

## **Yaseen Anwar: Developing leadership skills and vision for Pakistan's economic growth and prosperity**

Chief guest/keynote speech by Mr Yaseen Anwar, Governor of the State Bank of Pakistan, at the 4th CEO Summit and Book Launch of "100 Business Leaders of Pakistan", Karachi, 8 November 2012.

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Good morning ladies and gentlemen, and thank you for inviting me to this prestigious gathering! As I look around here, I can see some of the most talented individuals that Pakistan has ever produced. Each success story is as unique as it is brilliant. Ladies and gentlemen, I do not need to tell you this, but you have arrived!

The successes of Pakistani CEOs are a collection of stories about fearless leadership, in the face of adversity. Let's admit it: the business environment in this country could be better. We may have numerous problems, but a lack of entrepreneurial spirit and drive is not one of them. What have you, as entrepreneurs and managers, not faced in this environment? You have faced changes in governments and policies; you have faced high inflation; you have faced the depreciation in the value of the currency; you have faced shortages of electricity and energy; you have faced multiple security issues and a constant threat to both life and property; in fact, we haven't made your job any easier by keeping interest rates on the higher side! But you have persevered and persisted, committed and dedicated your energies to your businesses and workers. And now your success stands in front of you. You have created corporate empires within Pakistan – ones that now provide essential goods and services to the economy, ones that are the engine of growth for this economy. This is *why*, ladies and gentlemen, you have arrived! And this is why I would like to applaud your success.

But there is one thing that concerns me. And let me throw it out as a challenge. You have conquered the Pakistani market it would seem. Yes, the local market holds tremendous potential for growth, but I think the time has come for you to lead Pakistan forward, beyond our borders. Yes, I challenge you, to take the wonderful skills that you have acquired here in the face of adversity, and build up your presence in the world.

Companies from the developing world have a unique advantage over their peers in industrialized economies. They are survivors in the face of challenges that your peers in the developed world have not had to face. They learn to adapt in the harshest of environments, and can take that nimbleness in their ventures abroad. The last two decades, in particular, have seen the rise of EMNCs – emerging multinational companies. Our corporate sector has survived in perhaps one of the most challenging environments, and yet it has flourished. There are challenges to expanding abroad – challenges that our companies may not have encountered previously. But I, for one, would like to see more of our corporate sector aggressively targeting the regional and global market. I challenge you to dream larger than ever before.

This is where the role of visionary leadership comes in. Can a Pakistani multinational be recognized as a regional or global powerhouse? Our peers in the developing world have been surging forward here. Jaguar, the icon of British royalty, was recently bought by Tata motors. Mittal Steel acquired the European company Arcelor, and Arcelor-Mittal is now the world's largest steel maker. Russia's Gazprom surpassed Microsoft in 2006 to become the world's third most valuable company. China Mobile's market capitalization has now surpassed that of Vodafone's. Orascom of Egypt led Europe's largest ever leveraged buyout. It is apparent we are in the middle of a paradigm shift – let's not get left behind.

The path to internationalization of any corporate is slow and gradual. There is a steep learning curve, lots of false starts, and constant feedback loops. I may not be the best person to deliver a lecture on expanding overseas, but I am convinced that the lessons

learned here, can easily be applied in other economies, where companies from more developed countries may not be able to adapt as quickly. So let us expand into other developing countries first. Let us expand into other countries in South Asia for instance. The African market is another possible destination as well. Let us develop a regional presence before we can take on the markets in industrialized nations. Let us also not forget that the millions of Pakistanis abroad will give you an edge as you venture abroad. They will be familiar with your brands, and with the quality of your products. They may just hold the key to giving you a foothold in international markets.

But for all this to happen, we need *your* vision and *your* leadership.

At the State Bank, we are concerned about the current state of Foreign Direct Investment or FDI. We are concerned for a good reason. Most of the time, it is a very good indication of the health of the economy. The reasoning is something like this: if the economy is doing well, companies abroad will want to invest in the country. But we're not living in normal times. Most companies in the west are themselves struggling with their domestic markets. Would they then consider investing abroad in another country and assume all the risk that entails, especially in times like these? As business leaders, you know the answer better than I do.

So where does this leave us? The market opportunities in developing nations are still there. But FDI flows from industrialized nations have been falling. That is where EMNCs have emerged to fill in that vacuum. And that is where our companies should expand. It's time for reverse capital flows.

Outward FDI (OFDI) is a metric that has been largely forgotten and relegated to just a number in most developing countries' balance of payments two decades ago. Now, it is increasingly becoming a measure that signifies the health of the country's corporations and their competitiveness abroad. Last fiscal year that number was \$63 million for Pakistan. That is very small by any standard and it is a challenge we should undertake to change.

I have also noticed that there seems to be some apprehension surrounding outward FDI in Pakistan. We have fallen prey to a mindset where inward FDI is good, and outward FDI is bad. From a strictly balance of payments perspective, that is very true; and it is my job to be concerned about that and at the same time to manage it in a prudent and disciplined manner. The flows of FDI, both inward and outward, reflect something deeper. Inward FDI reflects the potential in the domestic economy. Outward FDI reflects the willingness and ability of domestic corporations to compete in the international market. The two are *not* inversely proportional. One of more does not imply less of the other. There is another distinction to be made here. FDI does not include investments in financial assets, such as investments in stock or bond markets. FDI is investment in tangible assets in the real sector. That means that money and capital flows through FDI are not very volatile. And it is the volatility in such flows that keeps any central banker awake at night.

Let me digress here. The point that I hope to communicate is that our economy should move away from a persisting fascination with inward FDI as a metric of the economy's health and, at least, give OFDI the attention it deserves. Again it is your leadership and vision in taking your corporations to the next frontier that will take us forward into this new paradigm. Your corporations are the engines of this economy, and our economy needs a paradigm shift.

I have noted that a few of our corporations have tentatively started venturing into foreign markets. The United Arab Emirates has been a particularly favored destination. I've seen many of our brands there, particularly from the textile industry. One of our conglomerates recently acquired a company in the North American market. We know a couple of our banks are extremely keen on entering the Indian market. So yes, a few of our more daring enterprises have ventured outside their comfort zone, and I respect them for that.

But there is a great deal more that needs to be done. And there is a great deal more that can be done. The current breed of Pakistani CEOs is the street-smart entrepreneur, who will learn to adapt to any environment. That is going to be our competitive advantage in the global market. Once again the challenge is to put your skills to the test on the global stage. I am confident that you will create a new success story with each challenge.

I would certainly be remiss in not pointing out that the world today is passing through a turbulent phase that requires a realignment of our leadership approach to managing businesses. Today's business leader is faced with a multitude of challenges, both on external and internal fronts. The complexities arising in the eco-system of any business may arise in the shape of macro economic imbalances that include sagging demand, inflation, volatility in financial markets, etc. While demanding situations on the internal front arise from personnel management, investment ambiguity that there are always complex matrices linking external challenges with internal ones and therefore, successful business leaders will never make internal business decisions in isolation. An uniformed business leader is a leader without a vision and quite likely without any success.

Like any real life crisis, the present turmoil in the financial sector provides an opportunity to learn from the financial world's mistakes and overzealousness. This gives us the opportunity to look back and see what went wrong and structure our own financial houses so that this does not happen to us, or so severely affect the world again. In this regard I feel the most significant lesson that we have learnt from recent events is the importance of fundamentals in risk management. For instance there is a basic rule since inception of banks which says "do not put all your eggs in one basket". Had this simple rule been followed, many institutions could have avoided huge losses.

The challenges posed by the Global Financial Crisis have impacted leaders of all major businesses. Elevating corporate governance should not be confined to banks, but commercial concerns must also do the same. We all know the pace of globalization has accelerated, resulting in increased domestic and global economic integration. Today we cannot just shrug off failures within a particular sector or sometimes even a single entity if it has global linkages. Gone are the days when a financial or political crisis in one country could be contained to that country; now there are several contagion effects at different levels. That is why emphasis on good corporate governance regimes cannot be underscored more as it creates an attractive investment climate necessary to maintain investors' confidence, resulting in positive impact on the share price and creating possibilities for raising low cost Capital. It is imperative that we develop and implement good governance practices in order to provide impetus to economic growth.

Given Globalization and the crisis we all face, let me highlight the traits of effective leadership that are universally applicable and that I have cited in earlier talks. Leaders must be **visionary** to see the future trends, anticipate institutional bottlenecks, remain competitive and be able to **adapt rapidly** to changes. They should be **continuous learners**, a necessity for enhancing leadership skills. Leaders need also to take into account their **corporate social responsibility** so that profit seeking is balanced against the objective of **social service** and well being of society. Leadership success requires strong **conviction** and **belief**. Yet having **humility** and recognizing the need to **reinvent** and inspire their organization to adapt to new challenges remain an integral part of successful leaders. This is vital if businesses want to remain at the forefront of new innovations, critical for **long term competitiveness**. All these and more comprise the necessary characteristics for dynamic leaders that push the frontiers of excellence. Such corporate leaders fuel the drive towards long-term growth and stability.

I'll conclude my thoughts with a small personal aspiration. Twenty years from now, I would like to hear the story of how a Pakistani corporation entered the global market, the challenges it faced and overcame, and became the first Pakistani company to be

consistently featured in the Fortune Global 500 list of companies. I look forward to being in an audience of thousands, listening to that story. That is my final challenge to you.

So, ladies and gentlemen, you have arrived. But there is, as I have said in my talk, that other frontier that still needs to be conquered. And I am confident that your leadership skills and your vision are more than sufficient to achieve that ambitious but reachable goal. After all, a man's reach should exceed his grasp or what's a Heaven for. That is what will usher this country into a new age of economic growth and prosperity.

Thank you!