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Inaugural Address

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It is gratifying to know that the Pakistan Society of Development Economists established in 1982 as a forum to discuss economic issues of national and international interest to Pakistan has successfully completed 16 years of fruitful work. Its deliberations have also made a useful contribution to policy formulation in Pakistan. The Society has made possible a meaningful exchange of ideas and experiences amongst academics, researchers, and policy-makers. The current meeting of the society is taking place at a time when the global economy is passing through a crucial stage of its history. The current year is the terminal year of the 20th century and provides a bridge between the last and the next millennium; it is a time to reflect on our past achievements and failures, and against this backdrop, chart out our course for the future.

During the 20th century, the world has witnessed many revolutionary challenges. Two world wars have taken place, causing colossal human loss; the world has been reshaped many a time, and so have the national boundaries; colonisation reached its zenith and then saw its downfall in the wake of the Second World War; there was the emergence of communism and then its collapse after 70 years; we also saw the twin birth of an international system for financial stability and development in Bretton Woods.

The next millennium will dawn with a huge backlog of multifarious problems and irritants as a legacy of the past. The new trading system recently envisaged under the WTO is being threatened by the strengthening of regional blocks like the EC and NAFTA. The developed countries are also dismantling national boundaries to form economic unions. The glamour of free market as a panacea for all economic ills has started waning and many countries are seriously constrained to continue with market-oriented reforms. The stubborn East Asian crisis, the Russian failure to cope with a planned transformation of its economic system, the persistent recession in the Japanese economy, and the Brazilian crisis have posed serious challenges to the global economic system, so that now serious thinking is being done to replace the Bretton Woods institutions with a new set-up to cope with the new situation.

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The Third World is trapped in a vicious circle of high indebtedness, low savings, abject poverty, and high unemployment. It is marginalised in global decision-making for economic management. There is a vast income disparity between the Third World and the First World because the global economic system is iniquitous, and there is a vast unrequited outflow of resources from developing to developed countries. Under one pretext or other, the developing countries are denied easy access to advanced technology. Continued deprivation of a major part of the world in sharing growth benefits with a minority of the developed countries in control of 80 percent of global wealth could ultimately become a source of instability for the global economy. Given the necessary good will, however, the advanced technology and the existing global resources, if equitably utilised, are more than adequate to banish poverty, a pathetic stigma of the 20th century.

Pakistan is making a serious efforts, as it always has, both at the national and the international levels, in advancing the cause of development. At the international level, it has been on the forefront to cooperate with the global community at strengthening the economic and financial system. At the national level, it is implementing a comprehensive agenda of socio-economic reforms aimed at strengthening democratic institutions, ensuring good governance, and promoting growth with economic stability. The agenda envisages creating a convenient environment to foster the dynamic role of the private sector in the growth process, attract greater investment, ensure greater incentives to foreign investors, scrap excessive controls and regulations while reforming taxation, liberalise the external sector, and integrate the economy with the global system.

The government of Pakistan has made good progress in implementing market-friendly reforms and global integration. Most of the controls and restrictions which had a distortional role in the economy have been done away with. The entrepreneur now enjoys complete freedom in making his investment, output, and marketing decisions. There is hardly any field-or industry-specific restriction on the investor. Discrimination between the local and the foreign investors has been eliminated and foreign investment enjoys “national” treatment. Trade sector has been largely liberalised. There is no ban or any major regulatory control on exports. All quantitative controls on imports have been scrapped, and imports, wherever necessary, are regulated through tariffs, which have also been slashed. Major reforms in taxation system have been implemented. The burden of taxation has been shifted from international trade to domestic consumption, income, and domestic activities.

Appreciable progress has been made in divesting of public sector units. There are some units yet to be privatised, because the appraisal of possible implications required deeper study and more time. After thorough assessment of the situation, a concrete plan has been devised for divestiture without compromising on the negative social fallout. Financial sector is being reformed and monetary policy has been given almost complete market orientation.

It is evident that we have exerted our expertise and resources on many fronts but the gains from our efforts have remained somewhat mixed. Implementation of the reforms has caused the country to bear their cost. There was a big structural change in the economy, and in transition the GDP growth suffered, the poverty incidence increased, and unemployment rose. Domestic prices came under greater strain. Large-scale industries have suffered heavily due to a steep reduction in tariff protection. Notwithstanding that, the record on the front of macroeconomic stability is good. Fiscal gap has declined from around 8 percent in the initial years of reforms to 5.4 percent of GDP in 1997-98. Trade deficit has come down from around 5 percent of GDP to 2.33 percent of GDP over this period. It appears that by consolidating the economic reforms, the present government has succeeded in mitigating some of the adverse impact of these reforms as reflected in the depressed GDP growth and the pressure on domestic prices. Consequently, the years 1997-98 has witnessed a rebound in GDP growth from 1.33 percent in 1996-97 to 5.4 percent, and a substantial fall in the inflation rate from 11.8 percent to 7.8 percent.

However, these successes hardly gave room to any complacency as two major disruptions gave a jerk to the economy. First, there was the East Asian financial turmoil in 1997 which adversely hit our economy. No sooner had we taken steps to overcome their effect than the economic sanctions were imposed on us by the developed countries, who were joined in this action by the multilateral financial institutions. That was unjustified as we had only exercised our legitimate right of self-defence, and deterrence, in response to the Indian nuclear explosions and threats. The sanctions disturbed our aid inflow, scared foreign investment, and reduced our credit rating, which in turn increased our cost of short-term, borrowing in the global financial market.

Very recently, the lending institutions have rethought their policy and taken some corrective actions. The United States administration has relaxed sanctions and the IMF has restarted the negotiations. Another way to say it is that the government has succeeded in negotiating an aid package with the IMF. This has not only allowed direct substantial support to the economy but has also given an encouraging signal to investors everywhere.

I think you would agree with me that our economy has an enormous potential for growth and offers good opportunities for profitable investment. It has a domestic market of 135 million consumers; we have a hardworking and industrious labour force which has established high standards of performance in foreign countries; we have a vast irrigated tract of land with large potential for agro-based raw material for industries; our economic policies are market-friendly and these offer generous monetary and fiscal incentives to investors. Foreign investors are allowed repatriation of their profits. We are one of the original signatories to the WTO charter. Most of the legal-economic infrastructure here is compatible with the WTO charter and the rest is being reformed in conformity with it.

I would also like to take this opportunity to share my current concerns with you, and I would hope that your discussions in this conference will take them into account. Our economy is faced with some structural problems which include persistent fiscal and balance-of-payments imbalances, huge national debt, low savings rate, unsatisfactory human resource development, and low productivity levels.

I have also noticed that the free market reforms have had adverse fallouts for various sectors of the economy. These have worsened income distribution and have hit the poor. In the process of these reforms, the structure of the domestic production base has undergone a change and unemployment has risen. Exposure to international competition has pushed many local industries into recession. A restrictive monetary policy together with a tight fiscal policy has squeezed budgetary spending on new development projects, and this has adversely affected investment on agriculture and social services. These concerns are our national concerns.

I understand that eminent economists from all over Pakistan and many other countries are attending this conference. This encourages me to expect that fruitful suggestions will emerge from your discussions not only about the issues specific to our economy but also about the global issues, which I call everybody's issues; in today's world no nation can keep itself isolated from the developments taking place in other nations. One could give a large list of such issues, but I would mention just a few now.

First, under the present new economic order which permits free mobility of capital across the national boundaries, financial turmoil occurs after a short while in one region or another. A few years back, Mexico was hit, and now East Asia is in its grip. Brazil's recession worsened recently; and so forth. It takes a heavy toll of the economies. And it requires answers to just two questions: How to predict it? And then, how get to out of it?

Secondly, related to the first issue is the question of checking capital flight and currency speculation in the emerging markets.

Thirdly, the developing countries faced with structural current account deficit in the balance-of-payments need a longer time-span to improve the situation, but in the meantime it becomes extremely difficult to maintain a stable exchange rate. So a compromise needs to be developed.

Fourthly, some countries have been discouraged by the severe fallouts of free market reforms and have come under public pressure to think about reviving the older economic models. Therefore, there is a strong need to restructure the new development strategy so that enormous human energy and resources wasted in the process can be saved.

Fifthly, in many countries, the economic transformation and the strengthening of democratic institutions have been undertaken simultaneously. And it has been a painful process, as the international environment of trade and aid has been made

more difficult for them and aid conditionalities have been hardened. The net aid inflow has steeply declined and indebtedness has gone up, while their debt servicing capacity has been reduced. The developed world should soften its attitude to these countries.

Sixthly, in the global economic management, the role of developing countries has been marginalised. The World Bank and the IMF work under the dictate of G-8. The WTO ensures more opportunities of growth to the developed countries as compared to the opportunities for the developing countries. Cross-border mobility has been allowed to the surplus capital of the developed countries but the surplus labour of developing countries has been denied a parallel treatment. This warrants a fresh look at the existing system of aid and trade so that an equitable partnership can be ensured. Certainly, better coordination is needed between the developing countries and the developed countries. I also think that the capability of the World Bank and the IMF to forestall the occurrence of regional financial turmoils needs to be improved.

I look forward to receiving useful suggestions and concrete proposals that may emerge from this conference. I sincerely appreciate the efforts that Dr Sarfraz K. Qureshi and his team have made in organising this Meeting. I am happy to inaugurate the 14th Annual General Meeting and Conference of the Pakistan Society of Development Economists and wish it great success.