for the region, the Islamic countries, the developing countries and beyond on the wider international scene. Together we can avert this disaster with effective diplomacy. We owe this to our people and their future and to

history. The challenges that the Islamic Ummah faces are multiple and require a concerted and united response. We are happy to be a part of the Summit as it represents a unique initiative by your Majesty to reach out to other brotherly Muslim countries who share your concerns and your aspirations.

May Allah Almighty help all of us and guide us to meet the hopes and expectations of our people. I thank you all ladies and gentlemen.

Date: ?????? Source: [www.presidentofpakistan.gov.pk](http://www.presidentofpakistan.gov.pk)

## G. PAKISTAN & EU

### **EU-Pakistan joint declaration issued in Berlin**

The EU and Pakistan welcome their ministerial meeting today as representing a positive new step in strengthening their relations. Both the EU and Pakistan face enormous challenges in the coming years, and fully recognize the importance of working together.

The relationship between the EU and Pakistan is based upon a commitment to democracy, peace and stability, development, the enhancement of trade links, and a respect for human rights. These are principles enshrined in the 2004 Cooperation Agreement between the European Community and the Islamic Republic of Pakistan<sup>1</sup>. Both sides gladly look forward now to moving ahead with the implementation of the Cooperation Agreement, in the belief that it may help to promote socio-economic development and prosperity in Pakistan.

As a first, practical step, both sides look forward to holding the first EC-Pakistan Joint Commission under the 2004 Cooperation Agreement. This should take place in Islamabad as soon as possible in 2007. This will be the opportunity to strengthen the cooperation dialogue between the two sides, including in the field of trade.

Beyond this, the EU and Pakistan express their resolution to develop relations in areas not covered by their 2004 Cooperation Agreement. In particular, the two sides undertake to develop a broad, formalized political dialogue, aimed at improving mutual understanding through regular contacts, exchanges and consultations. This shall particularly take the following forms:

- Regular ministerial level dialogue to discuss strategic and other issues.
- In between the ministerial meetings, senior officials from both sides (Political and Regional Directors, as appropriate) will meet to ensure follow-up.
- Expert level meetings in a variety of policy areas, including:
  - a. interfaith dialogue;
  - b. counter-terrorism;
  - c. counter-narcotics;
  - d. non-proliferation;
  - e. human rights and good governance.
- Encouraging development of contacts at parliamentary level.

The EU and Pakistan have agreed to exchange experience in the fields of political and economic governance, as well as human rights and the rule of

law. Furthermore, both sides have agreed to cooperate in the promotion of regional peace, stability and security. To this end, the EU and Pakistan reaffirm their commitment to the settlement of disputes by peaceful means, in accordance with international law, bilateral agreements and the principles of the UN Charter. Both sides are also committed to the elimination of poverty in Pakistan, in accordance with the Millennium Development Goals.

8 February 2007. *Source:* www.eu2007.de

## ***II. Judiciary***

### **Text of reference against Chief Justice, Istikhar Muhammad Chaudhry Before the Supreme Judicial Council, Pakistan Islamabad**

Reference by the President, Islamic Republic of Pakistan under Article 209 of the Constitution Respectfully sheweth:

The facts and circumstances necessitating this Reference by the president of the Islamic Republic of Pakistan ('Pakistan') under Article 209 of the Constitution, briefly stated, are as under:

I. The Prime Minister of Pakistan on receipt of information, from several sources, with respect to the conduct of Mr. Justice Iftikhar Muhammad Chaudhry, the Chief Justice of Pakistan (hereinafter referred to as, 'the learned judge') was pleased to advise the President of the Islamic Republic of Pakistan to 'direct' the Supreme Judicial Council of Pakistan, in exercise of its powers under Article 209 of the Constitution, to inquire into the matter and report to the President whether the learned judge has been guilty of misconduct and further, whether he should be removed from office?

II. The advice of the Prime Minister was, inter alia, based on the following:

#### **Arsalan Iftikhar**

1. Dr. Arsalan Iftikhar is one of the sons of the learned judge. As narrated in paragraphs 2 to 25, the learned judge committed misconduct by employing his position to gain undue advantage for Dr. Arsalan Iftikhar. To secure this end he committed and was responsible for the commission of a number of unlawful acts. That all the acts narrated in paragraphs 2 to 25 were committed as a result of his influence and on account of the demands made by him and the pressure exerted by him. He unlawfully used his position as a judge and Chief Justice of the Supreme Court of Pakistan influence, harass and intimidate all concerned and compelled them to act in an unlawful manner. Such conduct is unbecoming a judge and is particularly reprehensible in the case of the Chief Justice of Pakistan.

2. Dr. Arsalan Iftikhar sought admission to Bolan Medical College in the year 1996. Having secured 639 marks with an overall 'C' grade in his Intermediate Examinations he could not be admitted on merit. The threshold being 750 marks. The Chief Minister of Balochistan was approached who

nominated him, 'for admission in 1st year MBBS class in Bolan Medical College, Quetta, against leftover foreign vacant seats/special seats'.

3. On 22 June 2005 Dr. Arsalan Iftikhar was appointed as Medical Officer/Demonstrator in the Institute of Public Health, Quetta.

4. On 18 July 2005, a few days after Dr. Arsalan Iftikhar was so appointed, the Chief Minister of Balochistan passed the following order:

'Dr. Arsalan Iftikhar, Medical Officer, presently posted as Demonstrator, Institute of Public Health Quetta be transferred and posted as Section Officer (Technical) in Health department with immediate effect in the interest of public service. Please issue notification.' [Emphasis supplied]

The Chief Secretary, Balochistan, to whom these orders were addressed, directed these to the Health Department on that very day (18 July 2005).

5. The Health Department on 10 August 2005 referred the case to the Services and General Administration Department ('S&GAD') as the authority 'for posting/transfer of Secretariat staff is S&GAD Department.

6. On 11 August 2005, in a Summary for the Chief Minister, the S&GAD pointed out that 'no ... post in Technical quota is available against which Dr. Arsalan could be considered for posting as Section Officer'. It was, however, pointed out that 07 posts of Section Officers against the 'quota of initial recruitment are vacant', the case for placing the requisition of these posts with the Balochistan Public Service Commission was being processed separately. It was 'proposed that Dr. Arsalan Iftikhar be considered for posting as Section Officer against one of the vacant post as a temporary arrangement'.

7. On 15 August 2005 a notification was issued to the effect that Dr Arsalan Iftikhar Demonstrator in Institute of Public Health, Quetta, was 'transferred and posted as Section Officer (Dev) in Health Department, against existing vacancy with immediate effect until further orders.'

[Emphasis supplied]. It may be stated that as was pointed out in the Summary to the Chief Minister, there was no existing vacancy. The 07 vacancies had to be filled by initial recruitment through the Balochistan Public Service Commission. What was proposed was that at best Dr Arsalan Iftikhar be temporarily accommodated against one of these vacancies, till it was filled by a suitable candidate by the Balochistan Public Service Commission.

8. Nine days before the notification of 15 August 2005 was issued, the Ministry of Interior, Government of Pakistan, addressed a letter on 6 August 2005 to the Chief Secretary, Government of Balochistan:

The services of Dr. Arsalan Iftikhar, BS-17 officer of the Health Department, Government of Balochistan are required to be utilized in FIA in public interest [Emphasis supplied]

2. It would be highly appreciated if you could place the service of Dr Arsalan Iftikhar at the disposal of the Ministry of Interior for posting in FIA.

On 13 August 2005, two days prior to the notification of 15 August 2005, the S&GAD, Government of Balochistan conveyed to the Ministry of Interior, Government of Pakistan, its 'no objection for placing the services of Dr. Arsalan Iftikhar (Health/B-17) at the disposal of Ministry of Interior for

posting in FIA. While this letter was either in the mail or had not reached the 'right' hands, the Ministry of Interior sent a reminder on 16 August 2005.

9. On 5 September 2005 a notification was issued by the Ministry of Interior, Government of Pakistan. Dr Arsalan Iftikhar was transferred and his services were placed at the disposal of FIA for posting as Assistant Director (BS-17) in the FIA, on deputation for a period of three years, in his own pay and scale, with immediate effect and until further order.

10. On 9 September 2005, the Secretary S&GAD brought the matter to the attention of the Chief Secretary, Balochistan. On 13 September 2005 the Chief Secretary Balochistan on behalf of S&GAD issued a notification pursuant to the notification of the Government of Pakistan. On 30 September 2005 Dr Arsalan Iftikhar received charge of the office of Assistant Director, FIA at Islamabad. This was notified on 24 October 2005.

11. Within four months of his appointment as Medical Officer/Demonstrator in the Institute of Public Health, Quetta, Dr Arsalan a BS-17 officer, who had not even completed the mandatory period of his probation, was transferred and posted first as a Section Officer in the Government of Balochistan against a non-existent vacancy and then sent on deputation as Assistant Director, FIA, to the Ministry of Interior, Government of Pakistan, for a period of three years; all in the public interest. And this for a person who had appeared thrice in the CSS competitive examinations and failed each time.

12. Under Rule 8 of the Health Department, Government of Balochistan, Service Rules 1984, a person appointed to the service against a substantive vacancy remains on probation for a period of two years if appointed by initial recruitment. Dr Arsalan, having been so appointed, on 22 June 2005, his period of probation would have been completed on 21 June 2007.

13. On 22 November 2005 the S&GAD, Government of Balochistan moved a summary to the Chief Minister, Balochistan proposing confirmation in services of Dr Arsalan Iftikhar 'with immediate effect against the substantive post of Medical Officer in the Provincial Health Department by relaxing Rule 8 of the Balochistan Health Department (Basic Pay Scale 16 and above) Service Rules 1984 for completion of probation period of 2 years.' On 5 December 2005 the S&GAD, Government of Balochistan issued a notification whereby the services of Dr Arsalan Iftikhar were confirmed.

14. On 22 March 2006 in continuation of its notification of 5 September 2005, the Ministry of Interior issued yet another notification, Barely within 5 months of having assumed the charge of Assistant Director FIA in BS-17:

Dr Arslan Iftikhar (BS-17) Health Department, Government of Balochistan Quetta is transferred and his services are placed at the disposal of Director General Federal Investigation Agency for posting as Deputy Director (BS-18) in FIA on deputation basis for a period of three years....(Emphasise supplied)

On 7 April 2006 it was notified that he had assumed charge of the office of Dy Director (BS-18) FIA on 22 March 2006. On 9 May 2006 by a

letter issued by the Office of the Director General Federal Investigation Agency it was clarified as follow:

Now he has been upgraded as Deputy Director in BPS-18 with retrospective effect, i.e. from the date of initial joining as per notification dated 22-03-2006.

On 9 May 2006 the Ministry of Interior issued yet another notification in partial modification of its notification of 22 March 2006. It was stated:

Dr Arslan Iftikhar has assumed the charge of the post of Deputy Director /BS-18, FIA on 3rd September 2005 with retrospective effect.

15. This done, a campaign was launched to induct Dr Arsalan Ifitkhar in the Police Service of Pakistan. As BS-17 officer Dr. Arslan Ifitkhar could have joined the Police Service only through the competitive services examination conducted by the Federal Public services commission but being in BS-18 made induction possible and the FPSC route could be avoided. As a first step he was to be sent to the Police Academy for training with PSP officers all of whom had been selected by the Federal Public Services Commission. The training was exclusive to PSP officers.

16. On 19 May 2006, the Ministry of Interior addressed a letter to Commandant, National Police Academy, Islamabad, stating that Dr. Arshaln Iftikhar, Deputy Director, FIA, was attached with the National Police Academy for training with CTP batch. The Commandant was requested to attach the said officer for field training along with under training ASPs to cover catch aspect of the required training.

17. On 24 May 2006, the Ministry of Interior again issued a letter to the Commandant, National Police Academy, Islamabad, stating that after the completion of the specialized training programme at the National Police Academy, the services of Dr Arslan Iftikhar be placed at the disposal of Punjab Police for further posting at Lahore for his District Attachment Training.

18. Pursuant to the letter of 24 May 2006, the National Police Academy, Islamabad, on 27 June 2006 relieved Dr Arslan Ifitkhar, 'for completion of remaining training programme of 32nd CTP, and directed to report to Elite Police Training School, Bedian Lahore on 02-07-2006 doing six weeks Orientation Course.' After completion of the course he was to 'report to CPO, Punjab, Lahore for Phase III part of training which is six months Field Attachment'.

19. In the meantime, the Prime Minister's Secretariat was approached for the permanent induction of Dr Arsalan Iftikhar in the Police Service of Pakistan in BS-18. On 16 May 2006 the Prime Minister's Secretariat sought the views of the Establishment Division in that regard.

20. The UO Note of the Prime Minister's Secretariat was also circulated to FIA. On 3 June 2006 the Office of the Director General, FIA, stated that, 'neither FIA requisitioned his services, nor was involved at any stage for his deputation or district attachment etc.' FIA, therefore, expressed its inability to offer any views/recommendations on the UO Note.

21. On 23 May 2006 the Establishment Division noted that as per the PSP (Composition, Cadre and Seniority) Rules, 1985, 'the request of the officer

for induction in PSP in BS-18 is not feasible.’ In a separate note the Establishment Division observed that Dr. Arsalan Iftikhar could not be inducted in the Police Service of Pakistan without an amendment in the PSP (Composition, Cadre and Seniority) Rules, 1985. Such an amendment could only be made with the approval of the President.

22. On 31 May 2006 the Secretary, Establishment, was called by the learned judge for a meeting at his residence. The meeting took place at 2100 hours. The observations of the Establishment Division were also communicated to him. The learned judge appreciated the aforementioned reservations but the meeting ended with the learned judge insisting on:

- (a) the induction of Dr Arslan Iftikhar in FIA preferably in BS-18;
- b) his subsequent deputation to the Punjab government without their specifically mentioning the post against which he will be posted; and
- c) simultaneous initiation of a proposal to amend the rules to provide for induction of FIA officers in the Police Service of Pakistan, and sought his son's permanent induction in (BS-18) in the Police Service of Pakistan.

The Secretary, Establishment, communicated these demands to the Principal Secretary to the prime Minister, around midnight, the same evening. Soon thereafter the Secretary Establishment received a call from the learned judge saying that he had found a number of precedents of induction into various groups. On 1 June 2006 the papers were received from the learned judge. Later, the learned judge called the Secretary Establishment on the Green Line to enquire if the papers sent by him had been examined. The Secretary Establishment stated that it would take some time. The learned judge stated that orders of the Prime Minister be obtained by referring to these precedents. He was told that a written reference would be made to the Prime Minister's Secretariat giving the precedents as well as the legal position. The learned judge responded that a written reference would ‘jeopardize the case and that this was part of a package and reference to the rules need not be made.’

23. The learned judge continued to ‘insist’ that all concerned make the necessary changes and warned of ‘consequences’ if his desires were not met. Due to the relentless pressure and the campaign of intimidation and harassment launched by him, ultimately a summary was prepared and submitted by the Establishment Secretary on 23 June 2006 to the Prime Minister for addition of a new ‘Rule 7-C’ in the Police Service of Pakistan (Composition, Cadre and Seniority) Rules, 1985. The amendment was tailor made for Dr. Arsalan Iftikhar.

24. Since then the learned judge has almost on a daily basis exerted all kinds of pressure on the Prime Minister's Secretariat to secure the approval of the summary aforementioned and for the consequent induction of Dr. Arsalan Iftikhar as an officer in the Police Service of Pakistan as a BS-18 officer.

25. He also used his influence and authority to have Dr. Arsalan Iftikhar nominated to attend the 2nd Training Course in Combating International Terrorism and Organized Crime from 30 October 2006 to 3 November 2006 in Istanbul. He was the only non-PSP officer and the only under training person to attend this course.

26. The learned judge is entitled to one 1600 CC car, but he has contrary to the norms and rules on the subject secured the use of the following cars for himself at Islamabad:

- i) Mercedes Bens 3000cc
- ii) IDJ-166 Toyota Corona Model 1993 - 1300cc
- iii) ODF 6828 Toyota Corona Model 1993 - 2000cc
- iv) CIA-9 Toyota Corolla Model 2000 - 1300cc
- v) GP-8695 Toyota Corolla Model 2002 - 1300cc
- vi) IDM-7976 Toyota Corolla Model 2003 - 1300cc
- vii) IDM-7977 Toyota Corolla Model 2003 - 1300cc

27. Besides these the learned judge has the use of a fleet of cars at Islamabad, Lahore and Quetta.

28. On more than one occasion demands have been made to the Chief Minister or Governor of the province which the learned judge is visiting to provide the cars for their own official use to the learned judge during the period of his stay in the province.

Protocol over and above entitlement

29. The learned judge insists on being provided protocol which has neither been ever sought by or provided to a Chief Justice. Besides an outrider to lead the cavalcade the demand is for a number of police vehicles to follow him. The men have to be from elite units. At times specific demands have been made for an officer not below a particular rank to act as an outrider. Traffic has to be diverted or stopped while the convoy travels from one point in the city to another at high speed. Such actions are completely unprecedented for a Chief Justice.

30. Demands have been made for senior bureaucrats not below a particular rank to receive him at the airport when he arrives in a provincial capital.

#### **Use of planes and helicopters**

31. The learned judge frequently demands the use of the plane or aircraft of a Governor or a Chief Minister to travel from one place to another or for a private visit to offer condolences or to attend a function. The learned judge is well aware that he is not entitled to the use of these aircraft and helicopter but is in the habit of making these demands frequently and secures these by insisting on these.

Para 32 deleted

33. For some time a BMW car registration No 'RAZIA-1' remained in the use of the learned judge and members of his family. The story hit the press and when it refused to die down the car was quietly moved elsewhere.

#### **Judicial Conduct**

34. There are complaints of orders being verbally announced in open court in favour of one party and subsequently a written order at variance from the order announced in court being delivered. Two such cases have acquired particular

notoriety. In one of these two cases it is alleged that amounts as large as Rs55 million may have been involved.

#### Reports

35. These matters have been subject of general and uncontradicted public comment, press reports, magazine articles, media comments by senior and respected members of the bar and former members of the superior judiciary. Entitlements

36. The learned judge used the influence of his position to gain undue advantage by 'insisting on an increase and enhancement in his entitlements or in securing the relaxation of the rules in that respect.

III. In the light of, inter alia, the foregoing facts and circumstances, and after a thorough consideration of the matter the Prime Minister of Pakistan advised the President of the Islamic Republic of Pakistan to refer to the Council, for its report, the question whether the conduct of Mr Justice Iftikhar Muhammad Chaudhry, Chief Justice of Pakistan in the following matters namely:

(a) in using his position, office, influence and authority as a judge of the Supreme Court and Chief Justice of Pakistan to:

(i) secure the appointment of his son Arsalan Iftikhar as a Section Officer in the Health Department, Government of Balochistan;

(ii) to have his son Arsalan Iftikhar sent on deputation by the government of Balochistan to the Ministry of Interior, Government of Pakistan as Assistant Director, FIA in BS-17;

(iii) to have his son Arsalan Iftikhar confirmed in the service of the Health Department, Government of Balochistan, much before the expiry of the mandatory period of probation in violation of the applicable rules;

(iv) to have his son Arsalan Iftikhar upgraded as Dy Director, FIA, in BS-18 with retrospective effect;

(v) to make efforts to have his son Arsalan Iftikhar inducted in the Police Service of Pakistan in violation of the rules and/or to seek an amendment of the applicable rules;

(b) in seeking and securing official vehicles and transport for his use much beyond the sanctioned and permissible limits;

(c) in insisting on protocol to which he was not entitled;

(d) in demanding and securing use of helicopters and planes to the use of which he was not entitled;

(e) in accepting accommodation with a litigant before the Supreme Court;

(f) in using the BMW car 'Razia 1';

(g) in writing judgements which were contradictory to orders announced verbally in open court;

(h) in insisting on entitlements or having rules relaxed for such entitlements; constitutes a ground of misconduct on which the learned judge ought to be removed from the office of a judge of the Supreme Court of Pakistan and the Chief Justice of Pakistan.

IV: The President of the Islamic Republic of Pakistan is of the opinion that the learned judge may have been guilty of misconduct and therefore, is pleased to refer the question aforementioned to the Council for the purpose of conducting an inquiry into the matter and after such inquiry as it may deem fit report to the President its opinion whether the learned judge has committed misconduct and whether he should be removed from the office of a judge of the Supreme Court and the Chief Justice of Pakistan.

V. That the Prime Minister was further pleased to advise the President that besides making the reference to the Council the President may simultaneously, in exercise of his constitutional and inherent powers under the Constitution of Pakistan and all other power enabling him in that behalf, direct that as a reference would be pending against the learned judge before the Council it would be neither in the public interest nor in consonance with the norms of judicial propriety that he continues to perform the functions of his office as a judge of the Supreme Court or as the Chief Justice of Pakistan. This would be in consonance with past practices as well. For these reasons, till such time that the reference has been disposed off by the Council and final orders in the matter have been passed, the most senior of the other judges of the Supreme Court shall act as the Acting Chief Justice. The President has been pleased to pass orders accordingly.

VI. It is requested that this reference may please be taken up as soon as it may be convenient, an inquiry into the matter be commenced and the reference be disposed off as expeditiously as may be possible for the Council.

General Pervez Musharraf,  
*President, Islamic Republic of Pakistan*  
 Through  
 Mr Justice (Retd) Mansoor Ahmed  
 Secretary, Ministry of Law, Justice and Parliamentary affairs Islamabad  
 Date: 9th March 2007  
 Reproduced from *Dawn*, 21 March 2008.

### ***III. Economy***

#### **1. Pakistan Economy Survey's Overview of the Economy**

Pakistan's economy continues to gain traction as it experiences the longest spell of its strongest growth in years. The outcomes of the outgoing fiscal year indicate that Pakistan's upbeat economic momentum remains on track. Economic growth accelerates to 7.0 percent in 2006-07 at the back of robust growth in agriculture, manufacturing and services. Pakistan's growth performance over the last five years has been striking. Average real GDP growth during 2003-07 was the best performance since many decades, and it now seems that Pakistan has decisively broken out of the low growth rut that it was in for more than one decade. Economic growth has been notably stable and resilient. With economic growth at 7.0 percent in 2006-07, Pakistan's real GDP has grown at an average rate of 7.0 percent per annum during the last five years

(2003-07) and over 7.5 percent in the last four year (2004-07) in running. Compared with other emerging economies in Asia, this puts Pakistan as one of the fastest growing economies in the region along with China, India, and Vietnam. The good performance has resulted from a combination of generally sound economic policies, on-going structural reforms and a benign international economic environment. Based on the performance of half-a-decade of strong, stable, resilient and broad-based economic growth it appears that Pakistan's economy will continue to be a high mean, low variance economy over the medium-term.

Pakistan is in the midst of its strongest economic expansion phase and its growth momentum is broad-based. All the three major sectors, namely, agriculture, industry and services have provided support to strong economic growth. The commodity-producing sectors (*agriculture and industry*) contributed 2/ 5<sup>th</sup> and services sectors contributed remaining 3/5<sup>th</sup> to the real GDP growth of 7.0 percent in 2006-07. Within the commodity-producing sectors, the contribution of agriculture alone has been 15 percent (*or 1.1 percentage point*) while 25 percent (*or 1.8 percentage point*) contribution to this year's growth came from industry. Services sectors as a whole contributed almost 60 percent (*or 4.2 percentage points*) to this year's strong economic growth.

This year's economic growth is mainly driven by strong domestic demand with investment taking lead over consumption for the first time in the last three years. Net exports appear to have been a drag on overall growth in 2006-07. Almost 53 percent contribution to this year's growth came from investment while consumption contributed 50 percent. Net exports contributed negatively to the extent of 3.0 percent. This year's economic growth has benefited from higher consumption and investment demand owing to a growing middle class and favourable demographics. Increased contribution of investment to growth is a healthy development as it will engender employment growth which will support consumption demand and together they will play an important role in sustaining strong growth momentum in the medium-term.

Pakistan's economy continues to perform impressively and its economic fundamentals have gained further strength in the fiscal year 2006-07. The most important achievements of this year include: (i) a strong economic growth of 7.0 percent despite the pursuance of tight monetary policy resulting in interest rate increases; (ii) a strong recovery in overall agricultural growth at 5.0 percent and major crops at 7.6 percent at the back of highest ever production of wheat (*23.52 million tons*) in the country's history and an impressive 22.6 percent increase in sugarcane production (*54.7 million tons: the second highest production level in the history*); (iii) large-scale manufacturing continue to grow robustly at 8.8 percent, *albeit* at a somewhat less torrid pace than last year; (iv) the overall services sector continue to maintain solid pace of expansion at 8.0 percent; (v) with strong average economic growth of over 7.5 percent during the last four years, Pakistan continues to maintain its position as one of the fastest growing economies in the Asian region; (vi) the real per capita GDP grew by 5.2 percent and has maintained an average growth of 5.5 percent per annum over the

last four years; (vii) per capita income in current dollar term was up by 11.0 percent to \$ 925; (viii) a sharp pick up in overall investment reaching at a new height of 23 percent of GDP and most notably, private investment remained buoyant owing to the persistence of strong consumer demand, (ix) despite monetary policy tightening the credit to private sector continue to growth strongly (12.2%) at the back of improving investment climate; (x) a significant abatement of price pressure indicating a steady deceleration in core inflation (*non-food non-energy*) from an average of 7.7 percent last year to 6.0 percent this year owing to pursuance of tight monetary policy; (xi) on the fiscal side, the overall budget deficit target (*4.2% of GDP*) and revenue collection target of the Central Board of Revenue (CBR) are achieved; (xii) across all measures of vulnerability to external shocks, Pakistan's debt profile has improved significantly over the past year — public debt declined from 56.9 percent to 53.4 percent of GDP and external debt and liabilities declined from 29.4 percent to 27.1 percent; (xiii) highest ever workers remittances at around \$5.5 billion, (xiv) highest ever foreign investment flows at around \$6.5 billion, emerging as the single largest source of external finance after exports; (xv) exchange rate continues to remain stable despite widening of trade and current account deficits, clearly indicating strong inflows of external resources; and (xvi) the successful launch of a new \$750 million 10-year 144 A sovereign bond in international debt capital market with seven times over subscription has been the defining moment in Pakistan's history as it reflected a strong vote of confidence by global investors on Pakistan's current economic prospects and future economic outlook.

While Pakistan's economy continues to gather momentum and its economic fundamentals are gaining traction the social sector indicators are also improving. According to the PSLM 2005-06 Survey released recently, the social sector indicators particularly gross and net enrolment at primary level and literacy rate show significant improvement over the last 5 years. The health indicators, particularly children immunization, incidence of Diarrhea and infant mortality rate have all improved significantly over the last 5 years. Most importantly, the contraceptive prevalence rate has increased substantially and accordingly the total fertility rate has declined from 4.5 to 3.8 over the last 7 years. While the incidence of poverty has declined significantly in Pakistan in recent years at the back of strong economic growth, some argue that income/ consumption inequality has also increased during the period. It is true that consumption inequality has increased only marginally during 2001-2005 and efforts are underway to reduce this gap, the consumption/ income inequality is far less in Pakistan compared with a variety of rich, middle and low income countries.

Notwithstanding these impressive gains in economic and social fronts in the outgoing fiscal year there remained some areas where results could not be achieved as planned for the fiscal year. First and foremost is the rate of inflation which has averaged 7.9 percent in the first ten months of the fiscal year – marginally lower than last year for the same period, but certainly above the target of 6.5 percent for the year. The average inflation for the year is expected

to be around 7.5 percent — 100 bps above the target. This year's inflation has been fueled by a combination of global trends in the prices of several commodities and local supply-and demand-driven factors. Globally, higher prices of edible oil (*palm oil and soyabean*) and dependency on their imports transmitted higher international prices to domestic prices. Furthermore, shortfall in domestic production of pulses, rice, chilies, other vegetable items (*onion, tomato etc.*) and fruits forced the government and private sector to import some of these items (*pulses*), also transmitted higher international prices to domestic prices. Resultantly, food inflation averaged 10.2 percent as against 7.0 percent last year, adversely affecting the low and fixed income groups. There are few food items which are widely consumed and whose prices remained high during the year and therefore contributed to the pick up in food inflation include: rice, masur and gram pulses, milk powder, vegetable ghee and cooking oil, red chilies, onion, tomato.

On the other hand, the prices of some essential food items were lower this year compared with last year. These items include: moong pulse, sugar, chicken, potato etc. The challenge for the government is therefore, to maintain a balance between the supply and demand of these essential commodities by enhancing production and augmenting supplies in the shortest possible time through import in the event of shortfall in the production. The key to addressing this challenge is to give due importance to minor crops (*vegetable items and fruits*) and livestock and dairy sector (*for meat and milk*). Currently there is a total disconnect between the importance given to these sub-sectors of agriculture (*they together account for 62% of the agricultural value-added*) and their relative roles in maintaining price stability in general and food inflation in particular. Marketing system also need to be improved for which several vegetable markets need to be established in each medium-to-large cities to minimize the role of middle man.

Notwithstanding the sharp pick up in prices of some of the food items it is equally true that the prices of essential commodities in Pakistan are still relatively cheaper in the region. For example the prices of wheat, wheat flour, chicken, and eggs are the lowest in South Asian region. Similarly, prices of all kinds of pulses and sugar are lowest in the region with the exception of Sri Lanka and India, respectively. However, this does not mean that we have to pause or rest in our efforts of keeping prices low and stable.

Secondly, on external side, while import growth slowed to a normal level in the current fiscal year after surging at an average rate of 29 percent per annum over the last four years, export growth witnessed abrupt and sharp deceleration to less than 4.0 percent after growing at an average rate of 16.0 percent per annum during the same period. Therefore, the benefits of normal growth of imports could not be achieved in terms of improving trade and current account deficits, mainly on account of less than satisfactory export performance. The capital account, meanwhile, remains solidly in surplus, Capital inflows have been dominated by foreign investment and other inflows the magnitude of which has overwhelmed the State Bank of Pakistan, and created difficulties for monetary policy. On net, strong inflows in capital account will not only more

than offset the current account deficit but will help in building foreign exchange reserves. Nonetheless, trade and current account deficits require closer monitoring over the next few years.

Thirdly, while unemployment and poverty have declined substantially at the back of sustained high economic growth, consumption inequality, though far less in Pakistan as compared with many high, middle and low income countries has marginally increased during the period 2001-05. More attention will be required in skilled developments and improving the quality and delivery of education services in both urban and rural areas to address distributional issues. Reducing labour market rigidities could raise employment and growth. Such reforms in labour market will have beneficial effects on equity.

### **Global Economic Environment**

While sound macroeconomic policies and ongoing structural reforms have contributed in delivering yet another year of solid economic growth, Pakistan has also benefited from a benign international economic situation. The world economy is enjoying a remarkable period of broadly shared growth. In fact the world is in a period of economic expansion unmatched since the early 1970s, while inflation remains at low levels. Most importantly, every region of the world economy is now doing well. The world economy has expanded by 5.4 percent in 2006. The Euro zone at last managed a strong recovery with growth of 2.6 percent in 2006, up from 1.4 percent in 2005. While advanced economies grew by 3.1 percent, emerging and developing economies grew by an astonishing 7.9 percent. Developing Asia led the way with 9.4 percent growth; and China, India, Vietnam and Pakistan within the region growing in the range of 7.0 percent (Pakistan) to 10.7 percent (China) with India (9.2%) and Vietnam (7.4%) falling in between. But other regions have also done well. The Commonwealth of Independent State (CIS) grew by 7.7 percent with Russia growing at 6.7 percent. The four important economies of ASEAN region (*Indonesia, Malaysia, Thailand and Philippines*) have also grown at robust rate (5.0 – 5.5%). Saudi Arabia and Kuwait grew strongly at 6.3 percent and 6.2 percent at the back of equally strong oil revenue. All the countries in South Asia are witnessing stronger economic expansion and benefiting from growth in terms of reducing poverty in the region. Africa as a whole is growing at a modest pace of 5.5 percent.

Behind this widely share expansion lies the rapid growth in the volume of world trade (*up 9.2 percent in 2006*), soaring capital flows with net private flows to emerging markets at \$ 256 billion, robust external Economic Survey 2006-07 positions for the emerging market economies with a further accumulation of foreign exchange reserves, amounting \$ 738 billion 2006, strong rises in commodity prices and, not least, a better distribution of growth among advanced economies.

The global economy is on track and expected to continue to grow robustly in 2007 and 2008 with somewhat less torrid pace than in 2006. Emerging market and developing countries of which, Pakistan is a member, are also likely to grow strongly in the next two years.

What factors could threaten the continuation of these strong trends? The current expansion phase of global economy owe heavily to global productivity growth. There is some concern that global productivity growth may decelerate in the period ahead if progress is not made in Doha Development Round. The protectionist forces could rise over time, imposing new barriers to trade and investment flows and reversing some of the gains from an increasingly integrated world economy. Second, crucial issue for maintaining productivity growth is the challenge posed by aging population, especially in advanced countries. The ratio of dependents to working age population will raise pension and healthcare costs, imposing fiscal strains. A central challenge will be to ensure that fiscal policy frameworks remain sustainable in the face of aging population.

### **GDP Growth**

Real GDP growth accelerated to 7.0 percent in 2006-07 as against the revised estimates of 6.6 percent last year and the 7.0 percent target for the year. The final estimate for 2004-05 has also been revised upward to 9.0 percent as against the revised estimate of 8.6 percent for the year. Thus, over the last four years the real GDP has grown at an average rate of 7.5 percent per annum. This year's growth has been broad-based as agriculture, manufacturing and services have grown robustly. Agriculture registered a sharp recovery from as low as 1.6 percent last year to 5.0 percent this year and therefore enhanced its contribution to real GDP growth from 6.0 percent (*or 0.4 percentage points*) to 15 percent (*1.1 percentage points*). Overall manufacturing grew at a somewhat more moderate pace at 8.4 percent in 2006-07 as against a strong growth of 10.0 percent last year. Accordingly, its contribution to this year's real GDP growth declined to 23 percent (*1.6 percentage points*) from 27 percent (*1.8 percentage point*) last year. Within overall manufacturing, large-scale manufacturing accounts for 70 percent and continues to post robust growth, although at somewhat less torrid pace than last year. This sector grew by 8.8 percent against the target of 12.5 percent and last year's achievements of 10.7 percent, perhaps exhibiting the signs of moderation on account of higher capacity utilization on the one hand and a strong base effect on the other. This year's real GDP growth was also powered by stellar growth in construction and banking and insurance sectors, respectively growing by 17.2 percents and 18.2 percent. Brisk pace of activities in housing and high rise buildings along with large public sector spending on physical infrastructure, and the on-going reconstruction activities in the earthquake affected areas contributed to the sharp pick up in construction value-added. The emergences of growing middle class along with strong buying power and on-going reforms in banking and financial sector have made this sector highly attractive to foreign investors. This sector is growing at an average rate of 27 percent per annum over the last three years and its contribution in overall GDP growth is increasing overtime. Electricity and gas distribution continues to be a drag on growth for third year in a row. This sector has registered a negative growth of 15.2 percent purely on account of high operating expenses of the WAPDA offsetting its gross value added.

### **The services sector**

Continued to perform strongly for third year in a row and grew by 8.0 percent in 2006-07 as against 9.6 percent last. Services sector has grown at an average rate of 8.7 percent per annum during the last three years. Almost 60 percent contribution to this year's growth has come from services sector. All the components of services sector registered strong growth with the exception of ownership of dwellings which continues to grow at 3.5 percent for the last four years. Transport and communication, wholesale and retail trade, finance and insurance and public administration and defense have growth robustly in 2006-07.

### **Agriculture**

Agriculture is still the single largest sector of the national economy. It has made a modest recovery from the dismal performance of last year. Overall agriculture grew by 5.0 percent in 2006-07 from 1.6 percent last year. Within agriculture, the major crops witnessed strong recovery by growing at 7.6 percent against a negative growth of 4.1 percent last year. The impressive growth in major crops owes partly to the bumper wheat and sugarcane crops and partly to the base effect as it is measured from a low base of last year. Wheat production was up by 10.5 percent to 23.5 million tons —the highest ever wheat production recorded in the country's history. The balanced use of fertilizer, availability of water during Rabi season, higher availability of agricultural credit and introduction of three new high yielding varieties of wheat have been responsible for record production of wheat this year. Sugarcane production, likewise, improved by 22.6 percent last year to 54.8 million tons — the second highest size of the crop in the country's history. Cotton production at 13.0 million bales remained at last year's level. The other two major crops, namely rice and maize did not perform well. Both rice and maize registered negative growth rates of 2.0 percent and 4.5 percent, respectively. Gram pulse, the other major crop, exhibited an impressive growth of 75.4 percent in 2006-07 to 0.842 million tons compared with 0.480 million tons last year. The performance of other components of agriculture such as minor crops, fishing, forestry and livestock has been lackluster at best. Livestock with almost 50 percent contribution to agriculture has performed reasonably well at 4.3 percent this year as against a strong growth of 7.5 percent last year. The performance of minor crops has a direct bearing on food inflation. Minor crops grew by only 1.1 percent this year as against an equally poor performance (0.4 %) of last year. The performance of this sector has been poor for third year in a row as it has grown at an average rate of 1.0 percent per annum. Lack of attention paid to minor crops by successive governments is responsible for its poor performance.

**Manufacturing** is the second largest sector of the economy accounting for 19.1 percent of GDP. The overall manufacturing continued to post robust growth in 2006-07, although at a somewhat moderate pace compared to last year as well the last three years. Overall manufacturing grew by 8.4 percent this year as against 10 percent last year. Large scale manufacturing (LSM), accounting

for nearly 70 percent of overall manufacturing, also continued to post a robust growth in 2006-07, albeit at a somewhat less torrid pace than last year. The LSM sector grew by 8.8 percent against the target of 12.5 percent and last year's achievement of 10.7 percent. The relatively slower pace of expansion this year perhaps exhibits signs of moderation on account of higher capacity utilization, difficulties in the textile sector and lower than expected scale of operations of oil refineries. Several other factors have also contributed to the somewhat moderate pace of expansion of LSM such as: zero percent growth in raw cotton production which is a critical input in the textile industry thus limiting its growth; vegetable ghee and cooking oil which makes up nearly 5.5 percent of the LSM sector showed lackluster performance, most likely due to the unprecedented rise in international palm and soybean oil prices; and the performance of the automobile sector has been far less impressive this year as compared to previous five years due to the fall in domestic demand for cars on account of increasing auto financing rates. The high imports of used cars earlier in the fiscal year also dampened the performance of the domestic auto sector.

### **Per capita income**

Per capita income is regarded as one of the key indicators of economic well being of any country. It simply indicates the average level of prosperity in the country or average standard of living of the people in the country. Per capita income, defined as GNP at market price in dollar terms divided by the country's population, grew by 11 percent this year to US\$925 up from US\$833 last year. The per capita income in dollar terms has grown at an average rate of 13 percent per annum during the last five years, rising from US\$ 586 in 2002-03 to US\$ 925 in 2006-07. Per capita income grew at a much slower pace of 1.4 percent per annum in the 1990s. The main factors responsible for the sharp rise in per capita income in the recent years include: acceleration in real GDP growth, a stable exchange rate, and five fold increase in the inflows of workers remittances. Real per capita GDP is also an important indicator of the general well being of the people in the country. Real per capita GDP grew by 5.2 percent in 2006-07 and 5.5 percent on average during the last four years as against 1.4 percent in decade of the nineties.

### **Consumption**

Pakistan's economy is undergoing structural shift that are fueling rapid changes in consumer spending patterns. In particular, the middle class is becoming an increasingly dominant force. Pakistan's real per capita GDP has increased at an average rate of 5.5 percent per annum over the last four years, giving rise to the average income of the people. Such increases of this magnitude in real per capita income have led to a sharp increase in consumer spending during the last four years. As opposed to an average annual increase of 1.4 percent during 2000-03, the *real* private consumption expenditure has grown at an average rate of 7.4 percent per annum during the last four years. The extra-ordinary strengthening of domestic demand during the last four years points to several factors. Firstly, the higher consumer spending feeding back into economic activity is supporting

the ongoing growth momentum. Secondly, it suggests the emergence of a strong middle class with growing purchasing power supporting domestic demand thus expanding domestic markets. Together with investment demand it is emerging as a critical driver of economic growth. Thirdly, Pakistan is currently witnessing changes in its demographic structure as the share of working age population has increased and the share of dependent population has declined, thus increasing disposable incomes and current consumption. Accordingly, the contribution of private sector consumption in real GDP growth, on average, has been 75 percent over the last four years. However, this year the contribution of private consumption expenditure has declined to 47 percent partly as a result of the tight monetary policy being pursued by State Bank of Pakistan to shave off excess demand.

### **Investment**

Investment is a key determinant of economic growth. During the fiscal year 2006-07, the real gross fixed capital formation (real investment) grew by 20.6 percent as against 17.6 percent last year. Over the last three years, real fixed investment grew at an average rate of 17.3 percent. As percentage of GDP, total investment reached new heights touching 23 percent in 2006-07 increasing from 21.7 percent last year. Over the last four years, total investment has increased 6.4 percentage points of GDP, rising from 16.6 percent in 2003-04 to 23 percent this year, reflecting the buoyant mood of domestic as well as foreign investors. Real private investment grew by 19.6 percent this year as against 20.0 percent last year. Major private sector investment has taken place in mining and quarrying, manufacturing, construction, transport and communication, banking and finance and wholesale and retail trade. Real private investment in these sectors grew at a high double-digit levels. In the meantime, public sector investment grew by 31.7 percent this year as against 7.3 last year. Public sector investment has mostly been directed towards physical and human infrastructure for supporting the ongoing buoyant mood of the private sector. Foreign direct investment (FDI) has also emerged as a major source of private external flows in Pakistan as well as contributing to the growth of domestic fixed capital formation. FDI grew by almost 37 percent in the first ten month of the current fiscal year to US\$ 4.16 billion as against US\$ 3 billion in first ten month of last fiscal year. Almost 78 percent of FDI has come from five countries namely UAE, USA, China, UK and Netherlands. Nearly 80 percent of FDI was destined for four main sectors namely IT/Telecom sector, banking and financial services, energy sector including oil, gas and power and food, beverages and tobacco sector. Petroleum refining, chemicals and petrochemicals, textile and cement have also attracted FDI in the current fiscal year. This years economic growth is mainly driven by strong domestic demand with investment taking lead over consumption for the first time in the last three years. Almost 53 percent contribution to this year's growth came from investment. National savings also increased to 18 percent of GDP this year from 17.2 percent of last year contributing to 84 percent of financing of domestic fixed investment.

**Inflation**

Stable inflation is recognized as an integral component of sound macroeconomic policies. Over the last decade, with a few exceptions, inflation around the world has been at retreat. More recently, with a pick-up in growth, inflation has started to rise again. Pakistan's economy exhibited a similar trend with a low inflation environment for last several years with a sharp pick-up in 2004-05 and a gradual abatement of price pressure thereafter. The rate of inflation averaged 7.9 percent in the first 10 months of the fiscal year – marginally lower than last year for the same period – but certainly above the target of 6.5 percent for the year. The average inflation for the year is likely to be around 7.5 percent – 100 bps above Overview of the Economy 7 the target. Food inflation averaged 10.2 percent over the first ten months of fiscal year 2006-07 as against 7 percent last year. On the other hand, non-food inflation averaged 6.2 percent as against 8.8 percent of last year during the same period. The core inflation, which excludes food and energy costs from headline CPI based inflation, also exhibited a decline, averaging 6 percent over the first 10 months of the current year as against 7.7 percent during the same period last year. Likewise, increases in house rent index, second largest component of CPI (23.4 percent) after food (40.3 percent), averaged 6.7 percent as against 10.3 percent last year (first ten months). Further, change of transport component, accounting for 7.3 percent of CPI, decelerated sharply to 3.2 percent over the first 10 months of current fiscal year compared to 17.7 percent in the corresponding period of last year.

Based on the above facts it is clear that this year's inflation has largely been driven by higher food inflation as opposed to last year where the major culprit was non-food inflation. This year's food inflation has been fueled by a combination of global trends in the prices of several commodities and local supply – and demand – driven factors. Globally, higher prices of edible oil (palm oil and soybean) and dependency on their imports transmitted higher international prices to domestic prices. It may be pointed out that higher food inflation is now a global phenomenon as many countries around the world (*for example India and China*) are also experiencing higher food inflation. In fact, the global food price index is up by 16.1 percent this year as compared to last year. Furthermore, shortfall in domestic production of pulses, rice, chilies, other vegetable items (onion, tomato, etc) and fruits also contributed to the rise in domestic food prices. There are a few key food items which are widely consumed and whose prices remained high during the year and therefore contributed to the pick-up in food inflation. These items include: rice, masur and gram pulses, milk powder, vegetable ghee and cooking oil, red chilies, onions and tomato. On the other hand, the prices of some essential food items were lower this year compared with last year. These items include: moong pulse, sugar, chicken, potato etc. Non-food inflation in general and core inflation in particular have declined as a result of tightening of monetary policy during the year.

The challenge for the government is therefore to maintain a balance between the supply and demand for essential food items by enhancing domestic production and augmenting their supplies in the shortest possible time through

imports in the event of shortfall in the production of these items. The key to addressing this challenge is to give due importance to minor crops, and livestock and dairy sectors which have been neglected by successive governments. The relative roles of these two sub-sectors, which together account for 62 percent of agricultural value added, in keeping food prices stable need to be emphasized and given due attention.

### **Monetary Policy**

The development of financial market world-wide over the past two decades has been revolutionary. In Pakistan, banking and financial sector has witnessed a broad based program of reforms since the early 1990s but the pace of reforms however has increased manifold since 2000. In particular, the banking industry in Pakistan has been transformed from a primarily state-owned sector to a vibrant private sector dominated industry. Banking industry in Pakistan has not only gained strength from the positive interplay of economic and political factors, but also has become an engine of growth for the economy. The State Bank of Pakistan has been taking number of steps in various areas to further enhance the effectiveness of banking industry in Pakistan. A strong and competitive financial system is, prerequisite for growth and a key element of macroeconomic stability. Financial innovation remains a major source of potential growth. Further, a weak financial sector can undermine efforts to achieve stability through prudent fiscal and monetary policies.

Monetary policy stance of the SBP has undergone considerable changes over the last 6-7 years gradually switching from an easy monetary policy to the current aggressive tight monetary stance. During the fiscal year 2006-07, the SBP took several additional policy measures in different phases as part of monetary policy tightening. In the first phase, the SBP raised the Statutory Liquidity Ratio (SLR) from 15 percent to 18 percent and Cash Reserve Ratio (CRR) for commercial banks from 5 to 7 percent. The SBP also raised the discount rate (policy rate) from 9 percent to 9.5 percent. The increase in interest rate was in line with the international rising trends in interest rates and prevailing inflationary pressures on the economy. The SBP, through its tight monetary policy, aimed at curbing strong domestic demand, which was one of the main driving forces fueling inflation, by curtailing the lending ability of the commercial banks to the private sector. As a result of tight monetary policy pursued during the year, the credit growth to private sector slowed considerably from 19.8 percent during July-May 12 last year to 12.4 percent in the same period of this year – the slowest credit growth in the last four years. The overall money supply (M2) increased by 14 percent as against 12.1 percent in the same period last year.

According to the Credit Plan for 2006-07, the SBP set the target for monetary expansion to the tune of Rs.460 billion or 13.6 percent higher than last year, on the basis of a growth target of 7 percent and an inflation target of 6.5 percent. The monetary expansion was kept marginally below the projected nominal GDP growth to absorb monetary overhang of the last few years. The projected monetary expansion during the year was expected to result primarily

from the build up in the Net Domestic Assets (NDA) and a moderate rise in the Net Foreign Assets (NFA). Within the NDA, the government sector was estimated to avail bank credit of Rs.130.1 billion with budgetary borrowings at Rs.120.1 billion and commodity operations at Rs.10 billion. Credit to non-government sector was estimated at Rs.395 billion with private sector absorbing Rs.390 billion and public sector enterprises utilizing Rs.5 billion.

The money supply (M2) during July-May 12, 2006-07 expanded by Rs. 478 billion or 14 percent higher than the corresponding period last year. The high monetary growth during this period was caused mainly by a sharp rise in net foreign assets (NFA) of the banking system as the growth in the NDA of the banking system accelerated at a lesser pace. Pakistan has seen large foreign inflows during this period which has resulted in an expansion of the NFA to the tune of Rs. 88 billion as against the whole year target of Rs. 9.8 billion. The major factors responsible for large foreign capital inflows included a relatively higher growth in workers' remittances and foreign investment (both FDI and portfolio), foreign inflow through Global Depository Receipts (GDRs), PTCL privatization proceeds and relatively slower increase in trade related foreign currency payments.

While the increase in NFA reflects the improvement in country's external account, the higher growth in NDA was caused largely by a sharp increase in government sector borrowing that more than offset the deceleration in the credit to non-government sector. The credit to government for budgetary support swelled to Rs.212 billion against the annual target of Rs.120 billion. It is important to note that budgetary borrowing from banking sector till the July-February 2006-07 was less than half of that in the corresponding period of last year. It was March 2007 onward that this picture changed and budgetary borrowing exceeded those in the previous year. It is important to understand that during March-April of last fiscal year the realization of Eurobond issuance and PTCL privatization proceeds had enabled the government to retire most of the budgetary borrowing from the domestic banking system during the period. Such types of external inflows were not available to the government in March-April of this fiscal year consequently government had to finance its budgetary requirements through domestic bank borrowing. Within the banking sector, the scheduled banks provided the bulk of budgetary finance during July-May of this fiscal year; sharply in contrast with corresponding period of last year when the SBP was directly financing the budgetary need. However, with inflows of receipts from the issuance of Eurobond and other expected external inflows before the current fiscal year, the picture will change substantially and government borrowing for budgetary supports may come back to the target for the year.

Growth in private sector credit slowed from 19.9 percent during July-May last year to 12.5 percent during the same period of this year. This has been the slowest pace of private sector credit expansion in the last four years. The volume of credit also declined substantially in the said period showing that monetary policy has been reasonably successful in reducing excess demand in the economy. Apart from increase in interest rates as a result of tight monetary

policy, other contributory factors for a slow down in private sector credit include: (i) the availability of non-bank finances to the private sector including credit from NBFIs, increase in foreign private loans and issuance of corporate bonds in international market by the private sector companies, (ii) Merger & Acquisition (M&A) in the banking industry and (iii) the SBP's continuous emphasis on monitoring the personal loans as well as under other schemes to ensure the minimum use of bank credit to finance speculative activities. In fact, a significant contribution to the realized credit growth was due to the provision of concessional financing facilities extended to the export sector by the SBP. The SBP's support to export sector also contributed to a relatively sharper increase in money supply during the year.

The tight monetary policy is also reflected in the rise of the weighted average lending rate. The average lending rate increased by 70 bps since June 2006 and until March 2007. Since the impact of monetary policy tightening on lending rate is generally realized with a lag, the lending rate since June 2005 has increased by 240 bps. During the same period the weighted average deposit rate increased by 200 bps. The spread - a measure of banking efficiency - remained in the range of 6.4 percent to 7.8 percent since June 2005.

### **Capital Market**

Pakistan's stock market is benchmarked through the Karachi Stock Exchange 100-index (KSE-100). This index stood at 9989 points at the end of the fiscal year 2005-06. The KSE-100 index rose by 24 percent since then to 12370 points until April 2007. During the same period total market capitalization increased by 28.6 percent rising from Rs 2801 billion (\$ 46.5 billion) to Rs 3604 billion (\$ 59.4 billion). The index reached all time high of 12961 points on 31st May 2007. Aggregate market capitalization also increased by 35.0 percent from Rs 2801 billion in June 2006 to Rs 3781 billion (\$ 62.3 billion) as of 31st May 2007. This increase has been driven by a number of factors including: (i) continuous improvement in the country's economic fundamentals, (ii) government's commitment to maintain its economic reform and pro-market policies, (iii) stability in exchange rate as a result of strong build up in foreign exchange reserves, (iv) regionally cheap valuation driving foreign interest in Pakistan's stock market, (v) large-scale merger and acquisition in the banking, telecom and other sectors of the economy (vi) improving Pakistan's geo-political relationship with neighbours as well as globally, resulting in decline in political risk premium of the country, (vii) successful GDR offerings of the OGDC and MCB Bank, amounting US dollars 888 million and (viii) increase in Pakistan's coverage by large international brokerage firms and investment banks.

The outgoing fiscal year has witnessed concerted foreign investor's interest in Pakistan's stock market as a result of large-scale coverage of market by foreign brokerage houses. Brokerage houses providing research coverage on Pakistan are include: Merrill Lynch, JPMorgan, Credit Suisse, Citigroup, UBS. Lynch was the first to start active covering of Pakistan. The JPMorgan has expanded its operation in Pakistan during the outgoing fiscal year to expand into

stock brokerage. The interest of foreign investors can also be gauged from the fact that JPMorgan is only catering to foreign clients as an initial way of doing business. JPMorgan's expansion has piqued foreign investors interest as well. Other investment banks such as Credit Suisse have also announced their intention of entering the Pakistan market, while others are looking to forge relationships with local brokerage houses. Several foreign banks have also organized road shows across the globe to introduce Pakistan to the community of foreign investors, interested in fast growing emerging markets.

Foreign portfolio investment in Pakistan's stock market during the first ten months of the current fiscal year amounted to \$ 1.82 billion, which is the highest ever inflow of portfolio investment in Pakistan's history, as against \$ 1.011 billion in the corresponding period of last year, thereby registering an increase of 80 percent. The growth in portfolio investment has been contributed to by issuance of GDR of Oil and Gas Development Corporation (OGDC) and MCB Bank. These GDRs are listed at the London Stock Exchange and are receiving strong investors' interest.

The outgoing fiscal year has also witnessed large-scale merger and acquisition, which provided support to stock market valuation. Several key takeovers have taken place in Pakistan's corporate sector during the outgoing fiscal year. These include: (i) acquisition of Union Bank Ltd. by Standard Chartered Bank, (ii) acquisition of Prime Commercial Bank Ltd. by ABN AMRO, (iii) acquisition of PICIC Bank by Tamasek of Singapore, (iv) acquisition of Crescent Commercial Bank by SAMBA, (v) acquisition of PakTel by China Mobile, (vi) acquisition of further stake in Lakson Tobacco by Philip Morris. This M&A activity, which has taken place at very attractive valuations has provided support to valuation in the stock market as well. Peer group companies' stock prices have also reacted as a result of these acquisitions.

Pakistan's privatization programme has also provided support to different sectors and corporate valuations. Even though no large privatization has taken place during July-May 2006-07, the government has still managed capital market transactions for OGDC. The GDR issuance of United Bank Ltd. (UBL) is also in the pipeline and is expected to be completed before the end of the current fiscal year. Several strategic sales are also in the pipeline, which continue to provide boost to investor sentiment in the stock market. Privatization of Pakistan State Oil, NIT, Pakistan Petroleum Ltd. etc. are all at advanced stages.

### **Fiscal Policy**

A sound fiscal position is an essential prerequisite for achieving macroeconomic stability which is increasingly recognized as a critical ingredient for promoting strong and sustained economic growth and lasting poverty reduction. The importance of sound fiscal policy cannot be overemphasized in the case of Pakistan as it's chronically high consolidated budget deficit (7 percent of GDP) and rising public debt burden (over 100 percent of GDP) have been the economy's Achille's heal in the 1990s. Pakistan has experienced serious macroeconomic imbalances in the nineties mainly on account of its fiscal

profligacy and accordingly paid a heavy price in terms of deceleration in economic growth and investment and associated rise in the levels of poverty. Considerable efforts have been made over the last seven years to inculcate financial discipline by pursuing a sound fiscal policy. Pakistan has succeeded in reducing fiscal deficit from an average of 7 percent of GDP in the decades of 1980s and 1990s to an average of 3.5 percent during the last seven years. The associated public debt also declined sharply from over 100 percent of GDP to 53 percent of GDP by end-March 2007. Pakistan's hard earned macroeconomic stability is therefore underpinned by fiscal discipline.

Adequate level of revenue generation is *sine quo non* for the public policy to meet expenditure obligations. Inadequacy of revenue generation directly affects the government's resource position and the availability of socially desirable public goods. In Pakistan's economic history and until recently the mismatch between revenue collection and budgetary requirement was a norm rather than an exception. Since the situation required radical changes, broad-based tax policy and tax administration reforms were initiated by the Central Board of Revenue (CBR) to improve upon the resource mobilization effort and increase tax compliance by providing congenial environment to the taxpayers. The thrust of the reform has been at reducing tax rates, broadening the tax base to hitherto untaxed or under-taxed sectors and shifting the incidence of taxes from imports and investment to consumption and incomes. The tax and tariff reforms are aimed at simplification of tax system, improvement in resource mobilization, boosting economic activity to ensure robust economic growth, reducing the cost of doing business for trade and industry, reducing tax burden for lower income strata of the society and promoting a tax-payer friendly culture.

During the last six years from 2000-01 to 2006-07, tax collection by the CBR increased by 112.8%. The revenue deficit (the difference between total revenue and total current expenditure), a measure of government dis-saving, was at a deficit of 0.2% of GDP in 2005-06 compared to a deficit of 2.2% in 2000-01. It has further progressed towards a targeted revenue surplus of 0.6 percent of GDP in 2006-07. The revenue surplus has significance in inter-generational distribution of debt burden. Fiscal Responsibility and Debt Limitation Act 2005 envisages a revenue surplus starting from 2007-08. The structure of taxation has undergone considerable changes since the 1990s. Firstly, the share of direct taxes in total taxes (collected by the CBR) has increased from 18 percent to over 38.5 percent in July-April 2006-07. The share of indirect taxes declined from 82 percent to 61.5 percent during the same period. Even within the indirect taxes, dramatic changes have taken place. The collection from custom duty used to account for 45 percent of total tax collection and 55 percent of indirect taxes in 1990-91, its share has now been reduced to 18.6 percent and 32.3 percent, respectively. This is the consequence of the tariff reform implemented by successive governments since 1990-91. The share of sales tax increased at a relatively faster pace from 14.4 percent to 41 percent of total taxes and from 17.6 percent to 60.3 percent of indirect taxes during the same period. Central excise as a tax is losing its importance and gradually being faded out. Its shares

in total taxes and indirect taxes were 22.5 percent and 27.5 percent, respectively in 1990-91. These have now been reduced to 8.3 percent and 12.3 percent, respectively during the same period.

The total expenditure remains more or less stable in a narrow band of 17 to 18.8 percent of GDP during the last seven years. Substantial decline in interest payments from as high as 7.5 percent of GDP in 1998-99 to 2.7 percent of GDP in 2006-07, has provided fiscal space to re-orient expenditure in favour of development expenditure. Resultantly the share of current expenditure in total expenditure declined from 89 percent of total expenditure in 1998-99 to 72 percent in 2006-07. In addition, the share of development expenditure more than doubled from 11 percent to 28 percent in the same period. The development expenditure bore the brunt of structural adjustment of the 1990s as it declined from as high as 7.5 percent of GDP in 1991-92 to 2.5 percent of GDP by 1999-2000. During the last seven years the development expenditure improved from 2.2 percent of GDP in 2000-01 to 4.9 percent of GDP in 2006-07. Second largest component of the current expenditure, namely, defence spending remained stagnant at around 3.1 percent to 3.3 percent of GDP during the last seven years. This shows strong focus of the government on removing infrastructural bottlenecks and building physical assets. Non-defence-noninterest expenditure has improved from 7.8 percent of GDP in 1999-2000 to 11.9 percent of GDP in 2006-07.

Total revenues are budgeted at Rs. 1163.1 billion in 2006-07 compared to Rs. 1087.0 billion in 2005-06, showing an increase of 7.0%. The Central Board of Revenue (CBR) is targeted to collect Rs. 835 billion in 2006-07, which is 17.1 percent higher than last year's collection. CBR has exceeded the revenue target of Rs. 645.2 billion fixed for the first ten months of current fiscal year (July-April 2006-07) by Rs. 11.3 billion. The net collection stood at Rs. 656.5 billion as against Rs.547.0 billion in the comparable period of last year, thereby showing an increase of 20 percent. The direct taxes contributed most of the increase as they have surpassed the target by Rs.52.4 billion and recorded massive growth of 50.9 percent. This increase has compensated much of the revenue shortages on account of sales tax and customs duties by Rs. 22.5 billion and Rs. 19.0 billion, respectively owing to slowdown in imports. The massive than the anticipated slowdown in imports growth from 30.6 percent to 10.3 percent during July-April 2006-07, resulted in negative growth in dutiable imports with adverse implications for import related taxes.

Pakistan continues to maintain fiscal discipline for the last several years. *Total expenditure* is targeted at Rs. 1536.56 billion or 17.4 percent of GDP for the fiscal year 2006-07. Total expenditure was projected to be 8.6 percent higher than last year (2005-06). During the first nine month (July-March) of the current fiscal year total expenditure is estimated at Rs.1168.5 billion or 76 percent of the annual target. *Current Expenditure* is targeted at Rs. 1126.19 billion for the current fiscal year (2006-07) which means it would remain almost stagnant at the level of 2005-06. During July-March 2006-07, provisional estimates show current expenditure of Rs.925.3 billion which is 83.6 percent of the target. The higher increase in current expenditures during the last

two years is mainly on account of earthquake-related spending amounting to 0.5 percent to 0.8 percent of GDP. Development expenditure is targeted at Rs.435 billion for the year 2006-07. During the first nine months (*July-March*) of 2006-07, development expenditure amounted to Rs.242 billion or 58 percent of the yearly allocation. This expenditure is likely to pick up in the last quarter of the year.

The *overall fiscal deficit* is targeted at Rs. 373 billion or 4.2 percent of GDP for 2006-07. The Government is well placed to meet this target as fiscal deficit during the first nine months remained at 3.1 percent of GDP or 73 percent of the yearly target. On the basis of the developments on revenue and expenditure front, the overall fiscal deficit during the first nine months (*July-March*) of the current fiscal year stood at Rs. 272.8 billion or 3.1 percent of GDP. Earthquake accounted for sizeable amount of fiscal deficit and underlying fiscal deficit excluding earthquake expenditure is targeted at 3.7 percent of GDP for 2006-07.

Public debt burden continues to decline sharply for the seventh year in a row on account of prudent fiscal management. Public debt was 85 percent of GDP in 1999-2000 but has declined sharply to 53.4 percent in end-March 2007 – a decline of 32 percentage points in just seven years is one of the significant achievements of the government. During the year, public debt has declined from 56.9 percent in 2005-06 to 53.4 percent of GDP – a decline of 3.5 percentage points in one year. Since public debt is a charge on the budget, its burden must be viewed in relation to government revenue. Public debt was 627 percent of total revenue in 1999-2000 but has declined to 400 percent in end-March 2007 – a decline of 227 percentage points in seven years is not a mean achievement.

### **External Sector**

Pakistan has recorded a laudable export performance during the last several years, with exports growing at an average rate of almost 16 percent per annum over the last four years (2002-06). Beside sound macroeconomic policies pursued by the government the strong and sustained growth in world economy also contributed to impressive export growth. Despite further improvements in the international trading environment, Pakistan's export growth witnessed abrupt and sharp deceleration to less than 4 percent in the first ten months of the current fiscal year after growing at an impressive rate of 16 percent per annum until June 2006. Pakistan's import growth on the other hand, slowed to a normal level in the current fiscal year after surging at an average rate of 29 percent per annum during the last four years. Four years of strong economic growth strengthened domestic demand which triggered a consequential pick up in investment. The rise in investment demand led to a massive surge in imports. Though Pakistan continued to maintain its strong growth momentum in the current fiscal year, import growth has decelerated to a trend level for a variety of reasons including the pursuance of tight monetary policy during the year. The slower growth imports are likely to improve trade deficit as percentage of GDP compared to last years.

**Exports** were targeted at \$ 18.6 billion or 12.9 percent higher than last year. Exports during the first ten months (July-April) of the current fiscal year are up by 3.4 percent – rising from \$ 13.46 billion to \$ 13.9 billion in the same period last year. Export of food group declined by 3.5 percent. This decline is caused by a 2.6 percent and 14.3 percent decline in exports of rice and fruits. Export of rice declined due to lesser production caused by adverse weather condition which kept the domestic price higher. It was more profitable to sell within the country than to export. Exports of textile manufactures grew by 6.2 percent. Prominent among these are export of knitwear (13.9%), readymade garments (6.8%), made up articles (8.9%), cotton yarn (4.6%), and towels (2.6%). Exports of other textile materials registered a high double digit growth of 17.2 percent. Export of raw cotton, cotton cloth and bed wear on the other hand registered a decline. Exports of engineering goods increased by 6.7 percent while exports of petroleum products declined by 2.7 percent. In other manufactures' categories of exports, all items including carpets, rugs & mats, sports goods, leather products, surgical equipments and chemical & pharmaceutical products registered negative growth. Exports of most of these items have been on the decline for quite sometime. In absolute term the overall exports posted an increase of \$ 452.1 million in the first ten months of the current fiscal year over the same period last year. Of this increase, 114.1 percent or \$ 516.1 million was contributed by textile manufactures while 'all other items' increased by 64.8 percent or \$ 293.2 million. This increase of \$ 809 million was offset by a decline of exports of rice (\$ 59.3 million) and other manufacturers (\$ 296.6 million) leaving a net increase of \$ 452 million.

The less than satisfactory export performance of textile manufacturers can be attributed to a variety of factors. First, it appears that Pakistan's textile exporters could not compete with its traditional competitors. Second, the discriminating and tied-dumping duty of 5.8 percent on the bed linen export also affected Pakistan's competitiveness. Third, poor quality of cotton on account of contaminated cotton issue has also adversely affected the export of spinning industry. Fourth, the rise in prima cotton price (a genetically modified version) which is imported from the US is a critical input for producing higher quality bed wear and fabrics, has made these items less competitive in the international market. Pakistan's export suffers from serious structural issues which need to be addressed primarily by textile manufacturers with government playing its role of facilitating and providing some financial support on temporary basis. Pakistan textile products are low value added and of poor quality therefore fetches low international price. The machinery installed in recent years are old relative to Pakistan's competitors therefore, these machines are power intensive, less productive and carry higher maintenance cost. Increased wastage of inputs also adds to their costs. Pakistan's labour are less productive because little or no efforts have been made to impart training or improving their skills. Pakistan's exporters spend little money on research and development. Pakistan export houses lack capacity to meet bulk orders as well as they are unable to meet requirements of consumers in terms of fashion and design. It is generally argued

that Pakistan's exporters are uncompetitive in terms of adherence to contracted quality and delivery schedule. Pakistan's competitors are investing heavily and creating better economies of scale. These are structural issues and must be addressed by the industry itself with government playing its role of a facilitator and providing some temporary financial assistance to address short term issues mentioned earlier.

Pakistan's exports are highly concentrated in a few items namely, cotton, leather, rice, synthetic textiles and sports goods. These five categories of exports account for 77.2 percent of total exports during the first nine months of 2006-07 with cotton manufacturers alone contributing 61.5 percent, followed by leather (4.5%), rice (6.6%), synthetic textiles (3.0%) and sports goods (1.6%). The degree of concentration has changed little from last fiscal year. Pakistan's exports are highly concentrated in few countries including the US, UK, Germany, Japan, Hong Kong, Dubai and Saudi Arabia. These countries account for one-half of Pakistan's exports with US alone accounting for 28 percent. Pakistan needs to diversify its exports not only in terms of commodities but also in terms of markets. Heavy concentration of exports in few commodities and few markets can lead to export instability.

### **Imports**

Imports were targeted to decline by 2.1 percent in 2006-07 to \$ 28.0 billion from last year's level of \$ 28.6 billion. As expected, growth in import decelerated to 8.9 percent during the first ten months (July-April) of the current fiscal year as against hefty increase of 40.4 percent in the same period last year. The deceleration in import growth is caused by several factors which include: the pursuance of tight monetary policy to shave off excess demand, softening of international price of oil, decline in imports of cars as a result of change in policy, decline in the imports of fertilizer because of large carryover stock of last year, and decline in the imports of iron & steel as Pakistan Steel coming back to its normal production level.

Disaggregation of total imports suggests that food imports grew by 5.3 percent - up from \$ 2241.5 million to \$ 2360.6 million. Imports of machinery rose by 18.6 percent - up from \$ 3303 million to \$ 3916 million. All categories machinery registered impressive growth with the exception of textile machinery and construction & mining machinery. Imports of petroleum group registered an increase of 12.0 percent. However, within the petroleum group, imports of petroleum products registered sharp increase of 38.6 percent on account of massive surge in furnace oil import, primarily for electricity generation purpose. Imports of crude petroleum declined by 6.7 percent because refineries were not operating at their full capacity. The import of crude petroleum in quantity term also registered a decline of almost 10 percent. It is important to note that since refineries were not operating at their full capacity, their import of crude was lower and accordingly their production of petroleum products was lower too. Low production of petroleum products within the country forced the government to import more petroleum products putting pressures on the country's balance of payments. Imports of consumer durables registered a decline mainly on account

of lower imports of automobiles. Imports of electrical machinery & appliances (a component of consumer durables) however registered a hefty increase of 35 percent. Imports of raw materials registered a marginal (2.4%) decline mainly on account of 49.4 percent decline in the import of fertilizer. Import of fertilizer declined this year because of the large carryover stock of last year. Import of iron & steel also declined because Pakistan steel gradually came back to its capacity production level after the repair of coke oven battery. Telecom imports continue to maintain its momentum, though at a slower pace this year. Imports of telecom (cell phone as well as equipments, towers etc.) grew by 17.3 percent this year as cellular companies continue to expand their network.

Further analysis suggest that almost 31 percent contribution alone came from petroleum group, mainly on account of the surge in imports of petroleum products both in value and quantity. Imports of machinery contributed almost 30 percent to this year's rise in imports bills. This is followed by imports of telecom which accounted for 13 percent to the overall rise in imports. Almost three-fourth contribution came from three categories (machinery, petroleum and telecom) to this year's rise in imports. Interestingly, consumer durables' contribution was negative (-1.8%) mainly on account of a decline in the imports of cars. Therefore, contrary to the general perception, the contribution of consumer durables was negative.

Like exports, Pakistan's imports are also highly concentrated in few items namely, machinery, petroleum & petroleum products, chemicals, transport equipments, edible oil, iron & steel, fertilizer and tea. These eight categories of imports account for 75.5 percent of total imports during 2006-07. Among these categories machinery, petroleum & petroleum products and chemicals accounted for 57.7 percent of total imports. Concentration of imports remained, by and large, unchanged over the last one decade. Pakistan's imports are highly concentrated in few countries. Over 40 percent of them continue to originate from just seven countries namely, the USA, Japan, Kuwait, Saudi Arabia, Germany, the UK and Malaysia. Saudi Arabia is emerging as a major supplier to Pakistan followed by the USA and Japan.

#### **Trade Balance**

Despite sharp deceleration in imports the merchandise trade deficit widen on the back of abrupt and sharp deceleration in exports. The merchandise trade deficit widen to \$11.1 billion in the first ten months (July-April) of the current fiscal year as against \$9.5 billion in the same period last year. However, as percentage of GDP, trade deficit is likely to be 9.0 percent in 2006-07 as against 9.5 percent last year. Thus, trade deficit is expected to improve this year despite less than satisfactory performance of exports.

#### **Current Account Balance**

Pakistan's balance of payments shows a record increase in capital flows that has substantially offset a gradual widening of the current account deficit. The magnitude of the inflow has overwhelmed the State Bank of Pakistan and complicated monetary policy. Pakistan's current

account deficit further widen to \$ 6.2 billion (4.3% of GDP) in the first nine months (July-March) of the current fiscal year from \$ 4.6 billion (3.6% of GDP) in the same period last year. A striking feature of this year's current account deficit is that it has widened even though the import growth has slowed to 10.2

percent but the performance of exports has been lack luster at best, resulting in widening of trade deficit.

Month wise trend in current account deficit suggests that much of the deterioration has taken place in the first quarter (July-September) of the current fiscal year when current account deficit averaged \$ 935 million per month. During the remaining period (October-March) the current account deficit has narrowed to an average of \$ 568 million per month – an improvement of 39.3 percent. If this trend continues, the current account deficit for the year is likely to be around 5.0 percent of GDP as against 4.4 percent last year. The strong inflows in capital account will more than offset the current account deficit and add to the stock of foreign exchange reserves.

#### **Workers' Remittances**

Workers' remittances, the third largest source of foreign exchange inflows after exports and foreign investment, continue to maintain its rising trend. Workers' remittances totaled \$ 4.45 billion in the first ten months (July-April) of the fiscal year as against \$ 3.6 billion in the same period last year, depicting an increase of 22.6 percent. If this trend is maintained workers' remittances are likely to touch \$ 5.5 billion for the year – the highest ever in the country's history.

#### **Foreign Exchange Reserves**

Pakistan's total liquid foreign exchange reserves stood at \$ 13,738 million at the end of April 2007, considerably higher than the end-June 2006 level of US\$ 13,137 million. Of these, reserves held by the State Bank of Pakistan amounted to \$ 11561.5 million and that by banks stood at \$ 2,176.9 million. In terms of reserves adequacy, the amount of reserves as of end April 2007 is sufficient to meet over 6 months of imports. External inflows are likely to continue during the remaining three months of the fiscal year and as such the foreign exchange reserves are likely to cross \$ 14 billion by end-June 2007. A number of factors contributed towards the accumulation of reserves. The most prominent among these are; private transfers that include remittances, floatation of bonds, higher foreign investment and privatization proceeds.

#### **Exchange Rate**

Exchange rate remained more or less stable during the FY07. However, rupee depreciated only marginally (0.7%) from Rs.60.2138 per dollars as at end June 2006 to Rs.60.6684 as of end April 2007. In the open market, rupee traded at 60.655 to a dollar, that is at a discount of 0.02 percent as at end-April 2007. Euro continued to gain strength against Pak-rupees during Jul-April FY07. In July 2006, Euro on average traded at Rs.77.02, while in April 2007, the parity

increased to Rs.82.76. Thus Pak-rupee depreciated vis-à-vis the Euro by 7.0 percent during Jul-April FY07, mainly due to strengthening of Euro against US dollar in the international market. The Real Effective Exchange Rate (REER) is used as an indicator of trade competitiveness that captures the behavior of the Pak-rupee against a basket of currencies. The REER showed a real appreciation of 2.06 percent during July-April FY07. The real appreciation resulted mainly due to higher domestic inflation compared to major competitors and trading partner countries. When viewed against the fact that the REER of some of the traditional competitors of Pakistan appreciated in the range of 7.0 percent to 13.5 percent during July-April 2006-07, Pakistan's appreciation of REER of 2.0 percent appears marginal at best.

### **External Debt**

Until few years ago, Pakistan was facing serious difficulties in meeting its external debt obligations. Not only was the stock of external debt and foreign exchange liabilities growing at an average rate of 7.4 percent per annum during 1990-99, but the debt carrying capacity of the country was weakening at a similar pace. Consequently, the debt burden (*external debt and foreign exchange liabilities as percentage of foreign exchange earnings*) reached an unsustainable level of 335 percent by 1998-99. Following a credible strategy of debt reduction over the last seven years, Pakistan has succeeded in not only slowing the pace of debt accumulation but also succeeded in reducing the country's debt burden in a substantial manner. Pakistan's external debt and liabilities stood at \$ 38.86 billion at end-March, 2007. After 8 years of financing development programs Pakistan's external debt and liabilities reached to the level of end-June 1999 but at the same time the size of the economy, the levels of foreign exchange earnings and foreign exchange reserves have all increased manifold, thus reducing the country's debt burden significantly as well as increasing the country's debt carrying capacity.

A critical appraisal of the external debt and liabilities should not be focused on the variation in the absolute stock but it is the incidence of the debt burden which is important and meaningful from a policy perspective. The external debt and liabilities as percentage of GDP which stood at around 52 percent in end-June 2000, declined to 26.3 percent in end-March 2007. Similarly, the external debt and liabilities as percentage of foreign exchange earnings was reduced from 236.8 percent to 119.7 percent during the same period. It may also be pointed out that Pakistan's external debt and liabilities were 22 times of its foreign exchange reserves in 1998-99 but declined sharply to 2.8 times in just eight years. Interest payments on external debt were 7.8 percent of current account receipts in 2001-02 but declined to 3.2 percent by end-March 2007. The maturity profile also showed an improvement over the last five years as short-term debt was 1.4 percent of the total external debt and liabilities but declined to 0.1 percent by end- March 2007. Across all measures of vulnerability to external shocks, Pakistan's debt profile has improved significantly over the last seven /eight years.

The Privatization Program Privatization is the cornerstone of the successful economic reforms of the Government. As a result of these reforms which also included liberalization and de-regulation accompanied by transparency, good governance and continuity and consistency of policies, the economy has been completely transformed and the country has been placed on the path of rapid and sustained growth. The government is fully committed to the implementation of its approved privatization program through an open, fair, transparent, and competitive process, as laid down in the Privatization Commission Ordinance 2000 and the rules and regulation presented there under. The government is pursuing privatization policy vigorously and has achieved unprecedented success during the past seven years. From 1999 to date, a total amount of US\$ 6.1 billion have been realized from 61 transactions, which represents 87 percent of the total privatization proceeds of US\$ 7 billion from 1991 to date (from 163 transactions).

During the period July 2006 to February 2007, the Privatization Commission completed five transactions that fetched an amount of Rs.67.664 billion. OGDCL's 10 percent listing and domestic offering was over subscribed yielding a total amount of \$ 811 million, which reflected the confidence of investors in the policies of government. The privatization transactions of Pakistan State Oil (PSO), Roosevelt Hotel, New York, Services International Hotel, Lahore, National Investment Trust Limited (NITL), Genco-1 Jamshoro, Hazara Phosphate Fertilizers Limited are at various stages of processing and are likely to be brought to the bidding soon.

#### **Foreign Investment:**

Foreign investment has emerged as a major source of private external flows for developing countries. Developing countries have attempted to liberalize their foreign investment regime and pursued investment-friendly economic policies for the last two decades. Pakistan, like many other countries, also undertook a wide-ranging structural reform in various sectors of the economy and pursued sound macroeconomic policies for the last seven/eight years. Pakistan has now emerged as a favourite destination for foreign investors, both direct and portfolio. Total foreign investment during the first ten months (*July-April*) of the current fiscal year amounted to \$ 6.0 billion which is almost 48 percent higher than last year in the same period. There are indications that total foreign investment would touch \$ 6.5 billion (*or 4.5% of GDP*) by the end of the current fiscal year – over 13 to 14 times higher than seven/eight years ago.

Within total foreign investment, foreign direct investment (FDI) amounted to \$ 4.16 billion which is 37 higher than last year. The remaining \$ 1.8 billion is the portfolio investment which includes the proceeds from the GDRs of OGDC and MCB bank.

FDI has primarily come in four major areas: telecom, energy (*oil and gas, power, petroleum refineries*), banking and finance, and food and beverages. These four groups accounted for over 80 percent of FDI inflows. Other areas such as textile, chemicals and petro-chemicals, automobiles, construction and trade are also attracting FDI.

Almost 78 percent of FDI has come from five countries, namely the UAE, US, UK, China and Netherlands. Pakistan's equity market is also attracting huge portfolio investment and has created brisk activity in stock markets of Pakistan. Foreign investment of this magnitude reflects the confidence of global investors on the current and future prospects of Pakistan economy.

#### **Issuance of Sovereign Bond**

Pakistan has made a successful return to the international capital markets some three years ago (*February 2004*) by issuing \$ 500 million 5-year Regulation-S Eurobond. This transaction attracted strong demand from high quality and diversified international investors resulting in four times oversubscription and consequent tightest possible pricing of the bond in comparison to similar rated sovereign offering for 5-year new issues. The success of this transaction reflected a vote of confidence by the international investor community on Pakistan's economic policies and reform agenda. This vote of confidence was a significant development as it happened at a time when Pakistan was in the middle of implementing a three-year's IMF Program. Since then, Pakistan has been in the market once in a year and has been continuously updating global investors about Pakistan's improving credit story. In January 2005, Pakistan issued \$600 million 5-year Islamic bond (SUKUK) which attracted considerable interest from both conventional as well as Islamic investors across Asia, Middle East and Europe. This issue was over subscribed by over two times.

On March 23, 2006, Pakistan successfully issued \$500 million new 10-year and \$ 300 million new 30-year bonds. This transaction, which represented the first international 144 A bond issued by Pakistan since 1999, raised significant interest among US QIBs and international institutional investors. By issuing 10 and 30 year bonds, Pakistan completed its primary objective of establishing a full Pakistani international yield curve in record time. The issue was 2.5 times oversubscribed. This offering was the largest ever funding exercise of the government. It was the longest ever tenor achieved by Pakistan. Both the new 10 and 30 year offerings were debut offerings for Pakistan and the US dollar yield curve was extended out to 30 years in just 2 years. Most emerging market sovereign issuers had taken longer time to extend their yield curve from 5 to 30 years.

On May 24, 2007 Pakistan successfully issued \$ 750 million 10-year 144 A sovereign bond. This was the largest 10 year deal to date, beating the previous deal of \$ 500 million. This transaction was priced at an impressive US treasury + 200 bps, 40 bps tighter compared with last year's deal that was priced at US T+240 bps. This issue was highly oversubscribed with the largest ever order book amassed for Pakistan.

The order book of \$ 3.7 billion meant an over subscription of over 7 times on the original deal of \$ 500 million. The transaction was announced and priced within 72 hours, an impressive feat and testament to investors' confidence in Pakistan. Furthermore, an astounding 60 percent of the deal went to first-time investors who had never bought Pakistan paper before and that 75 percent of

investors met on the road show placed order. The offering was well balanced by geographically with an increase in US participation to 35 percent from 19 percent on previous transaction.

### **Poverty and Income Distribution**

Rapid and broad-based economic growth over a prolonged period is essential for poverty reduction and improving distribution. Many developing countries have succeeded in boosting growth for a short period but only those that achieved higher economic growth over a long period have seen a lasting reduction in poverty – East Asia and China are classic examples of lasting reduction in poverty.

Pakistan's growth performance over the last five years is enviable in many respects. Sound macroeconomic policies along with structural reforms have transformed Pakistan into a stable and resurgent economy. With economic growth at 7.0 percent in 2006-07, Pakistan's real GDP has grown at an average rate of 7.5 percent per annum in the last four years. The real per capita income has grown at an average rate of 6.6 percent per annum over the last four years.

The economic growth of such a pace for reasonably long period is bound to create jobs and therefore reduce unemployment and poverty. In recent years the role of remittances in reducing poverty has been acknowledged. Remittances allow families to maintain or increase expenditure on basic consumption, housing, education, and small business formation. Total remittances inflows since 2001-02 and until 2006-07 have amounted almost \$ 24 billion or Rs.1413 billion. Such a massive inflow of remittances particularly towards the rural or semi-urban areas of Pakistan must have eased the liquidity constraints of their recipients, allowing them to increase consumption of both durables and non-durables, on education and health care, and on real estate. To the extent that the poorer sections of society depend on remittances for their basic consumption needs, increased flow of remittances would be associated with reduction in poverty.

Strong economic growth, large inflow of remittances and Rs.2217 billion spending on social sector and poverty-related program during 2001/02 and 2006/07 have succeeded in reducing poverty in Pakistan. At the national level, headcount decreased from 34.46 percent in 2000-01 to 23.9 percent in 2004-05, depicting a substantial reduction of 10.5 percentage points over this period. In absolute numbers the count of poor persons has fallen from 49.23 million in 2001 to 36.45 million in 2004-05. While rural poverty declined even more sharply (*11.13 percentage points*) urban poverty also declined by 7.75 percentage points. It is generally argued that though poverty has declined in Pakistan, the gap between rich and poor has widened. The result suggests that though consumption inequality in Pakistan has increased marginally during 2001-05, consumption/ income equality in Pakistan is far less compared with many high, middle and low income countries.

The results from PSLM 2004-05 on social indicators when compared with PIHS 2000-01 reveal interesting facts with respects access to various services of bottom 20 percent of population to top 20 percent of the population.

The results show that not only access to services improved faster for the poor, the disparities in access between the poor and the rich has narrowed. The results from PSLM 2005-06 have been released recently. The new results suggest that most of the indicators pertaining to education such as gross and net enrollment at primary level and literacy rate have improved significantly over the last 5 years (2001-2006). As regards, health indicators, children immunization, incident of diarrhea and infant mortality have improved appreciably. Infant mortality is down from 82 to 70 during 2001-06. Contraceptive prevalence rate has improved and consequently the total fertility rate has registered decline from 4.5 to 3.8 in 7 years.

Summing up! These are good times for the economy of Pakistan because policies have been relatively good. However, good times in the past also had led to policy short-sightedness which cost the nation heavily. It is essential for the sustainability of good times that we maintain a medium-to-long term focus in our policies and not let good times sidetrack us from addressing the enduring challenges that we face.

### **Going forward: Challenges and Opportunities**

Pakistan's economy is experiencing the longest spell of its strongest growth in years. The economic landscape of Pakistan has changed and therefore its challenges are also different today. How to sustain the ongoing growth momentum within the stable macroeconomic framework is the biggest challenge. Linked with this are the challenges of job creation, poverty alleviation, improving social indicators and strengthening the country's physical infrastructure to sustain the growth in the range of 7-8 percent in the medium-term. To convert the ongoing demographic transition into demographic '*dividend*' is another major challenge. This will require massive investment in human capital which will, in turn, enhance productivity. The rising average per capita income and the growing middle class along with higher inflows of workers' remittances will continue to fuel domestic

demand which will, in turn, sustain growth momentum. The ongoing demographic transition is increasing the share of working age population and therefore, leading to a decline in dependency ratio. A decline in dependency ratio will increase savings and therefore, investment which will be a key determinant of strong economic growth and employment generation.

The supply side improvement will be critical to match growing domestic demand being fueled by demographic dividend. The supply side response can be improved through private sector development which will require strengthening of institutions, improving the competitiveness of our industry, strengthening of physical infrastructure, building a robust banking and financial system, further strengthening of tax administration, a continuing transparency in economic policy making, consistency and continuity in policies and removing irritants and impediments to private sector development. In other words, the pace of implementing second generation reforms would need to be accelerated.

It is in this background that the government has prepared a **new** Poverty Reduction Strategy. The new strategy will ensure that, as the country makes this inevitable demographic transition, clear cut priorities and sectoral strategies are in place.

### **Demographic Dividend and Emergence of Middle Class as Drivers of Growth**

At the time of independence in 1947, Pakistan's population was 32.5 million. By 2006-07, the population is estimated to have reached 158.2 million. Thus in roughly two generations, Pakistan's population has increased by 125.7 million or has grown at an average rate of 2.7 percent per annum. While Pakistan has more mouths to feed, more families to house, more children to educate, and more people looking for gainful employment with millions migrating from the countryside to major cities in search of jobs and raising pressure on urban infrastructure, this large population on the other hand also represents a big opportunity for Pakistan to benefit from demographic dividend which can fuel Pakistan's economic growth for the next fifty years. Pakistan is witnessing changes in the age structure of the population with proportion of working age population increasing and offering a window of opportunity to turn this demographic transition into a demographic *dividend*.

What is demographic transition and demographic dividend? The demographic dividend is defined as transition from a largely rural agrarian society with high fertility and mortality rates to a predominantly urban industrial society with low fertility and mortality rates". Although demographic transition consists of three phases but in the case of Pakistan two phases are crucial. The third phase is relevant for the countries suffering from the issues of aging population. These phases result from the lag between changes in fertility and mortality. At an early stage of this transition (phase one) the fertility and mortality rates are high, resulting in the decline of the share of working age population and creating bulge in the young age groups. In other words, the share of dependent population is higher, freeing less resource for investment and growth. During the second phase, fertility rates decline, leading to fewer younger mouths to feed. On the other hand, the population bulge enters and stays in the working age. The working age population grows more rapidly than the population dependent on it, freeing up resources for investment and economic growth. Other things being equal, per capita income grows more rapidly, making more income available for dependents. Accordingly, the welfare of the family improves. This dividend period is quite long and lasts five decades or more.

Where exactly is Pakistan in this demographic transition? During the first phase when fertility rates were higher the share of young age (0-14 years) population continued to rise thereby creating a bulge in the young age population while the share of working age (15-59) continued to decline until 1972. Pakistan appears to have entered the second phase of demographic transition from 1981 onward. As a result of decline in fertility rate from 6.0 percent to 3.8 percent during 1981 and until 2006, the share of working age (15-

59 years) population continued to rise from 48.5 percent to 57.2 percent and accordingly the share of young age (0-14) continued to exhibit declining trend (from 44.5 percent to 36.8 percent). Thus, Pakistan is currently passing through the demographic transition phase during which, this transition can be converted into a demographic dividend. Empirical evidence supports the fact that Pakistan is in the second phase of demographic transition as more resources are available for investment, economic growth is accelerating and per capita income is rising at a faster pace. In other words, Pakistan has already started reaping its first dividend on the back of a large-scale spending on social sector (education, health vocational training, etc.) over the last several years.

The demographic dividend currently being offered to Pakistan is through the mechanisms of labor supply, saving and human capital in conjunction with rising per capita income, growing middle class, availability of consumer credit, inflows of workers remittance and rising exports (foreign demand) are fueling consumption demand leading to the expansion of domestic market. For example, the consumer items such as automobiles, motor cycles, refrigerators, air conditioners, television, cellular mobile, packaged milk etc. have been registering a high double-digit growth for the last four/five years. The growing domestic demand is being met through various booming sectors of the economy such as agriculture, manufacturing and services. As such, strong domestic demand leading to the expansion of domestic market, has emerged as a key driver of economic growth and is supporting the ongoing growth momentum. Realizing the significance of the phenomena of demographic dividend for an emerging economy like Pakistan, the government has already initiated a large number of employment generation programs to reap the benefits of the demographic transition. These programs include the recently launched National Internship Program, establishment of the National Vocational and Technical Education Commission (NAVTEC), increased budgetary allocation for social sectors, especially education (including higher education through the Higher Education Commission (HEC)), health, population etc. In addition, the Government has launched Rozgar Scheme (self employment scheme), Khushal Pakistan Program and many other initiatives. In this context, the impact of the development of mega cities as well as of rural infrastructure as sources of growth will be significant.

#### **Private Sector Development and Enhancing Role of the Private Sector**

The private sector will play an increasing role in driving growth and creating job opportunities. A strong Private Sector Development (PSD) strategy will therefore be a key element in enhancing the competitiveness of the private sector. The features of the strategy are: i) lowering the barriers to development of small and medium enterprises; ii) developing a modern financial sector with a view to providing a wide range of financial services; iii) removing irritants and impediments to private sector growth; iv) strengthening the country's physical and social infrastructure, v) consistency and continuity of economic policies. All these measures are expected to significantly improve Pakistan's investment

climate, reduce the cost of doing business for the private sector, thus contributing to enhancing the competitiveness of the private sector.

A forward looking PSD strategy, supported by a vastly improved regulatory environment, processes and procedures will go a long way in freeing the private sector from constraints that impede its growth. This will create an enabling environment that will allow the private sector to focus on productivity, innovation and growth, responding to opportunities in the national and global markets. Private sector competitiveness is also being enhanced by taking into account the recent findings on the State of Pakistan's Competitiveness Report by the Competitiveness Support Fund.

### **Enhancing Competitiveness and Productivity**

Competitiveness relies on ensuring that the population is healthy, secure (in both civil and criminal aspects of society) and capable of sustaining the basic requirements of life through improved education, infrastructure and a stable macro-economic climate. It is further enhanced by the provision of world-class tertiary education and vocational skills training and the development of a knowledge economy based on a fully developed Information and Communications Technology (ICT) infrastructure. Improved competitiveness leads to sustained economic growth which has proven to be effective in generating employment and reducing poverty. Therefore, the Government recognizes improving competitiveness as a cornerstone of its economic growth strategy. The economy has responded well to the structural reforms carried out in the last 7 years and has emerged as one of the stronger growing economies of Asia. Although, as a result, Pakistan has significantly improved its position in the Global Competitiveness rankings of the World Economic Forum, much more needs to be done. The Government will therefore continue to implement its second generation reforms in addition to the private sector specific reforms listed above.

### **Special Economic Zones, Industrial Parks, IT Parks and SME Cluster Development**

Pakistan's location already provides it with a competitive advantage that is unique. Situated strategically at the cross roads of Central Asia, Middle East and the Far East and its membership of growing organizations such as SAARC and ECO. Pakistan has access to all growing markets of the world. The

Government intends to enhance the role of Special Economic Zones (SEZs), etc in attracting investment to achieve its goal of generating employment and further augmenting industrialization, modernization within a cohesive strategic plan. The SEZs and associated industrial parks and clusters will play an important role in increasing competitiveness. The SEZs are to be benchmarked with those of other countries to ensure that they are developed on the lines of best international practices.

There are already some excellent examples of industrial parks such as “Marble City”, “Textile City”, Pak- China Economic Zones near Lahore and the Lasbela Industrial Estate in Balochistan. The Government has also declared that the area around Gwadar Port city will be an SEZ. Cluster development in Punjab, e.g., around Sargoda has been extremely successful. Furthermore, the National Industrial Parks Development and Management Company (NIPDMC) has been established as a public-private partnership to foster this approach. These projects are aimed at fast pace industrialization that will generate employment in the country. The hallmarks of successful SEZs include high quality infrastructure, access to a productive labour pool, a critical mass of support industries, streamlined bureaucratic processes, and a suitable regulatory framework.

### **Financial Deepening and Economic Development**

There has been a remarkable improvement in Pakistan’s financial sector and this must be viewed against the backdrop of developments that took place over the last two decades. Pakistan initiated a broad-based program of reforms in the financial sector in the early 1990s. The pace of reforms, however, has increased manifold since 2000. Some of the key reforms included privatization of a number of financial institutions, rightsizing of banks and Development Finance Institutions (DFIs) through restructuring and improvement in corporate governance by promoting transparency and disclosure. Other reforms included strengthening of the legal framework to expedite recovery of stuck-up loans by promulgating a new recovery law, revision of Prudential Regulations (PRs) for Corporate/ Commercial banking to accommodate four separate categories viz. Risk management, Corporate Governance, Know Your Customer (KYC), Anti Money laundering and Operations as well as issuance of separate Prudential Regulations for SMEs, consumer and agriculture financing. In order to ensure that the depositors’ money is protected, State Bank of Pakistan (SBP) is working to improve the banking system monitoring and risk management framework as well as strengthening the capital-base of the banking system.

### **World Class Infrastructure**

The government’s vision for economic growth and poverty reduction sets ambitious targets, which will require massive investment in quality and affordable infrastructure, to sustain high rates of private sector led growth, enhance the competitiveness of its economy and to optimize its locational advantage. This will be a primary objective during the PRSP II period and beyond. The magnitude of the investment is such that this will be only partially funded from the Budget. The large part of financing will be leveraged through public-private partnerships.

### **Second Generation Reforms**

Pakistan has been implementing wide-ranging structural reforms in almost every sector of the economy to improve supply-side response by removing

impediments to private sector development, improving the investment climate with the ultimate objective of strengthening the growth impetus and poverty reduction. The first generation reforms implemented so far include: financial sector reforms, capital markets reforms, tax and tariff reforms, reforms in tax administration, fiscal transparency, reforms in privatization programme, governance reforms, particularly with respect to devolution and capacity building, agricultural reform, and most importantly, the passage of the Fiscal Responsibility and Debt Limitation Act 2005. The second generation of these reforms, which will be implemented over the next five years, would focus on strengthening institutions, improving the competitiveness of domestic industry, building a robust financial sector in an environment of global financial restructuring, further strengthening of tax administration, promoting transparency in economic policymaking, further reform of capital markets and strengthening the country's physical and human infrastructure.

As part of institutional strengthening, major ongoing and planned government initiatives include reforms in judiciary, police, civil service, pension, the restructuring of the Central Directorate of National Savings (CDNS), restructuring of Federal Bureau of Statistics (FBS) into an autonomous institution, transforming the existing MCA into a Competition Authority Organization, and introduction and adoption of EGovernment Strategy. Reforms aimed at improving competitiveness will work towards strengthening of the country's physical infrastructure, that is, the supply of gas, power, well functioning ports, roads, rail linkages, telecommunication network, and water availability. Second generation banking and financial sector reforms will include; voluntary mergers and consolidation of smaller banks into bigger more effective and stronger banks; further strengthening of the legal framework; formulation of new Banking Laws to deal with current and future challenges; a deposit insurance scheme to protect the small depositors; further liberalization of financial services in the context of the Agreement on Trade Related Investment Measures (TRIMs); promoting transparency and accountability in banking system; and observance of international standards, particularly legal and administrative measures to combat money laundering.

### **Concluding Remarks**

As stated in the beginning, while Pakistan has made remarkable progress in its economic performance, undertaken wide ranging structural reforms, achieved both macroeconomic stability and strong growth, sharply reduced poverty, yet there is no room for complacency. Indeed the Government is far from complacent for the challenges are several, but then so are the opportunities. The important thing is that both challenges and opportunities have been identified. The new poverty reduction strategy attempts to bring these challenges and opportunities together within an integrated and holistic strategy. This strategy will be implemented jointly by all stakeholders, with the Government providing an enabling environment through both its policies and actions, all within a stable macroeconomic framework.

*Source: Economic Survey 2007-08, Government of Pakistan, Economic Advisor's Wing, Finance Division, Islamabad. www.finance.gov.pk*

## **2. Budget Speech 2007-08 of Omar Ayub Khan, Minister of State for Finance**

(In the name of Allah the most gracious the most merciful)

Mr. Speaker

1. I am grateful that I have the privilege to present the 5th Budget of a democratic government, which is historically an unprecedented event.

Mr. Speaker

2. As a matter of fact this is the first time that an elected government is completing its five years term and the honour of having achieved this land mark rests with Muslim League and its allied parties. Indeed it is the Muslim League that has guided the Muslims of the Sub-Continent at every critical juncture.

Mr. Speaker

3. I do not have any soft corner for economic terrorists whose sole purpose is to push society into an economic abyss.

Our elders had categorically stated that some people would be overaffluent while others indigent. We will not let this happen. People who do not have the capacity to listen to criticism should abstain from criticizing others.

Our opponents are afraid that the seeds of prosperity that we have sown will bear fruit; but the nation is destined to develop and prosper.

Trials and tribulations are a part of every nation's history. But those nations who face them with courage and fortitude come off with honour and dignity. Before the coming into power of the present government, we were cut off from the world and had actually defaulted. By the grace of God our government, in the last five years, has amply demonstrated that it is the party which not only created Pakistan but is capable of running its affairs in the best manner possible.

Mr. Speaker

4. In the budgetary process, we held extensive consultations with the Prime Minister of Pakistan Mr. Shaukat Aziz, national representatives and experts in different fields so that the budget reflects national consensus on important issues. In order to make the budget welfare oriented we were guided by the President of Pakistan General Parvez Musharraf at every stage.

Earthquake of 8th October 2005 devastated houses, hospitals, roads and mosques but it could not undermine our resolve which remained unflinching. We accepted it as a challenge and with the grace of Almighty came off well. Surely, there is no substitute for the precious lives lost but it was our moral duty to provide solace to the survivors of the tragedy.

The whole world witnessed that the Pakistani nation played historic role in the rehabilitation work. Places littered with dead bodies and razed

habitats have again come to life which speak of the efforts and courage of the nation. Government has disbursed Rs.66 billion for house construction and Rs.40 billion for death/injury compensation. Whatever the government is constructing, it is being done under the principle of “Build Better”. After the Earthquake, no one died of hunger or cold.

During the previous year 1500 schools, colleges and hospitals have been built and additional 2500 buildings would be constructed. An amount of Rs.1.5 billion would be spent on agriculture and livestock which will enable people to become self supporting.

Mr. Speaker

5. Due to our geographic location we had to move with extreme caution lest our enemies inflict damage affecting our future generations. But their dream did not come true.

Mr. Speaker

6. Besides putting an end to a system of exploitation and misuse of powers, we have transformed the budget from its elitist stance to welfare orientation for the poor. Increase in oil prices in the international market last year posed a new challenge but the government, by giving a subsidy of Rs.111 billion on diesel, kerosene, fertilizer, electricity and food items, stabilized prices. Government did not leave people to the vagaries of high prices, but stood by the people.

### **Economic Performance**

Mr. Speaker

7. It is my pleasure to announce that our GDP growth rate remained at 7.02 percent. We had promised the nation a growth rate of 7 percent on which we delivered. Then we promised a growth rate of 5 percent in agriculture which we delivered. We had resolved that the manufacturing sector will grow by 8.8 percent which we achieved. We had resolved that the services sector would grow by 8 percent which we delivered.

We acted as a shield against rising oil prices and did not transfer the price increase to consumers. We had promised to provide conducive economic environment where people will find jobs. As a result of these policies, during the last 5 years more than 10 million persons were provided livelihood.

We had promised to develop investment friendly environment, we fulfilled this promise. Since July of last year to April this year i.e in a 10 month period FDI in Pakistan exceeded \$ 6 billion. Foreign investors are making 4 investment due to the development taking place in the country. Why our opponents are blind to this development?

Mr. Speaker

8. In order to run the country according to Quaid’s vision, we have to ensure that our economy and democratic culture not only flourish but are also consolidated. Continuity of policies and single-mindedness are the pre-requisites. This would be possible only when people are prosperous, they have trust in national

institutions, Parliament is supreme beyond any doubt, majority is not held hostage to minority and everyone works according to the given mandate.

Mr. Speaker

9. Our government would honour the promises it has made. Our priorities include transferring benefits of growth to people, promotion of people's welfare programme, and providing education, health, justice, sewerage, gender equality and safe drinking water.

Mr Speaker

10 Our government has taken various measures to increase income of people and put an end to poverty. As a result, there is substantial reduction in rural poverty. Government policies aiming at allocation of greater resources for poverty alleviation and creating employment opportunities have resulted in reduction of incidence of poverty from 34.4 percent in 2001 to 23.9 percent in 2005. In this way 12,700,000 people came out of poverty.

We have decided to further reduce poverty from the country. Our future plans envisage employment opportunities for youth. The amount of money spent on poverty reduction and employment generation during last 5 years is Rs.1,441 billion which is commendable especially in comparison with all previous governments.

Mr. Speaker

11. By the grace of God the Budget that I am going to announce has an overall size exceeding Rs.1,874 billion. Federal Government expenditure is estimated at Rs.1,353 billion. This is a record budget in the history of Pakistan, especially in terms of expenditures on welfare of people. Expenditure of this magnitude was made possible through greater revenue collection especially by CBR which will exceed Rs.1025 billion.

In view of this, the size of total revenue has been set at Rs.1475 billion. Hence the overall fiscal deficit is estimated at Rs.398 billion which is 4% of GDP. During 2006-07 our budget deficit was 4.2 percent of GDP which was according to the target even though we had to bear the brunt of rising international oil prices and earthquake expenditure. It was not an easy task neither did we have any magic wand. It was because of God's blessing, guidance of the President, farsightedness of the Prime Minister, untiring efforts of government machinery, and prayers of the nation that we emerged successful.

Mr. Speaker

12. Our government has allocated Rs 520 billion under PSDP which will be spent on development and welfare of people. This is a huge sum which is unprecedented in the history of Pakistan. This is a record. Out of this, 52 percent will be spent on infrastructure development and 48 percent on welfare of people and on social sector. On whom will this amount be spent? It will be spent on welfare of people.

If we compare the hefty amount being allocated this year for welfare of people, with earlier periods the latter would not be even 18 percent of it. A question arises as to what was the reason that those governments did not spend on development work despite their large fiscal deficit? Their budget deficit used to be more than 7% of the GDP. Had they not filled their pockets, there would have been more benefits for the people. They spent insignificant amount on development. As against our PSDP size of Rs.520 billion theirs was only 6 Rs.96 billion.

96 percent of the PSDP would be utilized during 2006-07. This proves that our government honours the promises that it has made with people unlike the previous governments. This is in contrast to the low utilization of PSDP by the previous governments which was due to their misdeeds and wrong policies. This made the people hostage and the country in fact had defaulted. People want to ask as to why were they not fairly treated during the period of earlier regimes. They demand that they should not be pushed back to those dark periods. But now, by the grace of Allah, we can move proudly holding our heads high and are also in a position to help our brethren.

Mr. Speaker

13. Pakistan is a federation and provinces are its federating units. Based on Provincial Chief Ministers and Finance Ministers assent to Presidential Orders amending NFC award, 45 percent of provincial share has been transferred to Provinces. During 2006-07 an amount of Rs.418 billion has been transferred while Rs.497 billion would be transferred during 2007-08 which would be 46% of the total amount. Under the directions of the President, transfer from divisible pool would reach 46.25% by the year 2010-11. If subventions are added, transfer of provinces would get 50 percent of the total amount. This would be a golden period of equitable sharing of resources with provinces. Why did not the previous government pay the provinces their due share? It was our government that has paid these hefty amounts to the provinces.

Mr. Speaker

14. It is the national leadership that determines the direction that the country has to take. If the leadership is true and has a vision it can change the destiny of the nation. But if the perspective is narrow and limited to self aggrandizement, the nation gets stranded in quagmire and succeeding generations pay the penalty. In our recent 7 history many such governments were in power who used borrowed money for nonproductive purposes, thereby mortgaging the future.

Mr. Speaker

15. In the last budget, I paid tribute to the present Parliament for having unanimously passed the Fiscal Responsibility and Debt Limitation Act. This law provided a sound basis for our economic development and for world's confidence in our policies. The credit for this goes to the Prime Minister of Pakistan who was the exponent of this law.

It is through promulgation of this law that the executive is accountable to the House. It cannot exceed the borrowing limit of 60 percent of GDP without seeking your approval. It gives me a great pleasure to announce that Debt to GDP ratio has not been allowed to cross 53 percent as against a target of 60 percent set to be attained by the year 2009. Moreover, the loans that we raised were meant for development of the country.

Mr. Speaker

16. We raised 10 years Euro Bond in the international market which was over subscribed by more than seven and a half times. We raised US \$ 750 million through this Bond. This was despite the fact that the rate of interest offered was lower than that of previous periods. Last year this government launched 10 and 30 years bonds in the international market which elicited good response.

This is a reflection of confidence of international investors in our policies. Prior to this no one was ready to invest even for 2 to 3 years in Pakistan. But now they are keen to invest for 10 to 30 years. Investment for a period of 30 years is not child's play. It is the time span of a whole generation. Why this huge difference between yesterday and today? The difference is that of the intention, policies and good governance.

I would like to ask these people whether they have forgotten those days when they tried to issue bonds in New York but there was no buyer. The reason was that due to wrong policies of the rulers at that time the country had become bankrupt, its economy was weak and international community knew that. Those were embarrassing moments for us. Who would put money in a weak economy. The same international community is now keen to invest in our bonds. They know that our economy is strong and people are prosperous. Today we move proudly holding our heads high. The entire amount would be spent on development and no one would be allowed to misuse it.

Mr. Speaker

17. Is it not a proof of our economic development and prosperity that the world is not only acknowledging it, but is ready to invest in the country. By the grace of Allah, Pakistan has emerged a prosperous country through dedication and sincere efforts of the government. It is only a small minority that refuses to acknowledge the fact of our development.

Mr. Speaker

18. It would not be out of place to mention here that the previous government between 1996-99 raised the rate of interest on National Savings Schemes as high as 18 percent because of which our government now has to pay a huge accumulated liability of Rs.163 billion which is more than 4 times of the principal.

This proved to be a heavy burden for the nation and due to imprudent policies of previous government the nation was pushed to a dead end. By taking these expensive loans they tried to hide the fact of the country's bankruptcy. But the present leadership not only paid off this heavy debt but put the nation on the

road to development. Had the previous government cared for future of the nation and exercised prudence in raising debt, the resultant saving could have been used for more development and welfare of people. But they did not want to do that. The present government adopted such policies that have opened new avenues of development.

Mr. Speaker

19. Impregnable defence is indispensable for a nation who wants to live with honour and dignity. Our nation is ready to give any sacrifice for defence of their country. Today Pakistan and its geographic and ideological boundaries are invincible due to its independent foreign policies and economic development. In order to ensure protection of its ideology and economic independence Pakistan must have a credible deterrence and invincible defence.

Pakistan is a nuclear power. If any one looks at us with bad motive we will respond with full force. This year an allocation of Rs.275 billion is being made for defence of the country. Armed forces are ever ready to lay down their lives for defence of the country. Whenever any natural calamity has befallen the country, Armed forces have dealt with it with determination. Peace can be had only through making defence invincible.

#### **Relief Measures**

20. Now I am going to present a list of relief measures. My request would be that my those colleagues who are not amenable to any reasoning or logic should listen with patience. I understand their unease and anxiety. They could not provide relief but did create problems for the people. We have provided relief and shall continue doing so.

Mr. Speaker

21. Government servants are our asset and it is duty of the government to take care of their needs. It goes to the credit of the government, who is the first to have completed its five year term, that salaries of government servants have been raised substantially four times, which is unprecedented.

Government is fully conscious of welfare of its employees. Salaries of government employees are being increased by 15 % percent in the present budget. This budget has been prepared keeping in view needs of workers, labourers, and government employees. But we cannot forget the role of 10 pensioners in national development. They deserve respect and we feel that it is our moral obligation to take care of their needs. Government has, therefore, decided to increase pension of government pensioners by 15 to 20 percent. Increase in pension is being given in two tiers: old pensioners will get 20 percent raise while new pensioners will get 15 percent raise.

Mr. Speaker

22. Upgradation of posts was a long standing demand of the clerical staff. It gives me pleasure to announce that government has accepted this demand and employees in BPS 5, BPS 7 and BPS 11 are being promoted to BPS 7, BPS 9 and BPS 14 respectively. A total of 87500 federal employees will benefit from this measure.

Mr. Speaker

23. Residential accommodation is a major problem for employees in Islamabad. Government has decided to solve this problem. Prime Minister of Pakistan Mr. Shaukat Aziz has directed the Ministry of Housing and Works to immediately construct 37000 houses for the low paid employees and give it to them on ownership basis. In phase I, work on the construction of 5000 units will immediately start for which land will be provided by CDA at official rate. Government employees will have the facility to get loan for construction of house.

Mr. Speaker

24. House is a need of every one. I ask whether any government thought of providing this facility or they were only concerned with amassing wealth. Did they not know that constructing a house is a back breaking experience. Our government realized this need of low income people. Low cost Housing Scheme would be started in collaboration with Provincial and District Governments. Loan from HBFC will be 11 available. Under this scheme an estimated number of 250,000 units would be constructed in the next 5 years.

Mr. Speaker

25. Railway is an economical means of public transport. It is the duty of Railways to take passengers to their destinations safely. Welfare of Railway employees is responsibility of the government. Government has decided upgradation of Basic Scale by one step for the remaining 62482 staff excluding Secretarial Staff. Long standing demand of Railway employees regarding upgradation of posts has already been accepted alongwith increase in their allowances. A total of 12510 employees have benefited from this increase. In this way, our government has provided relief to 74,992 Railway employees and their long awaited demand has been met.

Mr. Speaker

26. It is our religious obligation to pay a labourer his wage before his sweat dries. It was the government of Muslim League and its allied parties which fixed minimum wage of Rs.4000/- per month in the last year's budget. Workers are the backbone of a society. Not taking good care of their needs would tantamount to weakening the economy. You ask workers as to whether they did not benefit from the increase in their minimum wage. These who are not ready to acknowledge this fact are people who did not themselves work in their life neither do they know what really hard work is. I would like to give good news to my working class brothers :-

1. Minimum wage of unskilled workers is being increased from Rs.4000/- per month to Rs.4600/- per month.

2. Old Age pension, old and new both, has been increased by 15 percent. Minimum pension has been increased from Rs 1300/- to Rs 1500/- per month.

3. Worker's widow shall now get pension of her deceased husband as per entitlement. Earlier she used to get minimum pension.

4. Earlier husband or wife, both contributing to Old Age Benefit, would not get pension of the deceased partner. Now the surviving partner shall get the pension of the deceased spouse.

5. Under the Workmen Compensation Act 1923 workers receiving more than Rs.6000/- per month were not entitled to compensation on account of disability. This restriction has been removed and now all the workers regardless of their wage level would be entitled to compensation on account of disability caused during the course or as a result of performance of duty.

6. Contract employees have been made entitled to receive companies profit under the Companies Profit (Workers Participation) Act 1968. The limit of profit has been enhanced from Rs.12000/- to Rs.20000/-.

7. Workers Welfare Fund Ordinance 1971 is being amended to allow industrial workers to get medical, education, housing and death grant from Worker Welfare Fund. This facility shall apply to those units having an annual income in excess of Rs.500,000/-

8. Workers Welfare Fund Ordinance 1971 amended to increase the limit of death grant from Rs.200,000 to Rs.300,000/-.

Mr. Speaker

27. Government is determined to protect people from price hike and considers extending benefits to poor segments of society its mission. . Government allocated funds in last year's budget for food subsidy which was given to people through Utility Stores. People even in far flung areas benefited from it. Under this and under the Prime Minister's Ramzan and Eid package, relief of about Rs 5 billion was provided to people by Utility Stores Corporation. In addition, government has allocated subsidy worth billions of rupees in the Financial year 2007-08.

Mr. Speaker

28. I want to ask why previous governments did not give the relief that our government has announced and the one I shall soon announce? The difference is that of the intentions, policies and way of governance. Pakistani nation had to pay a heavy price for plundering of wealth by rulers of that time. We did not fill our pockets but fill national treasury.

Mr. Speaker

29. Daal Chana, Moong and Mash which is being sold in market at Rs 38 per kg, Rs 56 per kg and Rs 72 per kg would be sold in Utility Stores at Rs 29, Rs 47 and Rs 57 respectively. From tomorrow there would be a per kg relief of Rs 10,

Rs 5 and Rs 5 on tea, sugar and rice respectively. At present the price of cooking oil is increasing rapidly in the international market. On the direction of the Prime Minister it will sell at the utility Stores at Rs.67 as against the market price of Rs.80/- per kg.

Mr. Speaker

30. People with low income will get this relief which is being given on the directive of the Prime Minister. I will ask my brothers and sisters through this House to go to Utility Stores tomorrow to get the items at lower price.

Mr. Speaker

31. In view of wishes of the people our government has decided to give relief to people and continue giving it. People wanted that prices of their kitchen items should be reduced. We have done that. With this relief, people would be able to adjust their budget. We have lightened the burden of people by giving subsidy worth billions of rupees. I ask as to why did not the previous governments take these measures. They plundered national wealth and emptied the treasury. We used the national resources for benefit of people so that they get essential items at reduced rates.

Mr. Speaker

32. Our government has decided to extend the relief measures to every nook and corner of the country. In order to enable all the citizens to benefit from the relief measures it has been decided to increase the number of Utility Stores by additional 5000 and provide a utility store at every Union Council in the next 4 months. It will also result in creation of employment opportunities. In these stores necessities of life like daals, rice, sugar, ghee and basic medicines would be available and due to their close proximity people will save time and money by not going to the distantly located markets.

Mr. Speaker

33. My question whether some one before has thought of people living in far off areas? They had to travel long distances to get basic medicines. In Pakistan for the first time people will get medicines at reduced rates. People would not have to travel for miles but would get the facility at their door steps.

Mr. Speaker

34. Housing in Islamabad for low income people has become quite a complex issue. Taking notice of this situation, Prime Minister of Pakistan Mr. Shaukat Aziz has directed CDA to allocate a sector for 3 to 5 marla plots. In sector I-15 a total of 5500 plots and 8500 apartments have been reserved for low income people who will have the facility of loans from Banks. This will solve the problem of low income people. Moreover, work in 4 sectors of Islamabad has started after 17 years due to the efforts of the Prime Minister Mr. Shaukat Aziz.

With this prices of land in Islamabad, which were soaring sky high, went down and got stabilized.

Mr. Speaker

35.. A question arises as to the source from where the money has come to make the relief measures possible. It is the leadership of President of Pakistan General Pervez Musharraf and farsighted policies of Prime Minister of Pakistan that made this happen. Funds became available for the welfare expenditures. We did not follow the example of previous rulers who amassed national wealth for personal gains. Our relief measures have unnerved our political adversaries who are trying to create chaos but they would not be able to withstand public scrutiny.

Mr. Speaker

36. Rich people do not go to whole sale markets for purchases. It is the low income people who benefit from such places. Therefore, we are setting up farmer markets at federal, provincial and district level. With this, farmers would be able to bring items directly to the market, thereby circumventing hoarders, middlemen and profiteers. People will be able to buy goods at cheaper price. Moreover, daily bazaars would be set up, besides farmer markets. First daily bazaar would be set up at Islamabad. In addition, first whole sale bazaar is being immediately set up in Islamabad.

Mr. Speaker

37. It is quite evident that if price of an item increases it never goes down. But we, being public representatives, broke this myth. When sugar prices skyrocketed we took immediate action and brought them down. When cement prices increased we not only arrested the increase but also brought down their prices considerably. Prices of pulses were brought down as well as that of ghee and flour.

We did not do this as a matter of favour to anyone but did it as a part of our duty. We have changed the tendency of government of being a spectator in the event of a profiteer fleecing the public. We would not let it happen again and come to the rescue of people by keeping our eyes and ears open. This is despite the fact that check on prices is the responsibility of the Provincial and District governments.

Mr. Speaker

38. It gives me great pleasure to state that the recent production of wheat has broken all records. When wheat and flour prices started skyrocketing in the international market there was a sudden acceleration in their export. Prime Minister of Pakistan ordered immediate ban on export of wheat and flour to keep their prices at affordable level. Timely action saved the people from any price increase but due to the existing stocks decline in price is expected. Now Pakistan is the only country in the region where rates of flour and wheat are the lowest. That is what common man needs.

Mr. Speaker

39. In addition to catering to the daily needs of the nation, it is the duty of the Government to promote national self esteem . Most poor live in small towns and villages and often face hardship. It is the moral responsibility of the government to look after them. For this purpose an allocation of Rs.7.5 billion has been made for Pakistan Bait-ul-Mal which is Rs.2.5 billion more than the allocation for last year.

I would also like to say that between 1992 and 1999 the annual budget of Pakistan Bait-ul-Mal was no more than Rs.35 crore. It is only this government which has exponentially increased resources spent for the welfare of the people. This large allocation will benefit those who are most deserving and its benefits will reach more and more people. Pakistan Bait Mal is at present helping 1,500,000 households through its food support programme. This year 700,000 more households will benefit thus bringing the number of beneficiaries to a total of 2,200,000.

Mr. Speaker

40. Some of my colleagues in this House have today been hearing the words subsidy, relief , help again and again. They are perhaps tired of this repetition for which I apologize. But the fact remains that our mission is to serve the nation. They may rest assured that I will announce further relief measures. I would like to ask them what promises did they fulfill during their time in government; they increased the budget deficit to 7% of GDP and made the country bankrupt.

Mr. Speaker

41. For the hardworking farmers of this nation, I today announce a tubewell subsidy of 25% payable on electricity charges for tubewells. This subsidy will be shared by the Centre and Provinces equally; with the Federal Government contributing one half and the Provinces the other half. Pakistan is an agricultural country. The fertile land of this country yields bountiful fruits of the farmer's labour. It is our duty to look after their interest because they produce not only for themselves but to feed the whole country. Their biggest need is water. As a result of this relief, this country will become prosperous, food production will increase and inflation will be controlled and farmers will have to pay lesser bills for tubewells that operate with electricity. This is a historic decision.

42. I wish to announce this good news to our farmers that we are providing further subsidy under DAP. The subsidy will increase from Rs. 400 per bag to Rs. 470 per bag. As a result of this, the price of each bag of DAP will be reduced by 70 Rupees. This is a subsidy of billions of rupees which will directly benefit the farmers. Agriculture produce will increase through use of DAP; incomes of farmers will further increase; it will bring prosperity to their doorstep. I wish to ask as to which government provided its farmers with so

much benefit. The previous governments infact believed in taking money away from the nation.

Mr. Speaker

43. The government wishes that the dreams of its youth come true. We know that the future of the nation is dependent on its youth. If we want to encash the demographic dividend, we will have to use our youth as a powerful force. For this purpose, we have prepared and launched several robust programmes, the results of which will be better than expectation. We feel that our youth are patriotic Pakistanis and our asset.

Mr. Speaker

44. The President of Pakistan, General Pervez Musharraf announced the Rozgar Scheme in the last financial year which has been very successful. The small amounts advanced at low rate of markup of 6% enabled the youth to start their own businesses, thereby providing succour to many families. These small businesses also generated employment for other unemployed youth. Under the scheme, 1.8 million youth will be able to stand on their feet, and provide support to their families.

In the last financial year 10,321 applications were approved under this scheme and Rs.1 billion disbursed. The youth set up PCOs, established transport businesses, utility stores, mobile general stores and tele centres. Rs.104.7 billion will be disbursed under this scheme in the next 5 years. I appeal to my young brothers and sisters that they should apply for assistance under the Rozgar Scheme and make good use of it. I would like to ask if any other government had such positive views about the development of its youth.

Mr. Speaker

45. As Pakistan is progressing rapidly, we feel there is a shortage of skilled people. I would like to ask why this shortage was not felt by previous governments. Because in those times the country was simply not progressing and factories were infact being shut down. In order to meet the need of skilled people, in last year's budget we established NAVTEC . The aim of this institution was to develop the potential of the youth by providing them skills. It was decided to move forward with the implementation of this scheme by working closely with all four provinces. This was so that skilled individuals are distributed throughout the country. This amount is five times last year's allocation.

Mr. Speaker

46. They say that there is no substitute for experience. Our educated youth possess good degrees but lack of experience prevents them from getting meaningful employment. In order to help our youth, the President of Pakistan General Pervez Musharraf directed that an Internship Programme be started so that our youth can gain valuable experience in different government departments, thereby being able to be gainfully employed in different private

and government concerns. For this purpose, each graduate will be provided a stipend of Rs.10,000 per month. As of now 8,000 interns are working and this figure will increase to 30,000 next year. It pains me to state that previous governments, who claimed to serve the masses, did not give any serious thought to helping the youth.

Mr. Speaker

47. When a low income individual wishes to start a business, where should he go? He has no collateral to offer. The rich easily procure loan but the poors have difficulty in getting even small loans. In order to resolve this problem, Micro-Credit Banking has been started the world over.

Our government has instituted a regulatory frame work which is one of the best in the world. So far, one million households have benefited from Micro-Credit. The target for the next three years is 3 million households. Please come with me and see for yourself, how the lives of those who have availed Micro-Credit have changed; they are now self-sufficient and prosperous.

Mr. Speaker

48. As our cities expand rapidly, basic health facilities have difficulty keeping up. The hospitals are there but citizens have difficulty in reaching them which involves expense and travel. Keeping this view point in mind, President Initiative for Urban Clinics has been started. In the cities of Islamabad, Rawalpindi, Karachi, Lahore, Faisalabad, Peshawar and Quetta, 815 medical clinics are being set up at the Union Council level.

In each medical clinic there will be a doctor, lady health-worker and dispenser who will provide medical consultancy close to people's places of residence. In these clinics staff will be recruited from local union councils which will provide 4,917 employment opportunities. The question is, did any body else think about providing this basic facility in big cities? It seems, only we have found solutions to these problems.

Mr. Speaker

49. Safe drinking water is the basic need of every human being. Due to nonavailability of safe drinking water, people suffer from various diseases. President General Pervez Musharaf gave directions for installation of a water purification plant in each Union Council on emergent basis. A total of 327 plants have been installed and people have started getting safe drinking water and got protection from various diseases.

Mr. Speaker

50. We are asked as to what development activity we have undertaken other than mega projects. I would like to say that in order to eliminate the differentials between the urban and rural areas it has been decided to undertake Khushal Pakistan Programme along side mega projects. Under this welfare programme, 49,000 villages were provided electricity, at a cost of 21.6 billion rupees; 1207

cities and villages were provided sui gas at a cost of 71 billion rupees; roads were constructed and water supply schemes launched.

For the KPP, around 34 billion rupees are being kept in the current budget. In the last 5 years, our government provided electricity, sui gas connections, constructed roads, provided clean drinking water and sanitation facilities at a cost of Rs. 51 billion. Under the KPP, in 25 districts of Balochistan, development work of Rs. 3 billion is being undertaken.

Further schemes will be identified by MNAs which will be implemented immediately. Under the directive of the President of Pakistan Rs.5 crores will be paid to each district, Rs.1 crore to each Tehsil and Rs.10 lac to each Union Council for development work.

Mr. Speaker

51. We can rightfully challenge whether any previous government has spent such a large amount for development activities. Who has benefited from Rs.51 billion spent in the last five years under the KPP programme on the web of roads linking villages and Goths and small cities with large towns?

Certainly the poor people of Pakistan who could never imagine that those essential facilities could ever reach their village, Taluka and Goth; that their children would be able to sleep under a fan and air conditioner; that their houses have water motors; that they could make use of basic facilities like sewerage. It is only the dedication and hard work of the present leadership which has provided the development funds necessary to carry out these activities, who promised that they will deliver electricity to each village and link each Goth with a highway. Today they have delivered on this promise.

Mr. Speaker

52. The nation would be within its right to ask as to which kind of government could provide such large amounts to maintain the self esteem and dignity of the nation. The answer is that only an honest, dutiful and God fearing government can undertake such a challenge.

Agriculture Sector

Mr. Speaker

53. With your permission, on behalf of the government and this House, I would like to congratulate my brother farmers for their hard work that has made us self sufficient in food production today. God has listened to our prayers and provided us a bumper crop of wheat that was the largest in the history of Pakistan.

Mr. Speaker

54. Pakistan is an agricultural country. 60% of our population is associated with agriculture and agriculture has always played a significant role in our development. For a prosperous Pakistan we need prosperous farmers. As a result of government measures, growth rate of the agriculture sector in the current financial year was 5%.

These interventions by the government have yielded positive outcomes. Never have we seen such record agriculture produce. Looking only at wheat , total production is now more than 23 million tons made possible by timely fertilizer provision, agriculture loans and availability of water. Support price of wheat had been fixed at Rs.425 per maund which benefited our farmers in rural areas to the tune of Rs. 250 billion. As a result of this production of wheat was prioritized. Cotton production increased by 4.8% over last year. Rice production was also very healthy.

Mr. Speaker

55. I would like to ask why the livestock sector was ignored by previous governments when this could have substantially enriched our farmers? Did they not want that there should be a revolution in our rural areas and that farmers should earn extra income or were they waiting for us to prioritize this sector? The Government has formed two companies in the private sector.

(1) Livestock and Dairy Development Board

(2) Pakistan Dairy.

Under these companies two big projects have been started worth 2 billion rupees. Under Prime Minister Special Cell livestock produce and allied services will be spread to 1963 Union Councils all over the country benefiting three million poor farmers. As a result of these measures, 12 million litres additional milk will be produced and 2 lac tons additional meat will be produced.

Mr. Speaker

56. As a result of this government policy, a multinational company, has set up the largest milk processing plant in Asia in Pakistan. Similarly, other companies are also bringing investment from within as well as outside the country.

Mr. Speaker

57. It is our farmers urgent need that they be provided timely loans. Alongwith the subsidy on fertilizer, our government has also increased the availability of agricultural loans. In the financial year 2006-07, agricultural loans of Rs. 160 billion were targeted. Contrary to this, in 1990, agricultural loans of only Rs. 15 billion were disbursed. What will the farmer do with these new loans? He will purchase tractors, harvesters, fertilizers and seeds that are his basic requirements.

Mr. Speaker

58. With the use of better seeds agriculture production can potentially increase by 20% to 30%. The government has allocated Rs.336 million for production of better seeds. 15 new seed testing laboratories will be set up. For better production of cotton, BT Cotton seeds and Bio-Safety arrangements will be introduced.

Mr. Speaker

59. Adopting farmer friendly policies, the government has provided the agriculture sector Rs.250 billion which was entirely spent in the rural areas. The farmers spent this amount on their children's education, purchase of motorcycles, televisions, cycles, WLL sets, furniture, tractors, harvesters etc. They set up tubewells, built houses and why not? They tilled day and night on their lands and God helped them with bountiful crops which they sold in agricultural markets at government support prices. This is their right; prosperity of farmers is the prosperity of Pakistan.

### **Employment Generation**

Mr. Speaker

60. The construction industry in Pakistan has grown exponentially. Wherever we travel in Pakistan, the fast pace of construction activity is quite evident. There are 52 other industries associated with construction. A good indicator of the country's development is the level of job creation. It is difficult to describe the whole long list of industries where employment generation has occurred, in the time available. Even so, our Government provided 200,000 jobs in the motorcycle industry; 35,207 jobs in banking for qualified individuals; as a result of installation of mobile towers, 24,000 additional jobs were created; in the IT Sector 90,000 additional jobs were created; 2,000 jobs were provided in the cement industry; thus overall in the past 5 years more than 10 million people benefited. I would like to ask as to which government provided 10 million employment opportunities. Is it not enough of an eye opener for our opponents?

Mega Projects

Mr. Speaker

61. Today I hereby announce the construction of Neelum-Jhelum Project which will cost Rs. 84.5 billion. The electricity generated from this unit will contribute to the development of the country.

Mr. Speaker

62. The next in line is the Bhasha – Diamir Dam, the design of which will be completed in 2008. However, Rs. 500 million have been reserved for this Project in the PSDP. Along side this work, the work on Gomal-Zam Dam, Kurram Tangi Dam, Subak Zai Dam is in full swing.

Mr. Speaker

63. The work on the up-raising of Mangla Dam started by WAPDA is close to completion. As a result, 2.09 million acre feet additional water will be available for storage and 644 MW electricity will be generated. By construction of these Dams, 2.6 million acres land will be irrigated. Under-developed areas will be transformed into prosperous pieces of land.

Mr. Speaker

64. The Government has allocated a sizeable amount for the Greater Thal Canal, Reni Canal and Katchi Canal on which the work is in full swing. The

Government is also starting the work on expansion of Kara Kurram Highway. The work on the expansion of Hasanabdal-Mansehra Section will start in the next few months. The N-5 Highway will be linked with the National Trade Corridor. For this purpose, it has been decided to provide the National Highway Authority with an allocation of Rs. 29 billion. The National Highway Authority will, during this year, start construction on 1,585 KM length of Highways at a cost of Rs. 147 billion.

Mr. Speaker

65. The deepest Port of the country is Gwadar. So far an investment of Rs. 13.5 billion has been made on this Project. This amount excludes foreign investment. The Coastal Highway which links Karachi with Gwadar has already been completed. Gwadar will emerge as an important Port for the region because it will provide a transit route to Central Asian States and China. As a result, both Balochistan and Pakistan will benefit. 66. In today's world it is difficult for a country to stand up right in the comity of nations without education. Foreseeing future requirements, the Government has decided to increase share of education to 4% of GDP. During the last 2 years, the education budget increased by 36%. It is pointed out that the bulk of the education infrastructure is situated in the Provinces and under their control. The Federal Government has limited educational institutions under its control. However, the Centre provides full support to the Provinces in this regard.

Mr. Speaker

67. Private Equity and Venture Capital Fund Private equity is a certain kind of investment which plays an important role in the domestic economy. It aids the expansion of private companies through provision of additional funds and administrative ability bringing out their hidden value. In order to speed up investment in this area, the Private Equity Fund has been made tax exempt till 2014. In case assets or shares of private companies are sold to Private Equity and Venture Capital Funds, the rate of Capital Gains Tax has been reduced from 35% to 10%.

Mr. Speaker

68. Real Estate Investment Trust (REITs) Through REITs a new form of investment tool is being introduced for investment in capital markets which will enable small investors to reap profits from investments in real estate, which, so far, was open only to large investors. In order to increase use of REITs their use has been given tax concession. For example, the profit of REITs, will be exempt from taxation upto 90%, upon distribution. The most important tax concession for REITs is that under this scheme sellers of property will be exempt from tax upto 2010.

Mr. Speaker

69. Amendment in Companies Ordinance For the benefit of shareholders, any shareholder who has 12.5% shares of any company can call for an election of

new Board of Directors in the next AGM. In order to provide protection to minority shareholders, any person or persons with 20% or more than 20% shares of any company, can request SECP for special audit.

#### Demutualization

Mr. Speaker

70. In order to bring our capital market upto international standard the demutualization of stock exchange is being implemented. Under this assets of stock exchange transferred to demutualized exchanges will be given special tax treatment.

#### Industrial Sector

Mr. Speaker

71. Industry is a basic need and symbol of recognition of a country. No one can think of prosperity without industry, be it a case of a developed or a developing country. This year growth of large scale manufacturing was 8.8 percent. Growth rates of other industries were impressive e.g. sugar (19.6%), beverages (28.4%), shoe (13.2%), paint and varnish (43.8%), motor tyre (17.2%), cement (21%), steel (24%), air conditioning (36.8%), electric transformers (25%) and tractor manufacturing (11.4%).

Mr. Speaker

72. Did earlier regimes pay any attention to this area? Did they give any useful suggestion? Did they constitute any working group? Did not they know that exports are essential for survival of a nation? But their agenda was not country's economy, public welfare or future of the nation but negative politics, propagation of hatred, and degradation of national institutions. People are not going to accept such an agenda as they are aware of the people who have looted public money and built bank balances in foreign countries.

Mr. Speaker

73. The reason for Chinese fast paced development is its manufacturing industry. A SEZ near Lahore is being set up for Chinese products, with Chinese assistance. Chinese companies would exclusively invest there. Apart from that, companies intending to set up SEZs would be given various tax breaks. Those companies making investment will be given different incentives. These measures would boost up industry. Appropriate laws are being framed for setting up of Special Economic Zones. I would like to ask that our relations with China have been cordial throughout. Then why are they investing in Pakistan now and not before. I want to repeat that it is so because of good intentions, sound policies and good governance.

Mr. Speaker

74. Many drastic changes have come about in the industrial sector on account of measures taken by government. These have benefited the people. Those days

have gone when SRO culture was order of the day: an SRO issued in the morning used to be changed in the evening by vested interests.

Those days have gone when people would approach concerned quarters for issuance of permits. Those days have gone when people would strike deals with ITO to the detriment of national exchequer.

Today tax payers are free from the fear of victimization.

Today industrial base has expanded

Today new employment opportunities have been created.

Today we are self sufficient in food

Today we have laid extensive road network in the country

Today we have provided safe drinking water

Today we have used national resources on welfare of people

Today families of the people getting employment are praying for us

Mr. Speaker

75. All this has been made possible on account of continuity of policies, good faith, sincerity, honesty and dedication of the government. International investors have responded to the call of the government for making investment in the country. This has resulted in investment of US \$ 6 billion during one year.

Mr. Speaker

76. People who avoid facing facts shall be held accountable before public. They shall have to explain as to why they did not do adequate development ? Why did not they set up the needed industry? Why could not they achieve the required level of investment? Why did not they provide relief to people from national exchequer? They would be unable to answer these questions. During their period of government, precious time of the nation was wasted. Nation has a right to ask them to explain the reasons for the wasted time and lost opportunities.

## PART-II

Mr. Speaker

77. Now I want to draw your kind attention towards the tax policy and tax administration reforms introduced in the tax structure of Pakistan. As you are aware, the present government has introduced wide-ranging reforms in the CBR, which have been highly successful. The basic objectives of these reforms were not only to increase the tax collection, but also to provide tax facilitation and better tax environment to the taxpayers.

Mr. Speaker

78. The tax administration is a continuous process; therefore, additional taxpayers' friendly reforms are being introduced in the CBR. The future strategy is to collocate all the domestic taxes under one roof, for which Regional Tax Offices (RTO) are being established in the major cities of the Country. Similarly, the international taxes are to be handled through the Model Customs Collectrates (MCC) which is being established by adopting best international

practice. For large taxpayers, three large taxpayers units have been established equipped with modern resources.

Mr. Speaker

79. Due to introduction of these changes, CBR has been able to achieve its revenue targets. This will be fourth consecutive year when the start-of-the-year revenue target will be met. May I inform you that the revenue target for the first 11 months of current fiscal year has been successfully accomplished and its is expected that the yearly target of Rs 835 billion will also be achieved (inshallah). Similarly, the revenue target of Rs 1025 billion fixed for fiscal year: 2007-2008 will also be successfully achieved (inshallah).

Mr. Speaker

80. Now I will turn to the tax policy measures being proposed for the coming fiscal year, wherein revisions have been proposed in tax rates taxpayer friendly in nature.

Customs

81. As you are aware, tariff reform is an integral part of tax policy initiatives. For the last many years not only the tariff rates have been gradually reduced, but the number of tariff slabs has also been reduced considerably. The Tariff Rationalization process is an on-going process.

Mr. Speaker

82. I want to convey to you that the Tariff Reforms process will continue in the coming years as well. Furthermore, in order to reduce cost of raw material, a zero tariff slab has been proposed. This change is expected to accelerate industrial development, promote exports and increase national income.

Mr. Speaker

83. The guiding principle of our government policy is to increase exports, ensure availability of cheap raw material for industries. To continue with the policy, customs duty is proposed to be withdrawn from the machinery used in horticulture, furniture, marble & granite, surgical and medical instrument-business.

Similarly, the customs duty on raw material used in the electrical, capital goods, paper & paper board, chemicals, plastic and rubber industries is proposed to be reduced by 5%. The objective is to keep the momentum of industrialization going so that enough jobs are created for the wellbeing of common citizens.

Mr. Speaker

84. The country is facing acute shortage of electricity. To provide relief to the people and industrial establishments, it is proposed to withdraw customs duty on generators for home consumption. Similarly, reduction in customs duty is proposed on generators for industrial consumption. Likewise, it is also proposed

to withdraw customs duty on the components used in alternative energy sources such as solar energy and wind energy. The sales tax at import stages on these items has also been proposed to be waived off. To encourage energy saving lamp, customs duty is proposed to be reduced from 15% to 10%.

Mr. Speaker

85. Presently CVT is levied on imported cars, while the domestically manufactured vehicles are exempt from CVT. In order to remove this the disparity, withdrawal of CVT on imported vehicles is proposed. However, to maintain protection level intact, adjustment in customs duty at the rate of 5%, 10% & 15% for different CCs of cars is proposed. There is a proposal to levy 5% withholding tax on the local vehicles.

To facilitate the middle income groups customs duty on 800cc cars is not being charged. Finally, the capping for old and used cars previously for 5 years is being reduced to 3 years so that the domestic industry attains stability. The condition of 3 years will be applicable to TR, Gift Scheme, and Baggage rules.

Mr. Speaker

86. Textile is the back-bone of the economy. Besides export earnings, this sector is a prime source of employment generation. Therefore, more attention is required to be focused on this sector so that to make it internationally competitive. Some time ago R & D facility was provided to this sector. Now the DTRE system is being revamped whereby the import of PSF will be allowed. Through DTRE. R&D facility will also be available to fiber manufacturers @ 3.5%, which will be availed through SBP.

The facility of debt/swap to spinning sector is granted. Similarly, for exporter the existing WHT rate of 0.75% to 1% is being rationalized and 1% rate of WHT is being proposed. The textile exporters will also be the beneficiaries. We hope that with these initiatives, the textile sector will flourish further.

Mr. Speaker

87. The imports have increased many folds during the past few years. This phenomenon is not only reflective of industrial development, but also highlights improved consumption expenditure by individuals. However, the growing imports have badly impacted our trade deficit, due to which there is a huge burden on the national resources.

Therefore, keeping in view the widening trade deficit and also to restrict the conspicuous consumption, 1% levy special surcharge is levied on all imports with the exception of petroleum product, edible oil, fertilizer, medicine, necessary food items (vegetable & pulses). Furthermore, the already exempted items will continue to remain exempt from this levy.

Sales Tax & Excise

Mr. Speaker

88. Few years back the concept of zero rating was introduced so that the business community may not face liquidity constraints. It is a great pleasure for me to announce that the scope of zero rating is being widened to include sewing machine, bicycle & cotton seed oil.

Mr. Speaker

89. Cable TV is a basic necessity of daily life, therefore, excise duty on cable TV is proposed to be withdrawn.

The traders belong to FATA & PATA are facing difficulties in carrying out their businesses due to unresolved disputes lying pending with the courts. Therefore, in consultation with them, the sales tax already due is proposed to be waived off enabling them to carryout their business.

Mr. Speaker

90. In the country, iron and steel, plastic and paper industries are fast growing but unfortunately majority of them are functioning in the unorganized sectors resultantly the government as well as the organized sector industry are facing continuous losses. In order to establish equilibrium, the raw material imported for iron and steel plastic and paper industries the sales tax of 15% is proposed to be enhanced 20%. However, the rate of 15% sales tax on final product for these sectors will remain the same.

Income Tax

Mr. Speaker

91. A task force was constituted to bring improvement in the provisions of law relating to holding companies. In view of the recommendations made by the task force, amendments are proposed in legislation relating to Holding Companies; 75% share holding will be required if none of the companies is a listed public company; 55% share holding will be required if one of the group companies is listed public company; Current losses can be surrendered by Holding Company to a subsidiary or between subsidiaries which fulfill the requirements of share holding; inter-corporate dividend shall be liable to 10% adjustable withholding tax.

Mr. Speaker

92. The concept of group taxation is not new. It has however, not prospered in Pakistan due to certain impediments in law which discourage the formation of groups. In order to implement the recommendations of the Task Force, it is proposed that for formation of group, transfer of shares between companies and the owners in one direction may not be treated as taxable event.

Further, group taxation is allowable for 100% owned companies as one fiscal unit and no relief will be available in respect of losses prior to formation of group. It is also proposed that group taxation will be restricted to domestic companies only and for assessment on group basis option will have to be exercised for a minimum period of 5 years.

Mr. Speaker

93. Acquisition and merger is invariably treated as a non-tax event. The existing provisions of law do not expressly provide disposal of an asset under amalgamation/merger to be a tax neutral event. Therefore, there is a need to introduce specific provisions regarding non-taxability of capital gains in the hands of share holders.

It is proposed that transfer of shares between companies and share holders in one direction under an approved scheme, (not involving cash) may not be taken as taxable event if the purpose of such transfer is formation of a group. The incentive will be available under scheme of Merger and Acquisition, approved by High Court, SECP or SBP (as the case may be) which does not involve cash payments.

94. For computation of income of the banking companies a separate schedule will be added to the Income Tax Ordinance, 2001. This measure is being taken on the recommendations of the SBP and PBA on the analogy of taxation of Insurance Companies. Inter corporate dividend is proposed to be subjected to adjustable withholding tax @ 10%.

Mr. Speaker

95. I hope that with the introduction of this new system, the revenue generation will increase manifold. It will also provide relief to common citizens and the industrial production will accelerate in the process.

Mr. Speaker

96. This Budget is a budget of relief. This is a Budget of investment. This is the Budget of a fast growing economy. This is a Budget of the people. A Budget that has reduced the price of kitchen items. As a result of this Budget, we want to develop our youth into a skilled force. This a Budget to ensure our self-sufficiency. The question is where did the funds for the welfare programmes initiated by our government in the last 5 years come from? Where did this new zeal in the people come from?

Mr. Speaker

97. This was all made possible because there was continuity and transparency in our policies and good governance.

There are many who will not admit this reality but the fact remains that the country needs intelligent and honest leadership. The people are aware of who brought bankruptcy to the country. The Pakistani nation today can stand on its own two feet with its head held high. They know that there is a strong and powerful country behind them. They know that continuity in policies is essential. They know that there are people who want to thrust Pakistan into darkness again.

Mr. Speaker

98. In the end I would just like to say that Pakistan has traveled a long journey in the last 8 years. We have come out of bankruptcy, are steadily reducing poverty and are ranked as one of Asia's faster growing economies where poverty is on the decline, unemployment is reducing and which is on its way to become a strong, viable country. In other words, Pakistan is fast moving towards a better future.

Presently our reserves stand at 14.5 billion US dollars compared to 200 million US dollars some time back. Today we are not a nation with a begging bowl in our hands but a strong and proud nation that helps others also. We are a country where foreign investors want to invest; at no other time was Pakistan's future as bright as it is today. Today we can give our new generation the promise of a better future.

Mr. Speaker

99. Today with the grace of God, our country can never again be pushed towards the destruction which previous governments wrought upon it and who only devised policies that served their own interest. The whole nation including our youth are now mobilized. We have started the journey towards a prosperous future. It is this path that will lead us to a great Pakistan. The democratic journey we started in 1999 will continue, Inshallah.

May God protect and help us all, Aameen  
Pakistan Paindabad

Source [www.finance.gov.pk](http://www.finance.gov.pk)