

Inaugural Address

SARTAJ AZIZ

Syed Nawab Haider Naqvi, Dr A. R. Kemal, Distinguished Guests, Ladies and Gentlemen:

It is a matter of pleasure and privilege for me to inaugurate the Seventh Annual General Meeting of the Pakistan Society of Development Economists. I am grateful to the President of the Society for his invitation to address this august body.

I am pleased to observe that in its short but eventful existence the Society has grown in stature, nationally and internationally. It has contributed immensely to the cause of development economics and has deepened our understanding of the development process in Pakistan. The Society has carried out its task in a low-keyed but efficient fashion, and has shown its commitment to achieving academic excellence. I wish to congratulate the Society for its accomplishments, with the sincere hope that it will continue to pursue its mission with undivided attention.

This session of the Society is taking place at a crucial time. On the international front, the world is in the grip of a serious crisis emanating from the Gulf situation and the slowing down of world economic growth. And at home, despite many constraints the newly elected Government has embarked upon a bold programme of economic and social development and reforms.

Mr President,

A year back, we had entered the terminal decade of the twentieth century with hope and aspirations. Within a year these feelings have turned into uncertainty and pessimism. The prolonged and sustained period of world economic growth is weakening and many are predicting a recession. The optimism generated by renewed East-West cooperation, the ushering of democracy and a free enterprise system in Eastern Europe, the unification of Germany and the move towards a single Europe seems to have receded too soon. The four-year long GATT Round of Trade Talks has ended in failure. Thus the apprehensions of trade conflicts, retaliatory actions and renewed protectionism have enhanced.

These events have serious consequences for countries like Pakistan. The immediate impact stems largely from a sharp rise in oil prices and the decline in

workers' remittances. As advanced countries are our major trading partners a slowing down in their economic growth may retard our export prospects. Coupled with these, the recent developments on the aid front have exerted added pressure on the already critical economic situation. Despite attaining a real growth of 6 percent per annum with relative price stability in the Eighties, the economy continues to be under serious strains from many sides.

The high growth rate during the Eighties was financed through excessive borrowing both from domestic and external sources. The overall budget deficit as a percentage of the GDP had increased from 5.3 percent in 1981-82 to the crisis level of 8.5 percent in 1987-88. Although it has come down since then, it needs to be brought down even further as a necessary condition to achieve a modicum of fiscal solvency. As a consequence of these huge budgetary deficits year after year, and the resulting excessive domestic borrowing, domestic debt increased more than six-fold between 1980-81 and 1989-90. Side by side the external debt has reached a high level of 16 billion dollars. Thus, a large share of the budget and foreign exchange earnings is being spent on servicing these debts.

A major factor behind the excessive borrowing has been our inability to mobilize domestic resources and the failure of successive governments to tax people efficiently and equitably. Our present tax structure rests on an extremely narrow base. During the Eighties, the total tax revenue remained around 13 percent of the GDP; and in 1989-90, direct taxes were only 14 percent of the total tax revenue, or less than 2 percent of GDP. Both these statistics bespeak a deep-seated malaise in our fiscal structure which calls for a suitable corrective action based on a single-minded commitment to national interest.

The balance of payments continues to be under pressure. Due to our inability to expand the export base, and the decline in the inflow of workers' remittances, the foreign exchange earnings have not increased fast enough to pay for most, if not all, of our imports. On the other hand, the imports have increased at a much faster rate. A related disturbing development is that, in recent years, the import of consumer goods have increased at a relatively faster rate as compared to the import of capital goods. In the absence of any corresponding increase in the import-substituting production of capital goods, this development reflects a slowing down of the new investment efforts. This is also evident from the decline in recent years in the rate of capital accumulation. The resource constraints have contributed to decelerating growth in the last two consecutive years. In addition, inflation, which in the greater part of the Eighties had remained at a single-digit level, is once again on the rise.

The pace of development of the infrastructural Social Sector has lagged behind rising population and demand. In fact, many social services have deteriorated over time.

Mr President,

The world and domestic economic situation to which I have just referred poses a serious challenge to us. We have no choice but to accept this challenge squarely and formulate a bold and new strategy not only to overcome these difficulties but also to accelerate the pace of economic and social development of the country.

Firstly: The new economic strategy should be embedded in a medium-to-long-run programme of action with a clear-cut focus. Its centre-piece should be the maintenance of a high GDP growth with a low inflation rate. At the moment, our GNP per capita is growing at the rate of only 2.5 percent. At this rate, it will take us close to fifty years to become a middle-income economy with a per capita GNP of over 1000 U. S. dollars. We should make every effort to recapture the 7 percent GDP growth rate we achieved in the first quarter of the Eighties. Side by side, high population growth will have to be checked so that the gains of economic growth could be shared widely and an average annual growth of 4 percent in per capita GNP is achieved. Such a high growth rate if sustained for a few years would generate a momentum of its own and create a sense of optimism in the masses.

Secondly: It is my belief that Pakistan's economy is capable of generating this high rate of economic growth. Our agricultural and industrial sectors, and even the informal sector, need only a moderate degree of encouragement and inducement to grow at a faster rate. To maintain an overall growth of over 7 percent, the growth rates of the agriculture and the manufacturing sectors will have to be increased, which requires undertaking structural reforms to increase the productivity of the commodity-producing sectors. In this respect, I must emphasize that the answer to Pakistan's economic problems lies in combining a dynamic industrial policy with a bold programme of rural development under which rural infrastructure is expanded, agriculture is modernized and diversified and rural development institutions are decentralized right down to the village level. Such a strategy will not only provide the raw materials needed for sustaining industrial growth, but also the demand for its output. Even more important, by creating jobs in rural areas, the strategy will discourage workers from moving to cities in search of employment. For these compelling reasons, the new industrial policy announced by the government last month has a strong rural orientation.

Thirdly: To make sure that a high GDP growth is sustained over a reasonably long period, the accumulation of material capital should be supplemented by the investment in human capital. The successful experience of Japan and of the Newly Industrializing Economies (NIEs) suggests that the adoption of human development-led strategies also helps to sustain high economic growth. It is only when these types of investments are undertaken simultaneously can we be sure of the development of the economy in the true sense of the term. Thus, it is high time that the

development of education, health, and other social sectors is given top priority because economic progress, too, will be compromised in the long run if we fail to develop our human resources. Even apart from the somewhat narrower growth angle, universal access to a minimum level of health, education, and other such facilities is a fundamental human right without which human freedom loses its meaning.

Fourthly: It will be extremely difficult to achieve a high self-reliant growth if no efforts are made to increase domestic resource mobilization. The major thrust of the macroeconomic policy should be to redouble the resource mobilization efforts so as to reduce fiscal deficits and eliminate the domestic savings-investment gap. And it is also essential that not only is this gap bridged but the level of savings and investment is raised to ensure a sustained targeted growth of the economy. For this purpose, in addition to mobilizing greater savings in the household sector, a major thrust should be on increasing the corporate and public sector's share which currently contribute only 15 percent of the domestic savings. Increasing public sector savings will require the efficient working of public enterprises, improving tax collection and widening the tax base, in particular the direct taxes.

Fifthly: Attempts should be made to reduce, rather drastically, the dependence on external borrowing. To this end, we should emphasize export promotion, and also facilitate out-migration of our Pakistani labour, which has become highly mobile internationally. We must accept the fact that workers' emigration has become a permanent feature of our economy. There should be no hesitation on this account, because commodity and factor trades are complements to each other, and together they could improve the welfare of the people.

Sixthly: The desired improvement in the distribution of income should be achieved by ensuring that real wages rise together with a higher level of employment. Steps should be taken to redress the inequitable distribution of wealth, particularly by emphasizing measures for alleviating poverty, ensuring wider dispersal of opportunities and benefits of economic development and improving the prospects of employment, education, health and social welfare for all.

Taking all these aspects in view the Government has initiated a bold programme of economic and social reforms. The basic aims of this programme are:

- Create a just society which ensures economic and social justice to all and removes disparities between urban and rural areas and between more developed and less developed areas;
- Guarantee the rights of food, shelter, clothing, education, health and gainful employment to every citizen;
- Eradicate poverty, backwardness and exploitation from all sections of the society; and

- Accelerate the pace of economic development in order to double the country's national income within this decade.

Mr President,

The actions and initiatives taken by the Government in the short span of time demonstrate its commitment to accelerating the pace of economic and social development of the country and the well-being of the people. Policy initiatives announced so far mainly relate to economic issues. Many initiatives in the social sector are in the offing and will be announced shortly. The comprehensive agenda of our socio-economic policies contains many items. Some of the major ones are:

- One: Gradually convert the economy from a relatively closed and inward-looking to an open and outward-looking one;
- Two: Denationalize and privatize public enterprises and encourage the private sector even in areas reserved for the public sector;
- Three: Deregulate the economy, promote the market mechanism and create conditions conducive to rational and efficient allocation of resources;
- Four: Develop physical and social infrastructure to support rapid growth and promote development of rural and backward areas;
- Five: Correct macroeconomic imbalances, in particular fiscal and balance of payments;
- Six: Create conditions conducive to the rapid growth of export-oriented industries as against import-substitution ones;
- Seven: Decentralize and devolve authority from Federal to Provincial and local bodies;
- Eight: Improve the quality of public services;
- Nine: Increase the literacy rate, improve the quality of education and facilities for scientific and technical education;
- Ten: Provision of primary health care, clean water and sanitation to all. Eliminate and control preventable diseases; and
- Eleven: Enlarge employment opportunities through accelerated economic activity dispersed in all parts of the country.

This agenda is by no means exhaustive. The Government plans to take many more initiatives for the welfare and well-being of the people. In the back drop of the grim world and domestic economic situation the steps being taken by us can be categorized as bold and progressive. I sincerely hope that the international prospects for development and trade will improve sufficiently to help us in sustaining balanced and self-reliant growth.

With these words I have great pleasure in inaugurating the Seventh Session of the Pakistan Society of Development Economists and wish it all success.