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Keynote Address

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Mr Hasan Nawaz Tarar, Secretary Planning, Development and Reforms, Dr Asad Zaman, Dr Musleh ud Din, distinguished economists, members of the Pakistan Institute of Development Economics (PIDE) and the Pakistan Society of Development Economists, students, ladies and gentleman, it is indeed a great honour and privilege for me to open the PSDE's Conference, which has become an annual feature of the Pakistan Society of Development Economists. It offers us a great opportunity to deliberate on the challenges that our country is facing. Before I proceed with what I have to say, I would like to place on record my appreciation for the outgoing Vice Chancellor of PIDE, Dr Musleh ud Din, who has provided leadership to PIDE and has been instrumental in arranging this Conference. I would also like to welcome Dr Asad Zaman as the new President of the PSDE and Vice Chancellor of PIDE. I hope that under his leadership PIDE will touch, *In šā' Allāh*, new heights and become a centre of excellence, not only in Pakistan but also in Asia.

Being in a meeting of economists and a leading public sector economic think tank, I am reminded of an anecdote about an economist. A man was walking by a road in countryside where he saw a flock of sheep. He could not resist and said to the shepherd that he would like to make a bet on correctly guessing the number of sheep in the flock. He said to the shepherd that he would give him a hundred dollars if he were unable to guess correctly the exact number of sheep. But if he were right, the shepherd would give him one sheep from the flock. Shepherd thought that it was a huge flock, this person had to be crazy, so it was an easy hundred dollars and accepted the bet. Within a few minutes, the man said that these were nine hundred and eighty one sheep. The shepherd was surprised because the man was exactly right. He said he was man of his word and told the man to pick up any of the sheep. The man picked up a sheep and started to walk away. As he was walking away, the shepherd said he wanted to get even with the man and asked him to make another bet. He said that he could tell him exactly what his occupation was, to which the man agreed. He was from a far off place and thought there was no way the shepherd could guess his profession. The shepherd asked him if he were an economist from a government think tank. The man was greatly surprised because the shepherd was right. He asked the shepherd how was he able to guess his profession. The shepherd asked him to put down his dog first. The man had picked up shepherd's dog instead of a sheep! I hope it is not the case here and hopefully we have economists who can not only count the sheep exactly but who can also pick sheep from the flock and not a dog.

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Ladies and gentlemen, I am happy to note that the Society initiated in 1982 is continuing its tradition of promoting scholarly research and debate on critical socioeconomic issues that Pakistan faces. It helps to revive a tradition of exchanging ideas from which the country can benefit immensely. The 29th Annual General Meeting and Conference of the PSDE comes at a particularly opportune time. The country is in the midst of preparing the eleventh five-year plan, which is set to, *In šā` Allāh*, revive our economic fortunes after a period in which the Pakistan did not show a stellar economic performance. You would all know that until nineties, Pakistan maintained an average of almost five and a half to six percent GDP growth rate and during the same period India had an average of two and a half to three percent GDP growth rate, which in the literature was known as the Hindu growth rate. Unfortunately, the fortunes have reversed—we have adopted the Hindu growth rate and have passed on the Pakistani growth rate to India, which has been, since then, growing at an average of 6-8 percent. Therefore, we need to reverse our fortunes and not only go back to the old growth rate but must also surpass it.

You may be aware that the five-year plan is being prepared in view of the framework of a vision for Pakistan. The Vision 2025 sets out the broad goals that we would like to see the country attain by the year 2025 and describes the macroeconomic and sectoral strategies for attaining these goals. The vision is being articulated after consultations with a wide range of stakeholders, including a conference of more than 1,500 stakeholders last month. The Conference was chaired by the Prime Minister in which all the chief executives of the federating units were present, regardless of their political affiliation. It is a very positive step forward because we have demonstrated to the world that whatever our politics may be but for the future of this country, and for the development of Pakistan, we are a one nation and we have one vision. It is important for any country to have a vision or a strategy because, as they say, strategy without tactics is the slowest route to victory and tactics without strategy is a noise before defeat. Therefore, without a direction towards which we want to go, tactics will not take us anywhere and unfortunately in last thirteen years we have run this country without a clear vision about in which direction we need to go.

In the last thirteen years, we had no five-year plan nor did we have an articulated vision. Only one document was prepared but it perhaps only remained in the libraries of the Planning Commission. But at the national level, we did not have a shared vision, a direction, or a framework. If you go to a bank to borrow, say, fifty thousand dollars as an SME, the bank would ask you for your business plan, which shows that even banks will not lend you a loan unless they have confidence in your business plan. Therefore, a country that has no medium or long-term business plan and is run on a year-to-year basis, eventually meets the fate we are facing today. It is very unfortunate that nobody looked at the gaps, or deficits, that were emerging between the demand and supply in different sectors. We do not have just a terrible energy crisis but we also have terrible economic imbalances. Since the theme of this Conference is energy, I would particularly like to mention the major energy deficit that we have to tackle for our future development needs. However, the energy deficit is not the only deficit we have to address in order to put this country on a fast track of development. In my opinion, there are eleven deficits that we have to overcome if we want to put this country on a fast trajectory of growth.

First is the savings and investment deficit. A country that has such low savings and investment rates, and where savings are less than investment, can never have the resources it needs to finance its infrastructure development and development needs. One lesson from all the successful countries of East Asia is that they developed and promoted policies, which enabled them to achieve higher savings and investment rates, with their savings being higher than their investment rates.

The second deficit that we have to overcome is the fiscal deficit, which had gone as high as nine percent of GDP. No economy that has such a huge fiscal deficit can have a sustainable development or growth trajectory. In order to overcome this fiscal deficit we need to find ways to mobilise resources through taxation reforms. We need to put in place better policies to cut down wasteful expenditures in the government so that we do not run huge deficit, which is financed by more borrowing.

The third is the current account deficit. In the context of current account deficit, again we find that we normally have to borrow foreign loans to plug the gaps in our balance of payment account. All countries that have grown fast have focused on extraordinary growth in their exports so that they can have foreign exchange reserves that are not dependent on IMF tranches, inflow of remittances, or foreign aid. Rather, they have developed a robust, sustainable and dynamic export sector that is able to provide them with the foreign reserves to meet their needs of infrastructure development.

The fourth deficit is that of energy. We face energy deficit not to the tune of just about five thousand megawatts today, which is normally mentioned, but I would say there is a requirement for additional energy to meet the dormant demand which cannot be met due to energy shortage. If we want to provide more energy, probably there is a greater need to produce beyond six thousand megawatts. Moreover, it is not just today that we have to focus on but we also have to look for our future growth projections if we are aiming to grow at 7 to 8 percent growth rate. Therefore, we have to look at the extent of energy demand that we will have in the next 10 to 12 years. In addition, as it was pointed out elsewhere, we also need to take into account the kind of energy-mix we need.

The next deficit to me is the deficit in infrastructure. We did not invest in infrastructure in the past. During the past thirteen years, not many infrastructure projects have been undertaken in Pakistan. After the 9/11 incident, Pakistan was able to achieve very high growth rates because there was higher liquidity in the economy arising from huge inflow of remittances, higher foreign aid coming into the country, and relatively more liberal inflows by multi-lateral institutions. Unfortunately, that higher growth rate was driven by consumer economy and the inflow of money was not invested in infrastructure and productive sectors to create a more sustainable growth. In other words, the inflows were not invested in infrastructure so that it could be upgraded to take load of higher growth platforms. Today we think that it is the demand and supply issue in the energy sector. Even if we have twenty thousand megawatts by any magic, we do not have the transmission and distribution infrastructure that can carry twenty thousand megawatts. Therefore, there is an infrastructure deficit, or infrastructure gap, which we have to overcome not just in the energy sector but also in every sector, such as the railways and roads in the urban centres.

The sixth deficit that we have to overcome is in the housing sector. Our demand of housing is much greater than the supply of housing, which is creating problems in our

cities. Due to gap in the demand and supply of housing, our cities cannot become growth centres and our social conditions are deteriorating. People do not have basic civic amenities and in order to provide people with good quality of life and in order to turn our cities into real engines of growth, we have to address this housing deficit aggressively.

The seventh deficit is the human resource deficit. Unfortunately, in all our past growth track record, we have focused mainly on the hardware of development, such as building physical monuments of development, dams, transmission lines, etc. but we overlooked the social and human capital, resulting in huge human and social capital deficit. We are ranked 142nd in the human development index. No country can develop and grow today without overcoming the human and social capital deficit. Pakistan is one of those countries that has actually not improved but has gone down in terms of the nutrition of its people. About 44 percent of children face stunting, more than 15 percent of children face acute malnutrition and most of them face malnutrition in their first one thousand days. Malnutrition does irreversible damage to the learning and social abilities and if we have young people growing up with learning disabilities, we can never compete in this knowledge revolution age. This is the age of knowledge economy in which it is the brainpower that rules over the muscle power. We need a nation that has creative and innovative minds and if we do not have good quality human resources, we can never provide the engine of growth to our economy, which we need because these young minds are our most valuable assets. We can overcome the human and social capital deficit in our society by investing more in human resources.

The eighth deficit is the productivity deficit. Unfortunately, in every sector—whether it is agriculture, industry, manufacturing, or the services sector—we still have one of the lowest benchmarks for productivity. Hence, there is a great room where we can gain a lot without making, relatively speaking, strong investments in physical inputs. Just by improving our systems and process innovation, we can make great productivity gains, and that is a challenge we must overcome. We are, *In šā' Allāh*, planning to dedicate 2014 as the year of quality and productivity in Pakistan and launching a quality and productivity movement in all sectors of economy to overcome this productivity gap. Because of this productivity gap, we are facing a major competitiveness deficit, which may be termed as the ninth deficit. If we look at the competitiveness figures in World Economic Forum's report, we find that Pakistan is lacking and falling behind other nations in today's global economy. It is the competitiveness of an economy which matters and sustains the country on the path of development. Therefore, we need to identify and focus on the contributors and the pillars on which a strong competitive economy can be built.

The tenth deficit is the governance deficit, or governance crisis. Our governance model is outdated, due to which we are not getting the value for money we are spending in public sector and on public sector programmes. Our public sector management is lacking behind the private sector management, which has transformed and revolutionised the concept of service delivery. But in the public sector, the service delivery standards have deteriorated. We need to overcome the governance deficit by introducing performance culture in the public sector by leveraging newer technologies, such as e-governance, mobile governance and introducing innovations and entrepreneurial spirit in the public sector. We are also starting a major reform and innovation programme with

one billion rupees to encourage performance culture and also to promote innovation. We will set up an innovation fund for public sector officials who have innovative ideas to finance their projects so that we can bring a transformational change—a cultural change within the public sector through innovation.

Lastly, ladies and gentlemen, we have to overcome the confidence deficit. This crisis of confidence is mainly caused by our history. In this connection, however, I would like to submit through this Conference, with full respect, to the media owners and managers to please review their programmes. Though I am great advocate of media's freedom and admirer of the role the media has played in Pakistan for democracy and rule of law, but the news telecast and bulletins have become bulletins of gloom and doom and cynicism for the Pakistani nation. Indeed, there are things that are not right and it is media's duty to highlight all the shortcomings but it is not media's duty to dedicate the 90 percent of its news bulletins to negativities and the pessimistic view of this country. There is so much good happening in this country.

I was at the conference of the network of Pakistani entrepreneurs, OPEN, in Lahore. It was a pleasure to be in the company of a talented group of Pakistani entrepreneurs who have achieved success out of nowhere not only in Pakistan but also at the global level. Many of those Pakistani entrepreneurs have achieved great success in North America and have built huge empires. It is time to project these successful Pakistanis as role models for our youth and so that they understand and realise the good things happening in this country. There are many other positive things taking place in Pakistan. For example, there are so many innovations taking place and there are many scientists and researchers, who are conducting world-class research in universities today but none of those researchers ever get any space in the newspapers or any coverage on the electronic media. Today, sadly, all the people need to do to capture media attention is to wear turbans, hold guns or batons in their hands, go out on the streets and chant slogans. Or the media these days pays attention to the people like Sikandar, the odd fellow, who put the Blue Area in Islamabad under siege for a few hours. Unfortunately, the media never bothers to highlight the Pakistani scientists, economists and researchers who are winning laurels for the country internationally. The media needs to change its agenda and menu because we need to give the people of Pakistan self-confidence and hope. We are as good a country as any other country; we are not the most corrupt country in the world but we are only as corrupt as any other country and we are as honest as any other country. In short, we are a perfectly normal nation and people, so do not take away our confidence. *Al-hamdu lillāh*, you can see the change. There was a time when there used to be a corruption scandal every week on the media but now six months have passed and not a single corruption scandal has surfaced. *In šā' Allāh*, in the next four-and-a-half years not a single corruption scandal will appear because we are committed to having an honest and transparent government in this country.

Ladies and gentlemen, though I have many things to say on the energy crisis but I know there is a limitation of time, so let me just say that our challenges are known. It is not that most of our challenges are unknown or that there is any rocket science to fix our energy problem. We need to have actionable ideas and we need to overcome the knowing-doing gap that we have in this country. We need to have a roadmap that is both implementable and ambitious but that is also doable at the same time. The roadmap also

needs to have backing of all the stakeholders. I hope the forums like these where researchers, economists and other stakeholders come together will be able to give us, through research and knowledge, new insight and show us the way forward. The Conference should come up with the way forward to fix the energy crisis. Pakistan is still one of the lowest energy consuming countries in the world as one third of our population lives without electricity. In the today's world, electricity is a fundamental right of every citizen. There is no quality of life without electricity. I think it is our duty not only to supply and provide electricity universally but also at affordable rates.

Unfortunately, in 1994 when energy policy was formulated, nobody calculated what should be the cap on thermal based power stations. We reversed the mix between hydro and thermal electricity from 30-70 to 70-30. It was fine to have thermal-based energy when price of fuel oil was between 20 to 40 dollars a barrel but with 110, 120, or 130 dollars a barrel price, this mix is not a sustainable mode for us. Therefore, the government has taken steps to address the energy challenge on short-, medium-, and long-term bases. In the short-term, ladies and gentlemen, we have been able to put on line, additional 1,700 megawatts by paying off the circular debt and you have seen that it has enabled us to improve the load-shedding situation in the country. We have also made improvements in the governance by trying to plug the holes of energy theft in this country and we are launching a campaign against the defaulters to recover dues of energy companies. We have taken steps to promote renewable energy as a short-term solution because it is the fastest way to put up wind and solar energy plants. However, the problem with solar and wind energy is that it still has relatively high cost of generation. The cost is almost the same as the cost of furnace oil power generation. If we have to change to the cheaper mix, we have to go to hydel-, gas-, or coal-based power generation. We have run out of gas, so we are trying to develop Liquefied Natural Gas (LNG) terminals and we hope that by the next year LNG would be available, which will help us to ease the gas situation.

In short- to medium-term, our next option is to promote coal as a medium of energy generation, which is cheaper than oil and the Government has announced to set up 6,600 megawatts coal power project in Gadani. The government is developing Thar Coal so that indigenous resources can be used for cheaper electricity in the country. Similarly, along with Thar and Gadani coal power projects, we are replacing the existing thermal-based units with coal-based units in Jamshoro, which was based on furnace oil. We hope that these measures will bring down the cost of generation and in the medium- to long-term, our ultimate solution lies in harnessing the hydel potential with which Allah has blessed this country. We have started work on two mega projects, namely Dasu and Diamer-Bhasha dams and both will, *In šā' Allāh*, produce about 8,000 megawatts in the next five to ten years. This 8,000-plus megawatt capacity in the next five to ten years will help not only to provide for new demand but will also drastically change our energy mix. At the same time, we are doing the spadework on Bhoji dam, which will have capacity to produce about 6,500 to 7,000 megawatts. The government is also using nuclear energy as a cheaper mode of power generation and recently we have inaugurated 2,100-megawatt power project in Karachi, called the Karachi Coastal Nuclear Power Plant, which will be the biggest nuclear power plant in Pakistan yet. These measures, *In šā' Allāh*, are going to bring dividends.

At the same time, we should not just focus on electricity. Energy has a much wider connotation and one of our weaknesses has been that we have failed to take an integrated view of the energy picture. When CNG licenses were being given, no one paid attention to what was happening in the industrial and domestic sectors. As a result, today we have a situation that if we provide gas to CNG stations, we have to interrupt supply to the domestic and industrial sectors or vice versa. Therefore, this whole energy planning has to be integrated. We must look at our water resources, oil and gas resources, coal resources, and renewable resources and come up with an optimal mix that will provide us with the solution that is best and cheap. Moreover, the solution has to be “green” for the future because we have to be very conscious of emissions and the environment. I think it is a challenge for the planners and economists to give us a way forward that will optimise our resources, with which Allah has blessed us.

At the same time, we must not ignore the challenge of governance in the power and energy sector. We have to look at why we are going with privatisation of the distribution and generation companies. We also have to look at the kind of regulatory regime we should have so that NEPRA can play an effective regulatory role to avoid cartelisation in energy sector, just as the role the State Bank of Pakistan played in the financial sector when we allowed privatisation. State Bank was able to perform the role of a regulator effectively because of the reforms in the State Bank. Without an effective regulatory body, privatisation can also become a great menace. Therefore, if we have to reap the full advantage of private potential, we must simultaneously focus on developing effective regulatory mechanisms and bodies in the country so that the rights of the consumers are protected.

Ladies and gentlemen, energy price variations are set to affect industrial competitiveness, which will influence investment decisions and company strategies. Therefore, it is very important that we have an efficient energy sector and a renewed focus on energy. I am very glad that after my address, the theme of Dr Ilhan Öztürk’s lecture is on energy efficiency, which is an area where we still have large benefits to harvest.

Let me also say that when we look to the future, we should not ignore the innovation and the genius of mankind through technology, which will change our projections for the future. When we plan, we can do extrapolative planning in incremental mode, where we project the present and assume that the future will be like present. But, ladies and gentlemen, there have been disruptive innovations in the history of mankind where mankind has used its genius to create new ideas and technologies, which have revolutionised the every area of production. Similarly, recent breakthroughs in natural gas extraction highlight the speed with which game changing technologies can transform the natural resource landscape. Just over the horizon are electric vehicles with advanced internal combusting engines, solar photovoltaic system, and LED lighting that are benefiting from the convergence of software, consumer electronics and traditional industrial processes and each has the potential to grow by a factor of 10 in the next decade. Placing rapidly evolving technologies, such as these, on a resource cost curve is difficult but their impact could be very big or very small and that is even more the case for technologies that require significant scientific and engineering innovations to reach commercial scale at viable cost. However, there are five technologies that could start

arriving in earnest by 2020 or so. One is the grid scale energy storage due to which the concept of storage at the grid stage is going to undergo a revolutionary change in the coming years. Second is the digital power conversion. Third is the compressor-less air conditioning and electrochromic windows, which is going to change the whole energy efficiency landscape, fourth is clean coal, and fifth is the electrofuels and new biofuels, which again have great potential in energy sector. When we look at the future we must also look at the new technologies and the new trends, which have the ability to carry out massive transformational change in the energy sector.

In the end, I wish the organisers of this Conference success. I hope the outcomes will not be just theoretical but that these outcomes will have practical relevance for the future. I would like to request Dr Asad Zaman that we all need to work together and put up a research agenda for this country that has direct development and economic relevance. This is a society of development economists and we must produce research that will provide us with evidence and data to make better choices to ensure that we have maximum value for money that we spend in the public sector. It must give us research and ideas so that we are able to spot challenges and opportunities when they begin to emerge, rather than letting them become crises so that we have to deal with them in crises management mode. We need to deal with our future challenges and opportunities in a more proactive manner so that we become beneficiaries of change and create great opportunities in Pakistan, which is a land of opportunity, for our most wonderful resource which is the youth of Pakistan. I think if they are given right opportunities, the youth has the enterprise, intellect, vigour and commitment to take Pakistan to a path of glory, which it rightfully deserves.