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Pakistan: How Macro-Micro Interaction Has Resulted in an Undervalued, Underperforming Economy

Dr. Rashid Amjad
Lahore School of Economics

As Pakistan attempts to reignite its economy and move towards sustained higher growth, it must overcome the binding constraints that have been responsible for the prolonged recession of the last decade. These factors have lowered the country's average growth rate over the last 30 years, compared to a more robust average growth rate of 6 percent in the past. This paper argues that one must analyze macro-micro interaction to understand the dynamics of economic growth – including the prolonged and increasingly frequent downturns that have left Pakistan with an undervalued, underperforming economy. Only then can policymakers frame appropriate policies to create an enabling macroeconomic environment in which firms and other economic agents can help propel the economy onto a higher growth plane.

About the presenter:

Dr. Rashid Amjad is Professor of Economics and Director, Graduate Institute of Development Studies, Lahore School of Economics. He was Vice-Chancellor of the Pakistan Institute of Development Economics (PIDE) for a term of five years 2007-2012. He served for two and a half years (2008-10) as Chief Economist at the Pakistan Planning Commission and as Member, Planning Commission. Dr. Amjad graduated from Government College, Lahore and went on to do his Tripos in Economics (BA Hons. & M.A.) as well as Ph.D. from the University of Cambridge. His PhD thesis on "Private Industrial Investment in Pakistan 1960-70" was published by the Cambridge University Press, U.K. in its prestigious South Asian Studies Series.

Dr. Amjad taught at the Punjab University, Lahore for seven years between 1969 and 1980, when he left to join the ILO. In the ILO, he held a number of positions including as Director, South East Asia and the Pacific as well as led its Employment Strategy Department. He was a member of the Panel of Economists set-up to frame Pakistan's Fifth Year Plan and contributed chapters to Pakistan's Sixth and Seventh Five Year Plan. As Chief Economist he coordinated the preparation of the Draft Tenth Five Year Plan (2010-15).

His major publications include, The Management of the Pakistan Economy 1947-82 (with Prof. Viqar Ahmed) by the Oxford University Press, The Gulf and Back, Human Resource Development: The Asian Experience (by the ILO)and more recently with S J Burki (edited), Pakistan: Moving the Economy Forward, published by the Lahore School of Economics and then Cambridge University Press in 2015.

Combining Macroeconomic Stability and Micro-Based Growth: The South East Asia/Asia Pacific Experience

A.M. Khalid
Universiti Brunei Darussalam

Macroeconomic growth and stability is one of the major benefits of financial development as well as financial integration, though there are differences in the literature on the channels through which this growth and stability could be achieved. Financial integration has been a priority item on the agenda of Asian policymakers since 1980s. Even the 1997 Asian financial crisis did not hinder the process of financial reforms and integration in the Southeast Asian region. In addition, Asian countries hold a significantly large share of their overall equity and debt portfolios as investments within geographical boundaries of Asia.

This paper aims to further explore the above stated issues in the context of East Asia and Pacific region. The purpose of this paper is two-fold. First, we plan to provide a comprehensive discussion of theoretical and empirical literature on role of important micro and macro policy variables and measures in achieving macroeconomic stability with reference to Southeast Asia. Second, we plan to bring new empirical evidence using data from a selected sample of countries from Asia Pacific region to assess the links between financial depth, financial stability and sustainable growth. The empirical analysis plans to focus on the interdependency between micro- and macro-financial measures to achieve sustainable growth. Key indicators from the financial and real sector will be used to assess the macroeconomic stability. Finally, we plan to provide a brief outlook of Pakistan's financial sector and comment on measures to be taken to ensure financial stability. We believe that the findings of this research will be useful for policy makers.

About the presenter:

Dr. Ahmed Khalid earned his Ph.D. in economics from Johns Hopkins University, USA. He joined Universiti Brunei Darussalam in May 2015 as a Professor of Economics. He is currently Dean of School of Business and Economics. Previously, he worked at the Bond Business School as Professor of Economics and Finance since 2001. He also worked at the National University of Singapore (NUS) from 1992-2000. Professor Khalid has also worked with the World Bank (visiting Consultant); the Planning Ministry of Pakistan (Advisor to the Minister) and Washington and Lee University (visiting Scholar).

Dr. Khalid is also Honorary Professor of Economics at Bond University, Australia and Founder and Covenor of Global Development Forum at the Bond University, Australia. He is a member of the U.K. based International Growth Centre (Macro Research Cluster – Pakistan Chapter) and Bond Representative for the Quality Assurance Program for Sur University College in Oman.

Bangladesh 2000-2017: Sustainable Growth, Technology and the Irrelevance of Productivity

Dr. Matthew McCartney
University of Oxford

Between the 1970s and the present day the image of Bangladesh has been transformed from that of what Henry Kissinger called a ‘basket case’ to an economic and human development success story. Bangladesh has experienced steady (6%+) GDP growth over the last decade, without high inflation or unsustainable debt accumulation, growth continued through and beyond the Global Financial Crisis. Jean Dreze and Amartya Sen in their 2013 book ‘India: An Uncertain Glory’ noted how Bangladesh, from being behind has caught up and overtaken India on many indicators of human development such as infant mortality and immunisation rates. There are now concerns that this progress will be limited and that Bangladesh risks sinking into a ‘middle income trap’. Bangladesh’s exports remain stuck in low-cost, low-productivity, simple textiles being sold in cheap discount shops in the EU and US. The orthodox paradigm in economics stresses that Bangladesh should focus on boosting competitiveness and productivity through new technology and upgrading its structures of production. This paper returns to an old-fashioned idea in economics associated with the work in the 1960s and 1970s of Arghiri Emmanuel, that of Unequal Exchange, to argue that a focus on boosting productivity will be of little benefit unless it is supplemented with old-fashioned efforts to induce structural change in Bangladesh’s economy. There are significant doubts about whether Bangladesh can overcome the global constraints and lack of domestic governing capacity to affect these necessary reforms.

About the presenter:

Dr. Matthew McCartney is the Director of Contemperory South Asian Studies; Associate Professor in the Political Economy and Human Development of India. He has studied for a BA in Economics at King’s College, Cambridge (1993-1996) followed by an MPhil in Economics at Keble College, Oxford (1996-1998) and a PhD in Economics at SOAS, University of London (2000-2004).

Dr. McCarntey also taught in South Korea, India, Pakistan, Poland, and Japan, and worked with the UNDP, USAid, World Bank and EU in Zambia, Botswana, Bangladesh, Georgia, Egypt and Bosnia. He is a political-economy macro-economist. His research interests include the role of the state and late industrialisation; he developed an original framework for analysing the state and applied it to books on India (2009) and Pakistan (2011). He brought many of these ideas together in something much broader, looking at the distinction between the proximate (investment, population, productivity) and deeper determinants (institutions, culture, geography, history and openness) of economic growth in the context of the world economy over the last five hundred years - Economic Growth and Development: A Comparative Introduction was published by Palgrave MacMillan in 2015. His work makes original contributions in particular by being comparative, whereas much of the existing literature on South Asia of the last sixty years has emphasised difference and/ or been national/regional in context. Dr. McCartney’s current projects include two collections of co-edited essays on the work and legacy of Hamza Alavi (with Akbar Zaidi) and also on the work and legacy of Pranab Bardhan (with Elizabeth Chatterjee).

Network Trade and Sri Lanka's Integration into Regional Supply Chains

Dr. Sirimal Abeyratne
University of Colombo

Rapid expansion in network trade – trade based on the formation of regional supply chains, has been a dominant feature of trade performance and economic growth in East and Southeast Asia. Network trade is led by the production and export of parts and components by different countries, followed by assembly and export of the final good by another country – a new facet of international trade pattern that intensified regional integration.

Trade and integration in South Asia has been a debatable issue in trade literature. Given the regional multilateral and bilateral initiatives for integration and trade expansion in South Asia, one would reasonably anticipate emerging network trade patterns within the region. The issue is examined from a Sri Lankan perspective, by separating exports of 'parts and components' from total exports of the country within the region. The analysis shows that, while Sri Lanka's regional trade performance is limited in spite of its entry into regional and bilateral trade agreements, there are no signs of integrating into regional supply chains. Unlike in East and Southeast Asia, there are no network trade patterns or regional supply chains in South Asia. On the part of Sri Lanka too, there is no substantial evidence to suggest that the country is moving beyond its normal trade patterns in the region.

About the presenter:

Dr. Sirimal Abeyratne is a Professor in Economics, University of Colombo, Sri Lanka. While his teaching and research interests are in the field of international trade and development, he has published a series of research work in the areas of regional trade, policy reforms and liberalization, economic dimensions of civil conflicts, development policy issues, and the current economic affairs and issues. He has been a Visiting Fellow at Ryukoku University in Kyoto (Japan), Australian National University in Canberra, University of Trento (Italy), University of Economics in HCMC (Vietnam), and at International University of Japan. He has served as a researcher and a consultant to international organizations such as ADB, ILO, UNDP, JICA, and World Bank, local and international research institutes, and in Sri Lanka the government agencies and corporate sector organizations.

Global Uncertainty and Monetary Policy Effectiveness in Pakistan

Dr. Inayat Mangla
Lahore School of Economics
(Paper co-authored with Dr. Kalim Hyder)

This paper investigates the monetary policy effectiveness of Pakistan in the presence of external global uncertainties amid from economic growth of developed economies and international oil price movements. The synthesis of literature and stylized facts indicate that the monetary policy in advanced economies has become more effective after the successful experiment of Volker's (Fed) in 1979. The improvement in effectiveness of monetary policy can be attributed to the better management of inflationary expectations, enhancement in credibility, transparency and independence of central banks. However, global economies plunged into the recessions and prices of international commodities reached the rock bottom due to lack of demand after the global financial crisis. Efforts of central banks of advanced economies to restore their economies were mainly constrained by the zero bound or lowest interest rates. Due to these lower interest rates in the developed world, capital flows directed towards emerging economies due to higher returns. Pakistan remained unlucky in attracting these flows due to non-economic factors.

In order to explore the impact of these international developments on Pakistan, we estimate the structural VAR in which the impact of international oil prices and global demand is analyzed on the key macroeconomic variable of Pakistan. Robustness of the estimates is ensured by estimating the same structural VAR with local projection method. The impulse response analysis shows that monetary policy is quite effective in controlling inflation in Pakistan. Real policy rate witnesses upward adjustment, real exchange rate depreciates, economic growth slowdown and inflation rise due to unanticipated increase in international oil prices. We also note when real policy rate declines, real exchange rate appreciate, economic growth and inflation increases due to increase in US economic growth. Real policy rates adjust upward in response to shock in inflation and real exchange rate. Real exchange rate depreciates if the inflation increases in the economy. It indicates that monetary authorities (SBP) in Pakistan are fairly effective in stabilizing the consumer prices and real exchange rate in the economy. However as global interest rates tend to normalize over next few years, external account may face serious pressures.

About the presenter:

Dr. Inayat. U. Mangla is currently professor of Finance at Lahore School of Economics as well as Professor Emeritus of Finance At Western Michigan University, Kalamazoo, MI. Dr. Mangla has taught, and conducted research on North American economies, Singapore, Japan, China, Malaysia, Indonesia, India, Pakistan and U.A.E. to name a few. Previously, he has served as a director of the Graduate Programs at the Hawortyh College of Business, Western Michigan University. Dr. Mangla also serves as an Associate Editor of the Journal of Financial Issues, member of Editorial Board of the Lahore Journal of Economics and Pakistan Development Review. Dr. Mangla was appointed at the National Roster of Faculty Specialist Program of the U.S. State Department (Fullbright Commission), and appointed as FSP for Asian Countries in the areas of Finance and Economics for five years.

Dr. Kalim Hyder is working as a senior economist in the Monetary Policy department, State Bank of Pakistan. He has done intensive research on New Keynesian Philips curve in case of Pakistan and earned a PhD degree from University of Leicester, UK. Currently, he is working on the effectiveness of monetary policy in Pakistan. His main areas of expertise are monetary economics, economic growth and econometrics. He has produced good quality research that has been published in international journals.

External Debt Management and Capital Flows: Issues and Challenges in Pakistan

Dr. Jamshed Y. Uppal
The Catholic University of America
(Paper presented by Dr. Ghulam Saghir)

In the recent decades there has been a remarkable increase in the private capital flows to the developing countries from issuance of international bonds, [ii]. Multilateral and bilateral loans have increasingly been replaced by obligations to disperse and diverse bondholders. This shift in the funding sources has raised new challenges by exacerbating the information asymmetries, collective action and creditor coordination issues, and exposes the borrowing countries to additional financial instability risk. The global financial crisis has highlighted issues of sovereign default and debt restructuring, exemplified by the recent litigation in the Argentine case which has given a disproportionate leverage to the professional holdouts or vulture funds, complicating restructuring and substantially increasing its cost, [i][v][vii].

Pakistan like other developing countries has been able to tap in the financial markets for raising sovereign debt, as highlighted by the recent issue of US$1 billion sukuk bonds at 5.5 percent coupon rate. Its share of external debt from non-Multilateral/bilateral sources is now over 30%. Total external debt Considering the rapid increase in the external debt in the last decade, a number of economists have raised alarm over its sustainability and the possible adverse impacts on the country's economic stability and growth, [v].

This paper reviews the Pakistan's external debt and capital flows in the light of the changing global financial environment, and analyzes the issues and challenges that they pose. The risk factors to the debt sustainability are discussed keeping in view the short-term and medium term repayment liabilities, as well as financing requirements for the projects to be undertaken under the China-Pakistan Economic Corridor (CPEC).

About the presenter:

Dr. Jamshed Uppal is an Associate Professor of Finance, Catholic University of America. He specializes in the financial management area. He received his Ph.D. and M.B.A. degrees in finance from the Michigan State University. Dr. Uppal also holds an M.A. degree in economics and a professional certification in cost and management accounting. Before joining the CUA School of Business and Economics, Dr. Uppal taught at the Oakland University, Michigan. Additionally he has extensive professional and business experience.

Dr. Ghulam Saghir is the Assistant Professor at Business School, University of Central Punjab (UCP) where he teaches in the areas of Macroeconomics, Financial Econometrics, Marketing, Money, Banking and Finance. Dr. G. Saghir received his PhD in Economics from Pakistan Institute of Development Economics (PIDE), Islamabad. His specializations include Monetary Economics, Econometrics, Macroeconomics, and International Economics. Over the past decade, he has taught at graduate and postgraduate levels at various public and private universities. He also taught courses at PIDE.

Exchange Rate Management, Structural Change and Economic Growth

Dr. Naved Hamid
Lahore School of Economics
(Paper co-authored with Azka Mir)

As the exchange rate links the domestic market with the international market it plays a significant role in investment decisions in a country. Exchange rate misalignment, by distorting relative prices of tradeables and nontradeables, can result in a misallocation of resources and overvaluation of the exchange rate can adversely affect the profitability and growth of the manufacturing sector. Rodrik (2008) goes even further and argues that in developing countries "undervaluation of the currency (a high real exchange rate) stimulates economic growth". In brief, management of the exchange rate may be one of the most important policy instruments for a developing country.

In this paper it is argued that the policy with regards management of the exchange rate in Pakistan has undergone a significant change for the worse in recent years. It is shown that prior to March 2013, the policy target of the exchange management was stability of the real effective exchange rate (REER). However, during the tenure of the current PML(N) government the policy target for exchange rate management seems to have been the stability of nominal exchange rate against the US dollar. As the currencies of Pakistan's major trading partners (UK, Europe and China) have depreciated against the dollar during this period, as result the REER has appreciated by over 20 percent between May 2013, when the PML(N) government took office, and December 2016.

This reversal exchange rate management policy has had an adverse impact on exports and the manufacturing sector, which could have serious consequence for long term, sustainable growth of the economy. At the same time non-oil imports have expanded significantly and there is increasing risk of a balance of payments crisis. If such a crisis does occur and Pakistan is forced to go back to IMF the present economic expansion will come to an end and once again the stop-go growth pattern of growth seen in the last two decades will continue.

About the presenter:

Dr. Naved Hamid is Director Centre for Research in Economics and Business (CREB) and Professor at the Lahore School of Economics. He has served on various working groups and advisory panels of the Government and boards of not-for-profit organizations. He has previously worked at the Asian Development Bank, Manila, Lahore University of Management Sciences (LUMS) and the Punjab University. He has a PhD in Economics from Stanford University, USA, and BA (Hons) from Cambridge University, UK. His publications include: Chapter 6 on Export Lessons from the Past and the Way Forward (with Hamna Ahmed and Mahreen Mahmud) in Pakistan Moving the Economy Forward, edited by Rashid Amjad & Shahid Javed Burki, Delhi: Cambridge University Press, 2015; Chapter 2 on Migrant Remittances to South Asia: Determinants and Effect on Growth (with Mahreen Mahmud). In Adjusting to Global Economic Volatility. The Case of South Asia, edited by R. M. K Mujeri & M. Wahiduddin, New Delhi: Academic Foundation, 2014.

Azka Mir is a Research Assistant & Teaching Associate at Lahore School of Economics. She is currently working on her Mphil thesis in Economics under Dr. Theresa Thompson Chaudhry. She has acquired BSc (Honors) Double Majors in Economics and Finance from Lahore School of Economics. Her area of interest revolves around development economics.

Fiscal Policy and Economic Growth

Syed Shabbar Zaidi
A.F. Ferguson & Co

'Tax is the cost of civilization'; taxing the right people for generating enough funds for development expense for the benefits the society as a whole. Socio-political dynamics being the ultimate objective of any state rather than financial management.

Fiscal policy is an important tool of modern governments to steer economy in right direction towards common benefits, for developing countries it has conflicting objectives that include: (i) Availability of adequate resources for the governments for developmental expenditure on education, health, infrastructure and security; (ii) Competitive rate of taxation for corporates and non-corporate sectors to stop outflow of investment; (iii) Reasonable proportion of collection through direct taxation measures in order to provide equity in allocation of wealth.

In Pakistan, fiscal policy is essentially a revenue collection measure only; ignoring the fundamental principles of equitable distribution of wealth and effective mobilization of saving for growth. Currently, it is the tool used to provide 'protection' to traders through 'Presumptive Taxation Regime'; where burden of indirect tax is on the consumer. The income or loss from such transaction falls outside the tax regime. Only taxable activity subject to normal tax regime is now the 'industrial production' or documented service sectors such as banks etc. A tight fiscal policy, provides incentive for 'selective/non-inclusive growth'; which results in undocumented and untaxed sector which as consequence provides competitive business advantage for a large segment of economy that falls outside the orbit of any form of fiscal regime. Presumptive tax regime, perpetual amnesty scheme and non-availability of asset database are few of the primary features of tax regime that has created islands of prosperity within the sea of misery.

About the presenter:

Syed Muhammad Shabbar Zaidi, who has an extensive experience in corporate and tax law and has a distinguished record of achievements to his credit, is a Chartered Accountant by profession and currently serving as the Senior Partner of A. F. Ferguson & Co., Chartered Accountants.

He has served as the President of the Institute of Chartered Accountants of Pakistan (ICAP), Chairman of the Professional Standards and Technical Advisory Committee of ICAP and President of South Asian Federation of Accountants. He has also served as a Caretaker Provincial Minister of Sindh for Finance, Revenue, Excise & Taxation and also acted as a member, director, trustee, and sponsor on the Board of various prestigious organisations including Karachi Stock Exchange, State Bank of Pakistan, Developing Nations Committee of International Federation of Accountants, New York, etc.

Fiscal Deficit and Economic Growth in Pakistan: New Evidence

Dr. Nasir Iqbal
Benazir Income Support Programme
(Paper co-authored with Dr. Musleh ud Din and Dr. Ejaz Ghani)

This study revisits the relationship between fiscal deficit and economic growth in Pakistan with a view to exploring whether there exists a threshold level of fiscal deficit which can act as a benchmark for policymakers aiming to promote growth through fiscal expansion. The analysis is carried out using time series data over the period 1972-2014 by applying the Smooth Transition Autoregressive (STAR) model. The empirical analysis shows that the threshold level of fiscal deficit is 5.57 percent of GDP in Pakistan. Overall, fiscal deficit has a negative impact on economic growth as it has remained mostly above the threshold level. However, the analysis shows that there is room for fiscal policy to be growth-promoting provided fiscal deficit is kept below the threshold level and public spending is channeled into productive investments that raise the long term growth potential.

About the presenter:

Dr Nasir Iqbal is Director of Research at the Benazir Income Support Programme (BISP). Previously, Dr. Iqbal was Assistant Professor of Economics at Pakistan Institute of Development Economics (PIDE). He earned his PhD in Economics in 2013 from PIDE. Dr. Iqbal has an extensive experience in research and policy analysis in the diversified disciplines of economics including poverty, migration, trade, governance and development. His research interests include trade, fiscal decentralisation, poverty, migration and institutions. He has published numerous articles in national and international well reputed journals. He has presented his work at national and international forum and conferences.

Day 2: Thursday, 30 March, 2017

Session 4: ***Openness, Economic Growth and Firm Level Productivity***

Pakistan's Experience with the Pakistan-China Free Trade Agreement: Lessons for CPEC
Theresa Chaudhry, Nida Jamil & Azam Chaudhry, Lahore School of Economics

The Effects of Foreign Capital Inflows on Economic Growth in Pakistan: An Econometric Analysis
Tayyeb Shabbir, Wharton School, University of Pennsylvania, USA

Session 5: ***Investment, Technology Upgradation and Job Creation***

Financing Technological Upgrading: The East Asian Experience
Rajah Rasiah & Shujaat Mubarik, University of Malaya, Malaysia

Investment Patterns and Behavior: The Austrian Case as a Kind of Regional Central European Typus
Hanns Pichler, Vienna University of Economics and Business, Austria

Diversification on Small Farms: An Empirical Investigation of Panel Data From 2001 To 2010
Sadia Hussain & Farah Said, Lahore School of Economics

Session 6: ***Strengthening Institutions and Improving Governance for Equitable Growth***

Are Some Groups More Vulnerable to the Business Cycle Shocks Than Others? Regional Analysis From Pakistan's Labor Market
Mehak Ejaz, SZABIST, Karachi
Kalim Hyder, State Bank Of Pakistan, Karachi

Mobile Banking: A Potential Catalyst for Financial Inclusion and Growth in Pakistan
Kumail Rizvi, Lahore School Of Economics
Bushra Naqvi, Lahore University of Management Sciences
Fatima Tanveer, Lahore School of Economics

Pakistan's Experience with the Pakistan-China Free Trade Agreement: Lessons for CPEC

Dr. Theresa Thompson Chaudhry

Lahore School of Economics

(Paper co-authored with Nida Jamil and Dr. Azam Chaudhry)

As Pakistan enters the CPEC era, there is a sense of both optimism and concern due to uncertainty regarding the economic impact of this major collaboration between China and Pakistan. In this paper, we test the impact of the last major economic agreement between the two countries, which was the 2006 Pakistan-China Free Trade Agreement (FTA). Using firm-level data as well as trade data, we empirically test the impact of this FTA on the productivity, size and value-added of potentially affected Pakistani firms. We then use these results to draw policy related conclusions for CPEC related initiatives.

About the presenter:

Dr. Azam Chaudhry is Professor of Economics at the Lahore School and the Dean of the Economics Faculty. He has a B.Sc. (Hons.) in Economics from London School of Economics where he specialized in Monetary Economics, Econometrics and Corporate Finance and a M.A. and Ph.D in Economics from Brown University, USA. He joined the Lahore School of Economics in 2005 and before that he worked for the World Bank. His areas of interests are International Trade, Macro Economics and Economic Growth. His current research projects are: Spillovers in technology adoption: evidence from a randomized experiment in Pakistan and Effects of external migration on school enrollments, accumulated schooling and dropouts in Punjab.

He teaches Econometrics and Macroeconomics at the Lahore School and his research interests include Innovation and Technological Change, Institutional Economics, Economic Growth and Development, Political Economy and Empirical Macroeconomics and Microeconomics.

Dr. Theresa Chaudhry is Professor of Economics and a fellow of the Centre for Research in Economics and Business (CREB) at the Lahore School of Economics. She teaches microeconomics for the BSc Economics, MPhil Economics, and PhD Economics programs. She also serves as an editor of the Lahore Journal of Economics, a bi-annual scholarly journal cited in the JEL. Her research is principally in the areas of firm productivity, child health, and education.

The Effects of Foreign Capital Inflows on Economic Growth in Pakistan: An Econometric Analysis

Dr. Tayyeb Shabbir
Wharton School, University of Pennsylvania

Studying the impact of Foreign Capital Inflows such as foreign direct investments as well as loans and ODA on economic growth of a country has been a topic of considerable academic as well as practical interest. The importance of analyzing this phenomenon has garnered a new significance for Pakistan in light of the nearly $ 50 billion dollar capital inflow under the auspices of the just-launched China Pakistan Economic Corridor (CPEC) project which, of course, is the flagship project of the Chinese rather ambitious initiative christened as “One Belt, One Road”.

This paper specifies and estimates a simultaneous two-equation model of economic growth and domestic national savings (as a ratio of GDP) for Pakistan. The model estimates are obtained using 2SLS (Two Stage Least Squares) utilizing time series data for Pakistan for the period 1972-2015. The estimation procedure is called for in light of the endogeniety of GDP growth rate and domestic national savings (as a ratio of GDP). The model is an attempt to empirically capture the Direct as well as Total (Direct + Indirect) Effects of Foreign Capital Inflows (FCI) on economic (GDP) growth rate.

About the presenter:

Dr. Tayyeb Shabbir is an alum of GC Lahore, Quaid-e-Azam University as well as of Penn’s Ph. D. economics program, he currently teaches at the Finance Department of the Wharton school as well as is a tenured full professor at the California State University – previously, he was also a full time faculty member of Penn’s Economics department for over ten years. A national valedictorian throughout his educational career, he was a Rhodes Scholarship Finalist from Pakistan. Dr. Shabbir is widely published in distinguished journals, is on several of their editorial boards and has co-edited a book on financial crises with Noble Laureate in Economics, Professor Lawrence Klein. He regularly consults for international organizations.

His current research interests are Sovereign Wealth Funds, Chinese financial system, global implications of CPEC, Entrepreneurship and dynamics of the Pakistani economy as well as the growing Pakistani-American community.

Financing Technological Upgrading: The East Asian Experience

Dr. Rajah Rasiah
University of Malaya
(Paper co-authored with Shujaat Mubarik)

East Asian economies have enjoyed unprecedented economic growth rates over the last 50 years, which in contrast to neoclassical growth accounting studies, has been driven largely by technological upgrading and capital accumulation. Thus, we examine in this paper how technological upgrading has been financed in the five East Asian countries. The most successful of the five, i.e. resource-poor South Korea, relied heavily on foreign loans and grants in the early years to support technological upgrading. In addition to revenue from resource exports, Indonesia, Malaysia, the Philippines and Thailand enjoyed strong inflows of foreign direct investment. As exports expanded, including from savings, domestic investment began to figure strongly in financing economic development and technological upgrading in these countries, albeit all five economies were derailed by the Asian financial crisis in 1997-98 as their rising currencies widened their current account and short-term debt service deficits. However, South Korea has been far more successful in stimulating technological upgrading than Indonesia, Malaysia, the Philippines and Thailand. While South Korea has invested much more than the other four economies on technological development, including on R&D, we argue that its stringent ex ante vetting, monitoring and ex post appraisal has been equally important in successfully helping the country to minimize the dissipation of subsidized credit and R&D rents. Propelled strongly by foreign direct investment and resource exports but lacking in strong governance structures, economic growth and technological upgrading in Indonesia, Malaysia, the Philippines and Thailand have lacked stringent ex ante vetting, monitoring and ex post appraisal to curb rent dissipation and raise performance standards. Malaysia attempted to follow the South Korean model somewhat by identifying strategic high tech industries in the 1990s and to offer them high tech infrastructure, and R&D grants. Sovereign wealth funds have also been important in Malaysia but their record on technological upgrading has not been impressive. Indonesia, the Philippines and Thailand attempted to provide high tech infrastructure for selected industries since 2000, such as for automotive products and electronics, but did not target them for R&D grants. Hence, whereas South Korea managed to reverse its net negative royalty balance in the 1970s and early 1980s through a sharp expansion in technology exports to eventually increasing surpluses from the second half of the 1980s, royalty deficits from technology flows have continued to show worsening trend in Indonesia, Malaysia, the Philippines and Thailand.

About the presenter:

Dr. Rajah Rasiah is Professor of International Development at the Faculty of Economics and Administration, University of Malaya. He obtained his doctorate in Economics from Cambridge University in 1992, and was a fellow at the Ash center for Democratic Governance and Innovation, Harvard University in 2014. He was the first holder of the Khazanah Nasional Chair of Regulatory Studies, and served as Dean of the Faculty of Economics and Administration, University of Malaya in 2009-2010 and 2013-2014. He is a member of the GLOBELICS scientific board, and an advisory member of the Industrial Development Research Centre, Zhejiang University, professorial fellow at UNU-MERIT, and a senior research fellow at the Technology Management and Development Centre, Oxford University. He has served as a consultant to the United Nations Conference for Trade and Development, United Nations Industrial Development Organization, World Bank, International Labour Organization, the World Intellectual Property Organization, United Nations Educational, Scientific and Cultural Organization, United Nations Development Programme, the Asian Development Bank and the Economic Research Institute for ASEAN and East Asia. He is the 2014 recipient of the Celso Furtado prize from the World Academy of Sciences for his seminal contributions to the field of social sciences (development economics).

Investment Patterns and Behavior: The Austrian Case as a Kind of Regional Central European Typus

Dr. Hanns Pichler
Vienna University of Economics and Business

Based on an EU-related recent country study for Austria, as kind of a „pilot“ for the typically open smaller Central European economies (such as Switzerland, Slowenia, Slovakia, Tschech Republic, Hungary, Croatia and in part also Northern Italy with historically grown structural similarities), this contribution tries to illustrate current investment behaviour and „climate“ in the context of the given macro-economic framework conditions and related constraints against a catalogue for more investment conducive policy recommendations and topical policy formulation.

Against a background of persistent economic uncertainties in the wake of the more recent financial crisis, investment levels to a large extent in Europe still have not regained pre-crisis levels with continued rather sluggish attitudes and dynamics. especially as regards new investment with both explicit and implicit technology effects for enhanced efficiency and up-grading.

In terms of obvious policy requirements and topical policy formulation it becomes evident also that businesses and entrepreneurs were quite responsive to well conceived incentives and conducive policy instruments for recreating an environment of a much needed, again more dynamic investment climate making proper use, thereby, of on-going technological advances for enhanced productivity, economic progress and growth.

About the presenter:

Dr. Hanns Pichler graduated from Vienna University of Economics and Business with a Master’s in 1958 and Doctorate in 1960 and a M.Sc. Economics/Econometrics in 1963 from University of Illinois, USA. He was a senior Economist/Resident Representative at the World Bank Group from 1965 to 1974) with far ranging responsibilities in Latin America, the Caribbean, Eastern Africa, and especially South & South-East Asia. He has been Head of Department & Institute of Economics from 1975-2004 and Emeritus since 2004.

Dr. Pichler has earlier served as Senior Schumpeter Fellow, Center for European Studies, Harvard University, as President/Chairman and memberships of various scientific as well as professional societies and institutions and as Consultant World Bank Group and UNIDO amongst other.

Diversification on small farms: An empirical investigation of panel data from 2001 to 2010

Sadia Hussain
Lahore School of Economics
(Paper co-authored with Farah Said)

The agricultural sector in Pakistan has experienced restructuring in the last decade ranging from changes in land markets to spillovers from non-agricultural labor markets. There has been a sharp decline in percentage share of Gross Domestic Product from agriculture from 26 percent to 22 percent. However, it is one of the most important sources of livelihood accounting for 45 percent of the country's workforce. Agriculture remains at the forefront by policy makers but the role of small farmers in poverty reduction is still under scrutiny. We propose that the future of small farms cannot be viewed in isolation without taking into account the linkages from nonfarm rural activities. We use Pakistan Panel Household Survey data from 2001 to 2010 to identify the determinants necessary to survive in agriculture for small and marginal farmers. The sample is primarily rural covering all four provinces. Around 2058 distinct households are analyzed over a period of ten years to determine the causal impact of diversification by small farmers on growth in farm size, consumption and other welfare indicators.

About the presenter:

Sadia Hussain is currently working as a teaching and research fellow at Lahore School of Economics. She finished her Mphil in economics on theory of political economy in 2016. Over the past year, she has been actively involved in research working on projects on innovation in the textile industry. Her areas of interest include behavioral economics, political economy and micro-macro linkages.

Farah Said obtained her MSc. in Financial Economics from the University of Oxford. She is currently enrolled in the PhD Economics programmme at the Lahore School of Economics. She is also a Research Fellow and Assistant Professor at the Lahore School of Economics. At present, she is working on a study with researchers at Stanford, Oxford and the Lahore School of Economics to compare the effectiveness of micro-savings and micro-loans as means for households to manage risk and liquidity. She is also working on a study to evaluate the socio-economic and welfare impacts of micro-loans to female micro-entrepreneurs using lab-in-field experiments. Previously, her research was focused on determining whether household decision-making changes as a result of experiencing rare events, such as natural disasters.

Are Some Groups More Vulnerable to the Business Cycle Shocks Than Others? Regional Analysis From Pakistan's Labor Market

Dr. Mehak Ejaz
SZABIST
(Paper co-authored with Dr. Kalim Hyder)

This article identifies the extent of vulnerability of various socioeconomic groups to the aggregate business cycle fluctuations. Socioeconomic groups are classified on the basis of gender, location, employment status, and age cohort. Further, each group is divided into various income categories. Hodrick–Prescott filter method is applied to find out the underlying trajectory of real economic growth and inflation in Pakistan. This provide the aggregate economic fluctuations by identifying the recessions, trough, expansions and boom. Vulnerability index is derived from the standard normal probability distribution of the real earnings of the individuals, to gauge the impact of aggregate economic fluctuations on the earnings of different socio-economic groups. Further, the asymmetric behaviour of economic growth indicates that some groups gain less during recovery and boom phase and face strict implication of recession. The empirical results pointed out that the employer category of labour force in Baluchistan with graduate level of education are the most vulnerable. Gender wise analysis suggests that female workers are more vulnerable than males. Given the city wise data on inflation, vulnerability has been explored across various spatial entities. The panel data of inflation along with economic growth enables us to investigate the implications of tradeoff between economic activity and inflation on the vulnerable groups. Due to unavailability of panel data of households, Labor Force Survey and Pakistan Social and Living Standard Measurement Survey have been utilized to construct the panel data for cities. GMM technique, by using appropriate instrumental variables is applied to address the issue of endogeneity in the aggregated price data in each city. The results indicate that food inflation have strong negative impact whereas the non-food inflation increases real earnings. The GMM estimation and vulnerability index results provide consistent findings. Policy implications are provided on the basis of existing public social safety net programs and prospective private social innovation programs targeting vulnerable and poor households.

About the presenter:

Dr. Mehak Ejaz, PhD Economics (University of Sheffield, 2015); M.Phil Economics, Lahore School of Economics (2010), MA Economics, University of the Punjab (2004-05) is an Assistant Professor of Social Sciences Department at Shaheed Zulfikar Ali Bhutto Institute of Science and Technology-SZABIST, Karachi, Pakistan. Her areas of expertise are Labour Economics and Gender Studies. She has been serving in the academic and research institutions (National and International, Private and Public) for the last twelve years to-date. She is an author of several research papers published in the journals of international repute. Her fields of interest are Economics, Micro-econometrics, poverty, inequality, Political economy, women's labour force participation, wage-gap and empowerment.

Mobile Banking: A Potential Catalyst for Financial Inclusion and Growth in Pakistan

Dr. Kumail Rizvi
Lahore School of Economics
(Paper co-authored with Dr. Bushra Naqvi and Fatima Tanveer)

Almost half of the world's adult population lacks access to a formal bank account and other financial services with Pakistan being no exception. It is also included among the countries residing on the lower side of the spectrum of financial inclusion. Multiple steps are being taken by the government regulators and private sector to improve the access to financial services such as credit, savings, remittances and insurance to the general public, and the introduction of mobile banking platform is the one most notable among them.

Mobile banking platform, comprising mainly mobile wallets and Over the Counter (OTC) transactions, are diffusing around the world at a rapid pace and possess the potential to reduce barriers to financial inclusion and transform economies. The benefits of this platform are even more pronounced for the economies with weak existing financial architecture and where costs of time and distance are substantial in formal banking.

The most significant contribution of this paper is that it is the first attempt to trace and compile the history of mobile banking in Pakistan in one consolidated document. In this paper we also study the various models of Mobile Banking and assess its current state using available data to understand how the segment has been evolving overtime and transforming the conventional banking structure in the country. Finally the paper touches upon the ecosystem that needs to be built in Pakistan to utilize the full potential of this technology and makes some recommendations how to move forward in that direction.

About the presenter:

Dr. Kumail Rizvi, Ph.D. in Finance from CES Axe Finance (Panthéon Sorbonne, Paris), CFA (Chartered Financial Analyst) and FRM (Financial Risk Manager). Dr. Rizvi is an Associate Professor & Group Coordinator (Finance) at the Lahore School of Economics and Editor – Lahore Journal of Business (LJB). Dr. Rizvi, a chartered financial analyst and certified financial risk manager, has been working as Associate Professor of Finance at Lahore School of Economics since 2012. He has over sixteen years of teaching/ research and administrative experience at several public and private sector institutes. His primary research interests lie in the areas of Strategic Corporate Finance, Investment Valuation, Portfolio Management, Risk Management and Behavioral Finance.

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