



## **Realizing the Promise of Pakistan**

*Humayun Akhtar Khan*

### **ABOUT THE AUTHOR**

**Humayun Akhtar Khan** is Chairman of the IPR Board. His career spans the areas of politics, entrepreneurship, philanthropy, and the actuarial profession. He has a distinguished public service career. From 2002 – 2007, he was Federal Minister for Commerce. He was also Chairman, Board of Investment from 1997 – 1999 where he formulated a new investment policy to attract FDI. He has been an ardent advocate for empowering the middle classes and for infusing energy and purpose in political institutions. He remains deeply engaged in public policy. He is also the inspiration behind IPR.

### **ABOUT IPR**

Institute for Policy Reforms is an independent and non-partisan think tank established under Section 42 of the Companies Ordinance. IPR places premium on practical solutions. Its mission is to work for stability and prosperity of Pakistan and for global peace and security. IPR operations are supported by guarantees from corporate sector.

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*Mr. Humayun Akhtar Khan, Chairman Institute for Policy Reforms gave a talk at a Conference titled 'Ensuring Progress in the Pakistan of the Future' at Harvard College, Harvard University. The Harvard College Pakistan Student Association organized the conference. It was widely attended by academics and students of Harvard and of other institutions in the US.*

It is gratifying to see such an important event organized by the Harvard College Pakistan Student Association. I commend you on the excellent arrangements and thank you for making me a part of this event. I am privileged to be in the company of such a distinguished group and to be present in the hallowed halls of this great institution.

My talk today draws on my years of involvement with public policy, as a federal minister and parliamentarian, as well as during my period away from active politics. Recently, I have helped set up a policy think tank, the Institute for Policy Reforms, to dwell deeper in to national issues with the strength of an institution. Many of my comments today benefit from research at the Institute for Policy Reforms.

Participation in this event has provided me the opportunity to reflect on the journey that my country has taken since inception, and on its likely future course. Imprinted on the consciousness of every Pakistani of my generation are the ideals that formed our country. These are enshrined in the words of the founders of our country: words that not only moved millions, but also empowered them to believe in a better future and to take their destiny in their own hands.



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The founders of our country were people of wisdom, grit, and mettle. They had the courage of conviction to look in the eye of what was then an unassailable colonial structure. This conviction also guided their compelling narrative for a new homeland that was based on human dignity and the natural urge for prosperity and equality. They had no choice, but to part from the fractious and divided society around them. They were idealists, but their feet were firmly on the ground. Their dream did not include dogmatism or bias, but a belief in the well-being of the citizen and a life enriched by learning and culture. That is why they raised the call for a new homeland.

Sixty-seven years on, I am not sure if we have lived their dream or have realized the promise of that great moment. I must admit that my generation must take equal responsibility for the predicament in which we find ourselves. It is time for us to benefit from the fruit of the labour and sacrifice of our founders. To borrow an idea from the great American civil rights leader, Martin Luther King, the dream of the founders was like a promissory note and it is time we cashed the cheque.

Today, there are many among us and in the generation to come who are eager for change. Change is not just about bringing new policies though. Decades of pursuing the 'right' policies and responding to simple solutions, some of which prescribed by outsiders have not worked.

We know now that the rule of thumb approach is not enough and that policies must be relevant to context. They must come from within. We cannot merely 'privatize this or deregulate that' to quote Dani Rodrik. We cannot believe that an election or two would place us on an inexorable path of progress.

Real change touches the fundamentals of a society. It requires us to make important, but difficult national choices based firmly in broad consensus. We must crystallize what we recently have begun to discuss. Are we:

- A development state or a security state
- An ideological state or a progressive state
- An open or an insular society
- Must economic policies serve a small elite or the whole population

These are not questions between simple binary choices. For example, living in a tough neighbourhood, we cannot abandon security for the sake of development. The consensus will appear within the continuum of each dimension. Wide scale political participation and a free media allow the space for such discussion, but it needs guidance and vision of the political leadership. A shift in these choices, especially when they have economic and social costs, is not easy and entails political risk. Yet we know that this must be done to place Pakistan on the path of progress.

Change also means that our society fosters those norms that reform economic and political behaviour. Foremost among these, is to ensure uniform application of law. It requires that policies are well founded and the civil service have the ability to implement them effectively.

Change requires that our society become more open and pluralistic. We must shun differences that appeal to religious beliefs or to ethnicity and shape the national debate to set ideals and a higher national purpose. We must redefine nationalism so that it does not limit our worldview and become open to ideas and to the diverse cultures within and outside the country. We must be proud of our heritage, value it and conserve it, but not fear that it is fragile.

Achieving it all is easier said than done.

The first step to improvement is to be aware of the challenges. There are now myriad voices in Pakistan that call for change in these fundamental choices. Yet a call for change is not the same as its actual implementation. Many forces impede.

Those that resist cannot distract us. We have to:

- Become a progressive state
- Restore order and stability in our country and give to every Pakistani personal security that citizens of other countries expect as a matter of course.
- Educate our young population and provide our people basic human needs in order to make their lives fulfilling
- Achieve ever higher economic growth
- Provide our businesses reliable infrastructure and a policy and legal environment that empowers them as well as regulates in a just manner.

How will this be done? None of the above can be wished in to reality. We need the commitment of our political and social institutions to achieve these goals. That is why the title of your conference is so important. Ensuring progress in the Pakistan of the future requires that we place the country on a sound and effective course based on consensus, on the right choice and by strengthening our institutions. To quote Douglas North 'polities shape economic performance because they define and enforce economic rules'.

I move now to a subject that has absorbed us of late. As you know, transcending all our issues is the menace of terrorism in the country. Today, Pakistan is its biggest victim. To eliminate it we need a strategy that combines national will, state power, and parallel efforts for inclusion. The people of Pakistan have the fundamental right to live without fear.

The terrorists have played their cards well by weaving a story meant to obfuscate, rationalize, and scare. Politicians and the media have yet to come forth with their counter narrative. So far, they have failed to lead or to provide the ideas and vision that will stanch the narrative of the extremists. They have allowed the terrorists to frame the context of the discourse and have reduced their own role to reacting to the fine points within that context.

There is no higher value in a society than protecting the life of a human being and there is no greater principle of statehood than the state's monopoly on use of force. There cannot be compromise on either.

This is the iron frame on which to base the future economic and social progress of Pakistan. We cannot constrain ourselves by the false dichotomy between political and economic policies. Economic decisions are the outcome of political choice. Having said that, we must move from the level of ideas to those of policy and to their execution.

To address its many challenges, the growth rate of the Pakistan economy must increase. Growth must be based on three pillars: improved economic fundamentals, higher public and private investment, and increase in exports through greater competitiveness. Higher exports and foreign direct investment will fuel economic growth. Export growth is a key measure of global competitiveness. FDI can be the key stimulus to export growth. Pakistan's flat exports to GDP ratio is a surprise given the globalization of the last two decades. This requires focus on external economic relations and deeper international linkages.

The key to improved economic fundamentals lies in increase in tax revenue. Together with rationalization of expenditure, this will reduce fiscal deficit, and increase national savings. Improved economic indicators will re-build confidence in the economy, and give the government the springboard to enhance competitiveness by building infrastructure and by reforming policy for private sector growth. Increase in national savings will add also to the reservoir of available credit for the private sector.

Government's quasi-fiscal role in the economy such as through commodity operations and its direct borrowing from banks crowds out private credit. As for its quasi-fiscal role, we must start a gradual shift to market based solutions taking in to account food security risks and sustainability of small and subsistence farmers.

The Pakistan economy has many positives and even greater potential. It is possible to build on what we have achieved historically: robust economic growth rates, and reduction in poverty. We also have made remarkable progress in reaching food security.

We must stimulate further growth by capturing the potential that our society and economy offer. This potential comes in the shape of a young population, our geographical location, an enterprising and export-oriented SMEs sector, large known deposits of natural resources, and one of the largest irrigation systems in the world including the potential for quantum increase in hydropower generation. Pakistan has a strong network of economic relations and trade arrangements with many countries of the world, including with the high growth economy of the People's Republic of China. In future, we hope also to leverage our close political relations with USA in to an economic partnership.

The global economy is a force that has brought prosperity for many. There is no shrinking away from its reality. Pakistan should continue to build the network of trade and investment relations as well as work for multilateral progress.

At the same time, the Pakistan economy faces a number of challenges.

Foremost among these is the issue of energy shortage that has constrained our industry and inconvenienced our citizens. The energy sector suffers from the cumulative errors of flawed policies and weak governance. This sector needs attention through both short and long-term measures. The short term calls for making better use of existing infrastructure by enhancing production through increased energy efficiency of plants, by conserving and managing energy use, and strengthening governance for better cost recovery. These will incrementally increase supply and make existing generating and distributing companies financially sustainable.

It is necessary also to build investor confidence to attract investments in power generation capacity and to change the energy mix to lower average cost. Investors must receive adequate return and be rewarded for efficiency and accelerated completion of projects. Incentives alone will not work. Government must provide guarantees for risk mitigation. It is possible too to tap in to the enormous opportunity for run of the river hydropower. Unlike storage dams, it is possible to complete these in the medium term.

Other areas of infrastructure call for our attention.

To support industry, government must invest in logistics. Logistics support business efficiency and reduce costs. It is important though to move away from traditional investment methods. I visualize a coordinated approach based on public and private investment and with the latter fully involved in service delivery. In addition to physical investment, we need multi-modal connectivity, a network of energy pipelines, and services such as warehousing and cold chains.

Such a plan is in place and ready for implementation. Already, Pakistan has had success with private investment and management of our ports resulting in large cost and time efficiencies. Private investment in infrastructure and service delivery needs government support with timely approvals, a dedicated Viability Fund for financial close of marginal investments, and high-level supervision and coordination to cut through interagency issues.

A similar approach will guide exploration of the large natural resource potential. This is a possible game changer for the country. According to international and domestic estimates, Pakistan has one of the largest coal deposits in the world and the eighth largest shale energy potential. Pakistan also has rich mineral deposits of copper, gold, tungsten, chromite, and zinc among others. In addition to gas and coal, there are large deposits of other non-metallic minerals as well as precious stones. Exploration needs government support through technical studies, investment in infrastructure, and a supportive framework for attracting private investment and technology. Successfully done, it will generate rapid economic growth and will help disadvantaged areas.

Population and economic growth has increased water demand in Pakistan at a time when per capita availability has fallen. In addition to increase in demand, a combination of issues has caused scarcity. These include lack of storage capacity, an aging water infrastructure, climate change, and danger to our Western rivers from control on its flow in the hands of India. Storage and canal capacity are constrained for want of investment as well as from silting of existing dams. Equally, we need a robust water management programme that conserves water with large-scale drip, and trickle irrigation. Required resources call for increase in water rates for agriculture and household use, a subject that has so far seemed intractable. These rates are inadequate even to meet maintenance expenses leave alone provide support for development.

Earlier, I referred to the youth of my country as the potential resource that will leverage growth and bring dynamism to the Pakistan economy. A caveat is in order. Pakistan's population is largely young with one third of it below the age of fifteen. With education and training, their vast energy can be a positive force for change and fuel the fire of industry. Insufficient investment is rife with risks. A young population adrift could lead to instability and unrest. We must avoid this from happening at all cost. This requires large increase in public investment in education and skills training.

Similarly, it is unwise for government to continue to run public sector enterprises. World over these suffer from the malaise of political interference and lack of ownership. In Pakistan, most state owned companies need government subsidy. There is cause for caution though. Pakistan has had mixed results with past privatization, which is in line with the experience of many other countries. For it to be successful, privatization should be done well and with a lot of preparation. World experience shows that privatization succeeds where overall governance quality is good. No surprise then that it has worked better in high and middle-income countries. Regardless, we must exit from state owned companies, especially those that are in loss.

Done well, it will benefit the economy. I suggest that privatization must accompany greater competition, opening of markets, and removal of distortions as well as improved regulation. Where state companies are in profit, government may bring in new management to upgrade technology and to access new business areas and new markets. Transparency in transactions holds key to privatization or it will lose credibility. This requires carefully set criteria for selecting the new owners. Some cases will need right sizing of the work force. The retrenched workers cannot be left to themselves. In such cases, we must provide adjustment training or safety nets for them to weather the transition.

The Pakistan economy needs reforms in both the management of public finance as well as in key individual components. Improved public financial management that will increase total tax collection, rationalize distribution between direct and indirect taxes, reduce exemptions, and incentivize businesses will strengthen indicators and become the basis for rapid growth. Looking at the expenditure side, we must also correct the balance between expenditure on day-to-day government operations, on the one hand, and on public investment on the other. Immediate increase in investment in the areas of energy, water, mineral exploration, and in education and training is critical for growth and for stability.

Turning to external relations, Pakistan is committed to a stable regional environment and in continued peace in the world. To the East, it has two large, dynamic, but competing neighbours. To the North and West it shares a border with Afghanistan whose political and security structure is still evolving and is yet uncertain.

No country has been affected as much as Pakistan by the unsettling events of the last three decades in Afghanistan. Pakistan has the largest refugee population in the world whose presence has created friction both within the country and without.

We are concerned that the future of the region remains uncertain and given the extent of the fallout from events there, we have a legitimate interest to see how they unfold.

We are apprehensive about withdrawal of NATO forces from Afghanistan. This will likely affect that country's stability and has consequences for Pakistan. However the dice falls, it is important that the international community keep in mind that Pakistan has concerns and interests in the future of Afghanistan and in the Central Asian region. Given the likely effect on Pakistan, this is an irreducible position for us.

Our region holds great potential as well as high risks. It is the most dynamic in the world in terms of economic growth. Large parts of the population have emerged from poverty to become effective economic agents.

Above it all, the key to Pakistan's security and prosperity lies in our relations with India. The history of this relationship has been a case of one-step forward and two steps back the cost of which is borne by over a billion and half people of the two countries. On the one hand, Pakistan has just grievances based in international laws and accepted practices. On the other hand, it must not allow these grievances to fester at the cost of prosperity of the people. We do not want our firms to be at a disadvantage compared to those of others in the region. We cannot risk thousands of jobs that can benefit from exports to India's large market. I am sure there is enough wisdom and foresight in Pakistan and India to write a new script of gradual, but sure progress in all areas of our relationship.

Our relations with USA are marked by deep cooperation in some areas, but hindered by lack of trust in others. This moment when America distances itself from the turbulence of the last decade, is an opportunity to redefine the relationship. Recall that we have been fully successful in ensuring the real reason for our cooperation of the last decade, which was to prevent a repeat of the 9/11 tragedy. This is the time to move away from an alliance based exclusively on the single issue of Afghanistan or terrorism. We must base future relations to ensure regional stability and to manage the evolving dynamics in South and East Asia.

I have taken you on a journey of possibilities, potential, and challenges. It is a journey of what is, but also of how it ought to be.

I envisage a national effort to revive the country. However, the government must lead and meet its part of the bargain. We cannot have twentieth century institutions service the demands of the 21st century economy. We cannot be ambiguous of our objectives and hope to proceed on the right path. We must respond to the ambition of the youth of Pakistan and to the spirit and enterprise of our firms. We must provide opportunity to all Pakistanis and level the field for those on the bottom rungs. In this age of global competition, we must invest in our institutions and in our schools to compete and win the race for prosperity. In a world of constant change, we cannot stand still. When trade is global and capital shifts are instantaneous, we cannot perform from an old script.

The people of Pakistan have shown great resilience in the face of adversity. Where terrorists seek to disrupt and destruct, they ignore such threats and respond with enterprise and hard work. When natural disaster strikes they share, give, and rebuild. Our people give us hope and faith in the future revival of Pakistan and its continued progress. They infuse in us the belief that we will realize the promise of our great country and place Pakistan on a sure path of economic progress.

Thank you



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