WHAT HAVE WE LEARNT FROM THE DECADE OF 1990's?

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Countries who learn from their own experiences have a better chance of avoiding the same mistakes and move forward. I will, therefore this evening, take a comparative long-term perspective and juxtapose Pakistan in relation to other developing countries and its own experience of the 1990's. My hands-on involvement in restructuring of the economy during the last four years, in-depth analysis of the Pakistani economy as a detached observer and work experience with the World Bank for over 20 years makes it possible to share this unique perspective with you.

Let me first respectfully but forcefully disagree with those who believe that Pakistan is economically weak and fragile and is too much dependent on external assistance. It is true that in the 1990's Pakistan has not fared well in relation to its own potential or countries such as China or India but the historical performance of Pakistan over a forty-year period 1950-90 has been simply impressive. There are very few countries that have achieved average growth rate of 6 percent annually; low inflation, high agricultural and industrial output over such a long period of time. Consequently, the incidence of poverty fell from 46 percent to 18 percent by 1988-89.

On the basis of this exceptional performance over a long period of time, Pakistan has built in resilience to cope with exogenous shocks. Structural weaknesses of Pakistani economy are no different than those faced by other low income countries but still output has not turned negative in any single year or high rates of inflation have been recorded. As compared to East Asia, Latin America, South Asia region has remained insulated and secure from adverse consequences of external crisis.

Why has this happened? While the domestic capacity to produce goods and services has expanded secularly and on an upward sloping path, South Asian countries including Pakistan have pursued policies of hesitant liberalization, partial integration with the financial

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markets and overbearing regulation. Although these policies have a trade-off in so far as they have kept the actual output below the potential it has also minimized the sources of vulnerability that result in crisis. So we can see Latin American debt crisis of the 1980's, Mexican Tequila Crisis, Russian Crisis, East Asian crisis and Argentina, Turkey in the 1990's but the contagion effect on Pakistan was limited. China also falls in the same category but it is a more unique success story.

Pakistan's performance of the 1990s can be explained in terms of the rapid changes in political regime. In Pakistan, there is a tendency to attribute the success or failures of economy to the particular regime in power. This is a flawed way of thinking as it results in discontinuities and disruption to the path of economic growth which is already strewn with structural weaknesses. As we, as a nation, are very generous in criticizing and finding faults we exaggerate the failures and put the blame squarely on the government of the day. This agitational mood and feeling of dissatisfaction shortens the lifespan of the government and brings in a new regime in power. The incoming regime attempts to distance itself from the past policies and programs and discards all that was being pursued by the previous government. The new policies and programmes starting from scratch also do not come to fruition quickly and do not produce any tangible benefits for the economy and for the people. A vicious cycle is thus set in where political instability leads to macro economic instability that in turn feeds political instability.

As a matter of fact, it should be recognized that economic performance is a product of government policies, good or bad luck but by and large the response and efforts of millions of farmers, firms, self-employed and entrepreneurs. Government policies do make a difference in providing the enabling environment in which these private economic agents can take informed decisions to grow, invest, produce, exchange and trade but if this environment is constantly shifting with the changes in government it creates uncertainty and investment decisions are withheld. Once this happens growth slows down, unemployment swells and poverty rises.

It must be emphasized that the content of economic policies that have been pursued in Pakistan since 1991 by different regimes are almost identical. What has been missing is their continuous and consistent implementation with abrupt swings in priorities resulting in incomplete projects or cost overruns. In contrast, India continued the implementation of the reforms steadfastly and smoothly over a decade since 1991 and the changes in political regimes did not affect the path. The results of this strategy are obvious to all. Thus, we should all realize that critical success factors for economic success are predictability, stability, continuity and consistency of policies.

We can take a leaf from our own experience. Why has the financial sector been relatively successful in Pakistan? It is not because we have done any magic but continued the path of reforms initiated in 1991 and reinforced by Nawaz Sharif Government in 1997. The positive gains are beginning to show themselves and this sector is giving a big boost towards stimulating the real economy. In the coming years it will further strengthen. Had there been a reversal or interruption in the process we would not have witnessed the success that we are seeing today. Credit is being given to Pakistan and not to any single government. Had the present economic managers decided to discontinue those reforms and start something of their own they would not have achieved what is on the ground today and for which they are receiving accolades.

The lessons to learn for our political and economic managers from this experience and that of other successful countries is that political and economic stability are intertwined, that coherence , continuity and consistency in implementation of the policies and programmes set in a long-term perspective and a stable framework for economic decision making are critical to the turnaround of any economy.

African countries with conflicts, civil wars or frequent regime changes have suffered the most. Indonesia under Suharto, Malaysia under Mahathir, China under Deng, Jiang Zemin, Singapore under Lee Kwan Yu, Cote d'Ivoire under Humphrey Boigniy, Chile under Allende, India under three different political regimes have proved the validity of this lesson.