

## Inaugural Address

SHAUKAT AZIZ

*Excellencies, Distinguished Guests, Ladies and Gentlemen,*  
Assalam-o-Alaikum and Good Morning

It is a privilege to be in your midst today in the Annual General Meeting and Conference of the Pakistan Society of Development Economists. This is the fourth time in my seven years of public life here that I have the opportunity of interacting with such a distinguished gathering of economists, academicians, and scholars at this forum.

I cannot help but think about my first interaction with this gathering 7 years ago. It was the 15th AGM of PSDE in November 1999. I had assumed responsibility as Finance Minister a few weeks ago and I took the opportunity to present a roadmap to this very audience. I am happy to return today to tell you what we have been able to achieve, the challenges we face and our plans for the future. I expect you—the research community—to help us in preparing better policies to support the progress that we have made so far.

The economists present here know the story of our progress intimately so I will not go into any details. You would recall that seven years ago, our country was in the middle of a major crisis. Our economy was in dire straits. The state of governance left much to be desired. We were also isolated with mounting tensions on our borders. We have come a long way since then!

Through prudent economic management and first generation reforms of fiscal consolidation, debt reduction, deregulation, privatisation, liberalisation, and transparent governance, Pakistan's economy has grown at an average rate of almost 7 percent per annum during the last four years. The sustained growth is now bearing fruit. Pakistan is attracting sizeable domestic and foreign investment. Investment as a percentage of GDP has grown to 20 percent—the highest ever in the last two decades. Foreign direct investment last year reached the highest level ever in our history.

I might also add that high economic growth has also started to impact on all segments of society. Employment has continued to increase and poverty has declined significantly by as much as 11 percent in rural areas and 8 percent in urban areas over the last five years. We are also seeing a growing middle class and a substantial rise in per capita incomes. Our financial reforms and privatisation strategy have led to a vibrant financial sector that is empowering the consumer for the first time.

*Ladies and Gentlemen,*

We have achieved this transformation of Pakistan through deliberate policy and prudent management. Our policy has been based on prudent macro-management and sustained structural reforms covering political, economic and social sectors. The focus of

Shaukat Aziz was Prime Minister of Pakistan at the time of the PSDE conference.

these reforms has been to transform Pakistan into a prosperous and progressive state, with a vibrant and dynamic economy being the catalyst for holistic change.

Our government is committed to good governance through transparency and accountability. Democratic institutions have been strengthened, while a deep-rooted process of decentralisation has been set in motion. We have a vibrant opposition, an independent judiciary and a free and vociferous media. Our democratic institutions are strong and have taken deep roots.

While we are conscious of the progress we have made, we also recognise that much still needs to be done to build Pakistan into a modern developed nation. We are, therefore, committed to a continuing process of reforms and have embarked on a second generation of reforms covering infrastructure upgradation, institution building and human resource development.

The theme of this Conference “Governance and Institutions” is highly apt and relevant to our agenda of second generation reforms. I must, therefore, appreciate PIDE and PSDE for their timely research initiatives seeking to illuminate the path of a determined and selfless government through patient and painstaking research.

Our agenda of second generation structural reforms has three prongs which are mutually reinforcing and predicated to achieving good governance and institutional strengthening:

- (1) We are committed to a market based economy. To this end we have been deregulating markets as well as improving supervision and regulation of markets to ensure greater competition. Following this approach we have developed one of the most vibrant financial markets in developing countries. We have also been developing deeper and more liberal agricultural markets by allowing market-based agriculture pricing, freer movement of commodities and introducing private sector in wheat operations. We have also developed markets in the media, energy, and telecom sectors.
- (2) We are also committed to developing policies and regulatory mechanisms that are aligned to global norms and also supportive of efficient markets. We have, therefore, adopted measures for better tax and tariff policy including better tax administration. Our Fiscal Responsibility and Debt Limitation Act of 2005 puts a check on the mismanagement of fiscal policy by future governments. And I might add that this policy is recommended by research at the frontiers of economics.
- (3) We want to build better governance through institutional strengthening of the public sector. While privatisation gets government out of the areas it should not be in, we also have to build a more capable and transparent government. As part of the drive to strengthen institutions, the government has already launched initiatives to modernise several of the key agencies of government. These include the judiciary, civil service, monopoly control authority and the police. This will of course be done by deepening decentralisation, developing greater transparency, utilising the latest technology and relying on a high degree of professional and technocratic management.

We are clear on these principles, but we need serious research to not only lead the way but also to continually assess our progress. It is in this spirit that I wish to share some thoughts with you.

Economic transactions are facilitated by the rule of law which requires a clear and transparent legal framework and efficient institutions for law enforcement. We need our researchers to research, discuss and debate the laws and legal frameworks that need to be put in place to facilitate transactions and growth.

I am told that our system of property rights and land titling is in urgent need of reform. Lack of clear land titles is a critical barrier to access credit. I have recently issued instructions for computerisation of land records in the rural and urban areas of Islamabad Capital Territory so that it can serve as a model for the rest of the country. Such an effort is already in progress on pilot basis in Lahore and few other districts of Punjab. Automation of land records and conferment of clean and clear land titles will encourage the use of land as collateral and generate economic activity. Is that enough? I leave it to you to research this issue.

Our legal and corporate governance frameworks too must conform to global norms. Commercial laws and regulations define markets and provide sanctity to market transactions while corporate laws define and protect the rights of investors in debt and equity markets. These laws need to be constantly updated so that the legal framework facilitates market transactions while protecting the rights of all transactors. We recognise that corporate and capital reforms provide impetus for sustained growth and have embarked on substantial corporate sector governance and capital market reforms. The Securities and Exchange Commission of Pakistan (SECP) has been actively pursuing a reform roadmap to develop an efficient corporate sector and capital market, based on sound regulatory principles. Code of corporate governance is being adopted and monitored across all public companies. We have provided security to minority shareholders and made efforts to bring transparency and better management and governance structures in the private sector. While this effort has done much to develop the capital market and build investor confidence, we still have a lot to understand and do.

While developing a modern legal framework is necessary, we also need to work on the quality of law enforcement. It is the enforcement of good commercial laws, rather than their mere existence, which encourages economic agents to engage in market transactions with each other. We have been working for some time on the ADB-assisted Access to Justice Programme. This is an ongoing and difficult reform programme. Access to justice including a fair and quick disposal of court cases is best viewed as a basic constitutional right. Efficient justice systems expedite economic transactions, ensure sanctity of contract, and protect the marginalised groups. We would like our researchers to review our justice system to determine areas of improvement. In this connection, I was glad to see from your agenda that you have a session on Law and Economics with both lawyers and economists presenting papers. I think that this is an important area for research.

The civil service reform is also an ongoing reform and progress has been made. We have been engaged in programmes for enhancing the capacity of our civil servants through training within and outside the country. We also have a Commission in place to develop more comprehensive and deeper reforms in this area. I am glad to learn that

PIDE is also working on civil service reform. We look forward to your findings. Several important issues need to be analysed in this context. What sort of a civil service system do we need for our new decentralised system? There is also a considerable debate on the incentive structure and the human resource management of our civil service system. The degree of professionalisation of our bureaucracy is another area that needs to be better understood. Finally, work processes and the role of technology also need to be understood. So there is a large research agenda that you can inform us on.

Our government took some key decisions to improve political governance in the country. Our key initiative was devolution of power in 2000. We have decentralised power to the local level to make government more responsive and accountable. Our real challenge is to devolve effective power, citizen empowerment, community-based accountability and financial autonomy to the lowest level of local government. It is indeed necessary to take decision-making and implementation systems down to the grassroots level to implement devolution in its true spirit.

A word on research now! In research it is important to be bold and inquiring while at the same time remaining relevant. I am happy to note that PIDE in its recent research has been striking some new themes such as the development of cities and domestic commerce. Indeed we need to think about cities and towns as development zones, and align our city management with this thinking. Let me also recognise PSDE's initiatives for reaching out to provincial centres, involving students from the non-metropolitan areas through a scholarship scheme to attend the Conference, and initiating prizes for the best academic paper in this conference as well as the best academic journalist of the year. I am confident that the last initiative will help raise the standard of economic journalism in the country. I urge you to keep up this innovative approach and you will have my support for it. And let me add here that the corporate sector and all segments of government should support academic associations like PSDE. This form of professional development through research based networking will bear fruit over the long term.

Finally, Ladies and Gentlemen, let me say that we too are guided by eminent researchers such as Nobel Laureate Douglass North who noted that "weak, missing or perverse institutions are the roots of underdevelopment". We in Pakistan would like to develop strong and hardy institutions that will put our economy on strong growth foundation. I might also add here that building strong institutions in all spheres—legal, economic, social political and administrative—is essential not only for economic growth but also for reducing inequality and poverty. The poor and the middle income groups are the most likely to benefit from well functioning institutions. Let us, therefore, all pull together to develop and implement an agenda of second generation reforms that provide the rule of law, political stability, economic progress, security of life and property, and an efficient, transparent and accountable government.

Thank you very much.