

THE BROOKINGS INSTITUTION

PAKISTAN'S ECONOMY AT A CROSSROADS:
A CONVERSATION WITH ABDUL HAFEEZ SHAIKH, FINANCE MINISTER OF
PAKISTAN

Washington, D.C.
Wednesday, April 18, 2012

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P R O C E E D I N G S

MR. RIEDEL: Good morning and welcome to The Brookings Institution. It's my great pleasure to introduce our speakers today.

I am Bruce Riedel. I am a senior fellow in the Saban Center for Middle East Studies and in the Foreign Policy Section of the Brookings Institution.

We are delighted to have today the minister of finance, revenue, economic affairs, statistics, planning and development from Pakistan visiting with us, Dr. Abdul Hafeez Shaikh. Dr. Shaikh is a distinguished economist who has worked, literally, around the world. I think you have his biography in your hands. He has a Ph.D. from Boston University. He's worked at the World Bank, at Harvard, and elsewhere. He is an author. And he has the very important job of explaining Pakistan's economy and its future to all of us today.

He brings with him a very distinguished team from the Pakistani embassy and particularly Ambassador Sherry Rehman, who I welcome as well.

To comment on his remarks and to moderate the discussion afterwards, it's my great pleasure to introduce Ambassador Teresita "Tasi" Schaffer. Tasi is a nonresident senior fellow at The Brookings Institution and a senior advisor at the McLarty Associates. Before retiring, she spent 30 years in the United States Foreign Service as one of the leading experts in our diplomatic corps on South Asia and international economics. She served as the United States ambassador to Sri Lanka and as deputy assistant secretary of state for South Asia. She was a tutor to many, many junior officers in the United States Government, myself included. She speaks Hindi, Urdu, French, Swedish, German, and Italian. So, you can ask her a question in any one of those languages.

We will start by asking the minister to speak about the Pakistani

economy and then we will open it to conversation between Tasi and the minister, and then open it up to everyone else.

It is a particularly good time to have the minister here. He is the first Pakistani cabinet member to come to Washington since President Zardari's most important visit to New Delhi, and we are particularly interested in hearing thoughts about the future of India and Pakistan and their economic relations.

Mr. Minister, the floor is yours. (Applause)

MR. SHAIKH: Thank you for the introduction. Distinguished guests, dear friends, it is a delight to be here. I was warned that there might be hostile questioning. I told them in accepting to be finance minister of Pakistan, I have established a reputation for masochism and I think it will be a delight to answer all questions from our colleagues here.

It is a privilege for me to be here at this great institution and to get this opportunity to exchange ideas with you, get some feedback, and share some thoughts about Pakistan and Pakistan-U.S. relationship and the emerging situation, as we see it, in the region.

As you know, Pakistan is a country in transition. Like many developing countries, it has problems that are well known to everybody. A lot has happened in the last four years, some of it under-reported, some of it over-reported, but I think what I'll try to do is share with you the basic emerging points in Pakistan and how it's evolving as an economy, as a society, and how it is attempting to take its place in the broader community of nations.

The big story is that democracy has made a comeback. Now, it shows the seductive attachment people have to the rule of law because they paid a price for it. They came out in the streets to try and agitate for the restoration of the Constitution.

And democracy's arrival has also meant that there's a free media, which is free to criticize, which is free to comment, which is free to give feedback, which is free to ask any questions and scrutinize. We have over 100 television channels; they're all free.

At the same time we have a system where institutions are working. The parliament, which is freely elected, has passed landmark legislation. It has restored the Constitution. The president has voluntarily submitted his powers to the parliament and we have empowered the provinces, the states of Pakistan, with more authority and with more resources so that the problems of the people, of the citizens, can be better handled.

We also have a situation where institutions are allowed to function and flourish, institutions like the Central Bank, institutions like the Securities and Exchange Commission, institutions like the Competition Commission. These institutions are free, they have been given broad autonomy and mandate, and they are functioning within the ambit of the law.

We also have the courts, which are very active, starting from the supreme courts and the higher courts, and they are able to hold people to account, they are able to summon anyone, and they have been very active. And some of the results have not gone in the favor of the government, but at the same time, show the resilience of our young democracy, as well as the adherence of everyone to the rule of law.

We also have a situation where we have a coalition government so that nobody is in a position to entirely dominate the political scene or to make dictatorial decisions. People and political parties are learning to give and take, to try and strive for consensus, to make the difficult decisions jointly, and, in the process, I think, a new political culture which is inclusive is taking shape.

At the same time, the country has made strategic decisions which have

led to the opening up of regional trade, of economic integration, of reaching out, putting aside ancient rivalries in order to bring better economic closeness and better prosperity for our citizens.

Internationally, we have also chosen to partner with the international community in the war against militancy and extremism, and we have borne the burden that that has entailed.

So, this is the overall picture, the broad framework within which Pakistani democracy has flourished.

Now, I'd like to go back and talk a little bit about the economy. First, I want to share with you the economic situation that was inherited by this government when it came into this responsibility in 2008.

The growth of the early 2000s, that period had lost momentum. The current account deficit was above 8 percent. The fiscal deficit was 7.6 percent. Both very, very high in a Pakistani context. The exchange reserves had begun to deplete because of the policy of subsidization, of petroleum prices, which were not passed on to the public.

At the same time, you had inflation, which had crossed 20 percent, something we never had in Pakistan. And the rupee, which used to be in the 60s, had begun to go back to the 80s. So, all of this was happening on top of a global contraction and external shock due to the high prices.

So, this government came in at a time with high expectations from the people; double jeopardy of an external shock on the one hand, and domestic driver being asleep at the wheel on the other. So, the situation was very fragile. We had to go to the IMF. Luckily, we were ahead in the queue because other countries had not yet been struck. The international configuration was right and we were able to have a stand-by

arrangement with them.

Strong and difficult decisions politically were taken at home to try and bring economic stability back and the results began to appear slowly. Growth came back and reached in the 4 percent range. Inflation was tamed to around 12 percent from higher than 20 percent through strong monetary and fiscal policy coordination. An austerity program was launched, and an effort was made to try and increase the tax revenues.

Just when things were looking good, we were struck by the great floods of 2010. As you know, the 2010 floods were the largest calamity of its kind to hit any country in modern times. It covered an area the size of Italy starting from the mountains all the way up to the sea, covering 1,000-mile range. Peoples' lives were shattered, infrastructure was damaged, crops were destroyed, 2 percent of the GDP growth was wiped out, and according to the World Bank and ADB, \$10 billion worth of infrastructure was damaged. We had to go back and give priority to the restoration of the lives of our people. We had to go to the international community to seek their help, and Pakistanis came out to help other Pakistanis, and we had to weather this.

So, that set us back. At the same time, while many good things were happening, some things did not change. Geography, for example, did not change. We continue to remain in a difficult neighborhood and while others come and go, our destiny is to be there and we had to bear the costs associated with the security situation on the borders and that also took its toll on the budget.

Anyway, we continued with the reform process. We were, at times, not entirely successful as in trying to legislate integrated value-added tax, but what we did was to show result and to try and approximate a value-added tax by increasing the net of the sales tax, by bringing large sectors, which were previously kept out, which were

exempt because of reasons of political strength or lobbying power or whatever.

So, broad sectors were brought into the tax net. The exemptions were eliminated for large sectors, like textile and carpets and surgical equipment and sports goods and leather and fertilizer and agricultural inputs, and so on. So, a massive effort was launched because this has been an historical failure on the part of Pakistan that we have a small revenue/tax collection base, and we tried to remedy that and we took difficult decisions.

Second, we froze all federal government expenditures at nominal levels, which means that with inflation of 10 to 12 percent, we cut them in real terms by 10 to 12 percent. So, this was, again, a very tough decision, on the one hand, to go after massive increases in tax collection; on the other hand, to cut the federal government's expenditures by freezing them in nominal terms.

Third, since historically there has been a sense that Pakistan has not done enough for the social sectors, we made a decision to have a rearrangement of the way finances are distributed, and this was the so-called 18th Amendment, which gave 18 different ministries to the states to reduce the size of government in Islamabad, on the one hand, and bagged it up with the new National Finance Commission award where the share of the provinces, the states, was increased from 47 percent to roughly 70 percent in the national pool of resources. So, this is a very far-reaching and, I think, dramatic decision.

And why did we do this? We did it because the things that matter to the people, like basic education and health and maternity care and vaccination and drinking water and municipal services and the activities of police and small courts, they all belong to the provinces. So, in one stroke we transferred 800 billion rupees within 2 years to the provinces so that these kinds of sectors could get the monies they have been historically

denied.

The other approach we adopted was to try and strive for a regionally balanced approach to development because Pakistan, at one time in the '60s, grew in a dramatic way, but the growth was uneven and we paid a price for it. We wanted to remedy that.

So, special efforts have been undertaken to give more monies to Balochistan as part of a Balochistan package. More monies have been transferred to the Federally Administered Tribal Areas where political activity has also been restored so that they can take their part in the national political life.

We have given a new status to Gilgit-Baltistan, another remote part, underdeveloped part of the country, where a new institutional arrangement has been set up, new monies have been give.

So, the idea is that growth should be inclusive.

Fourth, we tried to reach out while we were taking difficult decisions, such as increasing the price of energy by 90 percent for the people because of high oil prices, we at the same time wanted to reduce the pain of the transition for our most vulnerable people, so we identified a program called the Income Support Program, the Benazir Income Support Program, where the poorest of the poor were targeted through collaboration with international partners such as the U.S. Government, the World Bank, and so on. And they are giving cash transfers; they are giving small loans for starting businesses, and health insurance so that they're not financially devastated if somebody dies in the family or if there is a serious sickness.

And so 6 million families are getting support during the transition through this very targeted, somewhat, you know, well-acclaimed program. And the idea is to target particularly households headed by women to empower them, to give them financial

independence, and mainstream them in the economic life of the country. So, this was the other aspect.

Now, some of the decisions have begun to, you know, pay off, they have begun to show some results. For example, growth again this year is expected to be 4 percent, which would be the best in the last 3 years, and although it's below our potential, but what we have tried to do is ensure economic stability remains before we go to a higher growth trajectory.

Second, our tax efforts are beginning to yield results. Last year our tax growth was 17 percent over the previous year, which was the best in 3 years. And this year it is, for the first 9 months, between July and March, the revenues have grown by over 25 percent, which is the highest ever in our history.

Third, exports, because we have tried to have a relationship with our neighbors, with the European Union, with the U.S., based on giving our businesses a chance to compete with a level playing field, that has helped and last year our exports grew by 29 percent, the highest in our history, and even though there is a global contraction this year, they still remain strong and are showing increase of about 5 to 6 percent.

Our remittances, which is a sign of confidence that overseas Pakistanis have in their country, has also increased by 20 percent averaging a billion dollars a month, and that's also the highest in our history. When we ended last year, the financial accounts -- our reserves were 18 billion plus, the highest in our history.

So, the combination of thing, and inflation, for the first time after 40 months, came down to single digits because we contained government expenditures, we had a tight monetary policy, we tried to reduce borrowing as much as possible, and I think that the result is beginning to show.

A lot needs to be done, obviously, and I think there are threats we need to be aware of. First, like many globally open economies, we have the threat of the oil price increase, and if current trends continue or stay, that poses a serious vulnerability from the balance of payment side.

Second, of course, the security situation, it remains a challenge, and although domestic instances of violence have decreased this year, the perception continues globally to not be that great, which deters certain kinds of investors from making longer term contracts and reduces foreign investment, which is badly needed.

Of course, the global contraction is another area of concern for us because we'd like to enhance our exports, particularly to the European Union, which is in a contraction at the moment, and although the situation in the U.S. is beginning to improve, it still is not up to the mark that one would like.

So, the prospects for the future remain uncertain, growth is beginning to pick up, but is uneven across different parts of the world. And for a country like us, that poses another vulnerability. So, these are some of the challenges.

We continue to have to strive for greater effort in terms of mobilization of domestic resources and the positive side is that bold decisions have been made in terms of reaching out to our neighbors and in granting the MFN status to India, and having a new transit trade agreement with Afghanistan, and in trying to have a better trade relationship with the European Union. I should say that in several of these efforts, this country has played a part in helping get access to the European Union in terms of facilitating the Afghan-Pakistan Transit Trade Agreement. And they have plans, I think, to further try and create conditions for promotion of regional trade with the Central Asian republics and so on.

Turning to U.S.-Pakistan relationships, obviously, the U.S. economic relationship with Pakistan in terms of its magnitude, in terms of its many dimensions are second to none in terms of trade, in terms of investment. We just concluded a bilateral investment treaty with the U.S., which is in an advanced stage of closure and the U.S. has provided assistance, as well. It's only appropriate to acknowledge the assistance that we have received from the U.S., both in the times of floods, in terms of road and school building in the Federally Administered Tribal Areas, in terms of rehabilitation of certain electric plans, and so on.

So, that is one aspect of the relationship, but more important is the overall relationship in terms of investment and trade. And I think what the Pakistanis are seeking primarily with the rest of the world, including with the U.S., is an opportunity to compete, is an opportunity to get a level playing field, to get opportunity to have less barriers to the trade for the businessmen. So, I think this relationship with the U.S., we can cover some of the different aspects of it in the Q&A, but it's an important one I think we need to build upon. What's really important is we need to provide vehicles and instruments for greater business-to-business collaboration so that the relationship can have a more secure and solid foundation and is not hostage to the twists and turns that they place sometimes when the relationship is dominated by government-to-government aspects and is not in a comprehensive sense involving people-to-people and business-to-business.

So, these are my initial thoughts and I look forward to an interactive exchange. Thank you. (Applause)

MS. SCHAFFER: Well, thank you very much, Mr. Minister. I'm going to start talking even while Bruce is being miked because I don't think I'll say anything so

awful that he'll need the microphone right away. And thanks to Bruce for his very generous introduction of me, though this is the fellow you all came to see.

Just by way of introduction, let me offer just a couple of thoughts and then I'm going to take the privilege of the chair and ask the minister a few questions before we go to the floor.

I think, Minister, that you have done us all a great service by describing the before and after picture of the economic system you inherited and what you have tried to do about it. There's only so much you can do in 15 minutes, but among the things that didn't make the cut for the 15 minutes and that I want to ask you a little about in a few minutes, I guess the one that I'll start with is the political challenges to this reform agenda. And sitting in Washington at this moment, we are certainly aware that political challenges are something faced by any elected government in the world. But you spoke about raising energy prices, and my recollection is that that was a task that the government had great difficulty following through on because of the opposition of coalition partners who were, in some cases, seizing on something that would embarrass the government.

And so, one of the issues that I think Americans are interested in is how Pakistan is going to square the circle between its political needs and its economic needs. In the long term, good economics is good politics. In the short term, they don't always line up so well.

Another interesting story that I find fascinating is the whole issue of urbanization in Pakistan, not just people moving into the big stories whose names everybody knows, but the towns that have become small cities with more people needing to supplement their agricultural income with jobs in some industry. And one of the tantalizing issues for the future is how this is going to play out both in the economy and in

politics? I have always thought that Pakistan had more talent than was immediately apparent in its economic numbers, and so, I'm one of those that thinks that in that talent, in that homegrown talent, lies the hope for Pakistan's future, and what you're trying to do on the reform side would certainly capitalize on that.

Let me shift gears and turn some of these comments into questions because I think we'd very interested in your perspective. So, let me start with the issue of the energy sector. When we were Pakistan in February, everyone was talking about power cuts, which seem to have affected even those fortunate enough to live in nice houses in places like Islamabad. How do you see the economic effect of the power cuts not so much on the comfortable in Islamabad, but on those who run small businesses? And is this something that disproportionately affects cities? How is the government going to be able to deal with this?

MR. SHAIKH: Okay. I think those are all really good points you've made.

First, on the political challenges. Like any democratic system, especially a coalition, you are trying to reach the limits of what is possible on the reform side while obviously ensuring that the political arrangements to implement those are intact. Now, we made what I think was a heroic effort to try and get what was an integrated value-added tax through the parliament. We did not succeed. That was in spite of the effort by the president, by the prime minister, by myself, and everybody. At the same time, we approximated it by a variety of administrative measures and then through the budget, but with some time. So, some time was lost.

Now, you also rightly pointed out the difficulties we encountered in passing on the price of petroleum increases and then converting them into laxity price increases. This is a fact of life. There's no simple solution to it, and every month, it's a

discussion that takes place. We have tried to introduce an element of automaticity so that we take away the authority from the hands of the ministries who sometimes are reluctant to do something, what I directly perceive as a hardship for the public. So, we passed some legislation that makes some of these changes, price increases automatic. And so, to that extent, again, a foundation has been laid.

Similarly, on the energy sector, this is the biggest challenge facing us because it's visible. It affects people, creates hardship for them. It affects the economy, and it's politically explosive because if it is done and if the load sharing takes places in cities, it brings people sometimes.

So, what is the way to deal with it? The energy sector reform we have involves simultaneously tackling four or five aspects of it. Number one is the governance, the governance of the government-owned distribution companies and generation companies. What we've done is we've changed the board of directors; all the boards of directors of the eight distribution companies, as well as the generation companies, have been changed with topnotch, credible, private sector businessmen now on the board. Second, the CEOs of these companies have been changed and they have been appointed in consultation with the boards. So, for example, the head of the generation company now is somebody who used to be with the very famous private sector company and is now heading it.

Now, second, to reduce the role of the ministry so that the minister or secretary of the ministry are not involved in the day-to-day management. This has been done by bringing credible people to act as a shield and to prevent political-type considerations to get involved in the day-to-day management of the companies.

Second, tariffs. Obviously, if prices are not increased in something that's costing more than the price that you are charging, you're going to pile up a huge source

for subsidy. So, we have tried to do that, even though it's politically difficult, as you rightly said.

Third is a better load management. If you have X-amount of electricity, how do you ration it? Now, in Karachi, which is our largest city, where you have a private sector company running it, they have a very simple system. Areas or businesses that pay regularly, they suffer the least in terms of load sharing, and they make other areas or groups that are identifiable and are laggards in payments to bear the brunt of electricity shortages.

When you are dealing with an entire country and with a somewhat antiquated system and automation is not so complete, it's hard to be so precise in load management, but I think this is a consideration that is there that load management should be done on the basis of some rationale framework, some economic basis. And second, it should be really specified in advance so that if there is load management, people can know that they'll not have electricity between 10 to 12 hours so they can work around that.

The fourth thing we've done is we've taken the steps to conserve energy. For example, we've shifted to a five-day week. We are shutting down shops at 9:00 p.m. in the evening and things like that, and a variety of other things, which I don't want to get into here in detail.

The final thing is to go for alternate sources of electricity production and after seven, eight years of neglect; this government has added new capacity into the sector. The problem is that it's not just a question of adding new capacity; it's also the ability to pay for it. As you know, the price has become so expensive and the input mix has shifted in favor of imported oil and furnace oil so that it's a difficult problem to deal

with in the short term. In the longer term, we are shifting back to hydropower, we are building a new dam, we are trying to use rivers.

And Pakistan is a place, which has the most liberal investment regime. I've had the opportunity or good fortune to work in about two dozen countries and I can say without being partisan at all that the investment regime in Pakistan is second to none. It's liberal. Anybody can come and invest in any sector. Foreigners are treated no differently than locals. There's no requirement for local partners. You can invest 1 percent or 100 percent. You can bring in as much capital or take out as much capital. You can repatriate your profits or your principal or your dividends or whatever. So, I think we are trying to reach out and attract investors as much as possible.

The final point about the political challenges to reform, let me share with you an institution that I had as finance minister or as revenue minister, which is the Federal Board of Revenue, which is comparable to the IRS here. Now, I will share with you and I'm saying this publicly, so, anybody can challenge me, is that in the two years, we have chosen the chairman as well as the top leadership of the Federal Board of Revenue purely on merit; that not once has the president or the prime minister of Pakistan asked me to appoint anybody in senior positions, and no transfers and postings and appointments are done in any way other than merit. And this is run like a professional organization where this mandate is given to the chairperson. And as I shared with you, we are trying to make it a service-oriented organization, and you can see the results are there, as well.

So, there are good stories and, at the same time, we have some sectors where public sector government-type organizations exist, which need to be reformed. Otherwise, they pull us back.

MS. SCHAFFER: I think that we should open the floor to questions. So, could I ask are there mikes walking around? So, wait for the mike. If I call on you, could you please identify yourself and your affiliation? And the last refuge of the desperate moderator, try to keep your questions brief so that others also get a chance. So, yes, the gentleman in the third row.

SPEAKER: Thank you for that great presentation. Zahaga with the Pakistani-American Leadership Center.

My question has to do with the closure of the Competitiveness Support Fund, which started out as a joint U.S.-Pakistan initiative. If you could talk about what went into that decision because I feel like it was enhancing the private sector, it was enhancing the small enterprises in Pakistan. And also, if you could talk about the defaulting on electricity payments by government agencies in Pakistan, how that's been deal with.

Thank you.

MR. SHAIKH: Okay, I think the first question is one having to do with the detail micromanagement of the program and the U.S. assistance program. There are dozens of programs and I can check up on why this particular program, which I think is a very small program, was not renewed. The finance secretary is here, if you could have a discussion with him and explain to him.

The second one about nonpayment of electricity dues by the governments, especially the provincial governments, is an issue, and as I said, that sometimes you have a government electricity company which has to pay its payables to petrol companies and so on, and it has to collect its bills. If it does not collect its bills sufficiently or with sufficient aggression, then people have less money to pay for the

payables and will require either the federal government to bail itself out or it will have to borrow.

So, this point that you have made has been receiving high-level attention. We had an energy summit with the prime minister and all the four chief ministers of the four states were there and this issue was raised. And immediately after it was raised, the chief minister of the Punjab came and offered to pay their outstanding bills within the next six weeks. Similarly, the chief minister of Khyber Pakhtunkhwa offered to pay whatever was due to them. And there's an ongoing dialogue with the government of Sindh, because some of the bills are disputed, but I think it's a legitimate point you have raised and it's an important one in terms of getting the cash flows of the public sector companies to be on an even keel.

MS. SCHAFFER: The lady in the gray suit on my left side of the aisle.

MS. PANDE: Thank you, excellent presentation. Aparna Pande, Hudson Institute.

You talked about geography and economic integration and there's a lot going on about India-Pakistan trade. Both as an economist and as a finance minister, my question is, I mean, how far do you see trade between India and Pakistan going and even beyond in Sarkh? We have a free trade area and SAFTA, but they've never gone much further. In 1947, the two countries stayed with approximately 70 percent; today it's about 3, 4 percent. Thank you.

MR. SHAIKH: Okay. I think that's an excellent question and how important geography is to future prospects, also. You know, there was a time when I used to evaluate Pakistan and I thought the best way for it to really develop is to relocate. Okay? (Laughter) I used to think that the best place for us to take Pakistan would be somewhere between Italy and Switzerland, and now I've changed my mind.

MS. SCHAFFER: Very high mountains there.

MR. SHAIKH: Now I've changed my mind, you know, because the parts that I thought we should be located in aren't doing that great in terms of growth, and where we are is the most dynamic part of the world. So I think we should stay there, we should work, and be good neighbors with each other, and that's where the energy is. That's where the growth is, that's where the dynamism is, and that's where the world is looking at.

I think that the good thing about the recent Pakistan-India movement on the trade opening front is that it is supported by the businesses of the two sides. So that is a first, and it reflects considerable thinking and shows the economic merit that's there.

I think the leadership that we have also wishes to, you know, keep making steady progress on this front. What one has to do is strike a good balance between expectations that can be generated which might be unrealistic and also a kind of lethargy that creeps in or old ways of looking at problems that have been a source of resistance in the past.

So I personally feel, you know, quite optimistic that this is an area where the payoffs are there, where I think we need to gradually build and demonstrate results, and I think we will.

MS. SCHAFFER: Gentleman way in the back in the red and white tie?

SPEAKER: Thank you, ma'am. Thank you very much. (inaudible), I work for Voice of America, ambassador to the border region service.

My first question is what exactly are we looking for from the United States to help the Pakistani economy, except several nuclear energy (inaudible)? Could you please elaborate on the profile, the program the United States is extending to help the Pakistan economy?

And the second question is, what are your goals for extending trade with India? There are some concerns from the Pakistani traders that it might dominate their industry and might put them at a disadvantageous position. So what are your goals? Thank you very much.

MR. SHAIKH: Well, I think the answer to your first question, what are we looking at from the United States in terms of economic relationships, is that we're looking for exactly what we're looking for from other countries, from other economic partners or other friends around the globe: that we have as few barriers to trade as possible; that we have a flow of capital involving investments and joint ventures; that businesses from here are encouraged to come and benefit from the great economic opportunities in Pakistan. That's the primary thing.

Of course, the U.S. has also been a source of economic assistance. That is their privilege and prerogative. I cannot advise them on that, but to the extent that they have supported us I want to ensure that those monies of the U.S. taxpayers are well spent, that they go to have an impact on the lives of the people in the way that the architects of those programs want them to.

And third, the U.S. is an important player in the global financial architecture, so we are working together in places like the World Bank, like the IMF. For example, there was the voting for the World Bank president where Pakistan participated in favor of the United States.

So these are areas for collaboration, for sharing experiences, for seeing how the world is going to evolve in terms of the economies, and where there are possible areas for joint action and coordination. So, these are the three big areas, and I think form the core of our economic relationship.

MS. SCHAFFER: The goals for India-Pakistan trade as you see them?

MR. SHAIKH: Yes.

MS. SCHAFFER: Let me add to that. Are there particular areas where Pakistan sees real opportunity, Pakistani exporters see real opportunities for themselves?

MR. SHAIKH: Yes. You know, as this idea begins to acquire a certain tangibility, right, as people begin to realize that now the possibilities of trade opening as real, there will be much more work, academic and practical, from business' point of view on what constitutes a threat to a particular sector or industry, and which are the areas where I think new opportunities are going to emerge.

Typically, I think ministers should avoid talking like gurus on these subjects. (Laughter) Because I think businesses know much better on who to find the opportunities and where they are. And ultimately, it shouldn't be seen in a black or white way. It's a question of how do you form alliances? How do you find partnerships? How do you bring resources together to tackle, you know, issues? And how do you do regional multi-country projects? And, you know, how do you benefit from the stream of global capital and divert it towards your region?

So I think a lot of new ways of looking at the issue has to be brought in, otherwise we'll be stuck in this old-style protectionist way where some powerful industrialist will always feel threatened. And they will resist, and that's also natural, so we have to engage with them, we have to communicate with them, we have to find ways to transition where, you know, disruption may be legitimate.

And so, I think there is a role for communication and for more studies and for better policymaking.

MS. SCHAFFER: Lady at the back of the room?

SPEAKER: (inaudible), *Express News*. Dr. Shaikh, you just mentioned

that Pakistan's growth would be 4 percent. The IMF said it might be 3.4 percent. If you could comment on that.

And also, the IMF in a recent report said that Pakistan would spend about 30 percent of its growth in repayment of loans. If you could tell us how much Pakistan has to repay this year and how much of the budget will be spent on that.

And my last question, you mentioned this the last time you were in D.C., on the coalition support funds. What is the status of the talks with the United States on CSF? How much does Pakistan need from the United States? How much is the backlog, if you could explain that? Thank you.

MR. SHAIKH: Yes. Okay, thank you very much for those questions. First, I think I don't want to get hung up on what the IMF says is the growth prospect versus what people in the Ministry of Statistics or national accounts in Pakistan says is the growth. We feel that those numbers may have had resonance at the time they were brought out, but the crops that we've had have been fairly good, large-scale manufacturing has picked up. And so we ourselves had an estimate of about 3.8 percent, which we now think we can approach 4 percent. So that's why, you know, I used it in a round figure sense that we will be approaching 4 percent.

Second, we have excellent dialogue with the IMF, and a lot of the discussions that we have are of good quality. And I think they appreciate both the limits of what we have been trying to do and sometimes not entirely succeeding, in spite of a resolve on our side, as well as what we have achieved. So I think to be fair to them, they have been very balanced in their assessments.

In terms of exactly, you know, what the pressures are for repayment of loans, I think loan repayment is a significant burden on Pakistan, but that is because of the loans accumulated over, you know, long periods of time. At the same time, this year

we had to pay \$1.4 billion to the IMF, and that's all budgeted. Most of it is already paid; another tranche will be paid in May. So, there's no issue with that.

And finally, about the coalition support funds. Obviously, you know, given the current state of our dialogue with the U.S., I don't want to get into opening a new controversy about what I think are the numbers and what somebody else thinks are the numbers. I think we have to be respectful of that process. But we have, you know, good discussion and I think that issue is, hopefully, going to get resolved in some positive way, and that's all I can say at this moment.

MS. SCHAFFER: Gentleman in the second row?

MR. MOODY: Thank you very much. My name is Jim Moody. I was in the Peace Corps in Pakistan many years ago, so I carry with me a lifetime commitment of affection for the country and its people. I've been back many times and absolutely love Pakistan and its people. So, I want to say that before I ask the question.

MR. SHAIKH: Now I am curious about the nature of the question.

(Laughter)

MR. MOODY: The British records from their archives show that 80 percent of the women in Punjab could read when the British were back there many long years ago. When I was in Pakistan in the Peace Corps, the number of children of school age were 40 percent. East Pakistan at that time was also 40 percent. Today, Bangladesh has 84 percent of its children of school age in school and Pakistan is still 40 percent.

We're really here to talk about economic issues, but there's a direct connection, obviously, between the level of literacy in the population -- excuse me -- and the opportunity for work and improvement. I'm not here to advocate anything, but there was a tremendous program underway, the National Commission for Human Development,

which is a private-public corporation, which educated 400,000 children every day and has brought literacy to 68,000 women in the last few years. And we know that once a mother is literate she's going to insist that her daughter be literate. So, it's a tremendous multiplier.

My understanding is that those funds have been cut tremendously off of people who were bringing education to small villages and so-called "go" schools, where there is no actual school, but teachers go there and sit on the floor. I visited and sat on the floor and watched it happen. It's a miracle what happens when it's allowed to happen.

So my question goes to the economic implications of the funding cut, which I understand is still underway. Thank you.

MR. SHAIKH: Okay. Well, I think that's an excellent question. First of all, let me admit at the outset that we as a country have not done a great job in terms of promotion of literacy and social sector development. This is an acknowledged fact.

At the same time, I just mentioned that we have developed a whole new arrangement for sharing our resources and the federal government has volunteered to give from 47 percent to now 70 percent. So if you add up all the grants and so on, 20 percent extra of the national divisible pool of resources, which totals 800 million rupees in the last 2 years, to the provinces precisely so that we can address this imbalance, because it is a source of embarrassment and shame for us and we want to correct it. And so this is a tremendously far-reaching decision that has been made, which will begin to show results.

Second, on your point about the National Commission for Human Development, I believe it's been a good program. I have been a member on the board of the National Commission for Human Development. Even when I was a minister, I chose

to be as a volunteer on the board of that because I thought they were doing good work.

Now what we have is a situation that the basic education is the domain of the states, so either we go by the Constitution and the law or we don't. We can't pick and choose. So when this issue came, we decided that will offer the National Commission for Human Development to the provinces, and as a gesture of our support for that program we volunteered to even share the expenses up to 50 percent if any province was agreeable to adopting that program, because in the previous regime it was working as a central government project. So just as, you know, people here have views about what should belong to the states and what should be with the center, our Constitution has also specified that. So we, in spite of that, made this offer and the Council of Common Interests to all the four provincial governments.

And just to add the last point on this, the National Commission for Human Development still exists and is still being financed by the federal government, from my budget. And so it is, you know, something that we would very much like provincial governments to adopt them, to accept them under their, you know, provincial programs, and to try and take them forward. But it's a decision entirely left up to them.

MS. SCHAFFER: I know the minister has a busy schedule, so I think I'm going to make this the last question. The lady in the orange sweater?

MR. SHAIKH: And ma'am, with your permission I just want to, you know, appreciate your love for Pakistan. We have this in common, you and I. (Laughter)

MS. ROGERS: Thank you. Jean Rogers with the Center for International Private Enterprise, with offices in Karachi as well. Two very brief and perhaps related questions.

In your previous tenure at the privatization program that you were instrumental in starting, it's not progressing any more. Could you say a little bit more

about the future of that and perhaps reflect on your insights making decisions in governments in a military regime versus in a democracy or democratically elected system?

MR. SHAIKH: Yes, okay. Well, thank you for those questions.

As you know, in a previous regime I was minister for privatization and investment and in some ways that was the time when most privatizations took place, 34 privatizations for about \$5 billion. And the international environment was also conducive because we had a great deal of interest and there were international players that participated, and so on.

I think at this moment privatization on such a scale is harder to attempt because the quality of players you want -- and you don't want to be accused of giving away your assets, you know, at prices that might be seen to be lower than what they deserve, although ultimately markets should determine that anyway. But it's an area that I think is getting more attention, and there have been some decisions to try and move towards private-public partnerships and to try and find ways in which the private sector can be brought in to manage some of these entities to better realize their full potential.

The other topic is, you know, something I need much more time to talk about because in the previous government also there were two distinct phases. There was an earlier phase which was a more military phase the first three years, and then there was another phase in which there was a kind of -- how should I put it? -- a struggle for identity of the government where you had aspects of military rule with, of course, General Musharraf being at the top, who was an active military person. And you had -- so it was a quasi-military-civilian rule, and I think there were interesting differences between those two regimes, and of course one now.

I think clearly one difference between the current arrangement and the

one previous to that is that their issue of legitimacy is solved. So, there is no constant struggle that I think bedevils governments, which are not truly and entirely democratic. So in this government, there is a sense of pride. There is a sense of having settled this matter of legitimacy and being truly representative of the public.

Other aspects and other differences, there are several, but I think that would be my next trip, I think. When I come here maybe Brookings will be kind enough to invite me and I can share those with you in detail.

MS. SCHAFFER: Well, I am sure you will all join me in saying that we look forward very much to the minister's next trip and hearing from him again, and thanking him for a very stimulating discussion this morning.

MR. SHAIKH: Thank you. I'm delighted and grateful. (Applause)

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