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Welcoming the New Dean and Director:

Faculty of AERC congratulates Prof. Dr. Moonis Ahmar on his appointment as Dean



Arts and Director of AERC. Dr. Ahmar is currently a Professor at International Relations Department. AERC staffs wishes him very best in his professional endeavours and hope that Centre will flourish under his able guidance and directorship.

Message from the Dean and Director:

It gives me great pleasure to write a message for AERC VOICE a newsletter of Applied Economics Research Centre, University of Karachi. Over a period of few decades, AERC has emerged as a major research think tank on economic affairs not only dealing with Pakistan but also on political economy concerning the developing world.

The editor of AERC VOICE and her research team is rigorously involved in accelerating the pace of academic activities at the centre and it is expected that in a year's time there will be a qualitative breakthrough by launching the PhD program along with transforming Pakistan Journal of Applied Economics (PJAE) from biannual to quarterly. The centre also plans to hold an international conference by the end of 2014 along with national seminars/conferences and workshops on different issues dealing with the political economy of Pakistan.

I am sure that with the consistent and innovative approach by the faculty and the staff of AERC, the centre will not only maintain its standard will also continue its activities particularly those related to collaborative research having an impact on Pakistan's economic policy.

Corporate Social Responsibility: An Analytical Review of Pakistan's Banking Sector

Nighat Bilgrami-Jaffery and Humera Sultana

The world these days is addressing many dimensions of social and human Millennium Development Goals (MDG). In this respect newly emerged concept of Corporate Social Responsibility (CSR) is of great importance and very popular for social and sustainable development. The empirical analysis of the social development calls for urgent measures to improve Pakistan's social sector. There is a need to build up a triangular relationship between the government, MNC's and the people of Pakistan. It is important that the agreement between the government and the MNC's are reviewed and the labor laws are applied. MNC's should have clear policies on corporate social responsibility. Its importance can be realized with the fact that in some of the developed countries they have separate ministries to look after the issue of CSR.

The corporate sector is believed to work on primary social indicators of the economy. Education and healthcare remain neglected in many parts of Pakistan due to insufficient public sector development programmes. Public sector

spending on education amounts to a meager 1.8 percent of Gross Domestic Product (GDP), 25 per cent of the population is malnourished, and total healthcare spending is only 0.4 percent of the GDP. Investing in higher education is akin to investing in the leaders of tomorrow, an investment that would always bring high returns and many benefits in the years to come. The responsibility for developing these crucial sectors – the backbone of future socio-economic progress of the country – lies also with the corporate sector, indicating importance of CSR in corporate sector. A company having its own CSR strategy indicates that it is socially and ethically responsible in contributing to communities well being and welfare. Very few companies have their own CSR strategies and rules. Most of these are MNCs, while other firms and corporations however, do give donations in the form of charity but do not follow the CSR strategies/regulations. Hence, there is a dire need to educate the relevant parties about the importance and working of CSR.

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Pakistan Intra-Industry Trade: A Panel Data Approach

Muhammad Shabbaz, Nuno Carlos Leitão and Muhammad Sabibuddin Butt

Pakistan had adopted commercial policy reforms to promote regional trade. Like other developing economies Pakistan was also followed import-substitution policy for industrialization that was highly supported by high tariff rates, import quotas and overvaluation of exchange rate.

Pakistan has joined two regional-trading blocks i.e. South Asian Association for Regional Cooperation (SAARC) and other is the Economic Cooperation Organization (ECO). The intra-industry trade between ECO and SAARC is very incipient (Kemal, 2004). This paper tests the determinants of intra industry trade (IIT) between Pakistan and the major ten trade partners (United States, United Kingdom, Japan, Germany, Saudi-Arabia, Canada, France, Italy,

Netherlands, and Norway). The time period 1980-2006 has been chosen on the basis of sufficient number of observations. In static panel data models, Pooled OLS, fixed –effects (FE) and random-effects (RE) are used. The RE estimator was excluded because our sample is not random. Furthermore, the Hausman test rejects the null hypothesis RE versus FE. Therefore, the regression coefficients are obtained using fixed effects.

In the FE model, all explanatory variables are potentially correlated with the effects and, therefore, only estimators based on deviations of the observations can be consistent (Arellano and Bover 1995). This paper also decided to

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SEMINAR SERIES

On April 3rd, 2014, Muhammad Omer, former student of AERC, recently working as Analyst in Economic Analysis Department of the State Bank of Pakistan, presented his research work focusing on excess interbank liquidity. The research was based on his Ph.D thesis, awarded by the University of Groningen, Groningen, Neitherland.

This research has investigated the drivers of excess interbank liquidity in Pakistan. By applying Autoregressive Distributed Lag Approach on weekly data for December 2005 to July 2011, he found that financing of the government budget deficit by the Central bank and non-banks persistently lead in excess liquidity. His findings identify a structural shift in the interbank market in June 2008. Before June 2008, low credit demand was driving the excess liquidity holdings by banks. After June 2008, banks "precautionary investment" in risk-free securities drive excess liquidity holdings. He suggested that the discount rate is not a very effective monetary policy tool is to excess liquidity management present in the interbank market of Pakistan. Therefore he concluded that monetary policy is relatively less effective if banks hold excess liquidity for precautionary reasons.

Successful M.Phil Candidates for 2012-13

From this issue a new series has initiated to highlight the studies carried out by the M.Phil students at AERC. Last year five of our students were awarded M.Phil degrees. The summary of the four of these is being included in current issue.

Economic Efficiency of Minor Crops & Crop Diversification towards High Value Crops in Pakistan

Asif Ali Abro completed his M.Phil thesis under the supervision of Prof. Dr. Nuzhat Ahmed on Crop Diversification towards High Value Crops in Pakistan.

Pakistan is a country of about 180 million people. More than 64 percent of Pakistan's population resides in rural areas where the main occupation is agriculture. It is the source of the livelihood of almost 45 percent of the total employed labor force in the country. With the present contribution to GDP at 21.8 percent, agriculture sector is the main stay of the rural economy around which socio-economic privileges and deprivation

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Species-Wise Major Marine Fish Production Growth in Sindh Coastal Areas

Mohammad Pervez Wasim

Seafood being the major source of food to mankind. Those countries which are situated along the coastal belts have emerged as major exporters of seafood besides providing to the nutritional needs of their own people. Fishing industry of Pakistan employs more than 1% of the labor force and a major source of employment especially for those people living along the coastal belt of the country. Pakistan is ranked as one of protein deficient country. Per capita fish consumption in Pakistan is very low, compared to East Asia and South Asia domestic consumption which is 50% of their total production. Domestically Pakistan consumes only 25% of the total marine fish production, whereas it exports 20% and 55% being used for fishmeal.

Sindh coastal zone is extended between Pakistan – India border and the Hub River. The zone is characterized by a network of creeks having mangroves catering nursery for a number of marine inhabitants and is also suitable for trawling. The bays are Karachi port and Ibrahim Hyderi.

The Indian Ocean on the Sindh coastal zone of Pakistan remains the main source of marine fish production for the country. Therefore the study was concentrated on Sindh coastal zone. The finding of this study would be helpful for exporters, extension-work staff and policy

makers. This study analyzed the growth performance of species-wise marine fish production for two different periods of Sindh coastal areas viz; Period I (1985 to 1996) and Period II (1997 to 2008). The analysis was based on secondary data of major species-wise marine fish production of Sindh, collected from various issues of Hand Book of Fisheries statistics of Pakistan and Agricultural Statistics of Pakistan. Growth model was fitted to the time series data for estimating growth rates of Fourteen (14) major species namely Dawan, Sole, Mangra, Pittan, Tarli, Khagga, Aal, Mushta, Surmai, Shrimps/Prawn, Dhotar, Poplet, Hira and Palla. The study confirms that in Period I, out of fourteen (14) species eight (8) species viz; sole, mangra, pittan, Tarli, palla, aal, dawan, hira, poplet and khagga showed significant positive growth mainly due to proper stock assessment of marine resources, research and development programmes, control fishing and completely ban on illegal nets. The study also concluded that in Period II out of fourteen (14) species, growth rate of only five (5) species namely mushka, surmai, dhotar, poplet and hira have been significantly increased while that of sole, mangra, pittan, khagga, and aal growth rates significantly decreased. The declining growth rate indicates the problem of over fishing.

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Trade Facilitation and Export Performance: Empirical Investigation for South Asian Countries

Mohsin Hasnain Ahmed

Tariff rates have been reduced globally over the last few years, which have consequently resulted in huge increase in international trade. However, the economic performance has varied across countries, suggesting that country-specific factors have important role in determining an economy's response to capture trading opportunities. The rapid growth in international trade has created a challenging situation for customs administration to provide efficient services for international trade. The significance of trade facilitation and trade regulations, other reforms has become more evident with passage of time. Trade liberalization is one of the important policy advice opted in developing countries over the last few years.

The enormous increase in international trade due to reduction in tariff rates which has created a challenging situation for custom administration, particularly associated with effectiveness and efficiency of customs' processing. Trade transaction costs are a key factor in explaining the pattern of international trade flows. There is various indirect and direct transactions costs involved in international trade,

contributing around 15 percent of the value of traded good (OECD, 2003). World Bank (2009) reported that enterprises in most SAARC countries spend much more time and documents require in export procedure than do their business rivals in developed countries. For example in SAARC economies, on average, it takes 33 days with 8 documents and cost around 1314 US\$ per container to export, while in OECD countries a similar good would only take 7 days to export, require four documents and cost around 896 US\$ per container for export.

The present study explores impact of trade facilitation and other reforms on export performance of South Asian economies. Findings support that the trade facilitation and regulatory quality have important role to play in facilitating export growth in South Asian countries. Empirical findings confirm the important link between trade facilitation measures, regulatory quality and export performance. Trade openness, GDP per capita income of trade partners and physical infrastructure are also emerged

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revolve. Crop diversification is needed from low value to high value crops; from single crop to multiple crops and from agriculture production to processing and value addition productions, alongwith developing technologies to promote crop diversification. The country must pay more attention to the development of technologies that will facilitate the agricultural diversification particularly towards intensive production of fruits, vegetables and other high value crops that will increase the income growth and generate effective demand for food. GLS technique with fixed-effect model was applied in the thesis to examine the impact of different forces on crop diversification in Pakistan.

Gender Wage Discrimination in Pakistan Textile Sector

Readymade Garment Sector of Pakistan is one of the most important sectors since its products have huge demand both at home and abroad.

NARJIS KHATOON in her M.Phil thesis under the supervision of Prof. Dr. Nuzhat Ahmad concluded that, in the garment sector, the female workers are concentrated in poorly paid, labor-intensive down-stream production while male workers dominate capital-intensive processes. Her thesis although confirms the significant presence of wage gap between male and female, however the decomposition outcome applied in the thesis suggests that the difference is overwhelmingly generated within sectors.

Examining results from the earning equations both for male and female emphasize the relevance of human capital, demographic factors and local/regional labor market segmentation in wage gap. Various governments have failed to identify the gender bias which prevails in the social and economic sector. However gender bias phenomenon can be decreased by improving infrastructure, education and appropriate training can improve the present condition of the labor force of this sector.

Import Elasticities and Macroeconomic Behavior in Pakistan

Ms. Sadaf Majeed's M.Phil Thesis, under the supervision of Dr. Abdul Waheed, contributed to the empirical literature by highlighting the responsiveness of import demand in the context of its determinants in Pakistan over the period of 1971-72 to 2009-10. Her results indicate that:

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Crop Diversification in the Fruit Belt of Balochistan Province

Akhtar A. Hai, Mahpara Sadaqat, Ambreen Fatima, Arsalan Ahmed and Ali Rasbid

The increased levels of risk and uncertainty always impact on production related decisions, particularly of the farmers. In this context an attempt has been made to measure the degree to which crop diversification taken place in the north eastern belt of Balochistan province comprising seven districts. This belt tends to supply 80 to 90 percent of specific fruits output to the rest of the country. These include apple, apricot, peach, pomegranate, plum, grapes. In traditional agriculture the farmers face further constraints imposed by either absence or weak structure of research and development organization. Nevertheless, the farmers in such situations continue their efforts using indigenous knowledge to reduce such risks and uncertainties, and bringing in changes in their crop mix that are technically adaptable and economically feasible through crop diversification.

In Balochistan in addition to weather vagaries, the absence of physical and technical services and poor extension and research services have tended to limit the options available to farmers in diversifying their cropping activities and have forced them towards cultivation of apple which has relatively higher shelf life. The study uses a combination of household survey and published secondary data to analyze the crop diversification in Pakistan in Balochistan. The farmers were asked to reveal the trends in holding land assets and land allocation to crops for the 20 preceding years. The regression analysis was used and the results show that farmers, particularly the small farmers of less than 5 acres of land, were moving towards specialization instead of diversification. The analysis also identifies the area where the government has to play a major role in order that a level playing field is provided to farmers based on which they can compete through diversification thereby reducing the levels of risks and uncertainties.

The research concluded that In order that a suitable physical and technical infrastructure is provided to the area for reducing post-harvest losses and increasing crop diversity, the public sector development programmes needs to increase the development budget for agriculture of the province from currently 1.5 percent to at least 3 to 4 percent. Given the significant reduction in the level of productivity of fruits in Balochistan during the last 20 to 25 years it is imperative that significant efforts are needed to improve productivity levels by enhancing the capacity of research organizations to focus on new varieties, scientific processing, packaging and marketing of different types of fruits grown in the province. In the absence of such efforts a total production levels of fruits may continue for some time through area expansion which is economically inefficient.

FACULTY DEVELOPMENT

Award of Post Doctorate Scholarship



Dr. Shaista Alam, Research Economist at the AERC, has recently been awarded with the HEC scholarship for post doctorate. She is proceeding to University of Nottingham, UK for her post doctorate research. Earlier Dr. Alam was awarded with the Ph.D Scholarship by HEC in 2005. Her Ph.D thesis was published in a book form in 2013. She is a author of over 30 research articles all published in reputable national and international HEC recognised journals.

Award of Ph.D Degree

We the staff members congratulate Dr. Mahpara Sadaqat for receiving Ph.D degree from University of Karachi. Dr. Sadaqat is currently serving AERC as Senior Research Economist/ Associates Professor. She is author of over 15 publications.



Welcome Back Dr. Iram



The staff members of AERC congratulate Dr. Uzma Iram on receiving Ph.D degree from University of Kent, UK. Indeed this is one of the greatest achievements of her professional life. AERC staff wishes her success in all future endeavours. God bless her more!

Prof. Malahat Kaleem Sherwani

Retirement doesn't mean the end of Academic carer specifically if one is a Professor. We congratulate and wish her success in her new assignment at her Alma Attar. Prof. Malahat academic achievement will always be remembered and acknowledged. We the staff of AERC appreciate her services as Dean and Director of AERC.

New Editor for PJAE

Dr. Samina Khalil, Associate Professor, AERC, upon completion of editorial tenure of Mohammad Sabihuddin Butt, assumed the charge as Editor of PJAE on January 2014. Dr. Khalil has a long association with the PJAE as the member of Editorial Committee. We hope under her editorship PJAE will achieve further high academic excellence. We wish her success in present assignment.

Official Visit of SANDEE

Dr. Ashraf Wasti invited on 08 April a team from SANDEE comprising Dr. Lohano and Dr. Inam-ul-Haqto visit AERC. The aim of the visit is to introduce the work area of SANDEE among the faculty members and students. Under their capacity building programme, they are looking for the active involvement of students and Researchers. They introduced the funding opportunities available for researchers and students. They also explored the collaborative areas in which the two organizations can work together for the Environmental Development of South Asia. The seminar was enthusiastically attended by the Faculty members and the students.

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(1) The inelastic price elasticity suggests that exchange rate policy may not be feasible to improve trade condition in Pakistan. Therefore, depreciation of the currency to restrict import growth may not be feasible in the case of Pakistan.

(2) Moreover, long run elastic coefficients with respect to all expenditure variables suggest trade balance will be negatively affected by economic growth if this growth is not determined by exports.

(3) More reliance on domestic investment to endorse economic growth may lead to further deteriorate the trade balance in Pakistan.

(4) The consumption and investment expenditures are the major determinants of the movements of import demand in Pakistan which suggest that the Government should formulate the economic policy specially to design consumption and investment pattern in the context to remove the trade distortion in the long run.

The Impact of Fiscal Rules on Fiscal Volatility, Fiscal Efficiency and Economic Growth in Pakistan

Syed Ammad Ali under the supervision Dr. Qazi Masood conducted his M.Phil thesis based on VAR (Vector Autoregressive) model. His study captures dynamic effect of public investment on private investment, employment and output. The results show that public investment crowd-in private investment in Agriculture, Mining and Quarrying, Manufacturing and Electricity & Gas Distribution sectors, while in construction, Transport Storage & Communication (also included Railway post office others), Finance and Insurance including Ownership of Dwellings and Public Administration & Defense including Community, S&P (social and public) services sectors have a crowding out effect of public investment. The sectoral output effect of public sectoral investment is positive; in seven out of eight sectors.

The negative effect is found in Finance and Insurance including Ownership of Dwellings sector. Highest marginal productivity and rate of return found in manufacturing sector while in the case of employment there is positive employment effect in five out of eight sectors in the short term, but in the long term two sectors out of eight have positive effect. The budgetary effect of public investment in terms of revenue generation the highest revenue effect was found in manufacturing sector 0.9; indicating a one rupee investment in this sector will generate Rs.0.9 tax revenue.

Corporate Social Responsibility (Continued)

Being an important player in the Pakistan's economy, banking sector realized and developed its role as a corporate philanthropist. This vital role of banks in case of CSR activities concentrate on education, health, disaster relief management and most importantly welfare of the people. In return it improves the performance of banks good will, social image and also builds up their social responsibility in society. Here we review the initiatives taken by banks and recent CSR activities. The history of banking sector reveal their engagement in benevolent activities in the form of donations to different charitable organizations like Edhi Foundation, community schools and also sponsor in other cultural activities, without any structural design and guideline to organize these philanthropic activities. The pattern seems to be quite effective with the CSR agenda for the community development as almost all banks in the sample focused on disaster management in order to give relief and solve social crisis. Hence it is found that almost all banks participated in disaster management and rehabilitation segment. Recent data of the last two years reveal that collectively banks have donated, the highest amount under the head of disaster management, earthquake IDPs and floods of 2010. Amount delivered to this most popular area of CSR is Rs.79,758(000). Government of Pakistan has taken initiatives in order to develop CSR and educate the relevant sectors; however more significant role is required. The guidelines provided by the government will help the business to deliver more in order to achieve economic growth and sustainable development. Research findings indicate that private commercial banks in Pakistan took initiatives to discharge social responsibilities. The major initiative in this respect is observed in developing the social infrastructure such as education and health. Another major contribution is their involvement in the development of under privileged sections of the society, such as, their special financial support to shelter home for women, trusts, welfare organizations as well as to the awareness campaigns. It is noteworthy that almost all the banks took great interests in helping the affecties/IDP's of earthquake and floods of 2005 and 2010 respectively. Important to note that CSR activities found in improving the performance of the banks, its goodwill, and social image and expands business of banks. From the findings of the study it is established that few private sector banks are already aware of the concept of CSR and its performance. Also it is important to note that very little contribution is made under the head of environment which is very important for sustainable development. To conclude: Government can play a crucial role in establishing CSR values and knowledge among the business and the general public through recognition for CSR achievement and spread CSR

information to attain better understanding. The SECP's new code of corporate governance has been set, now the next move should be to measure and assess the progress and performance of firms in this area and also to penalize if they are not holding a responsible attitude towards the community.

Pakistan Intra-Industry Trade: (Continued)

introduce a dynamic panel data, GMM-System. To estimate the dynamic model methodological formulate of Blundell and Bond (1998, 2000) was applied. The results presented in this manuscript are generally consistent with the predictions of intra-industry trade studies. Empirical findings of this research pose several compelling economics. Pakistan should reduce the trade barriers in sectors that have potential for IIT. If Pakistan is looking for greater diversity in its exports and like to become more competitive in the world market, the growth of small and medium-sized firms should be promoted. Pakistan needs to obtain competitive advantages in new products with capital intensive and technological innovations. The increase of intra industry trade will be associated to product differentiation, quality, brand and design. In terms of economic policy the Government can promote agreements or contracts programs or subsidies for production and research and development (R&D).

Moreover, the government should promote relevant technical education and training. This measure must be seen in a long-term. In other words, the effects are not certainly immediate. This study has some limitations. This manuscript examines only the characteristics of the countries. It will be necessary to introduce the characteristics of industries as explanatory variables. This possibility justifies a future investigation.

Marine Fish Production(Continued)

Therefore in order to increase the production growth rate in Period II of the above species, over fishing needs to be eliminated through comprehensive fisheries policy of Sindh government, research and development programme, complete ban on illegal nets, easy credit facilities to fishermen, reducing post-harvest losses through the upgradation of vessels and fish harbours, proper marketing and cold storage facilities.

Trade Facilitation and Export(Continued)

important determinants of export performance of SAARC region. Furthermore, our findings suggest that trade facilitation reforms are crucial if they are supplemented with institutional reforms and in this way it can enhance an economy's capacity to respond to the export market opportunities created by trade liberalization policies.