

Keynote Address

**Prime Minister's 2010 Programme:
Bridge to the 21st Century**

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I. INTRODUCTION

It is indeed a unique opportunity for me to present this Keynote Address to this largest gathering of the development economists in Pakistan—a gathering keen to share experiences, and learn lessons, and bringing, I hope, new ideas to development, which remains a challenge. This meeting is taking place at a time when we are at the threshold of the Twenty-first Century. At this important occasion, we must not forget the vision of development given to us by the Father of our Nation.

On the eve of Independence, the Quaid-i-Azam held out a glorious vision for Pakistan's future, a vision of a prosperous and tolerant people, a responsible government free from corruption and, nepotism, and an enlightened society based on the Islamic values of justice and equity. That was the spirit of 1947. Sad to admit that fifty-one years later, Pakistan is nowhere close to that vision. The country's respectable economic growth and the phenomenal expansion of infrastructure have justifiably been lauded, but they have not helped to create a society that the founders had imagined. The society is still mired in ignorance, disease, poverty, intolerance, corruption, injustice, and backwardness, all attributes of non-development.

This is a sobering moment, but not one for despair. Rather than dwell on what might have been accomplished sooner, we must look to what can be, and will be accomplished with proper resolve, sound policies, and good governance. On other occasions, too, the Pakistani nation overcame overwhelming odds; its very creation and survival in the early years was seen by many as impossible but a shared moral purpose and dedicated leadership changed the impossible into the possible. Today, Pakistan again needs that winning combination: the Spirit of 1947.

Turn of the century is a time for both reflection and introspection. The close of the 20th Century is a time for us to reflect and recover our original vision, a vision based not on others' ideals, values, and histories. Although not the only element,

economic prosperity is essential to this perspective. The centre-piece of Pakistan's vision must be justice. Pakistan itself was born of the struggle of the Indian Muslim community for justice. Today, justice must be placed once again at the centre of the definition of the good life and justice for all Pakistanis, including women, minorities, and all other groups. First, the society must free its citizens from hunger and starvation; ensure equitable access to nutrition, health care, education, shelter, and employment; and guarantee the security of their lives and livelihoods. Second, and equally important, is the goal of tolerance—of opinion, belief, customs, values, behaviour, life style, and knowledge—without which societies can turn upon themselves, rendering futile all social and economic progress. The third goal is the pursuit of knowledge both for production and competition, as well as for its own sake. Fourth is the goal of entrepreneurship, not in the sense of an ability to exploit others, but rather as behaviour that innovates, produces, and serves society. If Pakistan is able to achieve these goals, I believe the fifth and final goal, prosperity, also will be attainable.

Pakistan's ability to achieve these goals—justice, tolerance, knowledge, entrepreneurship, and prosperity—depends upon the restoration of good governance. Many undesirable consequences flow from the current crisis of governance in that it sanctions corruption, misuse of power, and violation of human rights. The governance crisis results in a sub-standard quality of services, and it obstructs economic activity, eroding confidence in judicial and political institutions. It creates an atmosphere of distrust and paranoia, encourages extreme views and actions, alienates young people from mainstream social activity, and contributes to intolerance and violence. It leads to the suppression of information and undermines civic spirit and civil society. It creates a justification for oppressive laws and institutions while dividing society along linguistic, sectarian, religious, and ethnic lines. Finally, it places the life, honour, and livelihood of the weak at the mercy of the powerful.

The *Prime Minister's 2010 Programme* aims to realise the founding vision. Its immediate goals are restoring governance, doubling per capita income, and ensuring equitable access to economic opportunity and quality social services. To achieve these goals requires a broader definition of development, not as "catching up" (which focused almost exclusively on physical capital), but as "making things work"—with a primary, though not exclusive, emphasis on social and human capital. Pakistan's persistent underdevelopment no longer can be explained by a low endowment of physical capital, but by a low capacity to operate and maintain that capital effectively; not by a lack of institutions, but by a dearth of standards of behaviour that enable institutions to perform effectively; not by an ignorance of good policies (though many policies were less than ideal) but by the inability to implement such policies effectively; not by the paucity of laws, but by the absence of norms of conduct that prevent the misuse of laws.

The development experiences as well as the recent crisis of East Asian countries provide a rich array of lessons from which Pakistan can begin to model its own unique development path. East Asian successes in reducing poverty and improving income in a relatively short time frame rank among the more important lessons to be studied from their experiences. These comparable experiences cannot be used in their entirety as an explicit model for Pakistan to emulate, however, since they occurred within a vastly different global economic and political context. Still, the relevant lessons gleaned from the Asian experiences and the results, which emerged from the current analysis point to the existence of six key enabling conditions, which are necessary for Pakistan to achieve its 2010 vision.

1. A sound system of governance with political stability and a reasonably competent and honest public service.
2. High investment in education and research.
3. A culture of high savings, investment and exports.
4. The ability to take advantage of emerging international opportunities.
5. Responsible economic and financial institutions.
6. Collaborative partnership between the government, the private sector, and the citizens.

In keeping with the partnership approach, the *Prime Minister's 2010 Programme* has not been developed in isolation. Rather, it is based on extensive consultation with a wide cross section of stakeholders. This is the first instance in which an appeal was issued directly by the Prime Minister for ideas for the programme. The appeal resulted in hundreds of letters, faxes, and calls from people from all walks of life. Besides this, consultations and open hearings were conducted in Islamabad, Lahore, and Karachi with representatives of a wide cross section of society: academic scholars, journalists, NGO leaders, government officials, lawyers, politicians, and business leaders. Finally, the evolving ideas of the programme have been presented before audiences in a number of seminars and lectures around the country. The total number of individuals consulted thus far, directly or indirectly, runs into the thousands. Many of their ideas have been incorporated into the background documents for the programme. Such consultations will continue during the entire implementation phase to ensure that the programme does not lose direction, that it enjoys broad ownership in society, and that it builds upon the energies of the millions of Pakistanis who wish to see this country transformed into a model for ourselves and for others.

II. THE CONTEXT

(a) Pakistan's Socio-economic Record

The historical economic record of the last 51 years shows respectable but sub-optimal performance (Table 1). Real GDP increased 14-fold, but per capita income

Table 1

Pakistan's Economic Development Record

	1974	1998	Increase
Population (Million)	34.4	140	4.1
GDP (1959-60 Rs bn)	10.9	145.5	13.3
Per Capita GDP (1959-60 Rs)	316	1,039	3.3
Per Capita Energy (Kgs)	0.2	2.3	10.5
Electric Generation (MW)	25	15,304	611
Road Length (000 kms)	14	2,408	171
Vehicles (000)	12	3,800	316
Telephones (000)	12	2,750	228
Doctors	1,014	78,500	76
Hospital Beds	13,769	89,900	5.5
Primary School Enrolment (000)	544	15,850	28
Primary School Teachers (000)	17.8	346.0	18
Foodgrain Production (000 Tons)	6,000	24,895	3.0
Calorie Intake	2078	2579	0.24
Cultivated Area (000 ha)	14,520	21,990	0.5
Water Offtake (MAF)	63.9	133.3	1.1
Forest Area (000 ha)	3.3	3.6	0.1
Exports (US\$ Million)	444	8,628	18.4
Imports (US\$ Million)	319	10,118	30.7
Cotton Production (000 Tons)	194	1,562	7.1
Wheat Production (000 Tons)	3,301	18,800	4.7
Industrial Value-added	7.8	17.9	2.3
Literature Population (%)	13.0	40.0	2.1

Source: Based on *Economic Survey-1997-98*.

grew only three and half times, because of the quadrupling of the population. Still, the country has been able to feed the expanded population, with foodgrain production growing with increase in average per capita calorie intake. This was made possible by the green revolution combined with a 50 percent increase in cultivated area and more than a doubling of water offtake. In absolute terms, infrastructure growth was the most impressive: total energy consumption increased 36-fold (and in per capita terms, ten-fold), electricity generation capacity over 600-fold, road length 170-fold, number of vehicles 316-fold, and the number of telephone 228-fold.

The record in infrastructure improvement has not been matched in other areas. The weakest are social services, the environment, savings mobilisation, and exports. The poor social sector performance is explained in part by the low base at the time of independence when literacy was only 13.6 percent, primary school enrolment 16

percent, life expectancy 38.7 years, infant mortality rate 90 per thousand, and population per physician 75, 470. The corresponding figures for 1998 are significantly better but still unacceptable: literacy 40 percent, primary school enrolment 75 percent, life expectancy 63 years, infant mortality 97 per thousand, and population per physician 1,724.

The growth process has been accompanied by severe and accelerating environmental degradation. The loss of forest cover, and the adverse affects of environmental degradation on the health, life expectancy, and livelihood of people, especially the poor, is a matter of popular concern. Although historical statistics on forest area are not very reliable, various accounts suggest a massive rate of deforestation, resulting in a forest cover of below 5 percent of the total land area. Air and water pollution have increased dramatically, and threaten peoples' lives, especially those of the poor, the old, and the young. Soils are being lost to waterlogging and salinity, affecting agricultural productivity and rural incomes.

In the traditional economic sphere, the problem areas are savings and exports. The savings rate has hovered around 13-14 percent of GDP. It is a major improvement over the 2.5 percent in the early fifties, but is quite inadequate for the development needs of the country. The low savings rate has yielded low investment rates, which ranged generally between 16 and 20 percent of GDP. The government's narrow and inelastic fiscal base results in excessive demands being placed upon domestic credit and thus a squeeze on private investment. The solution chosen in the past was to supplement domestic savings with external official development assistance (ODA). But as ODA levels decline (and even reverse) worldwide, domestic investment will be squeezed even further.

Moreover, on the export side, performance is highly inadequate for the country's needs. Exports started at a low base of 4 percent of GDP, and have grown at only about 8.7 percent per year, rising to 13 percent of GDP.

To place this savings and export record in perspective, it compares poorly in every respect with fast-growing East and Southeast Asian economies, and in some respects even with the country's South Asian neighbours. Even the expansion of infrastructure, although dramatic when viewed in isolation, is far below what is possible and what is required.

The rate of growth in the manufacturing sector has been fairly respectable, averaging about 8 percent per year. Still, manufacturing is heavily concentrated in low-tech, raw material-based (especially cotton-based) production. Productivity growth has come mainly from new investment rather than dynamic improvement in management. There is a visible dependence on protectionist government policy, and significant industry resources are devoted to lobbying and influence peddling. High-tech, high quality products are a relatively small fraction of the total. These are produced inspite of an unfavourable institutional environment, namely an absence of

quality control skills and certification systems, access to market information, and a suitable trained labour force.

Infrastructure has been created. But that infrastructure has not made the government work better, nor social services improve—indeed, the quality of the resulting services has deteriorated. While some improvement in quality have begun to take hold in selected areas, the overall standard in most contexts is well below par—schools, colleges, hospitals, highways, railways, telephones. Maintenance is poor and uneven, operation and management are inefficient and non-transparent, there is virtually no attention to consumer needs or concerns, and institutions that set standards or perform consumer protection roles are weak or undeveloped. The preference for direct state control and monopoly has contributed to the inadequacy of social services; it inhibits complementary private investment, and encourages indifference to serve quality and customer needs.

This is related to the uneven improvement in the system of governance. On the positive side, after a long-period of authoritarian rule, the country has been able to establish a democratic polity, a judiciary that is becoming increasingly strong and active, a robust and entrepreneurial private sector, and an organised and highly motivated NGO sector. Yet, weaknesses remain. Government as well as the judiciary is accused repeatedly of corruption, inefficiency, and mismanagement; corporate governance (including institutions for auditing, accounting, monitoring, and financial intermediation) remains weak and underdeveloped; and collective institutions in every sector (e.g. business associations, professional association, trade unions, student unions, NGO association, political parties) tend to play only narrow lobbying roles rather than upholding collective public interests.

(b) The International Context

In the past, concern about all of the above mentioned deficiencies was based largely on principles of equity and human rights. Today, addressing these deficiencies is viewed as even more critical because it is widely recognised that they are linked to poor economic performance. Indeed, the link between governance, human development, and economic growth is becoming stronger in the changed international context. The advantage is shifting to better governed countries, and those that exhibit technological competitiveness, knowledge-driven and export-oriented production systems, and a generalised receptivity towards international investment. Conversely, countries with poor systems of governance, a limited base for technological adaptation, a lack of competitiveness and quality orientation, and an unattractive environment for external investment will be at an even greater disadvantage.

Pakistan's ability to progress in the next decade will depend critically on a proper understanding of the opportunities and constraints offered by the changing international situation. While this is a complex process, a number of salient trends

can be identified. *First*, international trade is expanding rapidly, and success will depend critically on the ability to participate in it. *Second*, the comparative advantage has already shifted from mainstream manufacturing towards knowledge-based industries. *Third*, private capital flows provide the bulk of international investment, for outstripping official development assistance; these flows bring in their wake the possibility of severe economic cost of inappropriate policies. *Fourth*, the international market has become more sophisticated, consumer demand more discriminating, and quality of goods and services more important. *Fifth*, production systems are also undergoing transformation, and the competitive advantage is shifting from assembly-line based mass production towards relatively decentralised production by teams or networks. *Sixth*, product life cycles have become shorter, the comparative advantage is shifting from one region to another at a much more rapid rate and competitive advantage has become the new foundation of economic success.

III. THE VISION AND THE FRAMEWORK

The *Prime Minister's 2010 Programme* is an effort to respond to the wealth of changes which are shaping the global environment, build upon Pakistan's economic successes, particularly in infrastructure expansion, and address problems that obstructed the growth process in the past. After considerable consultation, we have identified five areas as strategic entry points for policy consideration: the productive sectors (industry and agriculture), exports, science and technology, social services, and governance.

Prime Minister's 2010 Programme will have to demonstrate its effectiveness in conventional terms, namely in an increase in per capita income and quality of life indicators, and a reduction in poverty, malnutrition, and environmental distress. In aggregate terms, the goal of *Prime Minister's 2010 Programme* is to achieve a doubling of income by the year 2010 which, in turn, calls for an unprecedented rate of growth of the economy. The achievement of this goal translates into an average annual growth of per capita income of 5.2 percent which, given a projected population growth rate of 2.2 percent year, assumes an aggregate GDP growth rate of 7.4 percent per year. This compares with Pakistan's historical average growth rate of 5 percent per year.

While it is recognised that all sectors are important for a nation's progress, one sector must operate as a catalyst to ensure the economic growth required to achieve significant gains in per capita income. The industrial sector, in fact, historically has demonstrated the highest economic growth rates. In order to accomplish a doubling of per capita incomes by 2010, industrial growth (as opposed to GDP growth) will have to be on order to 9 to 10 percent per year, which can be produced only by an orientation towards international trade and exports, competitive advantage, customer satisfaction, dynamic productivity growth, and knowledge-based industry. Behind this shift in orientation lie a number of enabling conditions:

- A scientific infrastructure;
- A partnership between the state, the private sector, and the citizen;
- A culture of saving and exporting; and
- A system that ensures justice and equity, and protects the lives and livelihoods of citizens.

A central plank of the *Prime Minister's 2010 Programme* is the modification of Pakistan's development philosophy. Rather than simply striving for growth through expansion, *Prime Minister's 2010 Programme* focuses on improving the efficiency and deployment of assets already created. In other words, the new philosophy requires a shift from planning to policy; from development expenditures towards recurrent expenditures; from the quantity of infrastructure to the quality and productivity of its services. While the earlier philosophy focused on creating new "things" (physical capital, institutions, laws) at the expense of productivity, quality, maintenance and operation, *Prime Minister's 2010 Programme* retains the focus on investment in new capital and institutions but expands the vision to encompass the improvement, management, operation, and maintenance of existing assets. The investment in new capital will be the responsibility primarily of the private sector, while the public sector will limit itself to strategic areas. The economy and society are now robust enough that if the social demand exists, investment and supply will follow.

The primary responsibility of the government in this scenario is the creation of a favourable investment climate including;

- Communication infrastructure.
- A sound and credible financial system.
- Adequate and accessible credit.
- A simple, transparent regulatory system (through autonomous statutory bodies wherever possible).
- A transparent and effective tax and tariff system.
- A stable policy regime.
- A reliable certification system and planning system oriented towards indicative planning to assist investors in forecasting future economic trends.
- Collaborative policy-making, and
- Revamped SROs.

It will also include provision of information and technical assistance to industry in strategic areas, especially market intelligence services, information on government decisions and planning, and assistance for obtaining ISO certification. Besides these, the government would undertake targeted programmes for small- and medium-scale industry (including targeted vendor assistance programmes in collaboration with large scale industrial units), and to attract foreign direct

investment. In keeping with this clearly defined role, the privatisation process will help to reduce the government's involvement in the production process itself.

The functions of investment and marketing will be allocated primarily to the private sector. Even the minimal public sector involvement, justified by historical, social, or security reasons, will be patterned on market lines, and private sector representatives and professionals will be involved in their governance to the maximum extent feasible. Industry and trade associations will play a lead role in advising policy-making, and in promoting the collective interest in this process. Finally, civic groups will be involved in the protection of the interest of the consumer and the citizen at large. This includes matters of product quality, health effects, environmental impact, and impacts of the product as well as process on vulnerable groups: children, labour (especially female labour), and poor communities.

IV. POLICY IMPLICATIONS: BRIDGE TO THE 21ST CENTURY

The following six steps represent a conceptual framework for bridging the economy to the 21st Century by making the required shifts from the existing development philosophy to that embodied in the *Prime Minister's 2010 Programme* approach. Each step also encompasses a series of initiatives, which will have direct implication for Pakistan's near-and long-term policy-making strategy.

1. **From Distrust to Partnership:** The *Prime Minister's 2010 Programme* philosophy cut across all sectors: industry, trade, technology, social services, and governmental services. In place of the earlier philosophy of the government providing the main investment resources, the new strategy involves a partnership between the government and the private sector, with the role of the government restricted to services that cannot be provided by the private sector, the regulation and monitoring of private services, and ensuring the quality of services. This involves the strengthening of institutions of monitoring, certification, and rights protection in the government and civil society, supporting institutions for citizen involvement in decision making, and establishing a partnership between the government, the private sector, and the citizen.
2. **From Material-based to Knowledge-based Production:** A second shift requires a move from materials-based towards knowledge-based production. The international context has changed dramatically over the last fifty years, and competitive advantage has shifted from those with access to raw materials to those with access to knowledge. Pakistan must be prepared to operate in the new scenario. To this end, policy must guide investment into high tech areas, through support for information technology, technical education, incentives for knowledge production, provision of free and open

access to information, opening up credit markets to knowledge industries, and generally creating an enabling environment for research and technological development. Accordingly, *Prime Minister's 2010 Programme* includes a concerted programme for the upgrading of the science and technology infrastructure in the country.¹

3. **From Protection to Competition:** The third shift is from protection to competition in order to induce industry as well as providers of social services to innovate and improve their product and process continuously. To this end, policy will seek to ensure the orientation of production towards trade and exports in order to induce producers and service providers to internationalise the demands of the international market. The main policy instruments envisioned in the new strategy are creation of a level playing field so that all players have equal access and opportunity; support for quality control system (ISO certification, governmental monitoring, user involvement) for industry as well as social services and government; qualitative productivity targets (as opposed to quantitative performance targets); and dynamic productivity planning instead of static investment planning.
4. **From Consumption to Investment:** Fourth, a major obstacle against the realisation of high growth rates is the low level of savings in the country. *Prime Minister's 2010 Programme* proposes a concerted programme for the mobilisation of savings, including the strengthening of financial institutions, introduction of mandatory pension schemes, strengthening of stock exchanges, the gradual reduction of government borrowing, and the introduction of greater flexibility into private savings instruments.²
5. **From State-controlled to Customer-oriented Services:** Fifth, the new industrial and trade programme requires support in the form of an educated and healthy population, which implies an improvement in both the quality and quantity of social services. The primary reason for Pakistan's past poor performance in social development was not only the low allocation to the social sector, but poor deployment of resources, poor staff motivation, low return for quality services, a failure to enlist the participation of

¹Pakistan has to move in the indicated direction but not to the point where the knowledge based industries will weigh heavily in the economy 12 years hence; the important thing is that Pakistan cannot continue to have such a low level of human capital investments—it simply has to begin moving rapidly in the right direction.

²The thrust of this idea is not to suggest that the absolute level of consumption should go down. The idea is that the protein saved has to go up but that this should be in the context of growth such that consumption can go up too, but more slowly. Over the period to 2010, while we project savings going up by 5.8 fold, consumption would be rising by 1.9 fold.

citizens in the process, and incentive problems created by the politicisation of investment, site selection and staffing. Future programmes must redress these deficiencies. They must also involve a meaningful partnership between the government, the private sector, the NGOs, and the citizens, whereby the government assumes principal responsibility for primary education and health (including public health and maternal and child care), while the private sector and NGOs deliver the bulk of the effort at higher levels of service provision. This would involve a strengthening of the monitoring and regulatory machinery of the government, and the formal involvement of citizens in evaluation and assessment.

6. **From Crisis of Governance to Justice and Tolerance:** Finally, none of this would be possible without the creation of the appropriate enabling condition. The previous fifty years have seen several non-economic obstacles to the growth process, including corruption, policy instability, civic strife, oppression by state agencies as well as organised mafias, and a gradual weakening of the institutions of law and order and justice. Besides the direct impact on the rights of citizens, these conditions also create perverse incentives for investors, managers, workers, service providers, government officials, judges and lawyers, and political leaders. A central plank of the *Prime Minister's 2010 Programme* is to begin the process of restoration of governance, and to create a safe and predictable environment in which people's lives and livelihoods are secure, the rights of the vulnerable segments of society, including women, minorities, the poor, and the children, are protected against usurpation by the strong, and people are treated with justice and respect. Without these conditions, economic growth alone would be futile and of no consequence. Indeed, economic growth would be impossible unless these preconditions help create the basis of trust and tolerance in society.

Many of the above recommendations are aimed not at simple legal changes, but in deep-rooted changes in how the society works. *Prime Minister's 2010 Programme* involves changes in norms of conduct and standards of behaviour, and in values and customs. Such changes take a long time, but they respond to legal and institutional reform. In other words, the purpose of these reforms is not only the promotion of growth but also the creation of new norms, behaviour, and values that can ensure sustained growth, prosperity and justice. In short, it means the creation of a new society.

V. AN AGENDA FOR COLLABORATIVE ACTION

Prime Minister's 2010 Programme is about a massive agenda for reform. In every sphere, the reform effort will focus on why things do not work, and seek to redress the deficiencies. However, it is not a programme developed in isolation. It

has been prepared after extensive consultations with stake holders from all walks of life. The real goal of the programme is to give confidence to all these stake holders and mobilise their energies for the task at hand. Accordingly, even the implementation will be based on a system of continuous and detailed interaction with stake holders. It is a collaborative programme that will involve the government, the private sector, and the citizen as equal partners.

To this end, sector meetings are being organised over the next year in all major areas of interest: law and order, justice, population, health education, trade, industry, agriculture, exports, and science and technology. Consultations are being held in all major cities in the country, with representatives from the government as well as civil society to refine and improve the recommendations in an interactive manner. The results of these consultation have helped to identify concept champions, who are individuals prepared to give their time and energy to this task as leader, members of formal institution (such as steering committees), and those who will provide the background work on which decisions can be made.

The effort is backed up by a secretariat which has started undertaking policy research, provide advice, and support the advocacy efforts of the concept champions. This is a unique approach to social improvement. But given the massive agenda before us, this is the only one that can succeed.

Prime Minister's 2010 Programme is a call to all Pakistanis to join in the effort to transform the country into a model of economic and social success. It is a call for entrepreneurship and for the championship of social causes. It is a call for a partnership between the government, the private sector, and the citizen, and a call for venturing into new markets, new products, new technologies, and new ways of social reform. It is a call for establishing the rule of law and a system that ensures justice to everyone. It is a call for eradicating poverty and malnutrition and instituting the values of tolerance, mutual respect, and justice. It is a signal to establish new norms of behaviour and standards of conduct in order to create an environment of trust between the state and the citizen; between various nationalities, religions, sects, and men and women; between the worker and the capitalist; and between the buyer and the seller, in order to promote activities that maximise welfare and create social harmony. Finally, it is a bridge for Pakistan leading to the 21st Century as a knowledge—led, just, tolerant, enterprising and prosperous society.

It is a call to help realise the Quaid's vision of Pakistan and to revive the spirit of 1947.