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Accelerating Economic Growth in Pakistan: Key Macro and Sectoral Drivers
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Pakistan's economy in recent years seems to be improving as measured by conventional indicators of real economic activity (high growth rate, low inflation rate, rising stock prices, etc.), but there are growing concerns about the sustainability of the improved performance. In the past, Pakistan's economy has experienced recurring episodes of macroeconomic instability, mainly in the form of unsustainable current account deficits, which have led to an abrupt end to its phases of high economic growth. The most worrying part of these stop-go cycles is that over the years the spurts of growth acceleration have become shorter and less frequent and episodes of low economic growth and stagnation more severe and of longer durations. Since 2000, except for a period of relatively high economic growth from 2003 to 2007, the economy has been marked by slow growth and the more recent upturn in economic growth, which began only in 2016, is once again threatened by a rising current account deficit and falling foreign exchange reserves.

It is well established that Pakistan's economic problems are primarily structural in nature and far-reaching reforms are needed to make the economy more competitive in a global economy. Against this background of lopsided / unsustainable growth, and rising inequality and poverty, it is imperative to assess the economic performance of last two decades in terms of some key sectors of the economy and their impact on aggregate economic activity. In the wake of emerging trends in the global economy, with respect to global finance, capital flows and protectionist tendencies and other geo-political events, it is prudent to look at Pakistan's economy and identify some key areas of the economy, which can enhance the pace of solid and sustainable growth.

These domestic and international developments support the need for a coherent macroeconomic strategy, which can enable better public policy, and economic planning for the coming decades. Thus, the focus of the first session will be on macroeconomic stability while sustaining economic growth in Pakistan in the context of the current global environment.

A second observation in the context of economic growth is that Pakistan has had a chequered history in terms of poverty reduction. Periods of sustained and high growth have not always coincided with periods of significant reductions in poverty. If growth is not a consistent explanatory factor in poverty reduction, then growth in Pakistan has not been inclusive, with more growth for the non-poor than for the poor. Thus, another factor that should be used to explain the Pakistani economy is the distribution of income and how it has changed over time. One such measure is Pakistan's Gini coefficient, which has moved within a fairly narrow band over time, again providing neither a satisfactory explanation on its own for changes in poverty, nor a supplemental role with growth in providing such an explanation.

So from a policy point of view, it is imperative that there is a good explanation of the macro factors determining poverty levels in Pakistan. Thus, the second session of the conference will focus on examining the broader macro determinants of poverty in Pakistan.

At the global level, a significant development in the financial environment is the rise of China as a major source of external finance for developing countries, as illustrated by the One Belt One Road Initiative. Large infrastructure projects under the China Pakistan Economic Corridor (CPEC) are based on non-traditional and complex financing and ownership structures. New analytical approaches need to be developed in order to evaluate such projects, provide risk mitigation mechanisms and devise means to mobilize resources from traditional as well as non-traditional co-investors. Multilateral Development Banks are seeking to catalyze more investment from private investors and other sources of capital such as pension funds, sovereign wealth funds and insurance companies. The new financial structures and products for promoting *blended finance* still need to be tested for their efficacy and reliability in providing long-term investment funds and their impact on economic growth.

Within the existing economic environment prevailing in Pakistan, there is no doubt that economic performance has been and will remain heavily dependent on the mode, size and pattern of various investment projects undertaken within the framework of CPEC. Realistically speaking, despite all the pitfalls of CPEC mentioned in the business / financial press of Pakistan, current capital flows into Pakistan as a result of CPEC in the form of various investments are the only major source of Foreign Direct Investment and will remain so for the next decade. Therefore, it is critical to explore the impact of CPEC on other sectors of Pakistan's economy such as manufacturing, industry, services and agriculture. This will be the focus of the third session of the conference.

In the 21st Century, technology led innovations in the financial services, Fintech, are opening up new possibilities and have the potential to be a vigorous driver of economic growth. The technology has moved beyond back office applications in banking or trading firms and has spawned a broad variety of new financial products in personal and commercial finance. Established financial services like banking and house mortgages are undergoing radical transformations. *Block-chain*, the system underlying the crypto-currencies like Bitcoin, is revolutionizing international trade, payment systems and the interbank foreign exchange market.

The challenge for the developing countries like Pakistan is how to manage this change in order to accelerate growth and achieve development goals by adopting and adapting to the emerging financial environment. For example, innovative approaches based on new technologies need to be developed for providing access to financial services to the currently excluded sections of the population, channeling workers' remittances into productive investments and stemming the cross-border flow of illicit financial funds. So the fourth session will focus on the development of Pakistani financial services in a rapidly changing global environment.

While much attention has been to the slowdown in Pakistani economic growth at the macro-level, there has been far less attention given to the significant decline in the Pakistani manufacturing sector. Many of the problems Pakistan currently faces are the result of the rapid de-industrialization that is taking place in the country. This points to the need for a coherent industrial strategy that clearly defines priorities and takes into account economic realities like CPEC and current patterns of industrial agglomeration.

This industrial policy must focus on some key questions: First, what are the requirements of Pakistan's major and emerging sectors and how can one use available resources to recommend suitable locations for setting up of special economic zones along the CPEC route? Second, what is the relationship between firm agglomeration and productivity and how can one rank sectors to maximize the benefits from industrial clustering? Third, what is the demand for credit by SMEs and how can one use firms' past borrowing experiences to develop policies for funding the capital investment in the light of credit constraints? Fourth, what is the relationship between relative wages (of production to non-production workers) and the mix of industries that locate in a district and how this can be used to recommend the location of future industrial clusters? Fifth, how can policy makers develop a list of sectors and goods (in particular intermediate inputs) on which Pakistan should be willing to reduce tariffs on imports from China in order to improve Pakistan's export quality in established and emerging sectors?

Not only is it necessary to recognize the importance of the manufacturing sector in overall growth, there is a need to develop coherent solutions to the problems it faces. So, the first session on the second day of the conference will use microeconomic data to answer these critical questions and attempt to formulate a coherent industrial strategy for policy makers.

Finally, in the midst of the entire discussion on Pakistan's economic performance, the agricultural sector seems to have been forgotten, even though it is the mainstay of much of the rural economy. Pakistan is still an agrarian economy to a large extent and agriculture sector has significant potential to contribute to economic growth and development, which has not been fully realized. The agriculture sector's growth has declined gradually in each decade since the 1980s and during the most recent period, i.e. 2010 – 2107, growth has averaged only 2.4 percent per annum, i.e., 45 and 25 percent below that in 1990s and 2000s respectively. The factors underlying the poor performance of the agriculture sector and policies to boost growth in this sector will also be the subject of discussion in this conference.

There are numerous issues facing the agricultural sector such as the poor state of the seed industry, weak extension services and non-existent infrastructure for development of appropriate agriculture machinery and equipment which have trapped agriculture in Pakistan in a low technology equilibrium; stagnation in the dairy industry, particularly for the small livestock holders who are predominant in the sector, because of policy capture by a few large milk processors; how to leverage CPEC to develop a competitive agriculture and agro-industry by identifying clusters of agriculture value chains in the corridor zones classified under the CPEC project and policies needed to promote their integration into the global value chain. So the final session of the conference will focus on strategies to revitalize the Pakistani agricultural sector in an era where commodity prices have declined globally.

In brief, the subthemes of this year's conference focus on several sectors of the economy in the light of the rapidly changing economic environment facing Pakistan, in both a macro and micro framework. Keeping in mind recent developments, we will explore the impact of CPEC on various sectors of the economy. Also, as the role of services increases in the economy of Pakistan, we examine the role of the informal sector and financial services as major determinants of economic growth.