

Inaugural Address

SHAUKAT AZIZ

Excellencies, Distinguished Guests, Ladies and Gentlemen,
Assalam-o-Alaikum and Good Morning.

It is a real privilege to be in the midst of such an august gathering for the fourth time in six years. Last night as I was preparing my remarks to come here I could not help but think about my first interaction in this very hotel in Islamabad six years ago. It was the 15th AGM of PSDE where in November 1999, I had been in the office for a few weeks, I took this opportunity to present a road map to this very audience. We have come a long way since November 1999. As I reflected last night, six years ago it was a very daunting, exciting and a very stimulating thought process. Six years ago the country was faced with many challenges. Today, we are also faced with challenges but different challenges. Six years ago we were in crisis management rather than economic management. Today we are in a different plane and heading towards a different destination. In my remarks six years ago I talked about the need for good governance, the need for structural reforms and the need for raising the quality of people we have engaged, i.e., increasing the human capital of the country and improving it. I do not want to spend too much time on where we were six years ago except to say that the country was in a debt trap, and we were living from crisis to crisis. We were in a balance of payment situation where the situation was precarious, our credit rating was off the charts, creditors were chasing us to be paid. I remember entering the MoF office every morning and suppliers, mostly foreigners, chasing us as to when we will be paid. So we were in technical default and so on and so forth. The fund programme was going from tranche to tranche. Why did a sovereign state of 150 million people end up the way it did six years ago and we still have a lot of work to do. We also had issues like IPP's impacting the investment climate in the country. We had a lot of litigation going as a result the deficits were huge and growing. Overall situation look challenging. At that time I had talked about the need for reforms.

But as you know Ladies and Gentlemen, the macroeconomic situation which was very challenging at the time had to be improved and has improved. But that

Shaukat Aziz is Prime Minister of Pakistan.

alone is not enough. Sustainability of the situation depends on credible, deep, broad based reforms. As was mentioned earlier, the only change today or the only constant in life today is Change. We must reform and we must continuously improve. Also, we are in our approach reactive rather than proactive. We did not step back and say why are we running from pillar to post to survive everyday? What can we do right? What did we do wrong and learn from it? It was crisis management par excellence. Here I would say with due respect to our creditors many of the programmes which came in had a lot of substance but did not focus enough on building ownership. So one of the key lessons we have learnt is that you must create ownership, when you reform or when you adjust an economy. So it was a bit of cookie-cutter approach. This is what you will do. These are the parameters take it or leave it. We said yes. We were desperate and then we moved on till the next tranche comes. We started negotiating again. Today by the grace of great Almighty Allah and the hard work of many people and excellent leadership and support provided by the President over so many years, because no team can succeed without the support from the top. He brought us in and he tasked me to lead the whole economic agenda of the country. We faced a lot of criticism and cynicism but it was all well intended, because we were trying to change. As most of us, we like to do what we have always done when you try to change the push back is very hard.

All of you are familiar with Newton's Third Law of Motion where every action has an equal and opposite reaction. In our case, sometimes every action has a disproportionately negative and a very cynical reaction. So to overcome this and Newton's Law of Motion if written today would have been adjusted accordingly. But let us move on. I was so excited listening to Dr Atta ur Rehman earlier, I think that if we have to start our careers again, we would all hope to be Professor under his guidance because they are paid very well. Yes, in my days as Finance Minister I had agreed to this because the knowledge gap is huge. The best investment you can make is investment in human capital.

Very briefly I will say, before I get in to the actual core of this gathering and seminar on human development and skill enhancement, that today we are feeling better but we are not complacent. We have come a long way. We are looked at by many countries of the world as the model of turning upside down an economy from a hopeless situation to one where there is hope for the future. But the worst thing in this situation is complacency, we are anything but complacent. Reform and change is like a terminal you never stop. You stop you fall. So you have to keep going and that is what we are committed to do. Today we have high growth and good position in international capital market. We have said good bye to the Fund Programme and regained our economic sovereignty. We are improving our social indicators though there is long way to go and we are reforming in every field—political reforms, economic reforms and structural reforms—because this is more essential or equally essential to get the benefits of economic growth going forward.

Now some of the challenges we face clearly are to maintain this level of growth. We had some over heating in the economy last year which we have tried to address through various means and I think largely successfully. But we have to watch it very carefully. This overheating puts pressure on the inflationary side, on external account and it was accompanied by oil price increase which created a lot of challenges for us. But we must look ahead. I see a major need in terms of challenges to improve the skills gaps. Pakistan, today, is suffering from a severe skills gap and I think the whole focus of the meeting today and next few days will hopefully give us very good insights in to what we can do to plug the knowledge and skills gap. Ironically, just to give a few examples, Pakistan is the largest supplier of construction workers to the world but we are short of construction workers in our own country today. Pakistan has supplied people in all disciplines across the world, who are doing very well, but we are facing shortages at home. I met a group of industrialists on Saturday in Karachi and I asked what is No. 1 challenge they face today. They said lack of qualified people. I also met the Presidents of all the Banks on Saturday. Same answer to the same question. When I met the contractors' association same comment was made. So what we are seeing is a lack of adequately trained manpower at every level. The reason is that we have not focused on the skills needed to develop the whole economy. We need many more PhD scholars we need trained economists and others but we also need basic skills and large population has to be trained in it so that they can find better future.

Ladies and Gentlemen: as I look back over the last 6 years and beyond now, we can say that we have to position the economy for further growth. Our target, as you know, is 6-8 percent growth and we have met it religiously and Inshaallah we will meet it again this financial year. Last year we violated it as we went over 8 percent. But the average will be between 6-8 percent and we are very sure that this will happen. The investment levels are very strong and we have changed the paradigm. We believe that it is not the business of the government to be in business. We have three major pillars/philosophies driving our reforms. There must be a philosophy in what you do otherwise you will change directions every so often. The philosophy we have followed is 'deregulation', 'privatisation', and 'liberalisation'. Now that was totally against the culture we had six years ago. Now I think, it is more acceptable but we have more work to do. We have to focus on our infrastructure. A lot of good work has been there. We have to deal with the aftermath of earthquake. We have to increase productivity and competitiveness and use globalisation as an opportunity rather than a threat.

Believe me, it can be done so as we look ahead. I see a more exciting and a more vibrant Pakistan, not free from challenges clearly. We have hard work to do and we are committed to get there and Inshaallah we will.

Now let me turn to what I have prepared for this forum. I thought it would be important to start with six years ago, today and tomorrow and look where we are

going. Now Ladies and Gentlemen, today is 21st AGM and Conference of this august body and it is only after a few months of catastrophic earthquake which shock the very foundations of the areas where it occurred. It has created an unprecedented and unplanned challenges for us. We are coping and we will cope. Relief and rehabilitation efforts will continue for a while. The human misery, sufferings and trauma which an incident like this creates will last for a very long time. So we have to deal with it and Inshaallah we will. We are thankful to the people of Pakistan, who stood up to face this challenge and to whole global community who helped us to meet the cost of this catastrophe.

We are determined to provide opportunity out of adversity. We will give people who suffered who lost everything in seconds which took years and generations to build and to come up with a better life and a better future.

Turning to underlined theme of this conference, Ladies and Gentlemen, Skill Development, Productivity and Growth, the three elements are interlinked. Today, our macroeconomic indicators, as I mentioned earlier are moving in the right direction and Pakistan's economy is sound and strong, despite a lot of internal and external challenges and shocks. The major shock were the earthquake and the international oil prices. Our economic philosophy, as I mentioned earlier is based on deregulation, liberalisation and privatisation, consistency and continuity of policies, clarity and transparency of policy and dynamism of the private sector. Getting the private sector going and changing the paradigm by restricting the role of government to policy making, having independent regulators regulating each aspect of what is deregulated and then giving private sector a reason to grow.

Deregulation does not mean abdication by the government. This is often misunderstood in many countries where I have interacted. Deregulation does require the government to stay at top of the situation but not try to micro manage every aspect of the economy. Ladies and Gentlemen, you would also know that corporate profits in Pakistan are all times high and there is virtually no enterprise which is not expanding and growing. New investment, including foreign, is all time high and that is what is creating a bigger skill gap because the need for trained manpower is made further acute and as such we need to come up with good recommendations. So they can be implemented. Now surely, we will continue to follow this path of reforms, prudent fiscal and monetary policies and see how the growth paradigm will carry us forward. Let me turn to the skills development and productivity. The first and second element of theme of the conference. We recognise that an efficient and innovative economy is critical if we are to achieve sustainable growth and prosperity for our country. We understand that the real key to sustain higher growth is higher productivity. It lets businesses pay higher wages while keeping costs down, employment increases and profit margins also rise. We care about productivity because it is critical to our national standard of living. It is the only way we can improve. While high productivity is absolutely essential for higher growth it is not an

isolated phenomena. Clearly several factors impact productivity. These include education, skills, training and technology that is available to the work force. The organisational environment and management practices that prepare the work force to compete, innovation that implies generation of new knowledge, improving technologies and reengineering of processes that lead to continued growth of output per unit of input. Here some of the ideas presented earlier by Dr Atta ur Rehman can really help us and get up the innovation curve and I totally subscribe to his views. The operational physical infrastructure such as highways, public transit and transport facilities, power, water, pipelines, railways and communications all play a key role in creating a productive and efficient economy. These determinants are, in turn, influenced by broader factors such as macroeconomic policies, competition, openness to foreign trade and investment and efficiency of financial markets.

I might mention here that one of the major change in Pakistan in last six years is total openness for investment from any where in the world. No sectors are taboos, no level of equity is restricted, you can do what you want because the worst thing in my view, many of you I know will not agree to this, is to tell private sector what percentage of equity they can have, what should be local and what should be foreign. These are yesterday's ideas. Tomorrow's ideas is come, we give you a level playing field, and compete. This is our policy. This is our regulatory agency. Now work within this paradigm. That is the way world is moving.

We have to change also. Making profits is the only way to generate more investment. If an investor does not make money you can not expect them to invest more. That will give people better wages, better living conditions, better growth and healthier society. So Ladies and Gentlemen, we believe that integration into the global economy represents both the comparative challenge and a tremendous opportunity. Technological advances will allow markets to expand as never before, capital is flowing across geographical boundaries and continents and to places where they think the return is high and where they think the margins are better. Rapid improvements in production technologies have changed the complexion of the labour market not just in Pakistan but also all over the world. Underline this change in the labour markets is an increasing competitive environment in which most companies find themselves today.

Given deregulation and global competition and resulting limits to pricing by many more industries, businesses are focusing more on bottom line and aggressively searching for ways to improve their efficiency and their profitability. They are asking what each unit within the company is contributing to the value of the firm. Everybody have to support themselves and this is the paradigm which is followed all across the world. The tremendous pressure of competition is forcing countries and businesses to move from labour intensive to technology intensive and skill intensive industries, shifting resources, expanding with higher value added activities. Employers increased emphasis on retraining and continuous learning has made it

difficult for the workers with less education and low skill level to adjust to the knowledge based economy. There is no longer such a thing like unskilled job. The workers of today and tomorrow need to know how to learn so that they can continuously improve their skills after they have left their educational environment. Therefore, the need for critical changes in our educational system including technical and vocational skill development and training is assuming greater and greater significance.

Ladies and Gentlemen: we must realise that innovation and knowledge of a highly skilled work force are the economic edge of the 21st century. Consequently, when we talk of strengthening education and skill of our people, we mean strengthening of our economic competition and comparative advantage. We have huge human capital with ingenuity and innovativeness. All they need is skills and opportunities to harness their full potential. Towards this end, we as government are fostering out of box thinking across the spectrum of the government, non-government, industrialists and businesses to identify, preparing businesses for unforeseen shocks, providing freedom, security and hope for the present and future generations. Providing opportunity to all people for healthy, productive and fulfilling lives and serving as enablers for efficient resource allocation. More specifically, our focus has been on concrete actions to enhance our productivity and skill development, such as establishing the National Technical and Vocational Training Authority bringing all federal technical and vocational training institutions under various ministries under one umbrella to upgrade skills of our work force. This will be more on the lines of Higher Education Commission (HEC) for vocational and technical and skills training. Sustained increase in investment in higher and technical education, ambitious new skill targets, promoting IT cities and software technology parks and such other infrastructure to enhance productivity, pursuing up gradation of our industry absorbing the revolution in technology and seeking expansion of our value added sectors, building national trade corridors, up grade our infrastructure, modernising our ports, shipping and railways and establishing a world class logistics chain to support accelerated growth, investing in human capital, promoting the social sectors, in particular health, education and population planning, providing clean drinking water and preventing water borne diseases like Hepatitis and fighting malnutrition, accelerating the creation of knowledge with special emphasis on science and technology, reforming and automating our tax regime, risk based audit and reducing the cost of doing business and of course strengthening our institutions, improving the competition of our industries, building a robust financial system, deepening the capital market and strengthening tax administration and ensuring energy and water security.

We must recognise that economic stability we have achieved in Pakistan, over the last six years is only the foundation and this is just the beginning. The key is to

build on this an economy based on knowledge, on partnership between technology and human capital, on alliances between skill enhancement and productivity, to enable our firms to produce more high value added goods and services and promote the private-public partnership concept of growth rather than just the government doing it. Private sector has to be a major player. Our fundamental challenge is to create a knowledge driven economy that grasps the full scale of opportunities unleashed by globalisation and that serves our long term goal of economic prosperity for all. Unless we accelerate the transformation of our economy to higher skill levels, higher value added, and higher wages, we have little chance of exploiting these opportunities to our advantage. To do so we need to innovate. The digital age has made it within our reach. Therefore, as we move forward, we as a nation must resolve to address the productivity challenges and skill enhancement are core to a better future and a better standard of living. To achieve these goals all stake holders need to work in unison as skill development is a shared responsibility of private sector, academic institutions, the government, the workers, and the students and not the exclusive preserve of the government alone. An effective strategy in this regard demands an effective relationship between government and all the other stakeholders, we just mentioned. The public-private partnership can get us there. Towards this end, we need a system of incentives for continuous learning and up grading skills and infrastructure which delivers such training to help adults to gain skills they need to improve their employability and employers' productivity. To work with employers of all sizes we need to reform our secondary and higher education and launch a skill based literacy programme for targeting groups in the ages of 15-24 years. To ensure that our young population has skills that works. Needs based training is important. It was always important. But for going forward this will make the major difference and for the young generation we need to give them needed skills and need based training and then give them environment where they can become productive and motivated. Then we need to expand the circle of innovators from inventions to commercial exploitation for manufacturing of new products. Here again Dr Atta ur Rehman and his group has done a marvelous job of trying to get this forward. Terms like venture capital and all the other innovative ideas to encourage young entrepreneurs to innovate are clearly a step in the right direction. Clearly it requires building leadership and partnership creating productive work place culture, encouraging innovations and use of technology, investing in skills of people, in skills and in networking.

As I have said, reforms are now no longer the exclusive preserve of the developing countries, even the developed world is talking about the need for reforms, adjusting and changing what they have done in the past. So every country must now constantly adjust to meet the needs of the future. As I said staying still is not the answer, to achieve this we must innovate, we must have an entrepreneurial

approach and we must be open to new ideas and we must never defy Newton's Third Law of Motion.

In conclusion, Ladies and Gentlemen, we believe that now is the time to invest in skills development and productivity growth and to upgrade our infrastructure. Our aim is to promote competition, create the right incentives for technology transformation, make the opportunities and benefits of knowledge inclusive for all, up grading our skills, facilitating networking to share knowledge and ideas, our endeavours to work with businesses to turn our potential competitors to our advantages in truly competitive products and services to unleash wealth creation through out the economy. Our mission is to convert our progress in to meaningful gains for all segments of our society. Our agenda is to give every child the best start in life and helping every adult to learn basic skills and building blocks for future training and career progression. On the account, we will be keenly looking forward to the constructive and doable recommendations with which this august conference will conclude in couple of days and that could be used by us to take this process forward.

Ladies and Gentlemen: we are committed to build our country economically, socially and politically so that we bequeath to our children and coming generations stronger, more vibrant, more stable and prosperous Pakistan.

Thank you very much.