



PAKISTAN

SHAUKAT AZIZ, Governor

It is indeed a great honor and privilege for me to address the Thirty-Fifth Annual Meeting of the Board of Governors of the Asian Development Bank (ADB) in Shanghai, the historic and commercial city of the People's Republic of China. Let me also join my colleagues in expressing my deep appreciation for the Government of the People's Republic of China and the people of Shanghai for their warm hospitality and for making excellent arrangements for the meeting.

We are meeting here at a time when the global economy is passing through a challenging phase of its history. Since we last met in Hawaii, the world has undergone cataclysmic changes after the tragic events of September 11. At the time of our last meeting the world economy was already slowing. The tragic events of September 11 and their aftermath aggravated the already emerging difficult situation on the global economic scene. By the end of 2001, the major growth poles of the world economy slipped into recession, causing serious damage to the economies of the developing countries. The latter have seen their economic growth plunge, and their export growth not only decelerate sharply but in many cases turn negative. Lower growth in developing countries would prevent millions of poor emerging out of poverty, at least in 2002. Instead, millions of people living below the poverty line would actually increase.

Being a frontline state in the war against terrorism, Pakistan experienced serious challenges on two counts. First, the overall slowdown in the global economy affected key economic indicators of Pakistan. Second, it witnessed disruption in normal trading activities, resulting in decline in exports, imports, tax revenue, foreign investment, and industrial production, and delays in privatization of major transactions. Indeed, the events of September 11 and their aftermath affected Pakistan at a critical time when we were expecting growth in revenues and exports to improve our fiscal and external accounts.

I am happy to say that despite these challenges Pakistan's economy showed enormous resilience. It successfully withstood many shocks coming from various sources, thanks to our structural reform program launched some two and a half years

ago. Despite many odds, Pakistan has continued to progress in many areas. However, there were some disappointments as well.

The most important achievement has been the improvement in the external account of the balance of payments. Against an average of more than 5.0% of gross domestic product (GDP) during 1995–1999, the current account deficit has been reduced to an average of 2.0% during the last two years. It is in surplus to the extent of \$1.66 billion or 2.8% of the projected GDP during the first 8 months of the current fiscal year. The surplus in the current account has helped us build foreign exchange reserves to a level beyond \$5.0 billion. The strong buildup in reserves has provided much needed stability in the exchange rate and has encouraged expatriate Pakistanis to send their remittances through official channels. The international environment has also helped in this respect. During the first 9 months of the current fiscal year we have received more than \$1.6 billion as remittances and we now expect them to cross \$2.0 billion by the end of the fiscal year. Inflation at 3.0% is the lowest in three decades.

Along with successes, we have several areas that need improvement. One of the challenges has been the prolongation of the catastrophic drought, which has affected agriculture for over 2 years. We were hoping that drought conditions would be over with a normal monsoon in 2001 but that did not happen. Drought continues to negatively affect our agriculture with water availability for irrigation purpose down by 30 to 40% from its optimal levels.

The second area has been the deceleration of export and import growth. The events of September 11 disrupted Pakistan's trading activities. Although the decline in imports has helped reduce the trade gap, this has seriously affected our tax revenues. Import-related taxes account for roughly 40% of our tax collection. The events of September 11 also impacted our privatization schedule.

While the events of September 11 created serious difficulties, they have also opened up new opportunities for Pakistan. We received grant assistance from our coalition partners to offset budgetary losses as well as support for the balance of payments. The Paris Club debt rescheduling has provided substantial debt relief to Pakistan. We believe that it has opened up avenues for Pakistan to remain on track with its debt strategy. We are mindful that debt sustainability will depend on the performance of Pakistan's macroeconomic policies. Here I would like, on behalf of the Government and people of Pakistan, to gratefully acknowledge the assistance in terms of grant assistance, technical assistance, trade areas, and debt relief that each one of you has given us.

These gains can help strengthen our economy, reduce the debt burden, reduce poverty, and improve critical social indicators provided we remain firm to our commitments and continue with strong structural reform programs. We have embarked on a journey of economic reconstruction that will bring returns if we stay on course. I would like to assure you that the President and the Government remain committed to the

structural reform program launched two and a half years ago. There is no looking back, no rollback of the reform program.

We have made significant progress over the last two-and-half years but we do not think that it provides any room for complacency. We believe that there are areas that need closer attention. Also, the implementation of some key reforms is still a challenge. We have not yet fully succeeded in raising investment levels and taking the economy to a higher growth path. This, I believe, is essential for fighting poverty. We have succeeded, to some extent, in restoring investor confidence. More is however required to improve the investment climate.

Let me dwell on the most important issue confronting the world today. There is general agreement that existence of widespread poverty in the midst of global prosperity is undeniably the most serious challenge confronting the world today. Poverty alleviation is no longer a national issue. It is high on the agenda of every nation, whether developed or developing. It is also high on the agenda of international development financial institutions, including ADB. It is regrettable that we have viewed poverty thus far, in the context of income poverty alone. We believe that poverty should be viewed in a holistic manner. Lack of education, basic health facilities, safe drinking water, sanitation, shelter, rule of law, access to justice, in addition to low income, give rise to the feelings of human deprivation, resulting in extreme behavior that threatens global peace and prosperity. The challenge before the world is, therefore, to fight human deprivation by taking a broad-based view of poverty.

Every developing country facing the challenges of poverty must have a credible poverty reduction strategy. We have developed our own and let me share the key elements of it. We believe that higher economic growth accompanied by macroeconomic stability is the best and a viable option for Pakistan. Growth is critical for poverty reduction because higher economic growth will lead to a greater absorption of labor, thereby increasing their income levels. Therefore, growth should be pro-poor and not growth per se. It is with this background that our Government has identified agriculture and small and medium enterprises as major drivers of growth, along with energy and information technology sectors.

You would agree with me that while growth is critical for poverty reduction, focus on growth alone is not enough. Where poverty is endemic, a high economic growth policy must be accompanied by direct poverty alleviation measures. This is the approach we have taken. We have launched several initiatives as part of our direct intervention.

Fighting poverty by a low-income country like Pakistan alone will be a daunting task, but with assistance from development partners the battle against poverty can be won. I am happy to state that we are witnessing some positive developments since the Monterrey meeting. The European Union countries have agreed to raise their development assistance to 0.7% of gross national product in a phased manner. The United States has raised its development assistance by 50%. We welcome these

initiatives. However, given the depth of poverty we believe that much more needs to be done to bridge the poverty gap, which in many cases exists because of lack of adequate and timely flows of economic assistance.

We believe that aid should not be used as a permanent crutch but as a means to allow the recipient countries to stand on their own feet. The recipient countries have therefore, enormous responsibility in this regard. In particular, raising the effectiveness of aid by creating a sound environment, an appropriate framework for investment, initiating structural reform, ensuring good governance, achieving high standards of transparency, eliminating corruption, and involving civil society are the prime responsibility of recipient countries. They should learn to walk on their own but they need assistance to get there. The motto of recipient countries should be “help us to help ourselves.” Both aid recipients and providers should be partners in development and the recipients should not be dependent on aid providers forever.

We do recognize that development assistance is not the only source of funding available. However, some concrete movement on debt relief for the developing countries and enhanced market access will go a long way to fight poverty in developing countries including Pakistan. There is yet another way to help developing countries in their fight against poverty. That is, denying safe haven to bad and plundered money anywhere. We need more concrete global action to curb money laundering, flight of capital, tax evasion, and illegal payments to bidders on Government contracts.

ADB remains our largest provider of external assistance for which I am grateful. I am also grateful to President Chino, the three vice presidents, the Board of Directors, Management, and staff of ADB for their valuable support and contribution to the development needs to Pakistan. Let me assure you Mr. President that for our part, we are trying to address the problems of project implementation, particularly the slow pace of disbursements and utilization of funds. We believe that the effectiveness of aid we receive from ADB should be measured by the outcomes and not necessarily by the quantum of assistance. This is the approach we have adopted in Pakistan.