

Inaugural Address

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I deem it a privilege to inaugurate the Tenth Annual General Meeting of the Pakistan Society of Development Economists.

It is with great satisfaction that I note the Society's contribution to increasing awareness about the process of economic development in general and about its unfolding in Pakistan in particular. Since its beginnings a decade ago, the Society has grown into an institution committed to the cause of development economics, which is to throw light on the ways and means of raising standards of living in developing countries. It has since broadened its scope as well as gained in depth. The Society and its office-bearers deserve our congratulations on these achievements. I am sure what we have seen of the Society's performance, especially on the occasion of the Annual General Meetings, is an earnest of more of the same in the future as well.

We are today standing on the threshold of a profound transformation of the basic equations of the world economy. On the one hand, the old world order, based on the North-South divide, is being replaced gradually by a more complex system in which several rival economic blocks are emerging in the North as well as in the South. Unlike the past, the North is no longer the sole purveyor of capital and technical know-how, nor is the South completely dependent for its technical wherewithal on the North. On the other hand, with the disintegration of the Soviet Union, a unipolar political structure with obvious economic implications appears to be taking shape. Even though the overall picture of the New International Economic Order in the post-Cold War era still remains hazy, one thing is absolutely clear: the North as an engine of growth for the South has slowed down considerably and the relationship appears to be more one of interdependence, in which countries like Japan and South Korea have developed significant capital surpluses.

With the recent conclusion of the GATT-sponsored Uruguay Round Accord, the world in general has escaped the much-feared prospect of a breakdown in the multilateral trading system and a deadly global trade war. The Accord is expected to increase world trade by as much as three-quarters of a trillion dollars annually; and, insofar as a regime of freer world is superior to world-wide protectionism for all parties concerned, the developing countries will also gain from it. But this does not

mean that the Accord will match the developing countries' disabilities due to "unequal exchange" without the special efforts needed to overcome these. In other words, the problem is not just that the developing countries will also gain but what the size of such gains would be in relation to those accruing to the developed world. It is on this score that the world's poorest nations are unhappy that the Accord has not met their aspirations. In particular, the textile-exporting countries, like Pakistan, are arguing that the agreement gives them too little, too late. Then, to add insult to injury, the developing world is being elbowed out by the CIS and Eastern Europe in the international credit and aid arena at a time when fiscal deficits in the Western world continue to grow. If these trends continue, the Asian growth record may lose some of its robustness because a restricted access to the OECD markets would, to some extent, compromise production possibilities in this fast-growing region of the world. But fears on this count may easily be exaggerated. The fact is that the developing countries, particularly in Asia, have done quite well: in the face of a slowdown in world trade growth and sluggish demand in the industrial world, the developing countries have maintained both a high level of economic growth and a reasonably good export performance.

I would now like to talk about how Pakistan has fared in the recent past. The year 1992-93 was a difficult one for Pakistan: due to the visitation of floods and a virulent pest attack, the agricultural sector recorded a negative growth rate while the manufacturing sector also did not do particularly well. Thus, the expected bumper crop did not arrive and the manufacturing sector also could not stage a full recovery. Macro-economic instability—in the form of the budgetary and trade deficits and the rate of inflation—made the economic outlook even bleaker. Policy efforts have, therefore, focussed on both these aspects. Although it will take time for full economic recovery to come, yet a beginning has been made: Pakistan's real GDP at factor cost is expected to grow by 5 percent this year—which means an increase of approximately 2.2 percent in the per capita GDP at factor cost. This is lacklustre performance by Pakistani standards, but is not too bad. A particularly promising development has been the successful introduction of wide-ranging reforms in the real, financial, and social sectors of the country. Though their full benefits would be realised only in the long run, these reforms have already had a favourable impact on the economy. One indicator, though only a partial one, of the positive impact of reforms on the economy is that by January 1994 share prices quoted on the Karachi Stock Exchange were nearly twice as high as last April.

The outstanding features of these reforms are: privatisation, deregulation, liberalisation, and rationalisation of the economic environment in the hope of strengthening the entrepreneurial spirit and encouraging greater saving and investment. Besides stressing the need for self-reliance and domestic resource mobilisation, the focus of policy has been to liberalise imports and expand exports by

rationalising the structure of import tariffs and export subsidies. In general, these measures are expected to lead to a narrowing down of the country's trade deficit; and if these measures are combined with a greater inflow of private capital (both Pakistani and foreign) in response to a more liberal regime of exchange controls, the balance of payments may also improve. To make sure that this does happen, efforts have been made to promote both direct and portfolio foreign investment.

Ladies and Gentlemen! Having enumerated some of the major achievements of the government, I take this opportunity to note some of the outstanding issues that Pakistan's economy still faces.

- The most critical challenge facing us is the need to increase the growth of the GDP at the fastest possible rate. Without this happening there is no hope for a developing country like Pakistan to alleviate poverty. But to achieve such a growth rate, a lot needs to be done. Thus, while both agriculture and industry should grow at high rates, the growth rate of industry should be higher than that of agriculture to bring about the 'structural transformation' of the economy. In the recent past, we have achieved high growth rates in the agriculture sector while the manufacturing sector's growth has been much slower.
- Regarding Pakistan's population rate, there is an urgent need to speed up its rate of decline. The situation calls for concerted investments in population planning, family health programmes, and female education to achieve a low mortality/low fertility scenario, which often is a necessary condition for achieving the required increase in the per capita income. The important thing to understand is that a high fertility rate cannot be sustained for long without also raising the mortality rate—thus undoing all the good we have done to raise the life expectancy in Pakistan to about 60 years.
- Another challenge that our economy faces is to mobilise adequate tax resources and to control public expenditure to bring the fiscal deficit down to an acceptable level. Historically, the resource mobilisation effort has been hampered by a narrow and inelastic revenue base. While the budgetary deficit is expected to drop from 7.5 percent of the GDP in 1992-93 to about 6.5 percent in 1993-94, it still falls short of the Structural Adjustment Agreement's target of 4.8 percent. The fiscal situation in Pakistan has not shown the expected progress due to continuing difficulties in generating enough revenue, enlarging the tax base, creating better tax administration, and bringing non-development expenditure to a sustainable level. A sharp increase in debt service has occurred as higher domestic and external borrowing was used to compensate for deteriorating public savings.

- Other important areas of national economic policy that require our continuing attention include the need to further reduce the anti-export bias of our trade policy, to reduce our debt-service liability, and to keep inflation in check.
- Yet another major challenge facing Pakistan is improving its various social development indicators such as the literacy rate, life expectancy, and percentage of population with access to facilities for basic education, health, potable water and sanitation, and to a series of other steps undertaken to alleviate rural poverty. To this end, a Social Action Programme (SAP) has been launched. This is a major initiative whereby a little over Rs 100 billion would be spent on social sector development during the Eighth Five-Year Plan. The areas of major concern of the SAP are education and basic health, including family welfare schemes and sanitation facilities. The operational strategy of the SAP would be to encourage a greater involvement of the private sector, the NGOs, and other agencies through decentralised decision-making.

Ladies and Gentlemen! Let me now outline some of the strategies that may form the basis of a flexible policy response to these challenges.

- A major policy step would be to achieve a high growth rate of per capita income so as to double the existing per capita income in as short a time as possible. In this context, an important aspect of our strategy should be to try to reduce the growth rate of population. Fortunately, there is some welcome evidence that the total fertility rate has already started to come down—and that the long-awaited demographic transition perhaps may have come. To deepen this process, it should be made more attractive for the people to have smaller families; but the supply of safe contraceptives is also essential to decelerate the rate of population growth. Also, the spread of literacy, which will make it more attractive for parents to send their children to school rather than to work, should have a strong anti-natalist impact. If these efforts are successful, then we can hope to meet the goal of becoming a middle-income country in the foreseeable future.
- To achieve a high growth rate of the GDP, the thrust of the planning effort should be to generate new investment resources; but even more, it should be to make use of the available investment resources efficiently and to enhance total factor productivity—especially in agriculture and manufacturing—through appropriate (labour-intensive) technological change. It is hoped that such technological change would bring about an early structural transformation—i.e., it will lead to a sectoral growth pattern where the

manufacturing sector grows substantially faster than the agriculture sector. Technological improvements allow greater productive efficiency in agriculture and industry. The liberalisation of the economy, particularly our efforts to attract foreign investment, can provide a valuable opportunity especially to the private sector to achieve this objective.

- I consider a greater investment in human capital to be absolutely vital for improving the quality of life of the people, for reducing poverty, and for ensuring a modicum of social justice as higher rates of economic growth are achieved. I believe that the measures to raise the level of human development and social welfare are complementary to the goal of a high rate of economic growth. In this context, we need to significantly increase the resources being devoted to education, health, and sanitation sectors. Efforts should be made to prevent environmental degradation while the problem is still manageable. But we should emphasise those areas first where environment and development go hand in hand.
- We must pay particular attention to meeting the challenge of a high unemployment rate—a challenge which, as I noted above, has too often been ignored in Europe and the United States. Greater employment opportunities are the surest way to raise the level of economic well-being of the people. It will be essential to reduce the open unemployment rate to 3 percent or so, mainly by stimulating the growth rate and by increasing the labour-absorptive capacity of the commodity-producing sectors, and also by launching some special employment-generating programmes.
- I must emphasise that while privatisation and deregulation are often the necessary conditions for higher investment, greater efficiency, and a high rate of growth, these are by no means the sufficient conditions. To make these policies successful, the private sector will need to display qualities of entrepreneurship, self-confidence, and social responsibility. In particular, we need to be mindful of the quality of our products if we are to succeed in an increasingly competitive environment. Even as privatisation is the cornerstone of deregulation and economic liberalisation, we need to guard against the mistake of providing excessive fiscal incentives to private investment, which does not always help the cause of efficiency. We should be careful so that state monopolies are not replaced by private monopolies.
- I have already mentioned that amongst the challenges facing Pakistan's economy is the need to reduce the anti-export bias of our foreign trade policies. In this regard, we plan to move towards a further rationalisation of the tariff rates. We aim to develop an incentive structure which is *neutral* between export-expansion and import-substitution. And as I mentioned earlier, we need to reduce the debt-servicing liability. To meet this goal, we

need to minimise the contraction of new debt, seek debt reduction from our creditors, explore possibilities of debt-equity swaps, continue with our export-promotion efforts, persist in our policy of instituting structural reforms in the economy, and keep looking for effective ways of domestic resource mobilisation alongwith a reduction in non-developmental government expenditure. We should also use all available international and bilateral forums to stress the need to keep international trade and finance flowing freely.

- Finally, I would like to urge efforts to narrow down and eventually eliminate gender disparities, and to put an end to some unsocial practices in the labour market. All forms of discrimination against women should be done away with so that women, who constitute the better half of the nation, can make a solid contribution to national development and enhance the quality of life. Cruel practices like child-labour and bonded-labour must be ended by effective legislation and enforcement. Sending young children to work rather than to school is a crime against all civilised norms which neither the society nor the economy must support.

Ladies and Gentlemen! I hope the measures that I have just outlined would be helpful in realising the goal of a high rate of economic growth coupled with macroeconomic stability and social equity—assuming, of course, that we shall have a reasonably favourable international environment. Fortunately, there are signs that the recessionary gloom that engulfed the European and American economies may soon be lifted. It is also to be hoped that with the success of the Uruguay Round negotiations the wave of protectionism will subside and the New International Order will impart a measure of balance and equilibrium to the world economy. If this happens, developing countries can grow faster, helped by a freer regime of international trade and capital movements. It is only in this way that the cost of economic development can be minimised worldwide.

On this optimistic note, I inaugurate the Tenth Annual General Meeting of the Pakistan Society of Development Economists. It gives me great pleasure to do so and I wish it all success.