

**National Policy Platform for
Competitiveness and Economic Growth
Preparatory Note for the Third Meeting**

By,

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Some broad reflections to help the Karachi deliberations

In some of my writings I have used the metaphor “perfect storm”, to describe the crises through which Pakistan is passing today¹. It is not only the rise of Islamic extremism that threatens the country. Pakistan’s policymakers also have to revive a badly faltering economy, while those active in the political field must provide the country with a durable political structure – a structure that gives prominence to the voice of the people. Pakistan must also make an effort to gain a presence in the international economic system, as the system is getting restructured with growing importance of large emerging economies in the policymaking process. But activities of the extremists pose for the country, what several influential public policy people both inside and outside the country have called, an “existential threat”². The extremists’ activities have manifested themselves in the form of open defiance of the Pakistani state. Terrorism is costing the country a great deal: in the 2009 Annual Report issued by the Institute of Public Policy, this cost was estimated at Rs. 380 billion, in terms of both the direct and indirect impact on the economy. In today’s prices and exchange rate this is equivalent to 3 per cent of the gross domestic product³.

The state of the economy and the situation of poverty

The economy passed one of its most difficult years in 2008-09 when the rate of GDP growth declined to less than 2 per cent. This means that in the year ending June 30, 2009 there was no increase in per capita income. This also means that there was a significant increase in the incidence of poverty in the country. While no firm numbers are available, Pakistan has some 50 to 60 million people classified as “absolute” poor. A large number of these are in the large cities, many of them young, producing a potentially explosive social and political situation. Unhappy youth is the fodder on which extremism feeds. It is disconcerting that some of the new recruits into the ranks of the extremists are from urban Punjab, a province that until recently was not involved in extremist activities. Alleviating urban poverty, therefore, is an issue that needs the urgent attention of policy makers both in the Central Government as well as in the Provincial Administrations.

For a country in Pakistan’s situation, any significant reduction in the number of people living in absolute poverty would require that the GDP increase at a rate that is two to three times the rate of growth in

¹ I have used this metaphor in several articles contributed to the pages of Dawn, most recently in “Where Pakistan Stands”, Dawn, Septmeber 29, 2009.

² This term was used by US Secretary of State Hillary Clinton first in her testimony before a Congressional committee and later in a press briefing as she expressed her government’s concern with the advance the Taliban were making in Swat and Buner districts of the NWFP.

³ Institute of Public Policy, *State of the Economy: Emerging from the Crises*, Lahore, May 2009.

population. According to the Government's assessment, such a rate of growth is not likely to be reached for several years. If the benefits from high rates of growth are not available, then the state must develop the means and the channels to bring relief to the poor. Some of this work has been initiated with the help of agencies such as the World Bank that have developed approaches to reach the poor. Some of the more successful programs developed and funded by the Bank are being implemented and monitored with the help of public policy institutions. An institution in Morocco, for instance, has developed enough expertise in the area of "poverty mapping" that it could be used in other countries of the Maghreb. This may be one area where our member institutions may want to concentrate as help begins to arrive in Pakistan from its foreign friends. At a "Friends of Pakistan" meeting held in New York in late September, the decision was taken to establish a trust fund to be managed by the World Bank to provide assistance to Pakistan at a difficult time in the country's history. My discussions in Washington with some of the World Bank's senior staff reveal that they are open to suggestions from the public policy community in Pakistan about the scope, content and modalities for this developing program. After we have done some preparatory work of our own, I would like to invite some of the senior managers from the World Bank to come to our next meeting.

The poverty situation has worsened in the large cities in particular. The large transfer of income from the urban to rural areas, as a result of the positive change in the terms of trade for agriculture has helped the agricultural sector, but the rest of the economy has stagnated. Islamabad must make a serious attempt to restructure the economy in order to place it on firmer foundations while putting the sectors that provide employment to the poor at the forefront. An important part of this effort should be to develop Pakistani firms in sectors that have the capacity to provide employment to the poor; who don't necessarily have a highly developed skill base.

Development of the Export Sector

During 2008-09, terrorism and its threat was one but not the only reason for the weakening of the economy. There were a number of other contributing factors, which could be traced back to public policies adopted during the time of President Pervez Musharraf. One of these was the neglect of the export sector. This resulted in the widening of the trade gap, leading to a pressure on external accounts. The resulting loss of foreign exchange reserves was at an unsustainable rate, which forced the country back into the arms of the International Monetary Fund in fall 2008.

How should Pakistan develop its export sector making use of the opportunities that have appeared? As discussed in my first note to the members of the Platform, public policy institutions in the country need to do some important analytical work in this area. The Government has established an institution in the Ministry of Commerce to undertake trade policy work. How can our member institutions work with the Government in this important area?

Household and public finance

Pakistan also needs to reduce its dependence on external capital flows. This will only happen if the country is able to increase the rate of domestic savings. This will require interventions in a number of areas; including education of the people on the importance of savings over current expenditures. As fertility rate declines in the country, families will look for greater institutional support rather than the traditional reliance on the members of the family. What are the appropriate institutions in Pakistan for filling this gap? To answer questions such as these, some of our member institutions need to develop the capacity to do work in the area of public and household finance.

Energy sector

Policy makers during the Musharraf period neglected the power sector in the belief that the elasticity of demand for electricity was of the order of 0.5 and that surplus capacity was available to generate supplies as the aggregate demand for power increased. Both assumptions proved to be wrong. In the summer of 2008, the country experienced serious power shortages which did not only severely inconvenience the citizenry, but also caused large economic losses. The above referred report by the Institute of Public Policy estimated that the shortages of electricity resulted in the loss of 7 per cent of industrial output and a decline of 2 per cent in GDP⁴.

International Economic Issues

Global economic downturn also contributed to the economic crisis that Pakistan faced in 2008-09. What many western economists are now calling the “Great Recession” caused capital to flow out of a number of emerging markets such as Pakistan. The collapse of the Karachi stock market in the summer of 2008 was a consequence not only of a weakened domestic economy but also of the outflow of portfolio capital. As discussed below, institutional mechanisms are being put in place that will address these issues at the global level but Pakistan remains absent from this dialogue.

Another challenge to which I would like to draw the attention of our group is in the field of international economics. The recent Pittsburgh G20 summit took the decision to have most future initiatives concerning the management of the global economy to be taken by this group of nations rather than the more exclusive group of eight – the G8. Pakistan is the largest developing country not included among the dozen nations that represent the emerging world in the G20. It has to work to gain admission into this group as well as in other policymaking arenas.

⁴ *Ibid.*

Political Development

Pakistan's political system is going through one of its regular convulsions. The difference this time is that the people have found their voice in numerous civil society organizations and through the independent media. It appears that it would be difficult for the various elites in the Pakistani society to once again bring the political system under their control. An effort was made in the waning days of the Musharraf regime to do precisely that, but it was resisted by the legal community which won the support of other groups. It appears to me that Pakistan has arrived at a new threshold; by crossing it, it will be able to enter a new political space in which the representatives of the people will have a greater presence. There are a number of Pakistani scholars who are independently reflecting on these developments without much institutional support.

What kind of institutional initiatives need to be taken to create the capacity to do work in the political area on a sustainable basis?

The issues needing our attention

These are some of the "macro" issues the country must deal with at this time. It is useful to keep them in mind as we plan our own work. I have asked some questions that could be addressed by some of our member institutions. Our emphasis, however, will essentially be on "micro" issues – how to increase the effectiveness of the Pakistani firm for instance or how to factor in the capacity to innovate in the Pakistani economy, or, again, how to develop human resources to build a modern economy – but these should be seen in the context of the larger issues that we must develop the capacity to deal with.

Reports on the commissioned work

Before we met for the first time in Islamabad, I wrote a detailed background paper spelling out some of the areas of public policy in which I thought that we as a community of institutions could devote some of our resources to. After a brief discussion of the areas I had identified, three were selected for further investigation, for which modest amount of funding was provided by the Competitiveness Support Fund. In this meeting, we will request reports from the three institutions that were provided support, as to the work that they have carried out in the intervening period.

Provincial issues

This is the second time we are meeting in one of the provincial capitals. Our last meeting was held in Lahore when we had the honor to be addressed by the Chief Minister of Punjab. In his address he spelt out the development priorities his administration was pursuing in the Punjab. He also indicated the areas of public policy in which his government would appreciate advice from the think-tank community. We hope to have a similar presentation from senior official from the Government of Sindh and from the administration of the city of Karachi. The Karachi presentation will be particularly important as it will highlight some of the problem a city of this size faces in Pakistan.

We don't have the analytical capacity to do serious work on the country's urban areas – on urban economy, on the social systems in large cities, on the interaction between city governments and provincial administrations, and on urban political systems. It would be useful to contemplate as to how and where this capacity could be developed. We will also have a larger representation from the think tanks operating in Sindh province so that we can bring into our system more institutions that are focused on the issues that are pertinent for the geographical areas in which they are operating.