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The Presidential Address

Economic Sustainability in a Globalised World

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Mr Prime Minister, Patron of the Pakistan Society of Development Economists and Chancellor PIDE, Minister for Planning and Development, Ministers, Past Presidents and Distinguished Members of the Society, Excellencies, Ladies and Gentlemen:

It is my pleasure to welcome you all to the 24th Annual General Meeting and Conference of the Pakistan Society of Development Economists.

We are extremely grateful and honoured by the presence of the Prime Minister. On behalf of the members of the Pakistan Society of Development Economists (PSDE), I would like to thank you, Sir, for having spared your precious time to grace this occasion. I would like also to especially thank our guests who have come from different parts of the country and from abroad to participate in the Conference. We are heartily pleased to see here today many students of Economics and other social sciences from different colleges and universities of Pakistan who are just as eager as regular members to understand our subject better.

Let me join Dr Arif in especially welcoming Professor Yu Yongding, Professor John Mellor, Professor Siddiqur Rahman Osmani, and Dr Parvez Hasan, who will be delivering the Invited Lectures this year.

At the outset, on behalf of all members of the PSDE, I would like to recognise the support and encouragement of the Prime Minister as Chairman of the Planning Commission to the initiative taken by the Deputy Chairman and his predecessor Mr Salman Faruqui to actively involve professional economists in Pakistan in the process of economic policy-making. The new Task Forces on critical economic concerns and the Advisory Panel of Economists to frame the short-run and medium-term policies by the Planning Commission are democracy’s gifts to the economists of Pakistan. Democracy encourages independent thinking, accommodates diverse viewpoints, and thus makes it possible to evolve a comprehensive policy for all.

The Interim Report of the Panel of Economists on “Economic Stabilisation with a Human Face” was presented to both the Prime Minister and the President of Pakistan. Most importantly, the Prime Minister invited the Chair and Convener of the Panel to a Special Meeting of the Cabinet to present the Interim Report at the same time as the

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proposed agreement with the IMF was discussed. This gave the Cabinet an opportunity to weigh both the home-grown stabilisation package together with the proposed IMF agreement before finalising the matters. The process underscores the seriousness and importance the Prime Minister has attached to the work of the Advisory Panel of Economists and, I may add, to the Task Forces set up.

Let me assure you, Prime Minister, that the economists of Pakistan will rise to the trust you have reposed in us to meet the economic challenges that face Pakistan today.

And these are challenging times indeed. The current financial crisis has exposed a dark and unacceptable face of globalisation. The global economy faces its worst crisis and the largest contraction in 80 years since the Great Depression of the 1930s. The crisis has moved from Wall Street to Main Street and now encompasses All Streets as falling output, shrinking world trade and job losses hit countries—both developing and developed—all over the world. It is estimated by international agencies that world assets have dropped, in the current crisis, by almost one-third, or $60 trillion in value; $33 trillion have been lost on global stock markets alone; and property prices lost 40 percent last year. The ILO estimates that up to 50 million jobs may be lost before long.

The global economic crisis came in the wake of an unprecedented hike in world oil and commodity prices that spurred high inflation and created food shortages. In turn, poverty and malnutrition increased and drove food security issues to the forefront of the global debate.

But this is not just a global financial crisis that is now spilling over to the real economy, further reducing output and employment. It is also a crisis of confidence in the way markets in the recent past have been allowed to function, largely unfettered and unregulated, based on the mistaken assumption that markets are always self-correcting. The point is not that we return to planned economies. The primacy of the market in best allocating resources is well-acknowledged. What we need to put in place are good and better—functioning regulatory mechanisms that will help us avoid the pitfalls that we are now facing. Unfortunately, efforts in this direction are still in their infancy. They need to be more seriously pursued.

The global financial architecture has proved to be woefully inadequate, and needs reform. The IMF and the World Bank are increasingly viewed, especially in the industrialised countries, as outdated institutions. The former is seen to be powerless, the latter faces severe financial crunch, and its effectiveness is increasingly questioned. Both these institutions—and here I should include the Regional Banks as well—recognise the need for reform. Based on Pakistan's experience, we should contribute to this reform process as we remain heavily dependent on these multilateral agencies for funding.

In these challenging times the Conference addresses the crisis the global economy faces and what it means for Pakistan. The 3Fs crisis as it is now termed—the Food, Fuel, and Financial Crisis—will be examined during the Conference in the overall context of promoting inclusive growth as Pakistan faces serious internal and external threats. Let me briefly touch on these.

The first challenge pertains to ensuring food security for our people at a time when, despite the recent fall, global food prices are still higher in 2009 by 71 percent as compared to 2005. This secular reversal in the global terms of trade in favour of agriculture provides us with both an opportunity and a challenge. The challenge is to ensure that domestic supply outstrips demand through increasing profitability, productivity, and efficiency gains. The opportunity is to transform the world's largest canal-based irrigation system into a leading producer and exporter of raw materials, food grains, livestock, and livestock products. A key issue is the role the government should play in influencing agricultural prices in the face of extreme volatility in global markets. The other is providing food security, including direct income support for the poor and vulnerable groups, in the face of rising foodgrain prices that the move towards world prices will entail. There is a need also to examine the efficacy of the measures taken for free movement of foodgrains within the country. Finally, given global volatility in prices and supply, we need to build sufficient reserves to instill confidence in the market.

Our current energy crisis is a classical breakdown or disconnect between our development planners and our financial planners. The latter jump-started the economy post-2002 through a cheap or loose money policy that opened the floodgates of imports of automobiles and consumer durables, which sharply increased the demand for oil and power. Our development planners continued to project demand for energy, based on historical growth trends and consumption patterns. The result is electricity loadshedding that can extend up to 12 hours a day, crippling industry and services, agriculture based on tubewells, and untold misery to consumers.

The hike in oil prices and the failure of the last government to adjust fuel prices prudently created an unprecedented "circular debt" crisis, which we are trying to get rid off even today. This "circular debt" worsened the energy crisis as it meant generating energy below our available supply capacity. I believe that we should have given this problem (estimated at Rs 650 billion earlier this year, but now estimated at around US$250 billion) the highest priority and, with multinational and donor support, tried to overcome it head-on.

The energy crisis has brought out some fundamental problems and issues that we need to address. The first of these is not just the coordination between our financial and development planners, but the need to demarcate clearly the roles and responsibilities of the key players in economic decision-making, namely, the Finance Ministry, the State Bank, the Planning Commission, and the line Ministries. Concentration of economic power in just one arm of the government has created serious problems.

Secondly, we need to be very realistic in our expectations of resources that will be forthcoming, especially through private-public partnership and direct foreign investment in the energy sector; and this holds true for infrastructure development in general. Returns in this sector, especially, energy, are high, which should attract direct foreign investment. But we need to take a holistic view of the overall situation. Part of our current crisis stems from the fact that expected private foreign investment in the energy sector was not forthcoming. Government plans in this area should be subject to close scrutiny and discussion. This is the best check on how realistic they are and how well they may deliver.

It is still early to gauge the full impact that the global financial crisis will have on Pakistan's economy. So far, it has proved to be a mixed blessing. The decline in oil prices that it triggered provided much-needed relief to our balance-of-payments situation. Falling global demand, on the other hand, is adversely affecting our traditional exports, namely, textiles. Remittances have continued their post 9/11 upward trend and are expected to reach $7.5 billion this year. Global projections suggest that remittances will decline between 1 to 6 percent this year, with an adverse impact on domestic growth and poverty. If our remittances continue to be buoyant in the current downturn, it may suggest that it contains other flows than just traditional remittances.

In the context of the global financial crisis and how countries are trying to revive their economies, a key concern expressed is: Why is Pakistan trying to deflate its economy at a time when all others are providing a fiscal stimulus to reflate them?

The dominant, or at least the prevailing view of policy-makers at the end of last year, including that of the Panel of Economists, was that given our fiscal and trade deficit and extremely high inflation, we had to stabilise the economy through appropriate fiscal and monetary measures to compress aggregate demand or face default.

My own view is that we now need to re-examine this stance seriously in light of recent developments both globally and domestically. I believe that corrections can be made without jeopardising our international commitments. First, the money markets have sufficiently eased now to bring down the rate of interest, sooner rather than later, to rekindle economic activity. Secondly, we must frontload our development expenditures to inject demand into the economy so as to spur output growth and create job opportunities. My concern is that while other countries, through a fiscal stimulus, are rebuilding their vital infrastructure to emerge more competitive when the global economy picks up, we might end up with a depleted infrastructure further run down.

A silver lining in this difficult situation is the increase in support prices announced by the government, earlier for rice and now for wheat. These steps should act as a demand stimulus for the economy. For wheat alone, the support price increase should inject around Rs 60 billion in terms of the marketable surplus, with an estimated wheat crop of 24 million tons.

Also, inflation remains a serious concern. It should have shown a larger decline than what we are witnessing, given the sharp fall in global oil and food prices, which had spurred inflation earlier. While conceding that monetary and fiscal measures clearly impact on inflation, it would appear that in our case market rigidities and inflationary expectations are dampening this expected impact. Inflation appears to be more structural than just a monetary phenomenon, and the measures to reduce it need to be examined in this context.

Last, and perhaps most important of all, I turn to the issue of ensuring inclusive growth in our development process. There is now a large body of literature, including that on Pakistan, that argues convincingly in favour of strengthening the mechanisms and building transparent and well-functioning state institutions as the pre-requisite for achieving inclusive growth. It also shows, with strong empirical evidence, that growth that generates remunerative and productive employment is the most effective means of ensuring inclusive growth. In this context, the issue of increasing labour mobility, especially vertical or upward mobility, deserves more serious attention. Earlier on, state or government employment served as a means for upward mobility, especially for those from poorer households and more backward regions in the country. With primarily private sector-led growth and diminishing public sector employment opportunities, people from such backgrounds find themselves at a disadvantage; for now, even if they possess the educational skills they may not have the social skills, to find gainful employment that will meet their expectations. This is an issue which, to my mind, may lie at the heart of the problem that is driving young people towards extremism and violence. We need to examine carefully the ways and means of ensuring upward labour mobility, including the public sector channels, through internship programmes and, more well-functioning and efficient labour market.

It is a long and challenging menu that I have put forward. We look to this Conference for ideas and recommendations, in selected areas, that policy-makers can work with and researchers and analysts can further explore. This is not a time for timidity. Let us be bold in our thinking.

Let me in the end thank the Higher Education Commission, Department for International Development (DFID) and the Friedrich Ebert Stiftung (FES) for their support in organising this Conference.

I thank you all for your patient hearing.