* Historical evolution of Growth and poverty reduction
* Constraints in Growth
  + Political instability
  + External developments
    - Afghan War
    - Indo-Pak relations
  + Neglect of structural reforms
* Pakistan’s advantages
  + Large middle class – urban, educated, hard working
  + Natural resources – Mining, Agriculture, oil, coal, gas
  + Strategic location
* Economic policies of the present government
  + Vision in 2025
  + Open, transparent, merit based governance
  + Fiscal prudence.
  + Exchange rate stability
  + Energy problem
  + Extremism
* International community’s response
  + IMF
  + Eurobond
  + ADB
  + WB.

**The Evolution of Pakistan’s Socioeconomic Situation**

**An Assessment[[1]](#footnote-1)**

**ISHRAT HUSAIN**

Pakistan is among one of the few developing countries that have achieved an average annual growth rate of 5 percent over a six decade period. Until 2007/2008, Pakistan was the third fastest growing country after China and India. But his fact remains unknown to the international community, at large. Foreign investors brought in as much as US$ 8 billion of their own money that year to invest in Telecommunication, Financial Services, Oil and Gas Sectors. Pakistan enjoyed a higher FDI/GDP ratio than its larger neighbor India, until recently. It is equally true that Pakistan has lagged behind other Asian countries and has not fully realized its potential.

There are many explanatory variables which can be hypothesized to explain this discrepancy. The most important, from my point of view as a Development Economist, was lack of continuity and consistency in economic policies for last two decades. When you have five elected Prime ministers and three interim ones followed by a three year military rule, five year of quasi-military rule and then two elections it is not surprising that the quest for political stability and economic policy continuity will remain elusive. The economy in the most recent past got derailed and went off its track for three reasons. **One** - the spillover of war in Afghanistan-- intensified since 2008 when thousands of Pakistanis lost their lives in suicide attacks, bomb blasts and other acts of violence. Foreigners stopped coming to Pakistan as travel advisories and high insurance premiums discouraged them from visiting the country. The US policy of Af-Pak linking Pakistan with Afghanistan instead of the traditional Indo-Pak along with the international media focusing exclusively on security issues also did a lot of damage to the popular image of Pakistan among the citizens of Europe, US and Japan.

**Second**, the transition from quasi-military to a democratically elected government in 2008 was not smooth and orderly. Lingering suspicion that the military may at some time or other displace the politicians created a general atmosphere of uncertainty that is not very conducive for investment. This did not prove true as the elected government completed its full term of office and was removed by the electorate of Pakistan as they did not perform upto their expectations.

**Third**, as the political government remained pre-occupied with its own survival, economic management and particularly structural reforms in taxation, tariff, trade, fiscal and governance got a short shrift. The economy that needed strong hands on the steering wheel while it was treading choppy waters did not receive the attention and focus required to remain on the course.

These three factors have been mitigated to some extent after the smooth transition from one elected government to the other in 2013. The irritants arising out of tense Civil-Military relations are being tackled in a constructive manner and the PM is personally engaged in smoothing the ruffled feathers as and when the situation so arises. Therefore political uncertainty has been largely mitigated compared to the past.

The war against extremism is being prosecuted in a more deliberative manner. While peace negotiations have been opened with the Pakistani Taliban, counterinsurgency policy has been put in place and legal instruments and processes to combat extremist elements have been fortified. The criminal and anti-social elements that had shattered the peace in Karachi – the financial and industrial hub of Pakistan – are being taken to task with firm hands. Operations in Karachi have reached the third phase and the success ratio has been relatively higher than in the past.

The good news on economic front is that the present government has right economic instincts towards businesses and private sector. It is openly committed to liberalization, privatization and deregulation. A long term vision is being developed while a hands-on strong Finance Minister is fully equipped and empowered to steer the ship of the economy to safe shore. The consultative process in which the stakeholders’ views are sought on various issues has begun to imbibe some confidence among the investors. Although the problems the country faces – energy, extremism, structural imbalances – are deep rooted and will take some time to sort out at least the government is proactively attempting to resolve these issues. The other factor that will boost the confidence is that governance is much better under the present government and transparency is quite evident in large important transactions. The recent successful auction of 3G and 4G spectrum licenses in which reputed international telecom companies such as China Mobile, Telenor, Etisalat, and Orascom were successful without any iota of suspicion being raised about this $ 1.2 billion transaction amply testifies to this improvement in governance structure. Such examples, if followed in other sectors and particularly in privatization of state owned enterprises , would be extremely helpful in obviating the past negative perception abut transparency, openness and merit based deals in Pakistan.

A question that naturally arises: what is so special about Pakistan compared to other 100 developing and encouraging countries that the French investors should opt for Pakistan?

Having recounted all the negativities that exist, let me now submit that there are six very persuasive reasons for locating investment in Pakistan.

**First**, during the last sixty seven years of Pakistan’s history, foreign investment has always remained safe and secure. While Mr. Bhutto’s socialist Government did nationalize a large number of Pakistani industries in the 1970s, foreign investment was not touched what to speak of expropriation. Pakistan has highly liberal foreign investment regime and you can remit your profits, dividends, debt repayments, royalties, technical fees etc. without any prior approvals or hindrances. Foreign investment is allowed in almost all sectors of the economy including retail sector where Carrefour and Metro are doing roaring business. Compared to other large emerging economies Pakistan has always been ranked much higher as far as policies and environment for foreign investment is concerned. In the World Bank’s Ease of Doing Business Index, Pakistan ranks higher than other South Asian countries.

**Second**, Pakistan has a large middle class of 60 to 70 million people almost equal to the population of France. They enjoy purchasing power equal to that of Southern European countries but their aspirations are even higher and their numbers are expanding faster. Rates of return on investment enjoyed by multinational companies operating in Pakistan range between 20 and 25 percent annually – a record that is unparalleled and matched in very few countries. So if your investment is safe and secure, you enjoy high returns and you are comfortable as far as liquidity and movement of capital out of the country is concerned, why would anyone give a second thought? Risks are high but rewards are even higher.

**Third**, the country has ample natural resources – minerals such as copper, gold, oil, gas, coal, agricultural fisheries and livestock – that remain unexploited and are operating below their potential. Pakistan has the world’s largest irrigation system but the output is not commensurate with this valuable input. The expertise, international experience and capital that French business offer can be brought together to maximize the utilization of these resources. Demand for energy, minerals and food is high both domestically as well as internationally. It is the supply side constraints that are impeding the process and French investors can help relaxing these constraints.

**Fourth**, Pakistan is known world over for high quality of its technical, professional and managerial resources. They are not only skilled, educated and internationally mobile but are relatively less expensive. I am proud to say that most of the multinational corporations and large companies in Pakistan are headed by the graduates of my institution IBA, Karachi. Like ENA in France we are the feeding ground for the corporates in Pakistan, the Gulf States, Singapore, Hong Kong, UK, USA and Canada. Pakistani Diaspora in the US has much higher per capita incomes than the local population. This demonstrates the energy, diligence and dedication Pakistani professionals bring to bear. French companies would have no problem in finding talent to run and operate their companies at a fraction of the price they would pay to the French expatriates who will be relocated to Pakistan.

**The fifth** advantage Pakistan offers is its strategic location. It has two large and dynamic economies – China and India – as its neighbours and can benefit from accessing to these huge markets and enjoy economies of scale in production and supply chain management. Although the economic relations with China are up and swinging there has been a serious rethinking in Pakistan in the last few years to normalize trade relations with India also. It is quite likely that some after the new government settles in India, Pakistan may grant non-discriminatory Market Access to India that in substance is the Most Favored Nation (MFN) status in WTO terms. Pakistan is also next door to Iran – another supplier of energy resources and is one and half hour away from the Gulf countries. The landlocked countries of Central Asia and Afghanistan can get access to international sea routes through Pakistan in the most cost effective manner. Should South Asia Free Trade Area (SAFTA) became operational the intra-regional trade flows would boost the economies of all the South Asian Countries. This large market can be accessed by French investors by locating their investments in various parts of the region.

**Finally**, the international community both official creditors - IMF, World Bank, Asian Development Bank – and private markets such as Fund Managers have given a vote of confidence to Pakistan since May 2013. They have not only provided financial resources but are also assisting the country in policy reforms that will set the country in the right direction.

For all the above reasons, it is my objective and dispassionate assessment that the French investors will be well served if they begin to consider and examine Pakistan as the possible destination for their investment. Historical record shows that they will not repent such a decision as the investment will remain safe and secure, returns would be high in relation to risks, future prospects because of the demographics and rising middle class are promising and the policy environment in Pakistan is improving. It would be misleading if I give an impression that everything is looking honky dory in Pakistan. Far from it, but a balanced evaluation of costs and benefits will lead you to reach, by and large, the same conclusion that I have shared with you this morning.

1. A paper presented at a seminar organized by the French Institute of International Relations (IFRI) at Paris on May 20, 2014 [↑](#footnote-ref-1)