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Tenth Annual Conference on Management of the Pakistan Economy

Pakistan in the Global Economy Opportunities and Challenges

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Lahore School of Economics

DAY 1: Wednesday, 26 March 2014

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Growth Spurts and Reversals: A Historical Perspective

Dr. Rashid Amjad
Graduate Institute of Development Economics

Pakistan's sixty-seven years history has been characterized at regular intervals by spurts of high economic growth followed by periods of low to moderate growth. The recent prolonged recession accompanied by high inflation – stagflation – over the last five years (2008-13) has focused attention on the causes of these stop-go cycles and measures needed to break-out into a high and sustainable growth trajectory. The paper reviews the earlier and more recent explanations of these growth cycles and presents a new periodisation and framework to analyse and judge Pakistan's economic performance. It argues that while Pakistan has displayed considerable resilience in facing up to the three major watersheds in its economic history – partition in 1947, the break-up of Pakistan in end-1971 and the Russian invasion of Afghanistan in 1979 - the continuing impact of the last of these has been far reaching, especially its negative impact on Pakistan taking advantage of the quickening pace of globalization that followed. Drawing on this historical experience the paper poses the question whether the new democratic dispensation will finally break this cycle and what measures would be needed for it to do so.

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). Dr. Amjad has published a number of books and a large number of articles in internationally recognized journals. Most recently he has edited (with Shahid Javed Burki) the volume, "Pakistan: Moving the Economy Forward", (Lahore School of Economics Press) which provides a comprehensive review of economic challenges facing Pakistan and presents a short- to medium term strategy together with concrete policies to move the economy forward to a path of higher, sustained and inclusive growth.

Monetary Policy, Inflation and Economic Growth

Dr. Mohsin Khan
Atlantic Council

The design and operation of monetary policy has evolved considerably over the past two decades. This paper examines how these developments have been incorporated into Pakistan's monetary policy framework. The analysis focuses on the relationship between monetary policy and inflation, and then on inflation and economic growth. It is argued that the State Bank of Pakistan has often found itself facing the classic dilemma of operating an independent monetary policy in the context of an open capital account, an exchange rate target, and an economic growth objective. Adopting an inflation targeting regime would be a more appropriate way to conduct monetary policy, as other countries have found, and keeping inflation low would have beneficial effects on long-run economic growth.

About the presenter:

Mohsin Khan is a senior fellow in the Rafik Hariri Center for the Middle East at the Atlantic Council in Washington, DC. Dr. Khan was a senior fellow at the Peterson Institute for International Economics since March 2009. Previously he was the Director of the Middle East and Central Asia Department at the International Monetary Fund (IMF). This department is responsible for monitoring macroeconomic developments and providing policy advice to 32 countries in the Middle East, North Africa, and Central Asia, and for advising IMF management and Executive Board on country-specific and regional matters. He holds degrees from Columbia University (MA) and the London School of Economics (BSc. and PhD).

Dr. Khan's publications cover macroeconomic and monetary policies in developing countries, economic growth, international trade and finance, Islamic banking, Middle East oil markets, exchange rates, and IMF programs. He has edited 7 books, published numerous articles in major economics journals, and serves on the editorial boards of 10 academic journals. In 2003 he was awarded the Islamic Development Bank Prize in Islamic Economics for outstanding contributions to the field.

Pakistan's Parallel FX Market

Dr. Mushtaq Khan
State Bank of Pakistan
(Paper presented by **Asma Khalid**)

About the presenter:

Mushtaq Khan joined the State Bank of Pakistan in 2009 as Chief Economic Adviser, Policy Development. Mainly associated with the Bank's policy guidance on macro challenges & projections, monetary policy, PSEs and managing SBP's flagship publications. Dr. Khan was previously with the Citigroup, London as Director and Cluster Economist from August 2006 – February 2009. Working with the Sales & Trading team, published extensively on political and economic developments in the MENA region and Pakistan. Dr. Khan was selected as the Pakistan Scholar for the year 2005/06 for the Woodrow Wilson Center for International Scholars, Washington, DC. He has been associated with Citibank, Dubai, UAE and Karachi, Pakistan as Vice President & Chief Economist from April 2002 – August 2005. He holds degrees from Vassar College (A.B in Economics) and Stanford University (PhD in Economics). His Primary Fields of Research are Development Finance; Money & Banking; International Trade & Finance and Macroeconomics.

Asma Khalid joined the State Bank of Pakistan in 2002. Mainly associated with the Bank's mainstream publications including Annual and Quarterly Reports. Presently she is working as Publication Manager in the Economic Policy Review Department of the State Bank of Pakistan, with special focus on the External Sector (balance of payments; FX reserves; and exchange rate). Before that, I was working exclusively on textile related issues, and prepared several policy papers. Ms. Khalid has a degree of MA Policy Economics from Williams College, Massachusetts (2009) and has also worked as Teaching and Research Assistant in Williams College for 6 months in 2011.

Foreign Liquidity Crisis and the Economy – Pakistan A Long Term Comparative View

Dr. Shakil Faruqi
Lahore School of Economics

During the waning days of the year 2013, the people of Pakistan were enlightened by the President of the country as a parting thought of the year,...."the begging bowl can't be broken.....people should be patient... the debt of Pakistan has increased from Rs 6700 billion in 2008 to Rs 14800 billion in 2013....only through democracy Pakistan can develop....all institutions, media, political parties should...do more...." With such exhortations from President, the year ended.

Taking exception, the rejoinder is that "begging bowl" can be broken as comparative experiences have shown us. It has been broken by a number of countries including India next door and many other countries. What a succor such exhortations are for ordinary Pakistanis, facing intensified burden of poverty, back breaking prices of basic food items essential for survival, a debilitating energy crisis, trundling through for a few scraps of fuel (see exhibit), and living under constant fear of terrorism.

This is too wide a canvass; hence we shall limit ourselves to explore implications of the above. The central proposition of this paper is that breaking the 'begging bowl' would need a firm resolve at structural transformation as outlined in this paper and it would be doubly difficult in current times than it was before. This would, require more than tinkering around with trade and exchange regime or chasing stabilization programs, papering over periodic liquidity crisis and near-insolvencies with expensive bridge financing, while squeezing the belt ever more tightly. For more than half a century we have been doing just that. Pakistani rupee has been steadily depreciating and Pakistan went through many standby programs, but we are back to square one. Standby programs have failed to deliver from recurrence of crises. Look where we stand today.

Instead, breaking the bowl would require structural transformation which Pakistan embarked upon rather half heartedly two decades ago, while experimenting with autarchy, socialism - Fabian or Islamic, nationalization, back to market system, bad governance and all, but never pursuing it through its fruition as other countries did. This transformation will be more difficult in current times than it would have been in previous decades. Let us see how far we succeed in outlining how this structural change can be accomplished.... or is there any other way out?

About the presenter:

Dr. Faruqi is Professor of Financial Systems at the Lahore School. He has M.A in Economics from University of Pennsylvania, USA and Ph.D in Economics from Rutgers, USA. Dr. Faruqi worked at the World Bank for the period 1972-1997. He managed major Training Programs for the EDI / WB during 1990-1996 in Banking and Financial Systems; established training facilities, programs and faculties in Central Asian Republics and managed large Technical Assistance Projects for the Financial System and Securities Market Development.

For the period 2000-2003, Dr. Faruqi was Advisor to the Governor, State Bank of Pakistan. He organized and managed training in Central Banking and Financial System Management; launched Changed Management activities at the State Bank, and established Training Institute of SBP, NIBAF, Islamabad. His Major publications include; 'Glossary: Banking and Finance, English-Urdu / Urdu-English', State Bank of Pakistan / Institute of Bankers, EDI / World Bank / Lahore School.

Being "Afraid of Float" to "Benign Neglect", A Jolting Ride of SBP on the Roller Coaster of Exchange Rate Regime

Dr. Syed Kumail Rizvi
Lahore School of Economics
(Paper co-authored with Nawazish Mirza and Bushra Naqvi)

"One of the most pressing issues concerning policy makers today is the choice of an exchange rate regime. Despite that fact, if authorities focus on the following principles, namely, full implementation to ensure credibility and synchronization with domestic realities and economic infrastructure, the list of alternative options could be narrowed down. This paper attempts to propose an optimal exchange rate regime to the monetary authorities of Pakistan (SBP) based on a historical study of the outcomes and performance of different monetary stances that have been taken for the last forty years."

About the presenter:

Dr. Rizvi has been working as Assistant Professor Finance at Lahore School of Economics since January 2012. Prior to joining Lahore School he was Head of the Department of Finance at University of Central Punjab, Lahore. During his tenure at Sorbonne (University of Paris 1), Dr. Rizvi worked at CES Axe Finance (Formerly TEAM Laboratories) as a teaching assistant and researcher. He worked under the supervision of Prof. Christian Bordes (Member ECB Shadow Council) and has been affiliated with some of the leading Economists and Financial Analysts including Prof. Christian de Boissieu (Chief Economic and Financial Advisor to French Prime Minister) and Prof. Patrick Artus (Director Research at NATIXIS Bank and member of French Economic Think Tank).

Dr. Rizvi is also a Chartered Financial Analyst (CFA) and Certified Financial Risk Manager (FRM). He has more than ten years of teaching/research and professional experience in the domain of Finance, Investment Analysis, Risk Management and Monetary Economics and he has taught courses at several leading universities and institutes of Pakistan and France. His primary research interests lie in the areas of Investment Valuation and Portfolio Management, Risk Management and Hedging Strategies, Monetary and Financial Economics and Behavioral Finance.

What does the exchange rate do? "A status symbol?"

Sikander Rahim
Former World Bank

Devaluation of a currency in terms of foreign currencies or metallic standards was for long considered to be undesirable and, if unavoidable, a sign of failure. Attitudes have since changed and devaluation is thought to bring advantages, especially by making economies more competitive exporters. This paper is intended to show that it has disadvantages that outweigh any supposed advantages, notably its effects on inflation, income distribution, service on foreign debt and incentives. It does so by describing in concrete terms the relations between foreign and domestic prices and the costs of untradable goods and services that are components of the price of any good in any domestic price index. It also discusses te motives, official and unofficial, that have prompted the monetary authorities of Pakistan to make a practice of regular depreciation of the rupee and to question their justification.

About the presenter:

Sikander Rahim studied mathematics at Cambridge University, graduating with a BA in 1961, after which he studied economics there. He worked at the PIDE, the Economic Affairs Division and the Planning Commission before joining the World Bank staff as a country economist in 1978. He retired from the World Bank in 1997 and has since then been frequently associated with the Lahore School and has occasionally taught here.

Changing Landscape of RTAs and PTAs: Analysis and Implications

Rashid Kaukab
CUTS International

This paper traces the evolution of "discriminatory" international trading arrangements – regional trade agreements (RTAs) that offer to their members better market access to each other's markets than what is available under the WTO, and preferential trade agreements (PTAs) that offer to developing and least-developed countries non-reciprocal market access to certain markets. The number, coverage and depth of RTAs have seen a tremendous increase in the last quarter of a century. Asia-Pacific, Europe and North America are at the forefront of this activity while most of Africa, Latin America, Middle East and South Asia are lagging behind. Completion of negotiations for the "mega-regionals" – the Transpacific Partnership (TPP) and the Transatlantic Trade and Investment Partnership (T-TIP) - may take the RTA game to an even higher level of deeper integration among dynamic economies. But the evidence does not suggest that the world is dividing into blocs. Instead there are several degrees of overlaps among RTA memberships. However, countries at the margin of RTA activity may be in danger of not benefitting from the growth in international trade. The PTAs too have seen greater activity in the same period. Particularly noteworthy are the facts that most of the PTAs now offer preferences to only sub-groups of developing countries, mostly the LDCs, and that the number of countries offering PTAs has increased as many developing countries too are now providing non-reciprocal market access to LDCs. These developments in the RTAs and PTAs have taken place against the backdrop of Doha Development Agenda stalemate in the WTO and are thus often interpreted as a sign of the WTO failure. While that may not be entirely true, significant RTA and PTA activity does raise serious challenges for countries like Pakistan who are at the margins of this activity. There are no quick fixes. But some suggestions are offered to assist Pakistan take both short and medium term actions. Efforts in the short term should focus on negotiating RTAs with selected countries to build required capacity for such negotiations and improve Pakistan's visibility on the RTA scene, and aggressively seeking and defending non-reciprocal market access under PTAs, with particular focus on such GSP schemes that offer additional benefits. The medium term action should aim at improving competitiveness by investing in infrastructure, energy and human resources, adopting coherent and supportive macro-economic policy framework, and improving law and order. Only that will ensure Pakistan's entry into and benefits from RTAs with dynamic economies while substantially reducing the dependence on PTAs.

About the presenter:

Rashid S. Kaukab is currently Director, CUTS International Geneva, Switzerland. He worked for the government of Pakistan as a field administrator, in the ministry of finance, and as Counsellor on trade and economic issues in Pakistan Mission to the UN/WTO in Geneva before joining the Geneva-based South Centre in March 1998 where he worked as Coordinator of South Centre Work Programme on Trade and Development, as Head, Strategic Policy and Planning, and as Acting Head, Programme and Research Coordination. He has also worked for UNCTAD as a Senior Consultant.

Trade and development is the broad area of his interest and he has contributed a number of articles and papers on issues related to trade and development and global economic governance. He is a member Governing Board, and member faculty of Trade Policy Training Centre in Africa (TRAPCA), Arusha, Tanzania. Rashid S. Kaukab has Masters Degrees in Economics (Karachi University) and Business Administration (Yale University).

Improving Regional Trade to Support Pakistan's Economic Growth

Dr. Manzoor Ahmad
USAID Pakistan Trade Project

Regional trade has been an important factor in the economic success of many countries. Within most trading blocs, intra-regional trade composes 40 percent or more of these countries' individual trade; however, for the regional arrangements of which Pakistan is a member, intra-regional trade composes less than 5 percent. Pakistan's strategic location is its greatest asset, but it has not leveraged this to its advantage.Until the 1960's, Pakistan was a rather forward looking country. Our manufactured exports were higher than the manufactured exports of the Philippines, Thailand, Malaysia and Indonesia combined. Since the mid 1960's, our policies have not been favourable to promoting trade and economic development. In 1965 we stopped trading with our Eastern neighbor India. In the early 1970's, Pakistan nationalized all major industrial and services establishments, leading inefficient industries to begin demanding higher protection. As a result, exports stagnated. There are still 65 State Owned Enterprises and their yearly losses are estimated at Rs. 500 billion. While other competing countries have espoused liberal trade regimes since the 1980's, resorting to protectionism only on a selective basis, Pakistan turned inward and started to rely on import substitution policies. Pakistan should revisit its regional and global trade policies. Our country needs to fully embrace trade with India and Central Asia by opening up more routes and acceding to the TIR convention. Pakistan's ports can provide Central Asia with the shortest land route to sea, and there is tremendous export potential among the Central Asian markets. With regard to global trade, we must restructure our taxation policies and look for ways to integrate our comparative advantages within global supply chains. Pakistan has to reassess the current protectionism and state-ownership of key sectors that is stifling our economy and undermining our ability to compete on the global market.

About the presenter:

Dr. Manzoor Ahmad is the Regional Trade Advisor for the USAID Pakistan Trade Project, based in Islamabad. He is also a Senior Fellow at the International Centre for Trade and Sustainable Development (ICTSD) in Geneva, a Member of the International Food and Agricultural Trade Policy Council (IPC) in Washington DC, a Member of the Brains Trust of EvianGroup@IMD, Lausanne and an Advisor and Board Member of the Institute of Policy Reforms, Lahore.

Dr. Manzoor's previous assignments include working as Pakistan's Ambassador to the World Trade Organization (2002-2008), as Director, FAO Liaison Office Geneva (2008-2010), and as the Chief Executive of World Trade Advisors (2010-2013). Dr. Manzoor has worked as Chair or Member on several WTO dispute panels and has also published numerous papers on issues relating to international trade, trade facilitation and food security. Dr. Manzoor has worked extensively on regional trade issues including promotion of India-Pakistan trade and improving Pakistan's regional connectivity with Central Asian countries.

WTO New Trade Facilitation Agreement: Implications for domestic trade policy formulation of Pakistan

Dr. Mohammad Saeed
United Nations Conference on Trade and Development (UNCTAD)
(Paper presented by **Ahmad Irfan Aslam)**

Recognizing the significant contribution of trade facilitation in reducing costs and time in cross-border trade, the WTO Members adopted the new Agreement on Trade Facilitation (TFA) during the last Ministerial Conference in Bali. WTO Members are now gearing themselves to implement the commitments ensuing from the TFA, in accordance with the special and differential treatment for developing countries.

This paper aims at assessing the impact of the new TFA on the national trade policy of Pakistan. Indeed, it points out how the process of policy formulation in Pakistan should be adjusted for the prompt and right implementation of the Agreement on a sustainable basis.

This paper begins with a brief introduction of the trade facilitation and provides a summary of the commitments arising from the TFA for WTO Members. The second part highlights how the TFA is perceived in the context of cost reduction and as a tool for development. The next part shows the current situation of Pakistan vis-à-vis the TFA and also offers a snapshot of different international TF indicators periodically published by the World Bank and World Economic Forum. The last part focuses on implications for domestic trade policy making in Pakistan while preparing for the categorization and implementation of the binding provisions in the TFA.

About the presenter:

Mohammad Saeed is Senior Technical Adviser on Trade and Transport Facilitation with Technology and Logistics branch of UNCTAD. He has vast experience of working on trade facilitation issues at national, regional and multilateral level. Prior to his current assignment, he was lead negotiator for Pakistan in WTO negotiations for future Trade Facilitation Agreement for six years.

International Trade law and Procedure is the area of his prime interest. He has also been Chairman of WTO Committee on Market Access for consecutive three years and Chairman of WTO Customs valuation Committee. He holds Masters in Public Administration from Harvard Kennedy School and LLB from University of London. Besides having a postgraduate degree in Economics from University of London, he has his specialized training in International Trade Law from Harvard Law School.

Ahmad Irfan Aslam is a lawyer with specialization in International Trade and Investment Law. Since 2011 he has been working with the Permanent Mission of Pakistan to the WTO where he has been responsible for negotiations on, among others, the Trade Facilitation Agreement (TFA), the plurilateral agreement on trade in services and the dispute settlement processes.

He is a visiting Fellow at Blavatnik School of Government, Oxford University where he is researching international investment disputes and their impact on national trade and investment policies. Ahmad studied law at the Universities of Cambridge and London and holds an MA in international law and Economics from the World Trade Institute of the University of Bern.

Pakistan's Imports Dependency and Regional Integration

Dr. Ejaz Ghani
Pakistan Institute of Development Economics
(Paper co-authored with Nasir Iqbal and Musleh-Ud-Din)

Pakistan needs to import a variety of products to accomplish the increasing demands resulting from its industrial and consumer requirements. Major imports include items namely Machinery, Petroleum Products, Chemicals, Transport Equipment, Edible Oil, Iron, Steel, Fertilizer and Tea which together constitute around 70 percent of total imports. To strengthen trade ties especially with neighboring countries, Pakistan has undergone various regional and bilateral trade agreements which encompass various trade policies ranging from imports substitution to exports promotion. This paper will critically analyze the import structure and policy of Pakistan over the last three decades. It will also conduct an empirical analysis to find the determinants of imports especially after adjusting the role of regional or bilateral trading arrangements. The paper will also highlight potential areas where Pakistan can enhance its trade.

About the presenter:

Ejaz Ghani is currently Dean, Faculty of Economics and Business Studies at the Pakistan Institute of Development Economics (PIDE) Islamabad. He earned his Ph.D from University of Nebraska-Lincoln, USA. He is also trained in Canada. He has a vast experience of teaching and research. His area of specialization is international trade and industrial economics. He has published extensively in National and international journals. He is a focal person (Economic Research) of Economic Cooperation Organization (ECO) and ARTNeT (UNESCAP).

Reviewing the Import Demand Function of Pakistan: A Time series Analysis from 1970 to 2010

Resham Naveed
Lahore School of Economics
(Paper co-authored/presented with Zunia Tirmazee)

This paper investigates the conventional import demand function of Pakistan using time series data sourced from the World Bank Development Indicators from 1970 to 2010. Using the Vector Error Correction model and Impulse Response Functions it has been shown that for the stated period relative prices and income lose their significance as long run determinants of import demand therefore raising the need for additional determinants. Comparison of residuals of the conventional import demand function and those of the model having Terms of trade and foreign exchange availability in addition to conventional parameters as determinants of import demand, shows that much of what stands undeterministic in the former model is taken care of in the latter model. Furthermore this paper also explores a peculiar trend of falling imports to GDP ratio of Pakistan from 1980's to 2000 which is unusual for a developing country. In a subsidiary regression analysis for this period only, falling net capital inflows are suspected as the reason for this persistent fall in imports to GDP ratio for these twenty years.

About the presenter:

Resham Naveed is a teaching fellow at Lahore School of Economics. She has done her Mphil in Economics from Lahore School of Economics. She is enrolled in Phd programme for Economics. Topic of her Mphil thesis is "Testing for relative factor price equality in Punjab". Her research interests are industrial economics and growth theory.

Zunia Tirmazee is a Teaching fellow at the Lahore School of Economics. She received her Mphil degree in Economics in 2014 at the Lahore School of Economics. Her Mphil thesis is based upon determining the relative wage variation and industry location across districts of Punjab. Her research interests are mainly in applied microeconomics and applied econometrics. Currently she is working as a research assistant in an IGC project titled "Incentives and productivity: Work groups vs. production lines" for the fan sector in Central Punjab under the supervision of Dr. Theresa Chaudhry (Lahore School of Economics).

Day 2: Thursday, 27 March, 2014

Session 1: ***Pakistan's Competitiveness***

Towards a Competitive Pakistan: The Role of Industrial Policy
Irfan ul Haque, South Centre, Geneva

The Political Economy of Industrial Policy: A Comparative Study of the Textile Industry in Pakistan
Matthew McCartney, University of Oxford

Barriers to Growth of Small Firms in Pakistan: A Qualitative Assessment of Selected Light Engineering Industries
Nazish Afraz, Syed M. Turab Hussain and Usman Khan, Lahore University of Management Sciences

Session 2: ***Pakistan's Export Performance***

Exporters in Pakistan and Firms Who Do Not: What's the Big Difference?
Theresa Thompson Chaudhry and Haseeb Ashraf, Lahore School of Economics/ CERP

The Need for an Industrial Policy to Boost Pakistani Exports: Lessons from Asia
Azam Chaudhry and Gul Andaman, Lahore School of Economics

Session 3: ***Building up Pakistan's technological capabilities***

Foreign Direct Investment and Technological Capabilities: Relevance of the East Asian experience for Pakistan
Khalil Hamdani, South Voice

Pakistan Auto Industry
Nabeel Hashmi, Thermosole Industries

Global Quality Requirements and their Compliance and Gaps within Pakistan's Export Sector
Salman Ehsan and Ayesha Khanum, Lahore School of Economics

Session 4: ***Diversification – Markets and Exports***

Pakistani Textiles: A Case for Moving up the Value Chain
Naved Hamid, Rafia Zafar, **Ijaz Nabi,** Lahore School of Economics/ International Growth Center

Patterns of Export Diversification In Pakistan
Hamna Ahmed and Naved Hamid, Lahore School of Economics

Analysing Pakistan's Trade Opportunity with Turkey
Asha Gul, Lahore School of Economics

Pak-India Trade Liberalization: How will Pakistan's Manufacturing Sector fare? A Comparative Advantage Analysis
Naheed Memon, *Manzil Pakistan*

Towards a Competitive Pakistan: The Role of Industrial Policy

Irfan ul Haque
South Centre, Geneva

The paper's basic premise is that an improvement in Pakistan's export performance is crucial to raising economic growth. After examining the reasons generally given for the poor export performance, it concludes that the country's very slow productivity growth was the single most important factor that hurt competitiveness. It argues that a coherent and articulated industrial policy is required to overcome this disadvantage. While the experience of the East Asian economies offers useful lessons, policy must accord with Pakistan's own conditions, as they are in many ways different. The formulation of industrial policy should involve key stakeholders, particularly, the private sector. The paper identifies certain factors that should underpin the new industrial policy, notably, the changed basis of international specialisation and rules governing world trade.

About the presenter:

Dr. Irfan ul Haque – a macro-economist with special interest in trade, finance and development – is Special Advisor at the South Centre. Over the past several years, he has helped the Lahore School in organising the Annual Conferences, including this one. Dr. Haque served as a member of a Group of Eminent Persons, set up by UNCTAD, to examine the issue of commodities and financing, whose report was submitted in 2003 to the UN General Assembly.

He holds a Ph.D. in economics from the University of Cambridge. He started his career at UNCTAD, and later worked in various capacities in the World Bank from 1970 to 1995. After leaving the Bank, Dr. Haque joined the South Centre in 1998. He has served as a consultant to UNCTAD, UN, ILO, UNDP, and G-24. He is author of a number of publications, covering issues of international finance and trade, and macroeconomics as well as science and technology.

The Political Economy of Industrial Policy: A Comparative Study of the Textile Industry in Pakistan

Dr. Matthew McCartney
University of Oxford

It is commonly accepted that industrial policy was crucial for forcing structural change and technological upgrading within industrial sectors (as well as export growth) within the successful Asian economies between the 1950s and 1990s (Khan. Amsedn, Wade, Chang). It is also argued, but less commonly that such a practice characterised the now developed econonies of Western Europe and North America (Chang, Bairoch). Whether such industrial policy provides a lesson that can be learned by other contemporary developing countries is dismissed by the World Bank (1993) who argued that the very demanding organisational and institutional pre-requisites for successful industrial policies do not exist in most developing countries. Very widespread is the argument that tighter rules from the WTo do not allow developing countries to follow the pro-active industrial policies of earlier eras and that such actions amount to a 'kicking away of the ladder' by the WTO at the behest of developed countries fearful of potential competition from newly industrialising developing countries. Other arguments have focused on the impact of trade and capital account liberalisation reducing the scope for activist policy intervention by the state.

This paper will seek to examine those last two hypotheses. It will argue that there does exist space for industrial policy to promote technological upgrading even under contemporary WTO rules and globalisation, but that the requirements are still very demanding of state capacity. The argument will examine the case study of textiles in Pakistan and make a comparison to the experiences of Bangladesh, Malaysia and Thailand. These make useful comparisons in being politically unstable democracies so have more in common with Pakistan than do more common comparisons (South Korea, China). The paper will draw on the comparative perspective to offer suggestions for policy reform.

About the presenter:

Matthew McCartney is the Director of 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). After spending two years (1998-2000) in Zambia working in the Ministry of Finance under an ODI Fellowship he returned to academia doing a PhD under Mushtaq Khan at SOAS, London. He remained at SOAS for eleven years, graduating from PhD student to a Lecturer in the Economic Development of South Asia. He then returned to Oxford in September 2011 to take over from Barbara Harriss-White as Director of the South Asia Programme.

Dr. McCartney describes himself as 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). In preparation and due for publication is 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.

Barriers to Growth of Small Firms in Pakistan: A Qualitative Assessment of Selected Light Engineering Industries

Dr. Syed M. Turab Hussain
Lahore University of Management Sciences
(Paper co-authored with Nazish Afraz and Usman Khan)

This report explores the impediments faced by the Small and Medium Enterprise (SME) sector in Pakistan. Within SME we select the Light Engineering sector, in particular the fan and sports goods industry. Using detailed stakeholder interviews, we find that the fan industry appears to be stuck in a trap of low profitability, poor quality production and an inability to access international markets. This cycle is perpetuated by low levels of trust and poorly functioning credit markets. The sports good industry, on the other hand, is outward oriented and most firms export their products. In this sector, firm growth is constrained by the degree of product diversification and innovation, which depends largely on whether or not a firm is a direct supplier to a major brand. The methodology of detailed qualitative research allows us to probe into the various inter-linkages and causal relationships amongst these and other constraints, and also allows us to capture a time dimension in the growth experience of firms in the industry. Both are important contributions to the prior research that has been based on large scale quantitative data, and allow us to make better informed policy recommendations.

About the presenter:

Dr. Syed Turab Hussain is an Associate Professor and Acting Chair of the Economics Department at the Lahore University of Management Sciences. Dr. Hussain did his Masters and PhD from the University of Essex in 2003. He has taught a variety of courses in the undergraduate and graduate program in Economics at both LUMS and the University of Essex. His area of specialization and publication is in migration theory, trade and development and industrial policy. Dr. Hussain has also worked on government policy issues such as trade with India, industrial policy of Pakistan, dispute settlement under WTO and services trade negotiation strategy under WTO.

Exporters in Pakistan and Firms Who Do Not Export: What's the Big Difference?

Dr. Theresa Thompson Chaudhry
Lahore School of Economics
(Paper co-authored with Haseeb Ashraf)

There are a variety of stylized facts about exporters that have been noted in the new literature on international trade based on firm-level data. These include low levels export participation among firms, small shares of export sales in firm revenue, larger firm size and higher levels of productivity, skill, and capital intensity among exporters. In this paper, we seek to see the extent to which these stylized facts fit the experience of firms in Pakistan using two cross-sections of firm level data, that is the Census of Manufacturing Industries (CMI) 2000-01 for Punjab and the World Bank Enterprise Survey data (2006-07) for all Pakistan. We find similar levels of export market participation but very large shares of export sales in firm revenue for those who do, as compared to the U.S. sample studied by Bernard et al (2007). We also find support, like many other studies, that exporters exhibit significantly higher total factor productivity and are larger in terms of employment than non-exporters. Looking individually at the eight largest sectors comprising more than 80 percent of the CMI-Punjab, with few exceptions exporters have higher labor productivity and offer higher compensation to workers, but use more capital per worker and more imported inputs.

About the presenter:

Dr. Theresa Chaudhry is Associate Professor of Economics and a fellow of the Centre for Research in Economics and Business (CREB) at the Lahore School of Economics. She received a BS in Foreign Service from Georgetown University in 1996, and a PhD in Economics from the University of Maryland, College Park in 2005. Her dissertation focused on the nature of inter-firm cooperation within clusters of small and medium-size enterprises in developing countries. This research included an empirical study of the contract enforcement environment in Pakistan, using data from a commissioned survey of the surgical goods industry based in Sialkot. Prior to teaching at the Lahore School, Dr. Chaudhry worked at the World Bank in Washington, D.C. on issues of public finance and public sector governance.

Dr. Chaudhry teaches microeconomics for the BSc Economics, MPhil Economics, and PhD Economics programs, and has supervised both BSc and MPhil theses. She also serves as an editor of the Lahore Journal of Economics, a bi-annual scholarly journal cited in the JEL. Her research interests are Micro-Development, Industrial organization, Experimental and behavioral economics and New Institutional Economics. Her current on-going projects include survey-based and experimental research in Punjab, Pakistan on i) consanguineous marriage, ii) firm-level productivity, iii) rural household finance, iv) conditional cash transfers for girls' secondary schooling.

The Need for an Industrial Policy to Boost Pakistani Exports: Lessons from Asia

Dr. Azam Chaudhry
Lahore School of Economics
(Paper co-authored with Gul Andaman)

In this paper we focus on a set of Asian countries that have been successful in increasing exports and find a common industrial strategy: First countries that have increased their exports have focused on increasing exports in those sectors where they already have expertise and at the same time slowly developing new export sectors. Second high growth Asian economies have developed their export sectors by making significant moves up the quality ladder and in particular moving away from low value added to higher value added exports. Third, there is no single economic policy that has worked across Asia but rather successful exporters have used two or three policies in tandem to boost exports. Finally the only consistent factor that has an impact on high value added export growth is domestic credit to the private sector. These results point to the urgent need for a coherent industrial strategy to boost Pakistani exports.

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.

Foreign Direct Investment and Technological Capabilities: Relevance of the East Asian experience for Pakistan

Dr. Khalil Hamdani
South Voice

This paper makes the case for a vigorous policy thrust to support investment led growth. The Pakistan economy has not maintained a sufficient level of capital formation to sustain growth over the long-term. Two-thirds of current growth is driven by consumption and not investment: that needsto be turned around. Government needs to put in place an investment regime that motivates and induces industry to invest, innovate and reinvest.Foreign direct investment can play an important role. There is also need for deliberate polices to boost technological capabilities in the enterprise sector. East Asia did this with great success, creating a dynamic process of capital formation and technological learning that upgraded productive capacity and underpinned export success.

About the presenter:

Dr. Hamdani started as a Research Economist at the Pakistan Institute of Development Economics in 1975 and went on to serve with the United Nations for the next 30 years. He was a Director in the United Nations Conference on Trade and Development (UNCTAD). His Division produces the annual World Investment Report. He created the United Nations program on investment policy reviews, which was declared a "valuable mechanism" by the G-8 Heads of State Summit in 2007. He has provided policy advice and training to investment officials in Africa, Asia, the Middle East and Latin America. He has interacted with governments at the highest level: most recently, he was a keynote speaker at the ministerial meeting of the Economic Committee of the Organization of Islamic Cooperation,held in Istanbul in November 2013.

He has prepared many UN reports, in the areas of foreign investment, transfer of technology and trade. He was on the expert advisory team for the recent Human Development Report 2013. He is a graduate of Georgetown and Johns Hopkins Universities, and holds a doctorate in economics.

Pakistan Auto Industry

Nabeel Hashmi
Thermosole Industries

1959-72 these years saw the emergence of Pakistan's economy at the take-off stage in Karachi and the conditions of pre-take off stage in Lahore, as per W.W. Rostow's economic description of these stages. Bedford Rocket (GM) truck was under assembly and progressive manufacture in Karachi, while Vauxhall Victor (GM UK) car and Dodge Dart were also assembled here. Daihatsu Tri-wheeler was also assembled in Karachi. Tankers, bowsers and trailers were assembled on Volvo and Mack truck chassis. 1972 saw the emergence of the socialist PPP regime come into power, nationalize all major engineering related concerns and bring the State of Pakistan itself into the business arena. This saw the downfall and dis-heartening of the industrial class and a period of reorganization of the local automotive sector. The industry was highly regulated until early 1990. However the Government of Pakistan had introduced policies leading to progressive localization of automotive sector, through tariff regime. From the production level of around 40,000 units in 2001, the passenger car/light commercial vehicles segment produced over 200,000 vehicles in 2007. The 500% increase in vehicle production over a small period of only 6 years, was a remarkable achievement. The motorcycle production has also touched the level of 1.8 million units in 2011-12.

The paper aims to give an insight to the "PAKISTAN AUTO INDUSTRY" as of today. It will touch topics such as Current status and future outlook of the industry, suggestions for the Pakistan National Auto Policy, technology sub contracting opportunities within the sector and the industries perspective to Trade with India.

About the presenter:

Nabeel Hashmi is the Chairman of Thermosole Industries Pvt Ltd, BBN Energy Pvt Ltd and SASA Pvt Ltd. He has an MBA from Bahrain University in 1987. His business activities include Plastic Automotive Parts manufacturing business; Thermosole Industries PVT LTD undertakes supplies to local Car manufacturing companies as well as exports to USA, UK and European Union. They are currently aggressively moving into Industrial Packaging, Gardening Equipment and Highway Safety accessories. His LPG business includes one of the largest LPG Storage facilities in the suburban areas of Lahore and operational under the name of BBN ENERGY (Pvt) Ltd. Our LPG is marketed under the "WATNA" Brand name.

Mr. Hashmi has headed the Marketing, Telecommunications & IT strategies of the Punjab Industrial Estates with special emphasis on SUNDER INDUSTRIAL ESTATES by being in the management as Director since inception in 2004. He was the former Chairman of All Pakistan Business Forum, Business Development Group, Pakistan Association of Automotive Parts & Accessories Manufacturers (PAAPAM) and Lahore Township Industries Association. He was also the Senior Vice Chairman of Pakistan Japan Business Forum and the Former President of Pakistan Plastic Manufacturers Association (Punjab), Quaid e Azam Industrial Estate Board of Management.

Global Quality Requirements and their Compliance and Gaps within Pakistan's Export Sector

Salman Ehsan
Lahore School of Economics
(Paper co-authored with Ayesha Khanum)

This conference paper aims to give a descriptive overview of the quality and compliance of Pakistan's top export product categories. Due to high competition, innovations in technology and strict measures of quality requirements, the time has come for Pakistan to build a holistic approach in a systematic manner for its industry in order to not just meet but exceed the international quality standards and certifications for its exports. This paper focuses on Pakistan's exports in textiles (specifically Cotton Cloth, Knitwear, Cotton Yarn, Ready Made Garments and Towels) and Rice and their compliance with the global standards and the gaps which needs to be filled in order to have a sustainable growth of high quality exports to major global markets. The paper begins with the introduction, top export categories, key dimensions of international quality standards, specific standards and requirements for textiles and rice, quality assurance infrastructure in Pakistan, identification of major gaps, and policy recommendations in order to improve the state of affairs.

About the presenter:

Mr. Salman Ehsan is Assistant Professor in Business Administration at the Lahore School of Economics. He teaches Business Policy, Strategic Management, and Operations Management Courses. Mr. Ehsan joined Lahore School with a diverse domestic and global background within the private sector. He completed his B.Sc. Textile Engineering from National Textile University Faisalabad in 1997. For the next three years he worked in Lahore for MFW Group and Six Sigma Apparel network (both New York based buying houses) respectively, in various capacities responsible for product merchandizing, product development, and quality assurance for well known US customers such as Wal-Mart, Sara Lee, Abercrombie & Fitch, and GUESS? Inc.

He moved to the US in 2000 and completed his MS in Fashion Apparel Management and MBA (International Business) programmes from Philadelphia University and joined SGS Group (Geneva based global leader in testing, inspection and certification services) in 2003. At first he was given responsibility of Global Key Account Manager of Nike with particular focus on R&D. He played a significant role in the development of Nike's global RSL (Restricted Substance List) programme and various relevant test methods. For the next six years he was with SGS group and held various leadership positions within Marketing, Operations and Technical support functional areas. He was holding the title of Director of International Sales and US Operations before moving back to Pakistan and joining the Lahore School in 2008.

Pakistani Textiles: A Case for Moving up the Value Chain

Dr. Naved Hamid
Lahore School of Economics
(Paper co-authored with Ijaz Nabi, Rafia Zafar)

The textile industry is the oldest and still the largest component of the manufacturing sector in Pakistan. It accounts for more than 50% of Pakistan's exports and about a similar proportion of the industrial employment. Within textiles, garments with one-third of the textile exports and more than half its employment is the largest component. In early 2000s there was an expectation that with the ending of the quota regime under the MFA, garment exports would be a major driver of growth. Unfortunately, it has not lived up to its potential. While, the garment industry in Bangladesh in 2012 exported goods worth almost $20 billion and employed about 4 million workers, in Pakistan it was only about one-fifth of that both in terms of exports and employment.

In this paper, we review the performance of the garment industry in Pakistan post-2000 and identify the factors responsible for it not living up to its potential. Next we discuss the ways in which leading firms in the Industry have been successful in growing rapidly by enhancing value and competitiveness. In conclusion we discuss the Punjab Government's recent garment initiative which aims to tackle some of the important barriers to growth and facilitate movement up the value chain by a larger number of the firms in the industry.

About the presenter:

Dr. Naved Hamid is Professor of Economics at the Lahore School of Economics. He has a BA (Hons.) in Economics from Cambridge University, UK, and a PhD in Economics from Stanford University, USA. Prior to joining the Lahore School of Economics, he was at the Asian Development Bank (ADB) where he worked in various capacities, including 'Acting Chief Economist for South Asia' and Deputy Country Director and Team Leader for Pakistan. Before joining ADB he was Professor of Economics at the Lahore University of Management Sciences.

His publications include: 'Economic Environment in Asia for Investment', in Investing in Asia, Edited by C. P. Oman, D. H. Brooks and C. Foy, OECD Development Centre, 1997; The chapter on Industry and Trade in Foundations of Pakistan's Political Economy, edited by W. E. James and S. Roy, Sage Publications, 1992; The chapter on Pakistan (with A. Nasim and Ijaz Nabi) in The Political Economy of Agriculture Pricing Policy, (Volume 2), edited by Anne Kruger, Alberto Valdez, and Maurice Schiff, John Hopkins University Press, 1991; 'Private Finance Companies in LDCs: Lessons from an Experiment', (with 1. Nabi) in World Development, 1989. He has also published several books: Joint author (with A. Nasim and 1. Nabi) of 'Agrarian Economy of Pakistan' published by Oxford University Press, and co-editor (with P. Rana) of 'From Centrally Planned to Market Economies: The Asian Approach' (3 Volumes), also published by Oxford University Press.

Patterns of Export Diversification In Pakistan

Hamna Ahmed
Lahore School of Economics
(Paper co-authored with Naved Hamid)

In this paper, we look at historical trends in diversification of exports in Pakistan. As a first step, we use the Hirschman index, to quantify the degree of diversification in Pakistan's exports. As a next step we analyzethe structure of Pakistani exports from the lens of 'traditionality'. To that end,we construct industry-specific average cumulative export experience functions i.e. a 'Traditionality' indexof all two-digit export industries in Pakistan from 1972 to 2012. This is useful in distinguishing between traditional versus non-traditional export industries in the country. Next, this study attempts to identify episodes of structural change in the export sector since 1972. For this purpose, the traditionality index is re-calculated using 5-year interval periods and the across-industry variance of this index is used to study the degree of structural change in the medium term in the export sector. Periods in which the inter-industry variance is low are interpreted as times when export industries experienced uniform patterns of export growth (and thereby no structural change) while periods in which the inter-industry variance is high are interpreted as times when export industries experienced varied patterns of growth and thus went through an episode of structural change. Finally we study the relationship between structural change in the country's export sector and GDP growth, growth rate of world trade, trade liberalization in the country and the degree exchange rate overvaluation.

About the presenter:

Hamna Ahmed is a senior research and teaching fellow at the Centre for Research in Economics and Business, Lahore School of Economics. She has a Masters' degree in economics from Warwick University and she has been affiliated with the Lahore School since 2008. Ms. Ahmad is currently enrolled as a PhD student at University of Kent. On the macro side, Hamna is interested in issues relating to Trade and Export Competitiveness. On the micro side she is interested in issues such as Firm and Innovation, Education and Child Labor. She is currently working on community-led organizations across Pakistan in collaboration with Pakistan Poverty Alleviation Fund (PPAF) and researchers from Oxford University, UK.

Analysing Pakistan's Trade Opportunity with Turkey

Asha Gul
Lahore School of Economics

Pakistan and Turkey have long hailed a brotherly relation but lately the relationship between the two countries has been witnessing a new height in lieu of the increasing cooperation between the two governments in diversified sectors of economy and a proposed Preferential Trade Agreement. This paper explores the trade relationship between Pakistan and Turkey, in an attempt to analyze the potential gains for Pakistan under the proposed Preferential Trade Agreement. The paper evaluates the existence of potential trade opportunities using descriptive statistics and trade indices. More specifically, the paper computes a Trade Complementarity Index, Export Similarity Index and the Intra industry Index. The findings of the paper suggest that there lies an opportunity for Pakistan to exploit in its trading relationship with Turkey as Pakistan has been enjoying a trade surplus which can be expanded further, and strong export similarities and intra industry trade indicate the presence of greater opportunities for firm synergies between the two countries which can greatly facilitate Pakistan in achieving greater value addition and broader market base for its exports. Therefore, the government of Pakistan should lobby more strongly for the proposed Preferential Trade Agreement (which may later evolve into a Free Trade Agreement) and intelligently leverage this trade agreement in such a way that Pakistan can maximize its potential opportunities

About the presenter:

Ms Asha Gul is currently enrolled as a PhD Economics candidate at the Lahore School of Economics. She is also a Teaching Fellow at the Department of Economics, Lahore School of Economics and a Research Fellow at the Center for Research in Economics and Business (CREB). She has a degree with distinction in M.S. Economics and a BSc (Honors) Double Majors in Economics and Finance from the Lahore School of Economics. Her research interests encompass migration issues, social mobilization, international trade and growth theory. She is currently involved in a Randomized Experiment about incentivizing development in Third-Tier Organizations/ Local Support Organizations across Pakistan, along with researchers from the University of Oxford. Ms Gul has also presented her work at the 28th Annual General Meeting and Conference of the Pakistan Society of Development Economics (2012), and at the Centre for the Study of African Economies (CSAE), Department of Economics, University of Oxford (2013).

Pak-India Trade Liberalization: How will Pakistan's Manufacturing Sector fare? A Comparative Advantage Analysis

Naheed Memon
Manzil Pakistan

Pakistan and India have not yet normalized trade relations despite sharing a common border for more than six decades. Although significant developments have been made since the beginning of 2011, benefits of bilateral trade have not been fully obtained. Pakistan is yet to reciprocate the MFN status, granted by India upon formation of WTO. This study investigates the prudence of coaxing these countries to liberalize trade by studying the global competitiveness of Pakistan's industrial sector so as to derive direction for policy makers. A Revealed Comparative Advantage Index for manufacturing products at HS 2 digit level code is constructed for Pakistan, India and China for the years 2003 to 2012. The study identifies the changing pattern in comparative advantage of Pakistan's manufacturing industries. The study concludes that 18 industries should be protected upon liberalizing trade with India. These industries are termed as 'vulnerable', as they have moved from either borderline competitiveness to becoming uncompetitive or vice versa. The study also suggests that excessive concessions granted to China in the FTA and resistance to opening up trade with India may have resulted in inefficient trade i.e. imports from a less competitive partner and exports to a less lucrative market. The study establishes direction for further research to establish an ex ante impact of trade with India on the economy via change in production levels of these vulnerable industries given the impact of free trade with China and the availability of Chinese substitutes.

About the presenter:

Naheed Memon is the CEO of Manzil Pakistan, a public policy think tank based in Karachi. She is also a faculty in the Department of Economics and Finance and the Department of Mangenent at IBA. Naheed is also a Director of a number of her family owned companies which are all susbsidiaries of the Kings Group of companies in Karachi..She leads and advises the management ofKingsapparel Industries, Kings Clothing, Ace Travels and Medco amongs a few others.

Before moving to Pakistan six years ago,she worked for Merrill Lynch on the asset management side and serviced institutional clients. In England, Naheed also she set up a management consultancy firmwhich serviced clients such as PwC, Foreign High Commissions, Oil and Gas companies etc. Naheed holds a MSc. in Economics from Birkbeck College, London and an MBA from Imperial College, London.

Centre for Research in Economics and Business, Lahore School of Economics

Address: Intersection Main Boulevard, Phase VI, DHA and Burki Road, Burki
Postal/City: 53300, Lahore, Pakistan
Email: creb@lahoreschool.edu.pk