ECONOMIC TURNAROUND AND SHAUKAT AZIZ

By

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It is not uncommon to find cynical articles appearing in newspapers, though infrequently, on Pakistan's economy. One such piece entitled ***"Snake oil"*** authored by Khurram Dastgir Khan appeared in ***'The Nation'*** on August 10, 2004. This was a strange article in the sense that it covered everything under the sun as far as economy and governance were concerned; but was devoid of any professionalism with baseless subjective arguments as its hallmark. The rhetoric was both venomous and contradictory with the final conclusion being that Pakistan's economy and society had not progressed but actually regressed over the past five years under the tutelage of Shaukat Aziz. In so doing, the author has questioned the professional capability of the staffs of International Financial Institutions like the IMF, the World Bank, the Asian Development Bank; United Nations Organizations like the ESCAP based in Bangkok; rating agencies such as Standards and Poor's and Moody's; international banks like J.P. Morgan, Deutsche Bank and ABN Amro; and international publishing houses such as Euromoney, Finance Asia, EuroWeek, Institutional Investors, etc. These institutions/organizations have published extensive reports on every aspect of Pakistan's economy eulogizing its successes and praising its reform programs. In fact, they have praised the economic team in salvaging a near bankrupt economy and placing it on a path of sustained higher growth and financial stability. To quote a few the IMF in its World Economic Outlook April 2004 writes *"Strengthening growth in Pakistan provides the opportunity for fiscal consolidation, accelerating structural reforms and improving institutions………..".* The Asian Development Bank writes in its Asian Development Outlook 2004 *"improvements in macroeconomic fundamentals, as well as recovery in the economy, were further consolidated in FY 2003. Given continued buoyancy in both domestic and external sectors in the first half of FY 2004, GDP growth is likely to exceed the government target of 5.3% (indeed GDP grew by 6.4%). It seems that the foundation has been laid for significantly higher growth ….in subsequent years".* J.P.Morgan *(January 2004)* writes *"Wide-ranging reforms initiated in 1999 have resulted in an astounding turnaround in credit fundamentals ……".* The ABN AMRO Bank *(January*

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2004) writes *"after several years of consolidation, we believe Pakistan is poised for acceleration in growth…… Pakistan's economic performance and prospects continue to undergo a strong resurgence on the back of favourable policy steps………"* Finance Asia *(February 2004)* writes *"on every ratio Pakistan is now beating even the best figures it achieved throughout the 1990s……"* EuroWeek *(February 2004)* writes *"Pakistan has an improving economic story with all its fundamental indicators going in the right direction …. Finance Minister Shaukat Aziz is excellent and has the right answers for most questions …….".*

One can go on quoting from various reports of international organization but time and space would not permit this. Either the staff members of all these institutions/organizations are incompetent as they were blind to the deterioration taking place in Pakistan's economy or the article entitled ***'Snake Oil'*** is just another example of the pessimism, cynicism and opportunism that exists in those who refuse to face the reality.

There are universally accepted norms for comparing the performance of two regimes which revolve around benchmarking. The article under discussion totally ignored *(intentionally)* the ground reality about the state of the economy that existed in 1999 and therefore failed to make any valid comparison of the last five years. Let me turn to the ground reality that existed towards the end of 1999. In other words, let me highlight the state of the economy that President Pervez Musharraf inherited when he took charge of the state of affairs in 1999.

It is a well established fact that the decade of the 1990s was the lost decade for Pakistan. While many developing nations made substantial progress, Pakistan lurched for one economic crisis to another mainly of its own making. Weak macroeconomic management and the lack of commitment to undertake difficult structural reforms were typical of the quality of governance. Appalling economic decisions hyped on populist slogans were symbolic of the freewheeling decision-making that led to the incurring of huge public debt. Commercial banks and other financial institutions became the instruments of political patronage and profit for certain sub-sections of society. The gross mismanagement of public sector enterprises *(PSEs)* like WAPDA, KESC, the Railways, the Pakistan Steel Mills, PNSC and PIA, further added to the problems. The freezing of foreign currency accounts shattered the confidence of investors and expatriate Pakistanis vis-à-vis the management of the country.

The persistence of large fiscal and current account deficits *(7% and 5% of GDP respectively)* and the associated build up of public and external debt *(over 100% of GDP and 335% of Foreign Exchange Earnings respectively)* emerged as the major source of macroeconomic imbalances in the 1990s. Failure in enhancing revenues consistent with growing expenditure requirements, stagnation in exports *(stagnated at $ 8 billion for six years in the 1990s)* and in overall foreign exchange earnings *(stagnated at $ 11-12 billion range for six years in a row in the 1990s)* exacerbated these imbalances and vitiated a stable macroeconomic environment. Such a state of affairs had a far reaching impact on the country's economic well-being. There was despondency among all, as many began to talk of Pakistan as a failed state. Indeed Pakistan witnessed economic growth slowing *(from an average of over 6% per annum in the 1980s to 4% by the end of the 1990s)*; investment rate decelerating *(from an average of over 19% of GDP to 15.6% by 1999);* the country's debt burden reaching alarming proportions *(public debt as a percent of GDP was over 100% of GDP and external debt and liabilities reaching $ 38 billion or 335% of Foreign Exchange Earnings – worse than many Highly Indebted Poor Countries (HIPCs)),* foreign exchange reserves plummeting to a level *($ 415 million on November 12, 1998)* hardly sufficient to finance two weeks of imports; poor governance beginning to be the norm; the country loosing its financial sovereignty; more and more people falling below the poverty line; and above all, the country was lurching from one crisis to another. The massive cost of debt servicing *(almost two – thirds of the country's revenue were consumed by debt servicing alone)* rendered fiscal policy instruments ineffective and the country's physical and human infrastructure began to show signs of buckling under the combination of a fiscal crunch, rising poverty and poor governance. A weak and fragile economy became the cause as well as the effect of the poor law and order situation in the country. This was the background of the state of the economy that existed in 1999.

In this backdrop of a grave macroeconomic crisis, President General Pervez Musharraf invited Mr. Shaukat Aziz to take charge of the Ministry of Finance in November, 1999. He very quickly assembled a team of highly trained economists and extremely talented civil servants. To address the issue of the severe macroeconomic crisis and place the economy on a path of sustained higher growth, financial stability, and improved external balance of payments, the economic team launched a comprehensive set of economic stabilization and structural reform measures. Stabilization policies were needed to stop the economic hemorrhage and dispel the gloom about Pakistan's future. The government believed that macroeconomic stability was vital for achieving higher and sustained economic growth, creating employment opportunities and preventing people from falling below the poverty-line. Wide-ranging structural reforms in almost all the key sectors of the economy were needed to enhance economic incentives, improve resource allocation, and remove impediments to private sector development. The Finance Minister felt that Pakistan's economic problems were structural in nature and the objectives of sustaining high growth, low inflation; external payment viability and improving the lives of the common man could not be achieved without removing these structural bottlenecks. It is with this view that a series of structural reform measures were initiated in such areas as privatization and deregulation, trade liberalization, banking sector reform, capital market reform, tax system and tax administration reform, agriculture sector reform etc.

As a result, Pakistan's economy started showing signs of improvement by 2000-01 well before 9/11. Can any one dispute the facts that large-scale manufacturing grew by 11.0% in 2000-01 against 3.6% in 1998-99; inflation declined to 4.4% from 5.7%; revenue collection increased to Rs.396 billion against Rs.308 billion; debt servicing as a percentage of total revenue declined from 64% to 57%; exports increased from $ 7.8 billion to $ 9.2 billion; the current account deficit was reduced from $ 2429 million to $ 513 million; foreign exchange reserves increased from $ 1.7 billion to $ 3.27 billion and external debt and liabilities as a percentage of foreign exchange earnings declined from 335.4% to $ 259.5%? These are undeniable facts and well-documented in official publications. These improvements had taken place much before 9/11.

The article under review argues that whatever achievements Pakistan has made on the economic front under the stewardship of President Musharraf are due only to 9/11 and the economic team had no role in these successes. Almost three years have passed since the events of 9/11 but the pessimists remain mired in the past. In the meantime the economy continues to gain momentum and its growth trajectory is steepening at an ever increasing rate. Is 9/11 responsible for the acceleration of growth to 6.4% and industrial growth to 17.4%? Can we attribute the **additional** tax collection of Rs.210 billion in 5 years to 9/11? Can any one deny the fact that it took 9 years *(1990-99)* to collect additional tax revenue of

Rs.197.5 billion while in 5 years the present regime collected additional tax revenue of Rs.210 billion? Should not we attribute these increases to reform in tax system and tax administration? Is 9/11 responsible for maintaining an average inflation of less than 4% during the last 5 years against double-digit inflation in the 1990s? Should we attribute the reduction in the fiscal deficit to 3.3% of GDP from an average of 7.0% in the 1990s? Or is this the result of prudent fiscal management? Is the sharp reduction in the country's debt burden due to 9/11? Or is this the result of prudent fiscal management on the one hand and efficient handling of the external sector on the other? Is the increase in exports to the tune of $4.5 billion during the last 5 years attributable to meager market access provided by the EU after 9/11? Or is it the outcome of the macroeconomic policies pursued over the last 5 years? Can any one deny the fact that it took 19 years *(1980-99)* to add $ 3.5 billion in exports but it took only 5 years *(1999-2004)* to add $ 4.5 billion? Is this unprecedented performance owed to 9/11? Can we attribute FDI of $ 949 million in 2003/04 as compared with $ 376 million in 1998/99 to 9/11? On the contrary, 9/11 has adversely affected the flow of FDI because of travel advisories issued frequently by Western countries. Could we attribute a five fold increase in the share index and market capitalization in the stock market to 9/11? Or is this the result of the strong economic fundamentals, prudent macroeconomic management and Shaukat Aziz being the country's Finance Minister?

I can go on listing the successes but I think I have made the point abundantly clear. Pakistan's economy has gained strength and its economic fundamentals have improved not because of 9/11 but because of prudent economic management on the one hand and the ingenuity, skills, determination and courage to take difficult decisions of the Ministry of Finance on the other. We Pakistanis have been so disillusioned by the Governments and Representatives of the past that, rightly or wrongly, we fail to realize success even if it is staring us in the face.

The present economic team under the stewardship of Shaukat Aziz has not only salvaged a near bankrupt economy but has put it on a path of sustained high growth with financial stability and considerably improved external balance of payments. In so doing, he has prevented many more millions from falling below the poverty line and suffering from lack of education, basic health facilities, safe drinking water, and shelter. Much has been done in the past 5 years. We are witnessing a decline in poverty and an improvement in social indicators. The recent up-gradation of Pakistan in the Human Development Index of the UNDP is a vindication of the policies pursued by the government in the last five years. Much more still needs to be done for which the Pakistani leadership is fully prepared. We encourage criticism but cynicism is bad for individual as well as for the country. We, as a nation, must learn to celebrate our successes.

In conclusion, the point of this retort to the aforementioned article is not to apotheosize Mr.Aziz. This is a person like anyone else who has strengths, as well as, weaknesses. But as upright individuals, we must give credit where it is due. The Finance Minister has not performed any miracles; he has just done what needed to be done. He was the right person at the right time and made the right decisions. In this case credit goes to President Musharraf who gave Mr.Aziz the flexibility and leeway to do what was necessary. There is an old saying that *'a leader is only as good as his delegates'* and in this instance, the President has shown his mettle.