

# AERC VOICE

### Editorial Committee:

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### From the Desk of Editor and Incharge AERC:

*Nighat Bilgrami-Jaffery*

Alhumdolillah! Second issue of AERC VOICE is in your hands. We are pleased to inform that during past three months faculty members of AERC were invited to participate in various conferences where key economic issues were discussed at a forum comprising of scholars, professionals, economists, industrialists and senior officials. I thank all my colleagues for their cooperation and contribution enabling us to timely publish the second issue. GOD Bless!

### Message from the Dean Faculty of Arts:

*Prof. Malahat Kaleem Sherwani*



I am glad that a newsletter **AERC VOICE** is being published quarterly by AERC since October 2013.

This publication will surely update the readers about the academic, cultural and social activities being conducted at AERC. In addition to these undertakings, the representation of the AERC Faculty at various high level professionals forums including SDPI 16th Annual Conference Pakistan Vision 2025, PARC Annual Meeting, interface between Political Leadership and Opinion Makers etc is indeed commendable.

I very much appreciate the idea and efforts of all the contributors and wish them the very best in future.

### **The Income Inequality and Domestic Terrorism Nexus: Fresh Evidence from Pakistan**

*Muhammad Sabihuddin Butt and Muhammad Shahbaz*

Why some people turn terrorists, destroy property and innocent lives; and even take their own, when it produces nothing good? Terrorist activities cause substantial economic and political damage (Frey et al. 2007). The objective of the study is to investigate the nexus of domestic terrorism, income inequality, per-capita economic growth, education, and trade openness. Research shows that terrorists are more likely to originate from low-income countries (Blomberg et al. 2004; Abadie, 2006; Kurrild-Klitgaard et al. (2006); and Barros et al. 2008). However, Piazza (2006) finds no such relationship. Perhaps, substantial expenditure on social-welfare programs by affluent nations dissuades people from terrorism (Burgoon, 2006). Freytag et al. (2011) offer mixed evidence (Caruso and Schneider (2013) for more).

Aside economic factor, some studies have linked terrorism to political instability and repression. However, but the significance of inequality has remained largely unexplored prevailing for Pakistan (Krieger et al. 2011). The pervasive nature of poverty and terrorism in Pakistan makes it an interesting case-study. Income inequality and discrimination can breed instability by creating a strong sense of economic disenfranchisement and a ground for violent response against the status-quo.

When people feel dispossessed, they are left with little option to non-violent means, making terrorism attractive (Ross, 1993). Economically, the payoff for abatement of domestic terrorism can be high, but has not been considered in the extant literature.

The aim of this research was to estimate the relationship among income inequality and domestic terrorism economic growth, education and trade openness. The estimation result from ARDL and G-H tests confirm cointegration for Pakistan during 1972-2010 periods among the series even with structural break. Lopsided economic growth and unequal access to education have contributed to worsening of income inequality in Pakistan which may have exacerbated terrorism. Results indicate that rise in income-inequality promotes terrorism. Unbalance economic activity and unequal access to education accentuate inequality and contribute to terrorism.

Government should adopt comprehensive manpower policy to address terrorism. Unless the fruits of economic growth improve living standards in general, containing terrorism in Pakistan may be hard. Narrowing down of

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### **The Gender Equity Program (GEP) Applied Economics Research Centre, University of Karachi.**

The Gender Equity Program (GEP); was launched and implemented in collaboration with The Asia Foundation, Aurat Foundation and supported by USAID. For the programme a National Baseline study on Knowledge-Aptitude-Practice towards the gender empowerment was conducted by the AERC during 2011-12.

This national baseline study, being conducted for two major reasons: first, to provide a basis for program impact evaluation in the future; and second, to identify existing on-ground realities with respect to GEP objectives. The study adopted a holistic research methodology incorporating quantitative and qualitative research tools, and using scientific random sampling. The study was conducted on a nationwide basis covering 11200

adult males and females in the quantitative survey; and 43 Focus Group Discussions (FGDs), 53 Key Opinion Makers (KOM) Interviews and 15 Case Studies, in the qualitative survey in Punjab, Balochistan, Khyber Pakhtunkhwa, Sindh and Gilgit-Baltistan.

Based on the findings of the report, the major conclusions are summarized here and linked to GEP's three program objectives.

Objective One: Enhancing gender equity by expanding women's access to justice and women's rights. Women knowledge and awareness about the social justice system in the country is very restrictive. Consequently, to obtain legal support by the women is not upto the

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## BOOK LAUNCHING: COMMONSENSE ECONOMICS

### Dr. Ayub Mehar (Alumni AERC)

SAARC Chamber of Commerce & Industry and Economic Freedom Network organized lecture series on "South Asia in New Economic Order: Liberalization Process" and launched the book "Commonsense Economics" on December 6, 2013 at FPCCI. The program was attended by prominent Economists, Industrialists and other important officials including Nighat Bilgrami-Jaffery, In-charge AERC. "Commonsense Economics" is an adopted version by Dr. Ayub Mehar, DG-(R&D) FPCCI & Professor at Iqra University, Karachi, an Alumni of AERC. "Commonsense Economics" is originally a publication in German language written by James Gwartney, Richard L. Stroup and Dwight R. Lee relevant to economic conditions prevailing in Germany. Dr. Mehar has very ably applied it to the economy of Pakistan covering the following areas.

1. Ten Key Elements of Economics
2. Seven Major Sources of Economic Progress
3. Economic Progress and the Role of Government
4. Twelve Key Elements of Practical Personal Finance

The book has been translated in regional languages of Pakistan (Urdu, Sindhi, Punjabi, and Baluchi & Pushto) and is very informative. It would be useful for Economists and students of Economics.

## SUCCESS STORY

### Mr. Muslim Khan

Mr. Muslim Khan is working in the AERC since 13 years, he was appointed as security guard. He was matriculation then. Being a hard working student he continued his education journey. He completed his Master of Arts in International Relations and also did Certificate course in Librarianship from Pakistan Bibliographic Working Group (P.B.W.G), Liaquat National Library Karachi, Pakistan and Certificate Course in Linguistics from Area Study Centre for Europe, University of Karachi. His journey for thirst of knowledge still continues. He is now preparing to appear in B.L.I.S. examination.

## Income Inequality *(continued from page 1)*

income inequality at all levels would be helpful in this regard. Mandating secondary level education in which "good citizenship" is a part of curriculum should help every youth. Policy to absorb educated unemployed is critical for improving self-esteem. Appropriate policy can turn Pakistan into be an outsourcing hub for tech-intensive products. Export of human capital can be part of overall manpower policy to boost foreign exchange earnings which then can be efficiently invested in productive sectors of the economy and create more employment.

## SEMINAR SERIES

### Kamran Abbas

Dr. Shahida Wizarat, Director Research and Head of Economics Department at IOBM (Former Director, AERC) presented a seminar on "Natural Resources, Conflict and Growth Nexus" at AERC on November 5, 2013. This study has been published in Asian Economic and Financial Review, 2013. She discussed different economists and philosophers views, why conflicts and civil war are growing fast specially in natural resource copious economies. She explained the "Dutch Disease", exploitation of natural resources and decline in the manufacturing sector growth. Low saving and investment in developing countries hamper the manufacturing growth. Dr. Wizarat accentuated the importance of institutes for economic development. The formulated model revealed several explanatory variables and their impact on the growth. Conflict may destabilize economic growth in the LDCs on account of death, loss of infrastructure, uncertainty etc., while conflicts mostly not prevail in developed nations. The study used the panel data of 97 countries for the year 1980 to 2006 and applied Generalize Method of Movement (GMM) technique. Results revealed that both physical and human capitals, trade openness, and government expenditures contributed significantly to GDP. Although natural resources include, oil, gas and coal have positive and significant impact on GDP, yet the increase in the world death rate causes higher GDP growth in rich countries. Furthermore, profuse ores and metal in LDCs are fuelling global conflicts (measured by world death rate). Dr. Wizarat concluded that rich countries GDP escalating as a result of conflicts in poor countries. Her conclusion is akin to Marxist view that death and destruction in the poor countries bring prosperity to the rich countries.

## ACHIEVEMENT

### Dr. S. Akbar Zaidi

We are pleased to know that Dr. S. Akbar Zaidi, former Associate Professor/Senior Research Economist, AERC, currently associated with IBA, has been nominated as Member of Economic Advisory Council by the Government to assist in Economic Policy making. We wish him all success in his new assignment.

## FACULTY DEVELOPMENT

The staff of AERC congratulates **Dr. Syed Ashraf Wasti** on receiving Ph.D degree from University of Portsmouth, UK. Dr. Wasti is one of the most senior faculty members and has served in many ways for the growth and development of AERC. He has represented AERC at several forums. He has also served as advisor to Finance Department, Government of Sindh.

## ADMISSION IN MAS/M.PHIL PROGRAM AT AERC 2014-15:

Master in Applied Science (MAS) is a fully accredited master's degree, conferred by the Applied Economics Research Centre (AERC). The MAS credential was first introduced in 1973 in response to the need to expand career potential and bring academic precision to professionals in the field of economics in Pakistan. All MAS/M.Phil graduates are placed in reputable Universities, State Bank, Chamber of Commerce, Government Secretariat/Organizations etc. It is a great pleasure to announce the admission for the 2014-15 sessions in January 2014.

## 16<sup>TH</sup> ANNUAL CONFERENCE OF SUSTAINABLE DEVELOPMENT POLICY INSTITUTE (SDPI):

Dr. Samina Khalil, Senior Research Economist of AERC attended the Sixteenth Sustainable Development Conference of SDPI held on 10-12 December 2013 in Islamabad. Under the title "Creating Momentum: Today is Tomorrow".

## WATER COOPERATION IN ACTION - FROM THE GLOBAL TO THE GRASSROOTS:

"Cooperation is essential to strike a balance between different needs and uses of water, sharing of water resources equitably, and using water as an instrument of peace", was the aim of 2013 UN international year of water cooperation. Based on the theme Hisaar Foundation organized a conference in Karachi (December 4 and 5, 2013). Respected staff member of AERC Mr. Riaz Hussain was one of the organizers of this event while Ms. Nighat Bilgrami, Dr. Shaista Alam, Dr. Ambreen Fatima, Dr. Faizan Iftikhar and Ms. Humera Sultana attended this informative forum.

## INTERFACE BETWEEN POLITICAL LEADERSHIP AND OPINION MAKERS

High Population growth rate is an important issue in developing countries, like Pakistan. The Economists, policymakers and Government always consider this issue for policies making. In AERC a number of research studies are available on this subject and also several seminars and workshops were held under the supervision of senior economists of AERC. Recently Population Council, Pakistan organized a forum on the subject on 12<sup>th</sup> December 2013 at Sheraton Hotel Karachi, which was attended by Government Representatives, Scholars, NGO's and Political Party representatives. From AERC Dr. Pervez Wasim and Ms. Mahpara Begum Sadaqat attended the forum.

## Does Foreign Direct Investment Enhance Economic Growth?

*Syed Zia Abbas Rizvi*

It is being argued that foreign direct investment (FDI) brings enormous opportunities particularly for developing countries. In contrast, FDI may behave as substitute of domestic investment in the presence of domestic firms. However, FDI can become complement for domestic investment in those sectors where domestic investors don't want to invest due to underdevelopment of that particular area.

This study measured the impact of foreign direct investment (FDI) across various sectors of the Pakistan's economy employing balanced panel data which comprises of seven sectors viz:

- ? Mining & quarrying
- ? Manufacturing
- ? Construction
- ? transport, storage and communication,
- ? wholesale & retail trade
- ? business & finance
- ? services

Empirically, three hypothesis have been investigated viz:

- ? Impact of FDI on economic growth
- ? Does FDI crowd out domestic investment; and
- ? Impact of FDI on employment opportunities.

The first and second hypothesis has been tested for all seven sectors given above while five sectors (1-mining & quarrying, 2-manufacturing, 3-construction, 4-transport, storage and communication, 5-wholesale & retail trade) have been considered for the third hypothesis. Two sectors i.e. Business & Finance and Services could not be considered due to data deficiency.

The study found that Services Sector is the only sector which growth is significantly being enhanced by FDI in the country. While all other sectors of the economy felt no impact with inflow of FDI. In addition, FDI crowds out the domestic investment in all seven sectors. In contrast to foreign direct investment, the domestic investment affects economic growth of all seven sectors. The study also found that domestic investment increases employment opportunities in mining & quarrying and manufacturing sectors. However, for remaining five sectors FDI has no impact to create employment opportunities.

This study suggests that Pakistan should move more forward towards opening of the economy to enjoy the true benefit of foreign direct investment. In addition, government should focus more on domestic investment and encourage domestic entrepreneurs to invest within the country. Government should provide financial as well as non-financial incentives to domestic investors by providing easy access for credit improve infrastructure and reduce energy crises/power outages.

## Entrepreneur Activity and Statutory Tax Requirement for Pakistan

*Humera Sultana and Ilma Ghaus*

A strong and vibrant corporate sector is a key to economic prosperity in the country. In order to achieve this affectively government adopt various strategies to attract local as well as foreign investors, Such corporate sector not only spur economic activities but also provide a source of income to the Public sector. Pakistan has 35.0% corporate tax rate which is remarkably higher than other developing countries. Over the last two decades the need to reduce corporate tax rate remain important to attract investment from footloose multinationals. Global rates have come down from high in early 1990's to a very low scale now. Government choice of corporate tax regime impact both domestic and foreign investment significantly.

The high corporate tax rates drive capital away from the corporate sector to real estate and other uses. Slowly but surely the negative impact is resulting in flight of capital from the country. This reduces productivity and hamper real economic activity in the economy. One way to encourage the investment and entrepreneurship would be to reduce the statutory corporate tax rate.

This study investigated the relationship between investment and corporate tax rate (CAT). Linear dependency has been checked for the period of 1991 – 2011; to verify the above simulations. Revealing the significant impact on private investment due to corporate asset tax while public investment is not much influenced by statutory requirement and it is evident that the impact it generates on over all investment environment and aggregate economic activity is inversely related.

The federal corporate tax rate matters for economic growth because all corporations' investment decisions are influenced by after tax rate of return on project .One way to spur private investment in the economy and get it into the hands of the entrepreneurs would be to reduce the statutory corporate income tax rate. Reducing the corporate tax rate would make further investment by domestic and international firms more attractive.

Empirical findings confirmed that user cost of capital has significant impact on capital formation i.e. supply of capital stock to entrepreneurs, hence enhancing entrepreneurial activity and economic growth. Although it can be seen that statutory tax requirements impact private and foreign sector investment more than public sector but Investment on whole is affected.

## Pakistan Vision 2025

In November, 2013 faculty members of AERC attended the 1000+ National Consultation Conference on Pakistan Vision 2030. Working group discussions held on various economic issues. Dr. Ambreen Fatima joined the group for Employment and Job Creation. Dr. Faizan Iftikhar participated in the group discussion on Financial Sector Development. General discussion emerged on the related sectors are discussed below:

### Employment & Job Creation Issues:

- Due to energy crises and frequent power outages in industrial areas and worsening of law and order situation forces business to shut down.
- Insufficient financial provision
- Shortage of vocational institutions
- No incentive system for workers of informal sector
- Ineffective implementation of policies to curb child labor
- Bureaucratic barriers for investors/business to initiate business operation.
- Rising cost of business.

### Remedies:

- It is essential to estimate the future demand of specific skill and profession in the country to create jobs accordingly
- Need Plans to meet the increasing demand of the specific skill in the country
- Creating employer instead of employee by providing small finances
- Preparing labour force equipped with skilled and professional education to meet the demand of labour in the international market
- Generating employment by providing funds to informal sector
- Developing small business

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plans to help the small businessmen

- Creating job market for our labour force in international market through proper planning by estimating the future demand
- Policies/programs to create employment opportunities within rural areas in order to avoid burden on urban areas due to rural urban migration in search of better jobs

**Financial Sector Development****Issues:**

- Credit service, service delivery and outreach problem.
- Lack of training and capacity building of entrepreneur
- High transaction cost involved in delivering microfinance.
- High cost of capital
- Client retention experts are not properly trained and educated about services and products.
- Lack of access to fund and resources
- Lack of required knowledge
- Non-Performing loans issue also discussed.

**Remedies:**

- Provision of Microfinance alongwith training of entrepreneurship can bring confidence, coverage, skill development and empowerment.
- Quick loan sanction with minimum time.
- Repayment of loan should be in small installment with short interval.
- Provision of training and education at the work area.

The above mentioned were few of the issues and remedies discussed by the working groups.

**GEP (continued from page 1)**

required level. Women who do access the social justice system are perceived as bringing disrespect to family. Irrespective of gender, even the educated urban men and women do not understand the concept of rights. A high proportion of women votes under male influence. With a few exceptions the feudal system still controls the political process in the country. Majority of women believe that they do not have equal rights/opportunities to claim their rights, by convincing their family and society. Women are denied their inheritance rights. Only half of the respondents are in favour of giving women the right to demand divorce. The right to divorce exists legally, but is rarely given and exercised by women. Women should not ask for the right to determine their 'Haq-e-Meher' as "only family members make correct decisions for them. The justification for the right to "Khula" is that women should compromise and reconcile rather than breakup marital life. Dowry is given to women to protect and empower them. Not many women seek their right to inheritance and give them up for men those who ask for their inheritance are seen as:"mean and selfish". Awareness of women's rights and their access to social justice system is much better in urban areas compared to rural areas of the country. This may be due to heavy pressure of social and electronic media in urban areas.

**Objective 2: Increasing women's empowerment by expanding knowledge of their rights and opportunities to exercise their rights in the workplace, community, and home.** The vision of empowerment is very narrow, most women define environment in terms of their basic needs. For example, even if she is working she is not automatically empowered. Women are not able to move about freely and even those who do must inform their families first. A woman's mobility is further restricted by time, distance and area. Implementation of existing laws is seen as a main priority in empowering women, followed by education, family support, freedom to work, power to make their own decisions, economic independence and political empowerment. While there is a general support for women participation in the political process leading to greater empowerment, however, there is strong resistance from the religious and tribal groups, who thought that Islam did not allow women to participate in the political process. Right to inheritance for women is provided under the law but due to unawareness, social, and cultural norms, women do not get their fair share of inheritance, they hesitate to claim their right, the male members of the family have control over women's inheritance. Police is viewed as corrupt and organized persecutors of innocent people who approach them for help. Police appears to be a tool in the hands of the powerful and the influential who command it to their whims and requirements. There was a complete lack of awareness and no knowledge of any labor laws, or legislation which protect women against sexual harassment in the workplace.

**GEP (continued)****Objective 3: Combating gender-based violence.**

There is awareness of gender based violence (GBV) amongst the masses. The most common form of violence is in prostitution, physical beatings, mental trauma, and physical confinement at home, domestic violence. A large number of women think that a man has the right to hit a women and that it is justified.

The family unit is the seed and source of domestic violence and gender discrimination. Within the family unit, women themselves perpetuate gender discrimination and violence. In a large number of cases of gender based violence the offenders are husband or other male members of the family, very few cases of any form of violence are reported.

Women generally do not seek justice for violence and crimes committed against them. Harassment against women has increased across the board as in markets and bazaars, transport and public places. There are perhaps more instances of GBV because most cases are not generally reported. A woman is considered inferior and weak which promotes gender based violence. A huge gap exists between legislation and implementation and while the Constitution of Pakistan allows a number of rights to both men and women, it does not ensure that the implementation of such rights is enforced. Very few women were aware of the recent laws which had been passed in Parliament for Violence against Women, but they thought that since the legal system was corrupt, and the men had economic power, the law would not be enforced.

**News (continued from page 2)****Visit of US Consulate Officials:**

On December 3<sup>rd</sup> 2013 two officials from the Economic Affairs Division of the US consulate visited AERC to seek the expert advice in Rural Development of Sindh and Trade and Finance issues in Pakistan. They contacted Ms. Nighat Bilgrami who arranged a meeting with Dr. Ambreen Fatima (Rural Development and Agriculture Economic Specialist), Dr. Shaista Alam (Trade Specialist) and Dr. Syed Faizan Iftekhhar (Trade and Finance Specialist) to record their opinion on the recent issues and challenges faced by Pakistan. They also invited Ms. Nighat Bilgrami to attend and participate in the discussion.

**Fifth Inter-Provincial Agricultural Coordination Committee (IPARCC):**

Dr. Ambreen Fatima, Research Economist at the Applied Economics Research Centre (AERC), attended the Fifth Inter-Provincial Agricultural Coordination Committee (IPARCC) meeting at PARC in Islamabad on 24th December 2013. PARC is a partner organization of AERC for social sciences research.

IPARCC is an apex body constituted for the enhancement of research coordination among all federal and provincial institutes. Its main functions are to avoid duplication and overlapping, maximize synergy and also to direct efforts in different areas of agriculture research. Dr. Fatima extended her suggestions and comments in her presentation for the achievement of aims and objectives of IPARCC.