Ceteris Paribus

Official Newsletter of the IBA Economics Club

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IBA Economics Club

By the Editor

Hi all!

Welcome to yet another edition of Ceteris Paribus. We hope you are enjoying the new look and feel of your newsletter. Our efforts continue to get the best of our economic thinkers at IBA to share their insights with our larger student audience. We look forward to your thoughts, feedback and contributions to future editions.

Hussain Ali Talib

Assistant Editor

Hi all!

I welcome all the new students of Economics and Finance programs. The elections for new representatives of the economics club will take place this month. I invite all the potential candidates to participate actively in the election campaign and when elected, introduce innovate initiatives and sustain existing ones to enhance our understanding of the economics discipline. Ceteris Paribus will continue as a bi-annual newsletter. Wish you all the best.

Shayan Khan

News Snapshot

- State Bank of Pakistan (SBP) states Annual Average CPI for FY16 as 2.9% with Food CPI Year on Year basis 3.4% in August 16.
- SBP states GDP growth rate FY15 as 4.24% whilst Asian Development Bank (ADB) as 4.2%. Projected GDP growth for FY17 is 4.5% by ADB and International Monetary Fund (IMF).
- Total Debt & Liabilities as of Q4FY16 are 75.9% of GDP according to the SBP.
- Saudi Arabia’s plan to cut spending of about $20 billion worth of projects has already resulted in a three-year low, 20% fall in remittances for the month of July 16.
- Proportion of Population using Improved Sanitation Facility – 64% reported by ADB 2015 and 59.5% by Pakistan Demographic & Health Survey 2012-2013.
- China’ imports rise by 1.5% in August 2016, first ever expansion since October 2014.
- Costa Rica runs on 100% renewable energy for two straight months.
- According to the Climate Institute, Coffee could become extinct by 2080 if global warming continues at the current rate.

Inside this issue:

A Discussion with

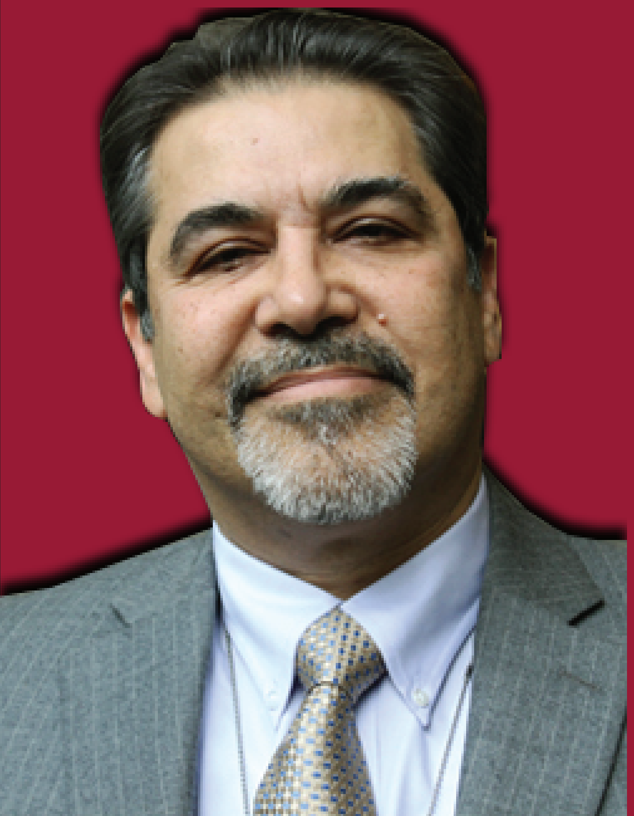
the dean, Dr. Farrukh Iqbal

1. Please tell us about yourself.

Before coming to the Institute, I was employed at the World Bank in Washington DC for thirty-three years. My early experience at the Bank was primarily in the area of economic development policy research, design and evaluation. As I became more senior at the Bank, I shifted into management roles with responsibility for overseeing personnel and programs as well as policy dialogue and relationships with country governments. So I have both a research and a management background.

2. Can you elaborate on your plans for IBA?

Successful organizations follow similar development paths in that they have periods of growth and transformation followed by periods of consolidation. Both periods are necessary. Successful organizations do not remain stagnant; they grow and diversify over time, responding to signals provided by the market and by stakeholders. But each period of growth needs to be complemented by a period of consolidation in which the content of the new initiatives undertaken can be reassessed and modified as necessary. In a nutshell, my plans for IBA are to build upon the foundations laid in recent years, expand the initiatives that are working well and modify those that appear to need tweaking.



Dr. Farrukh Iqbal
Dean & Director
IBA - Karachi

3. Pakistan seems to be stuck in a low long run trend growth trajectory. What are your thoughts on this?

Pakistan's economy has certainly stabilized over the last few years and is now better placed to revive the process of sustainable long run growth. This will require paying attention to several structural concerns. Here are a few such concerns:

• Revenue performance. Pakistan is a low-tax country in terms of collections, suffering both from issues of tax policy design (relating to who and what gets taxed) and administration (evasion and corruption). This pushes the economy into excessive reliance on foreign aid, on the one hand, and an inability to undertake the level of public investment (in infrastructure and human capital) that is needed for higher long run economic growth.

• Public sector performance. Many public sector agencies (such as PIA and the Pakistan Railways) continue to be a major drain on fiscal resources while providing poor services to the public. Some public investments are so poorly thought out or implemented that they drain public resources without providing any useful services at all. For example, a recent news item (in the Express Tribune of August 19, 2016) reports that the Karachi Textile City project for which 1250 acres of land was acquired in 2007 is costing the government Rs. 180 million per month in interest payments. However, not a single plot of land has yet been sold to industrialists to start factories. This is because no power or gas sources have been arranged for the project.

• Power sector developments. While several power projects have been launched, and some are likely to come on stream in 2017, the sector continues to feature some serious weaknesses. These include issues relating to the mix of power sources (oil/gas/coal/hydro/other renewables) as well as to the pricing of energy and the management of the circular debt that characterizes the sector.

• Security challenges. While some improvements have been observed in recent years, will these extend into the medium and long term? Have the fundamental causes of the security threat been resolved? If not, what are the implications for the economy?

• Human capital. Pakistan invests less than half the amount (as a proportion of GDP) in health and education than what many development practitioners consider necessary for the generation of sufficient human capital to support a long run growth trajectory of the sort experienced in the last four decades in East Asia.

• Private investment. The rate of private investment continues to be low (below 10% of GDP). Much higher rates of private investment are needed if Pakistan is to get on a sustained high growth trajectory. Progress on all five of the previous structural issues will be needed to lift private investment rates in Pakistan.

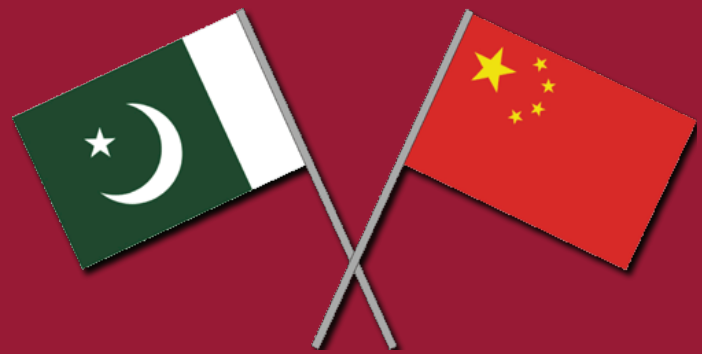
4. There remain issues with placement in the BSEM and the MS program, and the Career Development Center (CDC) also struggles to operate effectively. Placing graduates into prestigious organizations is what earns the institution its name. What are your plans to rectify this?

I understand the CDC unit at the Institute currently faces a shortage of personnel and resources that may be affecting its ability to help place IBA graduates. I will look into this matter and develop a plan for strengthening the CDC office. We will ensure that the revived CDC is able to provide placement services for economics graduates as well. Furthermore, since economics has been my own field of specialization, I plan to take a special interest in IBA's offerings in this area.

5. What plans do you have to further strengthen IBA's faculty?

Given that I am very new in my assignment, the best I can do at this stage is share some hopes and aspirations with you rather than specific plans. Among our priorities should be the further strengthening of our faculty to see it recognized for excellence in both research and teaching. I hope to work with our faculty to find ways to further improve teaching at the Institute through pedagogical training and continued learning from peers. Since we already have in place a mechanism whereby students evaluate faculty on their teaching performance, I envisage making use of this student input as well as seeking more. We must also continue to incentivize research through funding, awards, and additional training in research methods. Through a consultative process, we will identify the current plans and mechanisms for achieving all this and develop ideas for speeding up implementation.

The Aura of the CHINA PAKISTAN Economic Corridor



Written by: Hina Yaqoob Gaziani - BSEM-5

China has been a true friend of Pakistan ever since our country's independence and has been an ardent supporter of various endeavors we have taken. Ranging from the development of the Karakoram Pass to the vast array of goods supplied to the economy of Pakistan, or from the rehabilitation of earthquake-affected areas to incubating numerous businessman of Pakistan, China has always helped to uplift Pakistan's economy. The China Pakistan Economic Corridor, or CPEC, is yet again a promising measure taken by China to help Pakistan.

CPEC is also known in China as the "one belt, one road" initiative, which is a mega project focusing on the connectivity and cooperation between China and Eurasia. Pakistan has benefited from one segment of this project, which will inject USD 45 billion into the country's infrastructure and help Pakistan in its economic growth objectives. This corridor will consist of a 2000 km transport link from Kashgar in north western China to the Gwadar port in Pakistan on the Arabian Sea, near the border of Iran through roads, railways and pipelines.

The city of Kashgar is about 3500 km away from the sea going through mainland China and the construction of Gwadar will reduce that distance to just 1500 km. In order to acquire permissions for trading at Gwadar port, China is willing to uplift Pakistan as whole, not just the economy. CPEC has a total of 51 projects spread across energy, infrastructure and industrial parks, of which 20 projects aim to generate 10,400 MW of electricity. This surplus energy will help revive struggling and dormant industries such as the textile industry, which face severe loss of demand primarily due to higher prices caused by expensive electricity.

It is predicted that this projects will stimulate growth for approximately 700,000 direct jobs adding about 2.5% to the country's annual economic growth. Once all these projects are implemented it would be equal to all the foreign investment in Pakistan since 1970, and would also be equal to 17% of Pakistan's 2015 GDP. China will also be narrowing Pakistan's economic-military gap.

However, a major setback of CPEC can be that Pakistan is isolating all other countries since its favoring its relation with China. Pakistan should ideally be developing diplomatic relations with all friendly countries, considering the benefits of international trade, each country has its own advantages (absolute and comparative) in order to avoid absolute dependence on a single economy such as China. It must also be pointed out that China might accelerate the rate of dumping goods in Pakistan which will have a negative impact on its local industries.

India and US are threatened by this relationship between Pakistan and China and are taking measures to disrupt the progress of these projects. On the home turf, there have been grievances as well regarding the route of CPEC and thus the spread of its economic benefits within the region. Quoting from an article from Pakistan Today, "this convention is a jewel in the crown for Pakistan". Therefore, for this project to be a success, all provinces should keep their differences aside and make room for compromise for the collective long-term economic benefit of the country.

Energizing the Economy of Baluchistan

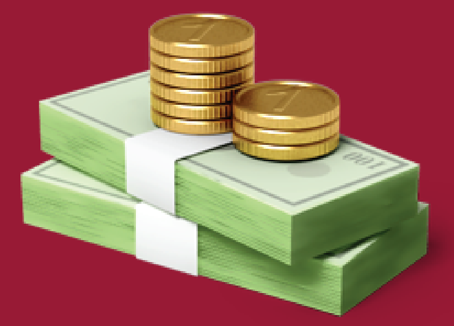
Written by: Zaineb Makati - BSEM

Baluchistan is the largest and also the most neglected province of Pakistan. Due to reasons of political instability and economic backwardness Baluchistan has always been deprived of basic social and economic development and has been unable to exert itself within the federation of the country to grab the resource share that it is due.
Baluchistan, the largest province of Pakistan covers about 44% of the country's geographical area but is home to only 5% of the population and its contribution to the national GDP has remained only around 4%.
Baluchistan is one of the poorest regions of the World and the people of this province are among the most deprived on earth with an average citizen living on less than a dollar a day. The Pakistan Rural Support Program (PRSP) estimates poverty to be as high as 47%.
Baluchistan is perhaps the richest province of Pakistan in terms of mineral and energy resources including iron, copper and uranium, vast fields of natural gas, oil and coal and yet the poorest. The natural resources of the region remain underdeveloped and idle and those discovered are exploited to the most for the benefit of those outside Baluchistan. The proper utilization of these resources can help to produce valuable export goods, a sizeable amount of foreign exchange and make Baluchistan one of the richest areas of the world.
Baluchistan's economic development has struggled due to a lack of investment and capital accumulation, a void in dedicated leadership and the unmanaged law and order situation of the region. Due to a deficiency in coordinated economic policies and sustainable strategies of economic development, Baluchistan has not seen any significant progress in productive industries of minerals, fisheries and agribusiness and also in human resource development.
Geographically the location of Baluchistan makes it a sensitive region politically and economically. It is situated at the tri-junction of South Asia, Central Asia and South West Asia and shares borders with Afghanistan, Iran and has a 1000 km long strategic coastline in the South with the Arabian Sea in the Indian Ocean. Due to this strategic location, Baluchistan has always been a centre of interest for all super powers including the former Soviet Union, the US and China, which are alleged to be involved in conspiracy and political instability in the region.
Every economic, financial and social sector of Baluchistan needs reforms and strategic planning. Also due to the high cost of public service delivery in the region, all human development indicators of Baluchistan are much worse than the national average. Female literacy rate is 16% versus 32% for the rest of Pakistan and maternal mortality rate is 600 per 100,000 live births versus 350 for Pakistan. Other development indicators such as polio immunization coverage is 46.1%, early child bearing is 11%, early child development index is 60.2%, institutional deliveries are at 24.2%, net intake rate in primary education is 19.8%, all of which signify the poor living conditions in the province.
A study by the Asian Development Bank highlights three strategies to tackle the current challenges of Baluchistan which is based on the lessons and development experiences from around the World. First "Generating Growth" through structural changes in economic strategies, movement of resources out of agriculture to services and industry and transformations in trade and technology. Secondly, "Delivering Services" by improving the effectiveness of the public administration, basic health care, education, water supply and sanitation services and foster mechanisms for accountability at provincial and local levels. Finally, "Financing Development" by closely monitoring and managing the public expenditure and upgrading the tax-system of the province. All these three strategies together can make Baluchistan's development path inclusive and help in sharing growth across regions and population groups.
Out of the four provinces of Pakistan, Baluchistan is the most difficult to study due to the lack of information and data, lack of researches and censuses conducted and due to the political involvement and international conspiracies hindering all the development projects in the region. The most efficient way to study the economy of Baluchistan would be to divide the regions of Baluchistan in terms of the availability of data and then do the following analysis:

- Gathering all available data
- Finding the weakest development sector
- The budget allocated and used in that region
- The reasons of inefficiency
- Reforms and Solutions

Although Baluchistan will undoubtedly prove to be the most difficult province to study academically but if there are multiple problems and challenges, there are multiple solutions and ways to go about confronting those challenges as well.

Strengthening Economic Growth Through Budgetary Management



Written by: Alizeh Tariq - MBA

The budget announced on the 27th of May this year for the current fiscal year, heralded a few major changes to the economic set up of the country. It outlined the political vision that the government hopes will determine the direction of economic upliftment.

However, one does note a fundamental flaw in this vision that being the many loan facilities that the government has to resort to each year. It seems we have yet to achieve self-sufficiency in generating public income that can be used to grow the economy.

In his post-budget announcement, Federal Minister for Finance, Muhammad Ishaq Dar indicated a positivity in the economy that can already be seen in the form of enhanced reserves and greater private sector lending that will eventually allow businesses to expand and pull up the GDP. The question remains, how far is this assessment correct?

Private sector credit is in fact likely to reduce, and display seasonality of working capital requirements. Our GDP growth rate is yet to cross healthy digits that can attract fixed capital investments. The possibility of investments seems to be stark in this scenario given that companies will be eyeing areas for reinvesting their maturing government papers.

THE SITUATION OF TAXES

Taxes on oil and food have been levied further which will make life difficult for the common man in Pakistan. The concept of developing a stronger Small and Medium Enterprise-driven economy that gives power to the middle income class is again unsupported. Therefore, neighbors such as India, which have already consolidated their middle tier, are better off, as it is prospering in terms of both saving and spending with pecuniary velocity generated from small to middle business ventures.

S. M. Muneer, the Chief Executive of the Trade Development Authority of Pakistan has been vying for reduced taxes for businesses. He requested for budgetary provisions for exports refunds (Rs 300 Billion) and opposed sales tax on the import of plant machinery, explaining that these machineries are meant to enhance production, which would ultimately contribute to the economic growth of the country. He also demanded the enhancement of a turnover tax limit. It is such pragmatic policy-making that will leverage our export potential and raise forex buoyancy.

LEVERAGING INTERNATIONAL RELATIONS

Much of our growth depends on our management of foreign relations. Without the deft management of international allies, Free Trade Agreements (FTA's) and Special Economic Zones (SPE's), it is unlikely that Pakistan will be able to generate much business in the years to come. Ardent capitalism alone cannot be the recipe for achievement as it is seen that declining exports of textiles have brought GDP estimates down to just 4.7%.

Ceteris Paribus would like to request the faculty of economics and finance department to contribute their research developments and findings for the benefit of readers. Students are also encouraged to submit their articles on matters impacting Pakistan or global economy.

You can send in your research or articles at

ceterisparibus@khi.iba.edu.pk

Word length for contributions is a maximum of 600 words.