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Breaking out of Pakistan's stop-go economic cycles: Does the fiscal deficit hold the key 1999-2019?

Rashid Amjad
Lahore School of Economics

Pakistan's overall economic growth patterns since 1950 have been cyclical with periods of low economic growth in the 1950s and 1970s interspersed with periods of high economic growth in the 1960s and 1980s. Since 1990, however, these stop-go economic cycles have been recurring more frequently and the duration of expansionary spurts have decreased while those of low economic or stagnant growth increased in years. The reasons for this post-1990 slow down have been a subject of considerable debate and discussion especially since Pakistan has been during at least half of this period under a dozen IMF programs of varying durations with only two being successfully completed and the rest being abandoned during their duration. The aim of this paper is two-fold. The first to review Pakistan's economic performance during 1999-2018, identify the main growth trends and factors responsible for the overall poor growth performance in the period, except for a brief growth spurt during 2003-06. The second more specifically to analyze the role of the fiscal deficit as the primary factor in explaining this poor economic performance and whether adopting a policy of running of low and targeted level of fiscal deficit in the future could provide a solution and move the economy to a more sustainable and possible higher growth path.

Our results supported by regression analysis confirm that the fiscal deficit has a negative impact on economic growth and is significant in both our models over the time period 2001-18 as well as 1982-2018. The value of the current account deficit is negative and significant during the period 2001-2018 but over the longer period 1982-2018 it sign changes to positive suggesting that the higher the current account deficit the higher the economic growth. The overvalued exchange rate significant negative result shows that the higher the extent of overvaluation of the exchange the lower is economic growth suggesting that it has a negative effect on export growth and therefore lower overall economic growth. The overall conclusion therefore is that economic policy makers in Pakistan to break-out of our recurring stop-go cycles must aim for and ensure that the fiscal deficit is carefully managed and monitored so that steps can be taken to keep it in check before the economy reaches a point when strong stabilization measures become inevitable.

About the author:

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 five years. He served for two and a half as Chief Economist at the Pakistan Planning Commission and as Member, Planning Commission. Dr. Amjad did his Tripos in Economics (BA Hons. & M.A.) PhD 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 held a number of positions in the ILO including as Director, South East Asia and the Pacific as well as led its Employment Strategy Department. 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), 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.

The BOP crisis in Pakistan: Stabilization versus Growth

Moazam Mahmood
Lahore School of Economics
(Paper co-authored with Shamyla Chaudry)

Pakistan's BOP crisis, have increased in their frequency, duration and intensity, as preceding analyses of the current crisis have noted. This paper will attempt to systematize some of the behavioral relationships that can be observed to hold over the past thirty years, and the efficacy of policy impact on them. It has been observed that there are large capital outflows. These comprise of the primary income account balance on the current account and domestic outflows from the capital account.

As a result, we propose that the following relationship exists between these variables. As exchange rate goes down the capital outflows will increase unless the interest rate are increased. If interest rate are held constant with devaluation, it leads to capital outflows. Thus, one proposal that is likely to work is controls of capital as it stabilizes the economy and does not dampen growth.

About the author:

Dr. Moazam Mahmood is Professor of Economics at the Lahore School of Economics. He has a BA. (Hons.) in Economics from Essex University and MPhil and PhD in Economics from Institute of Development Studies from University of Sussex, UK. Before joining the Lahore School, he has been at the International Labor Organization (ILO) since 1998, gaining experience in over 40 countries in Asia, Europe and Latin America. Dr. Mahmood's last position was Director, Research Department at the ILO Geneva and was responsible for the Production of ILO's annual flagships; World Employment and Social Outlook (WESO): Transforming Jobs to End Poverty 2016; Developing with Jobs 2014; WESO Trends 2014–16 etc. His research interests include Macroeconomics, growth, labor markets and development: theory and policy.

Shamyla Chaudry is Assistant Professor in Economics and Business Administration. She has an MSc in Industrial Relations and Workplace Learning from the University of Leicester. She also has a MSc. in Economics and Management from the Lahore School of Economics and has done her Bachelors in Economics and Literature from Kinnaird College for Women. She has done research work on the Surgical Goods Industry Sector and various Labor issues in Pakistan. Ms. Chaudry has worked with the ILO Socio-Economic Security Programme as a Contributor for the Pakistan Region. She has also worked with the Punjab Bureau of Statistics for the Punjab Consanguinity survey 2009-2010 involving research on the socio economic aspects of cousin marriages. She is currently working with Professors at MIT and Columbia on the issues regarding technology and industrial upgradation in the Sialkot Soccer Ball and Surgical Goods Industry.

Balance of Payments constrained Growth in Pakistan

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

This paper examines whether economic growth in Pakistan is constrained by the balance of payments. By taking into account the growth of remittances, the export demand function and the import demand function, our model shows that the balance-of-payments (BOP) constrained growth rate in Pakistan is equal to 4.41 % per annum. The evidence further indicates that as Pakistan's economic growth rate increases above this BOP equilibrium growth rate of 4.41 %, the import bill increases significantly which in turn leads to a balance of payments crisis. Eventually, in order to control the unsustainable current account deficit, policymakers are forced to reduce aggregate demand which in turn leads to a contraction in imports until the growth rate falls back to the equilibrium growth rate. The results of the model also explain how instead of relying on exchange rate depreciations, the long-term solution to this problem is for Pakistan to transition towards higher value-added exports.

About the author:

Dr. Azam Chaudhry is Professor of Economics and the Dean of the Faculty of Economics at the Lahore School. He has a B.Sc. (Hons.) in Economics from the London School of Economics (UK) where he specialized in Monetary Economics, Econometrics and Corporate Finance and a M.A. and PhD in Economics from Brown University (USA) where he specialized in theoretical and empirical macroeconomics. He joined the Lahore School of Economics in 2005 and before that he worked for the World Bank.

He teaches undergraduate and graduate Econometrics and Macroeconomics at the Lahore School and his research interests include Innovation and Technological Change, Institutional Economics, Economic Growth and Development, Behavioral Economics, Economic and Social Networks, Political Economy and Industrial Organization.

A General Equilibrium Macroeconomic model for the Pakistan Economy

Moazam Mahmood
Lahore School of Economics
(Paper co-authored with Aimal Tanveer and Azam Chaudhry)

The Lahore School of Economics Modelling Lab has built a GE Macro model for Pakistan's Economy, as both a didactic teaching tool for our students and a policy tool for advice to the GOP. The model is mathematically based on a system of linear equations. Its conceptual economic framework is to identify a set of agents operating in key markets to determine macro aggregates for the economy and their prices. An initial set of estimates have given the base line for Pakistan's economy. Which has allowed some early policy simulations. The generality of the model is also encouraging for its application to other economies.

About the author:

Dr. Moazam Mahmood is Professor of Economics at the Lahore School of Economics. He has a BA. (Hons.) in Economics from Essex University and MPhil and PhD in Economics from Institute of Development Studies from University of Sussex, UK. Before joining the Lahore School, he has been at the International Labour Organization (ILO) since 1998, gaining experience in over 40 countries in Asia, Europe and Latin America. Dr. Mahmood's last position was Director, Research Department at the ILO Geneva and was responsible for the Production of ILO's annual flagships; World Employment and Social Outlook (WESO): Transforming Jobs to End Poverty 2016; Developing with Jobs 2014; WESO Trends 2014–16 etc. His research interests include Macroeconomics, growth, labour markets and development: theory and policy.

Using Nighttime Light Data to Estimate Sub-national GDP and Growth in Pakistan

Theresa Chaudhry
Lahore School of Economics
(Paper co-authored with Mahnoor Asif)

We apply newly developed techniques that utilize nighttime light data, collected by satellite and published by the United States' National Oceanic and Atmospheric Administration, to i) allocate estimates of the total GDP of Pakistan into its provincial components, incorporating both documented (official GDP) and an estimate of informal economic activity; ii) estimate provincial- and district-level GDP and total income growth rates; and iii) relate growth in revenue collection to growth in GDP and total income.

About the author:

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.

Mahnoor Asif is a Teaching Fellow at the Lahore School of Economics. She has acquired an Mphil degree in Economics and a Bsc (Honors) Double Majors in Economics and Finance from the Lahore School of Economics. Her Mphil thesis that she completed under Dr. Azam Chaudhry was on Political Networks where she estimated how network centrality impacts parties' political choices and electoral politics in Pakistan. She presented this paper (co-authored with Dr. Azam Chaudhry) at the Centre for the Study of African Economies Conference, Oxford 2016. Her areas of interest are Networks, Political Economy and Macro Economics.

Resource Mobilization by Provincial Governments

Hafiz Pasha
Beaconhouse National University

The four Provincial Governments of Pakistan together generate revenues equivalent to 1.4 percent of the GDP. This is only 9 percent of national revenues. The remainder, 91 percent, is by the Federal Government. This is despite the transfer of a relatively large tax, the sales tax on services, to the Provincial Governments in the 7th NFC Award.

The objective of the paper is, first, to assess the size of the tax bases of various progressive Provincial taxes like the agricultural income tax, urban immoveable property tax, stamp duty on property transactions and the sales tax on services. Second, an estimate is made of the revenue potential of these taxes if adequate reforms in tax policy and administration are implemented.

Third, the Provincial Governments also have significantly non-tax revenue sources which remain largely unexploited. A prime example is the abiana charged on supplies of irrigated water to farms. This water rate recovers only a more fraction of the O&M costs of the irrigation system. The paper will formulate proposals for higher recovery and for using the water rate as a mechanism for improved water efficiency. Other non-tax sources like highway tolls, fees for higher education charges, etc., will also be examined in the paper.

About the author:

Dr. Hafiz A. Pasha is Professor Emeritus at the Beaconhouse National University. From 2001 to 2007, Dr. Pasha was UN Assistant Secretary General and Director of the Regional Bureau for Asia and the Pacific of UNDP. Earlier, he held a number of important public appointments. He served earlier as the Federal Commerce Minister, Advisor to the Prime Minister/ Federal Minister for Finance and Economic Affairs, Deputy Chairman/Federal Minister of the Planning Commission, and Education Minister in three governments. He was also the Chairman of the Advisory Panel of Economists and Convener of the Prime Minister's Economic Advisory Council.

Prior to this he was the Vice Chancellor of the University of Karachi and Dean and Director of IBA and Director of AERC. He is the founding Managing Director of SPDC. Dr. Pasha has a M.A. from Cambridge University, U.K and PhD from Stanford University, U.S.A. He was awarded in 2005 the Congressional Medal of Achievement by the Philippines Congress. He was nominated in 2012 as one of the top 100 Educators in the world by IBC, Cambridge, England. He has published over 150 articles and books.

External Debt Management (2019-2024)

Syed Kalim Hyder
State Bank of Pakistan
(Paper co-authored with Mehak Ejaz)

Pakistan's economy experienced higher real economic growth of above 5% during FY14-FY18. However, external debt and liabilities of Pakistan's economy has reached to $95 billion in the end of FY18 from $65.3 billion in FY14. This substantial increase in the external liabilities is a major concern for the policy makers and academic researchers. With the objective to analyze the dynamics of the external liabilities in Pakistan, this research study will apply a probabilistic approach to estimate future debt paths for Pakistan. Further, the study will extend the probabilistic approach to public debt sustainability analysis (DSA) and VARX will be estimated to forecast debt path for Pakistan. Real GDP growth, real exchange rates, and real interest rates along with primary fiscal deficits are considered as endogenous whereas world GDP growth and real interest rates are considered as exogenous determinants of public debt. Finally, linking primary balance with public debt, the fiscal reaction function will be estimated. The system GMM method will be used to find out how fiscal policy reacts differently to different phases of the business cycle. The fan charts of public debt to GDP trajectories will be simulated from the estimated fiscal reaction functions.

About the author:

Dr. Kalim Hyder is currently working as senior economist at Monetary Policy Department of the State Bank of Pakistan. Before joining the State Bank, he has worked in Lahore School of Economics and Social Policy & Development Centre. His area of expertise are macro-econometric modelling and monetary policy transmission mechanism. He has published his 15 research papers in international and HEC recognized local journals. After completing his master's from University of Calgary and M. Phil from Applied Economics Research Centre in 2003, he has earned his PhD degree from university of Leicester in 2015.

Dr. Mehak Ejaz has a PhD Economics from University of Sheffield, M.Phil Economics from Lahore School of Economics (2010) and MA Economics from University of the Punjab. She 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, Microeconometrics and Gender Studies. She has been serving in the academic and research institutions (National and International, Private and Public) for the last fifteen years to-date. She has authored and co-authored 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.

Pakistan: The Fiscal Crisis Management 2019-24: The Revenue Perspective

Muhammad Ashfaq Ahmed
Federal Bureau of Revenue, Government of Pakistan
(Paper co-authored with Inayat U. Mangla)

The paper is a political economy perspective on Pakistan's fiscal crisis management during 2019-24 period. It is empirically brought out that though revenues have moved up significantly under all major taxes over the past five years, yet the fiscal deficit poses serious challenges to the economic managers. The fiscal conundrum is confounded by the fact that the robustness of revenue numbers was mustered through excessive use of policy handles rather than through capacitation of the tax system on solid foundations. Theoretically speaking, it is argued that this paradox is the product of elitist capture of the revenue system. The paper inventively plugs in the theory of political settlements to contend that Pakistan's fiscal woes are cast in the structural formation of the polity, and that the structural fault-lines necessarily stem from insufficient political settlementization i.e. fragmentation of the base between the federation and the federating units, insufficiency of the fiscal base on account of absence of wealth tax, inheritance tax, capital gains tax, and gift tax from the statute book, brute secrecy in the economic domain, and erosion of the state's fiscal base through reckless vanity agreementization with the outside world.

The paper develops the argument that the on-going exemptization with an annual tax-tag in the vicinity of Rs. 550 billion – almost 20 percent of the total national tax take – would continue to operate as headwind on the revenue effort of the government. Likewise, the tax amnestization initiative of 2018 which generously proffered to whiten even the future earnings would have tax implications closer to Rs. 275 billion per annum over the next two years. Similarly, the simmering offshore problem and the continuing money whitening ploys in-built into the law would continue to exert pressure on the fisc. In summation, the wanton ways with which the exchequer has been managed over the past few decades is no more sustainable, and that in order for the tax system to generate both healthy and sufficient revenues, substantial investments are required to be made into the system as necessary inputs before expected outputs can be derived, which would require a gestation period of a couple years, at the least, and that too after sufficient political settlement has been arrived at a broader level in key areas of the extractive function.

About the author:

Dr. Muhammad Ashfaq Ahmed is a career civil servant belonging to Pakistan Inland Revenue Service; he is currently posted as Director General (International Taxes), Federal Board of Revenue, Islamabad. Mr. Ahmed holds PhD in Political Economy, and writes extensively on Pakistan tax system, elite capture, state autonomy, and international taxation.

Dr. Inayat U. Mangla has taught, developed new curriculum, and conducted research on the economies of North America, Singapore, Japan, China, Malaysia, Indonesia, India, Pakistan and U.A.E. to name a few. His area of research includes Global Financial Markets, Banking, and Microfinance. Dr. Mangla is currently Professor of Finance at the Lahore School of Economics, and was Professor Emeritus of Finance at Western Michigan University, Michigan, USA. Previously, he has served as a director of the Graduate Programs at the Haworth College of Business, Western Michigan University in the late 1990s.

Pakistan's Recurring Fiscal Crisis – Institutional Strategies for Fiscal Consolidation

Jamshed Y. Uppal
The Catholic University of America, Washington DC
(Paper co-authored with Mahmood Khalid)

The paper explores how Pakistan's perennial fiscal deficits are rooted in its politico-economic institutions. We examine literature from political economics on how institutions and budgetary processes affect the fiscal policy and relate these to the country's fiscal policy experience. The paper explores how greater discipline can be brought to public expenditure through enhanced institutional checks and balances. We examine political institutions and budgetary processes that may affect the fiscal policy in the context of Pakistan. An important dimension in this relationship is the governance environment. The paper concludes that instilling fiscal discipline would remain intractable unless approached in its entirety in a comprehensive strategy. The long-term solutions must be found in the development of political institutions and improved governance. The real challenge may lie in summoning the political will and raising public awareness to implement the required measures.

About the author:

Dr. Jamshed Y. Uppal is an Associate Professor of Finance at the Busch School of Business and Economics, Catholic University of America, Washington DC. He specializes in the corporate financial management area. He received his Ph.D. and M.B.A. degrees in finance from Michigan State University, USA. Dr. Uppal also holds an M.A. degree in economics and a professional certification in cost and management accounting. Additionally, he has extensive professional and business experience. His research interests are in the financial markets and institutions in the developing countries.

Dr. Mahmood Khalid is currently working as Senior Research Economist at Fiscal and Monetary Section, Pakistan Institute of Development Economics (PIDE). Previously he has been the Head of Health Economics Department at the same institute. His research interest are Public Finance, Fiscal Policy and Health Economics. He was also a team member for the recent report "Economics of Tobacco Taxation and Consumption in Pakistan". Dr. Khalid earned his PhD in Economics from Pakistan Institute of Development Economics (PIDE) with dissertation in Fiscal Policy. He is also a member of Pakistan Society of Development Economists (PSDE).

Challenges in Monetary Policy Management Planning for the Future

Ahmad Masood Khalid
Universiti Brunei Darussalam
(Paper co-authored with Obiyathulla Ismath Bacha)

Monetary policy has always been a difficult task for policymakers in Pakistan. The high and growing level of internal and external debt, unstable reserves and volatile exchange rates have been the major obstacles of the country's monetary policy management. The recent and urgent financial needs to support energy demand, infrastructure development and social sector expenses such as availability of clean water and better health and education have further aggravated the problem. Further, extremely low tax revenues and bailing out loss-making public sector enterprises (such as PIA) add to the challenges to maintain a fiscal discipline. Given this fiscal dominance and its impact on the balance sheet of the central bank, the role of monetary policy has been severely restrained. Any disruptions in the payment systems are expected to cause negative consequences on the economy resulting in inflationary pressure. To avoid any negative repercussions, the State Bank of Pakistan allowed the government to borrow from the banking system. In brief, the stable economic environment is critical to the choice of appropriate instruments of monetary policy. In other words, monetary stability is a way to achieve macroeconomic stability and sustainable growth.

The paper plans to explore these issues in the context of historical policy options used by the central bank (State Bank of Pakistan). The research in this paper is three-fold. In the first part, we provide a review of historical perspective of Pakistan's monetary policy. Then, in the second part, we discuss policy options for the next 5 years (2019-2024) given the current challenges. Finally, in the third part, we provide a model to deal with the above stated financing needs without adding a debt burden. We argue that the proposed model of risk-sharing instruments will ease the pressure on interest rate changes and will also help to provide stability to exchange rate avoiding unnecessary central bank intervention. We also believe that these instruments can help improve macroeconomic stability through the avoidance of pro cyclical policies, contagion and the minimization of trigger points for financial distress, such as sudden stops. For society at large, this improved efficiency should reduce moral hazard and lead to better allocation of resources.

About the author:

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. Dr. Khalid's research interests are in applied macroeconomics and monetary economics, applied econometrics, financial crisis and financial sector reforms with particular reference to emerging economies in East- and South-Asia and globalization and financial market integration.

Day 2: Thursday, 28 March, 2018

Session 4: *Trade Industry and Competition*

Productivity, Structural Change and Economic Growth in Pakistan
Naved Hamid, Lahore School of Economics

A Roadmap to Diversifying Pakistan's Exports: Operationalizing the Product Space
Gul Andaman, University Putra Malaysia (UPM)
Azam Chaudhry, Lahore School of Economics

Energy Consumption, Dependence and Greening: How does Pakistan Compare with East Asia
Rajah Rasiah and Shujaat Mubarik, University of Malaya, Malaysia

Pakistan's Industrial Competitiveness: Issues and Challenges
Muslehuddin and Nasir Iqbal, Pakistan Institute of Development Economics

Pakistan Energy Sector Overview and Challenges
Daud Ahmad, World Bank

Session 5: *Agriculture*

Survey in Water Resource Management in Pakistan – Institutions and Policies from National and Provincial Perspectives
Mahmood Ahmad and Mahira Khan, Water, Informatics and Technology Center, Lahore University of Management Sciences

An Overview of Agricultural Pricing Policies in Pakistan
Maha Ahmad, National University of Sciences and Technology, Islamabad
Eatzaz Ahmad, Quaid-i-Azam University, Islamabad

Consequences of Varying Exchange Rates on Agriculture in Punjab – Pakistan
Abdul Salam, University of the Punjab

Session 6: *CPEC and China with a Special Emphasis on Trade including FTA and SEZs*

The Prospects of CPEC: The Importance of Understanding Western China
Matthew McCartney, University of Oxford, United Kingdom

Review of China FTA Experience and Lessons for Phase 2 of the FTA
Yasmin Abdul Wahab, Ministry of Commerce, Government of Pakistan
Ghulam Qadir, Trade Economist, Government of Pakistan

China's Belt and Road Initiative and the Rise of Yuan – Implications for Pakistan
Jamshed Y. Uppal, The Catholic University of America, Washington DC
Syeda Rabab Mudakkar, Lahore School of Economics

Productivity, Structural Change and Economic Growth in Pakistan

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

Pakistan was one of the high performing economies through the 1980s, but since then growth has been on a declining trend and it is today among the worst performing economies in Asia. McMillan and Rodrik (2011) argue that "[h]igh-growth countries are typically those that have experienced substantial growth-enhancing structural change … [and the] speed with which this structural transformation takes place is the key factor that differentiates successful countries from unsuccessful ones". Our contention is that this insight provides a useful approach to understanding why Pakistan's economic performance has deteriorated and how this decline may be reversed. In this paper, we use the methodology of McMillan and Rodrik (2011) and McMillan, et.al. (2017) to decompose Pakistan's growth since 1960s to look at the pattern of productivity growth and structural change in different sub-periods. Based on the findings of the decomposition analysis we plan to identify factors that can explain the difference in the nature of structural change and the deterioration in Pakistan's economic performance in the post-1990 period compared to the pre-1990 period. Finally, it is expected that this analysis will help us to propose economic policies that are required to get Pakistan back on a high growth path.

About the author:

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; 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.

A Roadmap to Diversifying Pakistan's Exports: Operationalizing the Product Space

Gul Andaman
University Putra Malaysia (UPM)
(Paper co-authored with Azam Chaudhry)

The lack of export diversification in Pakistan has remained a critical impediment to growth in Pakistan. In order to address this, it is crucial to identify potential new exports that are not only relatively closer to the current export basket but also those products that have the potential to lead to higher value added exports. This paper explores categories of new export products by incorporating the methodology developed by Hausmann and Klinger (2007), Hausmann et al. (2007), and Hidalgo et al. (2007). It operationalizes the concept of product space and identifies new products for Pakistan which reflect prevailing production capabilities as well as products that are of higher sophistication.

About the author:

Dr. Azam Chaudhry is Professor of Economics and the Dean of the Faculty of Economics at the Lahore School. He has a B.Sc. (Hons.) in Economics from the London School of Economics (UK) where he specialized in Monetary Economics, Econometrics and Corporate Finance and a M.A. and PhD in Economics from Brown University (USA) where he specialized in theoretical and empirical macroeconomics. He joined the Lahore School of Economics in 2005 and before that he worked for the World Bank.

He teaches undergraduate and graduate Econometrics and Macroeconomics at the Lahore School and his research interests include Innovation and Technological Change, Institutional Economics, Economic Growth and Development, Behavioral Economics, Economic and Social Networks, Political Economy and Industrial Organization.

Energy Consumption, Dependence and Greening: How does Pakistan Compare with East Asia

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

While it is now recognized that the resource curse and Dutch disease arguments had focused too much on the oil and gas surplus economies of the Middle East, Africa and Latin America as Norway, Sweden and the Netherlands managed to avoid them to achieve rapid economic growth and structural change, the debate on energy now has shifted to sustainability issues since climate change and global warming began to threaten human existence. Hence, the United Nations Framework Convention for Climate Change (UNFCCC) has organized the conference of parties, which led to the landmark Paris Accord of 2015 when 192 countries pledged to contribute to lower greenhouse gas (GHG) emissions, while agreeing to take measures to check climate change. Among the major developments since has been the shift from the use of fossil fuels to renewable energy. Although fossil fuels have continued to dominate world energy consumption, there has been significant efforts to develop renewable sources of energy. While this shift has driven changes in national energy supply plans of several countries, it has also offered opportunities to reduce their fuel imports bill through the development of natural renewable sources of energy, such as solar, wind, hydropower, and biomass. Pakistan is among those oil and gas import dependent countries that could take advantage of this shift to reduce its reliance on such imports. In doing so, the paper seeks to draw lessons for Pakistan from the heavy importers of energy supplies, such as Japan and the Republic of Korea. While Japan and Korea have recorded impressive growth and structural change to become developed, the resource rich countries of China, Malaysia and Thailand have also recorded appreciable rates of growth and structural change to become middle income countries. Using time series data, this paper seeks to examine energy consumption per capita, changes in the composition of energy consumption by non-renewable and renewable sources of energy of Pakistan, and the East Asian economies of China, Japan, Korea, Malaysia and Thailand. The analysis is targeted at obtaining a policy relevant energy self-sufficiency policy direction for Pakistan to consider to support economic growth and structural change.

About the author:

Dr. Rajah Rasiah is Distinguished Professor of Economics at the Asia Europe Institute, University of Malaya. He obtained his doctorate in Economics from Cambridge University in 1992, and was a Rajawali fellow at Harvard University in 2014. He served as an advisory member of the Industrial Development Research Centre, Zhejiang University (2010-2015), professorial fellow at UNU-MERIT (since 2004), senior research Associate at the Technology Management and Development Centre at Oxford University (since 2009), Adjunct Professor at Mohammad Ali Jinnah University (since 2016) and Visiting Professor at UNIMAS (2018) and Lahore School of Economics (2019).

He is the 2014 recipient of the Celso Furtado prize from the World Academy of Sciences for advancing the frontiers of Social Science (Economics) thought. In 2017 he was appointed a Distinguished Professor in Economics by the High Education Ministry of Malaysia, and in 2018 he was awarded the Merdeka (Independence) Award.

Pakistan's Industrial Competitiveness: Issues and Challenges

Muslehuddin
Pakistan Institute of Development Economics
(Paper co-authored with Nasir Iqbal)

The role of industrial sector in promoting sustainable development is well documented in the literature. In an era of rapid technological change, developing countries including Pakistan are striving to improve industrial competitiveness to galvanize their economies, create jobs and boost economic growth. With a population of 207 million, a favorable geo-strategic location, ample human resources, and abundant natural endowments, Pakistan has immense potential to develop into a well-diversified industrialized economy. Yet, Pakistan has failed to exploit its inherent advantages and lags behind its comparators in industrial competitiveness as shown by the Global Competitiveness Report 2018.

This paper aims to explore the underlying factors responsible for sluggish industrial development with a focus on industrial competitiveness. More specifically, the paper attempts to identify key drivers of industrial competitiveness focusing in particular on the textiles and clothing industry which is the mainstay of Pakistan's economy. The study will be based on time series data from 1972 to 2018 and cross section data "The World Enterprise Survey" collected by the World Bank. Based on the empirical analysis, the paper will identify appropriate policy interventions to improve competitiveness of the textiles and clothing industry in short to medium term. The research will help materialize the vision 2025 which targets to join the ranks of top 50 countries as measured by the World Economic Forum's Global Competitiveness Report.

About the author:

Dr. Nasir Iqbal is an Associate Professor at the Pakistan Institute of Development Economics (PIDE). Earlier he was the Director Research at the Benazir Income Support Program (BISP), the largest social protection program in Pakistan. He initially worked with the Pakistan Institute of Development Economics (PIDE), as Assistant Professor and Staff Economist. He holds a PhD in Economics. He led the design and implementation of social protection program including unconditional cash transfer and graduation programs for ultra-poor at BISP.

Pakistan Energy Sector Overview and Challenges

Daud Ahmad
World Bank

Energy has been and continues to be a major constraint in Pakistan' economic development for past couple of decades. Energy sector shortages and cost to the country's economy have been huge. This paper presents a brief history of the developments of the energy sector since independence in terms of national policies, institutional reforms/ changes and current governance structure, physical capacities --production, transmission and distribution, financial arrangements etc. The energy production modal mix variations, shift to private power production, resulting financial implication (energy costs, circular debt, subsidies), and major re-haul of the energy sector institutional set-up (un-bundling of WAPDA), with support of multilaterals organization is reported. The paper also takes stock of the current situation – ongoing power shortages despite addition of significant new generation capacity, continuing circular debt and high cost of energy to the consumers. Potential impact of CPEC energy investments is also discussed. The current Energy Sector Issues / challenges are summarized, along with a possible framework for addressing those. Recommendations on technical, financial and governance will be tabled as a way forward.

About the author:

Dr. Daud Ahmad completed Masters and PhD in Hydraulic Engineering from the Colorado State University in 1970. Worked on Design of Tarbela Dam with Harza Engineering in Chicago. Joined the World Bank in 1972 and worked for 30 years in different development Projects in Africa, the Caribbean and East Asia. Areas of specialization: Infrastructure, public sector management and international procurement. Key positions held at World Bank included Projects Advisor China Country Department, Transport Division Chief, China and Operations Advisor. Worked for nearly 10 years each on development projects in South Korea and China – the two modern day success stories. After retirement form the World Bank, worked for nearly 15 years as development consultant in Indo-China, the Philippines, Afghanistan, Bangladesh, Saudi Arabia etc. Currently associated with the Burki Institute of Public Policy, a Lahore based think tank which focusses on Pakistan's economic and social issues.

Survey in Water Resource Management in Pakistan – Institutions and Policies from National and Provincial Perspectives

Mahmood Ahmad
Lahore University of Management Sciences
(Paper co-authored with Mahira Khan)

Surveys in water resource management reveal that Pakistan has a large set of well-prepared strategies and policy documents yet carrying a poor record of implementing key reforms in addressing water issues and challenges. The newly crafted National Water Policy (NWP) attempted to provide the much-needed framework for addressing the country's water woes. However, it falls short in addressing deeply embedded policy failures and both institutional and market failure issues in the water sector. A recently completed consultative dialogue examined the NWP from a provincial lens, focusing on institutional mechanisms, technical challenges, and practices contextualized in local socio-economic and environmental realities. The authors partook in this unique exercise; this consultative process brought out water management issues shared by all provinces - some unique to each province - requiring both local and innovative solutions. Under this backdrop the paper highlighted the need to adopt demand management policies instead of a continuous focus on supply-side options. Demand management policies are far more cost efficient in mobilizing and saving extra units of water—more so in agriculture which uses the bulk of available water (95%), wastes the most, and pays the least. Addressing these issues necessitates, among other responses, policy options, improving productive ('more crop per drop') and allocative ('more value per drop') efficiency of water use in agriculture. There is also a need to better understand the myriad of ways in which water and salt balances and dynamics are interlinked and impacted by management decisions. Improving allocative efficiency would require significant policy work in terms of sugarcane and other water-intensive crops. The central problem is that water is underpriced – a huge wedge between private and social price of water requiring incremental movements towards full cost pricing. There is an urgent need to explore more innovative ways to solve groundwater overexploitation problems in lockstep with maintaining the current levels of agricultural production in view of a larger dependence in meeting water needs. Some feasible suggestions vary from participatory groundwater management to transforming electricity pricing policies, as in the case of Gujrat-India, would have an impact on controlling the groundwater overdraft.

About the author:

Dr. Mahmood Ahmad is Visiting Researcher at Water, Informatics and Technology Center (WIT), Lahore School of Management Sciences (LUMS), Lahore. He carries a vast experience of working in Near East region (38 countries) in the area of agriculture and water resource management, leading more than dozen of country mission, and conducting large number of workshops and backstopping projects from the Food and Agriculture Organization (FAO) of UN Regional Offices. Dr. Ahmad completed his PhD in Food and Resource Economics from University of Massachusetts at Amherst. He is one of the authors contributing to "China-Pakistan Economic Corridor – A Potential Game Changer: Review and Analysis", BIPP Report on "state of the Economy- The Chapter 7 on Agriculture and Trade was his contribution.

An Overview of Agricultural Pricing Policies in Pakistan

Maha Ahmad
National University of Sciences and Technology, Islamabad
(Paper co-authored with Eatzaz Ahmad)

Despite its continuously declining share in GDP, the agricultural sector of Pakistan has always played a key role in socioeconomic development of the country in the capacity of provider of macro-level food security to consumers, raw material to manufacturing firms and net exportable surplus to traders. Despite all this, the agricultural pricing policy in Pakistan has mostly been regressive, whether it is in the forms of procurement prices, subsidies or other such incentives. A number of studies have employed effective protective rates (EPR) as measures of how government policies served as protective or ant-protective measures.

The present study has three objectives. First, it provides updated estimates of EPR for major agricultural products for the past 20 years or so. Second, it estimates profitability rates for the same products on per acre basis to have some understanding of the relative cost-benefit profiles of these products. Third, on the basis of historic pictures of EPRs, profitability rates and other (mostly normative) socioeconomic considerations, the study attempts to determine to what extent agricultural policies in Pakistan can be rationalized.

Estimation of EPRs and profitability rates is a highly time-incentive task as it requires a lot of manual data entry. In addition, there is more than one approach to estimate EPRs depending on how free-market notional prices and distortion-loaded realized prices are computed. Therefore, the study proposes to consider a few representative data points with intervals of 3-5 years to make all the calculations. The study expects to find that in an effort to appease consumers of agricultural products, whether these are households or manufacturing firms, in recent years agricultural pricing policies in Pakistan have mostly created disincentives for farmers.

About the author:

Maha Ahmad is an Assistant Professor at the National University of Sciences and Technology, Islamabad. She has a Masters in Economics from McMaster University, Canada. She is a Principal Investigator on a project with the USAID.

Dr. Eatzaz Ahmad is Professor of Economics at the Quaid-i-Azam University (QAU), Islamabad and currently Professor, Forman Christian College, Lahore. Previously he was the Vice Chancellor Quaid-i-Azam University in 2014. His research interests are Economic dynamics (debt and macroeconomic management, public sector economics, economic growth, and labor economics), finance, household budget analysis, industrial economics and energy economics.

Consequences of Varying Exchange Rates on Agriculture in Punjab – Pakistan

Abdul Salam
University of the Punjab

In the wake of transformation of traditional agriculture towards modern/ commercial agriculture role of purchased factor inputs: improved seed, fertilizers, pesticides, weedicides, tractors and other farm machinery and mechanical equipment has increased. Many of these inputs or parts thereof are or can be traded internationally. Thus, market prices of these tradable inputs are influenced by the exchange rate. The latte lately has witnessed a lot of volatility which is likely to be transmitted to inputs prices and cost of farm production. These changes are ultimately going to be reflected in market prices of farm commodities. The changes in input and output prices will, inter alia, impacts the economics of various commodities, adoption and use level of farm inputs, enterprise selection and combinations thereof.

Based on crop budgets derived from farm survey data in the Punjab, the study will attempt to ascertain the impact of changes in the value of Pak. Rupee on costs of important farm inputs used in the production of wheat and rice- two of the most important crops in the Punjab. The study using Policy Analysis Matrix (PAM) framework will also estimate the effects of changes in exchange rate of Pak Rupee on the competitiveness and comparative advantage of these crops.

About the author:

Dr. Abdul Salam is associated with the University of the Punjab Lahore, as professor of Economics, Abdul Qadir Memorial Chair, State Bank of Pakistan, since February 2017. Dr. Abdul Salam earned his Ph. D. in agricultural economics from the University of Hawaii, USA, in 1975. Before joining the University of Hawaii, on an East West Centre Scholarship, in 1970, Dr. Salam studied at the University of Agriculture, Faisalabad and earned his MSc (Hons) in agricultural Economics. Staring his professional career at the East West Centre's Food Institute as a Research Associate on a short time assignment in April 1975, he joined the Pakistan Institute of Development Economics in August 1975 as a Research Economist, was promoted as senior research economist in January 1978. He joined the Agricultural Prices Commission, government of Pakistan in 1982 as Chief, Farm Production Economics Division.

After his retirement from the Commission in 2006, Dr. Salam joined Federal Urdu University of Arts, Science and Technology (FUUAST), Islamabad as a professor of economics. At FUUAST Professor Abdul Salam taught courses on Food and Agricultural Policy, Research Methods, Development Economics, Agricultural Economics, Macroeconomics and International trade to the graduate classes. He was also Chairperson of the School of Economic Sciences at the Federal Urdu University from June 2012 to May 2016.

The Prospects of CPEC: The Importance of Understanding Western China

Matthew McCartney
University of Oxford

Much of the analysis of the likely economic impact of the China-Pakistan Economic Corridor (CPEC) focuses exclusively on Pakistan - Pakistans trade policy, state capacity, transport infrastructure, energy supply and prospects for exports. Missing from this discussion is the study of Western China. Is Western China a market for Pakistan or an industrial rival? How will the Government of Pakistan's aspirations to utilise CPEC to promote economic growth in China complement the Chinese governments long-standing Western Development Programme?

About the author:

Dr. Matthew McCartney is an 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).

Review of China FTA Experience and Lessons for Phase 2 of the FTA

Yasmin Abdul Wahab
Ministry of Commerce, Government of Pakistan
(Paper co-authored with Ghulam Qadir)

The purpose of this paper is two-fold. One, a review of the Phase-I of the China-Pakistan Free Trade Agreement (CPFTA). An appraisal of the first phase is important so as to be able to predict the impact of Phase-II of CPFTA currently under negotiation, and to design policies to correct huge trade imbalance and facilitate economic development through free trade agreement. Although the rhetoric in many of the reviews of CPFTA Phase-I is that the agreement has resulted in huge trade deficit for Pakistan, benefiting only China, this paper attempts to consider some of the other facets of the impacts of the FTA on Pakistan's economy that most reviews have not undertaken, such as impact on productivity growth resulting from availability of cheaper inputs, better utilization of resources, greater consumer welfare, etc. For this purpose, a hybrid tools analysis is conducted: the analyses comprises an ex-post evaluation of free trade agreements, qualitative and quantitative industrial analysis.

The second part of the paper will comprise of ex-ante economic evaluation of Phase-II of the CPFTA. The analysis will be conducted employing several indicators of bilateral trade dependence, comparative advantage, regional orientation, and trade complementarity and export similarity. The strengths and limitations of the trade indicators would be diligently considered before deriving and interpreting results. The paper will rely on the SMART model to estimate the sector wise potential economic impact of Phase-II of CPFTA. The findings of the model will be used as platform for estimating the potential trade after trade liberalization resulting from concessions granted in Phase-II. The analysis will be built up through qualitative techniques based on feedback from concerned businesses, government sector stakeholders and academia. In addition, the study will also look at the macroeconomic developments as well as the industrial policy considerations in the light of envisaged Special Economic Zones (SEZs) under the China Pakistan Economic Corridor (CPEC). Other developments in the on – going strategic bilateral cooperation initiatives will be considered, especially those announced during the Prime Minister of Pakistan's visit to China in November 2018.

About the author:

Dr. Yasmin Abdul Wahab is a Trade Adviser in the Ministry of Commerce for the past 1.5 years, prior to which she has taught at Quaid-i-Azam University and CASE Business School. She is currently part of the negotiating China-Pakistan Free Trade Agreement team at the MoC, and has actively participated in the last two rounds (9th and 10th). Dr. Wahab has successfully formulated and negotiated robust safeguard measures for Phase-II of FTA, and have participated in formulating offer and request lists and in industrial consultations.

Ghulam Qadir is an Economist working in the economic policy making for Pakistan for the past 8 years. He is currently advising the Ministry of Commerce, Pakistan in negotiating FTAs with China and Thailand. Mr. Qadir has been associated with World Bank, Ministry of Finance, Deloitte Consulting, ADB and Punjab Board of Investment and Trade.

China’s Belt and Road Initiative and the Rise of Yuan – Implications for Pakistan

Jamshed Y. Uppal
The Catholic University of America, Washington DC
(Paper co-authored with Rabab Mudakkar)

The Chinese yuan is poised to become an international currency and play a major role in global finance, competing with the other hard currencies to serve as a reserve currency, an intervention currency and a settlement currency. The China’s “Belt-and-Road Initiative” (BRI) feeds in and strengthens this emerging role of renminbi (RMB). Since, the China-Pakistan Economic Corridor (CPEC) is a prominent part of BRI, the rise of RMB carries significant implications for the management of Pakistan’s foreign currency reserves and exchange rates.

The RMB is being used increasingly in settling cross-border trade and financial transactions, areas in which the US dollar has held the dominant position so far. At present, around 62% of China’s FX reserves are denominated in USD, 20% are in EUR, which is in line with other emerging market countries. The PBoC has started diversifying FX reserves into other currencies, especially in Asia. The yuan is becoming an increasing component of FX reserves around the world, as a growing number of central banks and sovereign wealth funds include renminbi reserves and investments. IMF's decision to include the renminbi (RMB) into the SDR basket effective October 2016 not only symbolizes worldwide recognition of Chinese Yuan as an international currency, but also carries profound international implications.

The emergence of the RMB as an international currency is likely to have major consequences around the globe, particularly for countries with major inflow of Chinese capital, e.g., Pakistan under CPEC. The internationalization of RMB will challenge the countries’ capacity to steer macro-economic policies and to manage financial risks. A tri-polar system (USD, EUR and RMB) is likely to be a system of competing international currencies which may be unstable during some periods of time. This instability is essentially due to the capacity and incentives for investors, including central banks to shift the composition of their international portfolios and FX reserves.

The emerging foreign exchange risk from spillovers and volatility are reflected in the statistical distributions and time-series dynamics of the exchange rates. The proposed paper is an econometric study of how the Yuan-Rupee exchange rates (CNY/PKR) have evolved over time vis-à-vis other hard currencies, and how it has been affected by the CPEC projects. It assesses its impact on the foreign exchange risk. The analysis provides policy implications for the management country’s foreign exchange.

About the author:

Dr. Jamshed Y. Uppal is an Associate Professor of Finance at the Busch School of Business and Economics, Catholic University of America, Washington DC. He specializes in the corporate financial management area. He received his Ph.D. and M.B.A. degrees in finance from Michigan State University, USA. Dr. Uppal also holds an M.A. degree in economics and a professional certification in cost and management accounting. Additionally, he has extensive professional and business experience. His research interests are in the financial markets and institutions in the developing countries.

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