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**Innovation Needed to Help Struggling Pakistani Textile Sector**

The textile sector is the largest manufacturing sector in Pakistan, contributing one-fourth to total industrial value added, employing 40 percent of the industrial labor force, and making up 56 percent of national exports. Pakistani textile exports increased from US$ 10.7 billion in 2005 to US$ 14 billion in 2014. However, as compared to the rest of the world, the textile sector in Pakistan has stagnated and its share in world textiles exports has been falling throughout the last decade. Thus, in order to sustain its market share in World trade, the sector needs a continuous flow of innovation, according to research by the Lahore School of Economics (LSE).

A recent analysis of the dynamics of firm level innovation activities conducted by the Lahore School of Economics, used a sample of 431 Pakistani textile and apparel manufacturers, and found that 56 percent of the surveyed firms introduced technological and/or non-technological innovations during this period. Also, 38 percent of firms introduced new products through these were incremental in nature since the majority of those products were only new to the firm and not new to the market. There were also six enterprises who introduced products that were first in the world and all six firms were from Sialkot.

The researchers also found that innovation increases with firm size; large firms have an innovation rate of 83 percent, followed by medium sized firms (68 percent) and small sized firms (39 percent). Technologically innovative firms were found to be spending 10 percent of their turnover in 2015 on innovation mainly for acquiring newer vintages of capital with the purpose of introducing new/improved products and processes. Lack of availability of funds within the enterprise was found to be the single most important cost factor hampering innovation. Also, firms were found to be more focused on innovation than promoting growth. The economic importance of innovations seems very high as the research findings showed that 67 percent of the turnover of innovative firms in 2015 resulted from product innovations that were either new to the market or new to the firm.

This study was funded by the Lahore School of Economics and the International Growth Centre (IGC). Researchers included Dr. Azam Chaudhry, Professor and Dean, Lahore School of Economics and Dr. Waqar Wadho, Assistant Professor, Lahore School of Economics. The researchers explored the dynamics of firm’s innovation activities by analyzing the innovation behavior, the extent and types of innovation, the resources devoted to innovation activities, sources of knowledge spillovers, factors hampering technological innovation, and the returns to innovation for three years 2013-2015.

Link to the Article: <http://tribune.com.pk/story/1190438/room-improvement-innovation-will-help-boost-textile-sector/>

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**Connections and Elections in Lahore: How Centrality Affects Electoral Politics in Pakistan**

The choice of candidates in electoral politics can be a long, difficult process, as illustrated by the primary system that exists in countries such as the United Stated. In Pakistan, the selection process is different as the candidates are required to appeal to members of their own party for party tickets and then appeal to a majority of voters in order to win the seat.

Recent research by the Lahore School of Economic focused on politicians and electoral outcomes in Lahore in 2013 Elections and revealed that party affiliation appeared to matter more than the individuals to win a provincial assembly seat because votes are cast on the basis of party not the individual. However, to win a National Assembly seat, the opposite holds since voters tend to choose more prominent and politically connected politicians who are expected to bring about policy changes and reforms to their constituencies.

The survey, based on 142 key politicians in Lahore from Pakistan’s three main parties-the PML-N, the PPP and PTI, evaluated candidates by testing the impact of their centrality on the likelihood of being allotted a competitive constituency, being nominated by the party and eventually winning the election. Political centrality was based on certain factors such as whether politicians themselves or their relatives have been members of a legislative body or the party and the number of years the politicians represented the party and been contesting elections. Nonpolitical centrality was based on politician’s baradari (caste), level of education, own profession, family profession and membership of any professional or social clubs.

The researchers found that parties preferred to field more central candidates from constituencies where previous election was a close contest. The results also revealed that parties give election tickets to more central politicians in order to increase their odds of winning. At the provincial level, tickets were given to candidates who were politically well connected both within and across parties; sound political connections within the party ensures that sufficient campaign funds are generated, while strong political connections outside the party can determine a larger vote bank. Whereas at the national level, tickets were given to politicians who were socially well connected within their own party and across parties; the party leadership presumes that strong social connections will generate a larger vote bank because the electorate is more likely to recognize the candidate’s name.

This research was funded by the Lahore School of Economics. Researchers included Dr. Azam Chaudhry, Professor and Dean, Lahore School of Economics and Ms. Mahnoor Asif, Lahore School of Economics.

Link to the Article: <http://dailytimes.com.pk/pakistan/27-Sep-16/firm-political-ties-can-strong-arm-electoral-process-report>

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**Children in Punjab Fall below International Health Standards and Almost 90% of People Use Private Health Facilities**

Eight per cent of Pakistani children die before they reach the age of five, giving Pakistan the highest child mortality rate in South Asia. Height and weight for age are also low which further increase the susceptibility to disease. However, current surveys in Pakistan are lacking information on the leading causes of health status. Collecting more precise evidence on the key determinants of poor health outcomes in Pakistan, particularly those that can be influenced by policy, is of utmost importance for policy makers for informing government action, reveals research by the Lahore School of Economics.

In order to address these issues, Lahore School researchers evaluated heights, weights and mortality rates of children in Pakistan and found that factors such as income, education, sanitation, water and access to primary care facilities are key determinants of child health. The researchers found that the average four year old Punjabi boy is 6.3 centimeters (2.48 inches) shorter than the international norm.

A closer look at the author’s results found that mother’s education is found to be a prime determinant of health status and found that the mother is considered to be the “first line of defense” against illness in her family, particularly among children. The results showed that mothers with some education reduce child mortality rate to 3.3% from a mean of 8% for mothers with no education, which is an enormous difference.

The research also found that the effect of the family’s wealth/financial status was very large in determining child health and appears to be getting stronger over time. This shows that an important role of the government would be to mitigate inequalities in income by forming a public policy that equalizes outcomes between social classes and flattens the relationship between income and health.

Interestingly, the presence of a public curative health facility was not found to be correlated with better health in this research. According to the results, 88% people who seek medical help go to private sector, while only 7% go to a public hospital, 2% go to primary facilities, and 16% do not seek any care for health problems. The findings also showed that firstly, wealthier families are more likely to do something rather than nothing when a child gets ill. Secondly, girls are less likely to be taken to private health facility as compared to boys.

On the whole, the research shows that the key measures of health status of children are critically affected by financial status of the family, education of mother, sanitation, water and access to primary care facilities. Thus the government needs to give high priority for policy interventions that addresses these issues.

The IGC funded study was conducted by CDPR and the researchers included Ms. Uzma Afzal, Research Fellow, Centre for Research in Economics & Business, Lahore School of Economics (LSE) along with fellow researchers including Usman Ghaus (Teaching Fellow, LUMS) and Dr. Jeffrey S. Hammer (Woodrow Wilson School of International Affairs, Princeton University, USA).

Link to the Article: <http://dailytimes.com.pk/pakistan/31-Aug-16/children-in-punjab-fall-below-international-health-standards>

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**Pakistani workers Resist New Technology**

Pakistan’s soccer ball manufacturing industry is facing a major challenge internationally because of increasing production costs and quality issues. Research at the Lahore School of Economics has found that one of the main reasons for this is that workers in the soccer ball industry resist new technology.

All of Pakistan’s soccer ball production is concentrated in Sialkot, which remains the major source for the world’s hand stitched soccer balls. In recent years the industry has faced fierce competition from East Asian countries, especially China, which has significantly hurt exporters. In order to sustain its share in the global market, the industry desperately needs to invest in innovation and adopt to new trends in order to achieve and sustain a competitive advantage over its foreign competitors.

Researchers at the Lahore School of Economics studying the cluster of soccer-ball producing firms in Sialkot found that workers in the soccer ball industry tend to resist new technology, even if it was given for free. This was despite the fact that the use of a new cutting technology (or “cutting die”) invented by the researchers could achieve more pentagons per sheet of rexine (artificial leather), thus reducing rexine cost per pentagon as compared to the traditional technology. Adoption of this die could reduce the total cost by approximately 1% and even though this number was smaller in absolute terms, given the low profit margin of around 8% in the industry, the net benefit from adopting this new technology was quite significant for the industry’s competiveness.

The researchers found that workers resisted the new technology because they were worried that their overall wages would fall since most of the employees in this sector are typically paid piece rates, with no incentive to reduce waste, and they thought that the new technology would slow them down. To further investigate the reasons behind slow adoption, the researchers paid the factory workers Rs. 15,000 to practice with the new technology. This modest change in the incentive payment lead to the exciting result that workers stated to adopt the new technology.

The researchers concluded that to bring technological innovation to life, both technology adoption and organizational changes have to go hand in hand. The findings also suggested that the firms have to become more flexible in accommodating modified organizational structure and workable wage contracts. A mechanism where the employees are expected to share some gains from new adoption is absolutely crucial if important sectors in Pakistan are to grow in terms of technology.

This project was funded by IGC and PEDL and the researchers included Dr. Azam Chaudhry, Professor and Dean, Lahore School of Economics, Shamyla Chaudhry, Assistant Professor, Lahore School of Economics along with fellow researchers including David Atkins (Department of Economics, MIT), Amit K. Khandewal (Graduate School of Business, Columbia University), and Eric Verhoogen (Department of Economics, Columbia University).

Link to the Article: <http://dailytimes.com.pk/business/09-Aug-16/soccer-ball-production-faces-serious-challenges-over-production-cost-quality>

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**Readymade Garment Exports Should Be Government Focus**

Developing countries have sought to promote exports as a growth strategy since they are a source of both higher demand and of coveted foreign exchange. Proponents of trade liberalization argue that there is a positive relationship between openness of economy and productivity of its firms. However, the mechanism through which this works is by the introduction of imports which reduce the markups that the firms charge from consumers due to greater competition which in turn lowers the average cost of production due to the exit of low-productivity firms. In Pakistan, exporting firms use more imported inputs, are more productive and capital intensive and have higher growth potential reveals recent research conducted by the Lahore School of Economics.

Researchers from the Lahore School of Economics showed that the average sales from exports, among exporters, was approximately 51% of total sales in Punjab and that many exporters in Pakistan don’t have a significant domestic presence. Exporting firms have been found to have 29% higher revenues and 150% more output even after controlling for firm level characteristics such as geographical locations and ownership status. The labor productivity of exporting firms was found to be 2-3 times higher than that of non-exporters and exporters were doing better in terms of larger firm sizes, more employment opportunities, higher compensation and greater productivity.

The researchers from the Lahore School of Economics found that apparel producers are doing well and exporting nearly 93% of their output. This sector employs on average 400 workers per organization and offers significantly higher compensation which makes the sector favorable for exports. Therefore, the government’s recent emphasis on developing the readymade garments sector is well placed.

The researchers also found generally that the capital-labor ratio among exporters was twice than that of non-exporters. Exploring some additional dimensions by which the exporting and non-exporting firms differ, it was found that the average exporting firms tended to use a larger share of imported material in their input mixes than non-exporting firms. Also, looking at the number of days a factory is in operation, it was found that exporters’ factories operates, on average, more days than the non-exporting factories.

This research was conducted by Dr. Theresa Chaudhry, Associate Professor, Lahore School of Economics and Muhammad Haseeb, University of Warwick.

Link to the Article: <http://tribune.com.pk/story/1174439/study-finds-govts-focus-exporters-rightly-placed/>

Link to the Article: http://dailytimes.com.pk/business/31-Aug-16/readymade-garment-exports-should-be-govts-focus

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**LSE and LCCI Survey Finds Guarded Optimism amongst Firms about Pakistan Economy**

After facing some serious challenges over the past few years, the Pakistan economy has begun to stabilize and there is a strong need to develop policies that consider both long term economic needs of the country and short term needs of the business community. In contrary to general perception that the economic growth of the country has slowed down significantly, the recent survey conducted by the Lahore School of Economics (LSE) and the Lahore Chamber of Commerce & Industry (LCCI), has found that the surveyed firms have expressed optimism, anticipated higher growth, and have done investments in innovation and technology which positively points towards renewed economic growth in sectors covered in the survey.

The recent business confidence survey conducted by the Lahore School of Economics and the Lahore Chamber of Commerce & Industry on a variety of firms across three sectors (the manufacturing sector, the services sector and the retail sector) has found that the surveyed firms in all these sectors have grown over the last year in terms of sales, investment and size and were further planning to increase their investment levels especially in technology advancement and innovation. However, the results from the survey point out some serious issues that are being faced by the firms and some policy actions are needed to be taken in order to address these issues.

Firstly, the firms were found to be extremely concerned about sources of financing and were mostly using their own internal funding from sales as the financial sector was falling short in providing adequate capital which could possibly lead to a significant drag on future growth. Thus, there is strong need for the financial sector to play a more constructive role in economic growth by meeting the needs of the business community.

Secondly, the researchers found that there was no incentive for firms to invest in indigenous technologies and very few firms were found to be using their own research & development and the rest were mostly relying on exhibitions, the internet and in some cases from suppliers of machinery and trade association for information on new technology. Thirdly, it was found that there was significant shortages in the pool of skilled labour which was a major constraint to growth. This issue could be tackled by governmental intervention through imparting vocational training to bridge this growing skill gap. The firms also pointed towards energy shortages, deterioration in law and order, security related issues, provincial and federal regulations and taxes, lack of transparency of policies, as major constraints to their overall growth.

The researchers concluded that there is an urgent need for closer collaboration between the government and business community, and keeping in view all the issues raised by the business community, the government should come up with a comprehensive industrial strategy that promotes growth.

Link to the Article: <http://tribune.com.pk/story/1170652/sample-firms-survey-reveals-guarded-optimism/>

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**Industrial Policy Urgently Needed to Solve Crisis in Pakistani Manufacturing**

Manufacturing growth has played a vital role in the development of advanced economies as well as in most developing economies and has also helped in closing the income gap between the two. Presently, the manufacturing industry in Pakistan, which was seen as the engine of growth, is in a state of crisis.

Growth in the large scale manufacturing (LSM) sector, which accounts for 80 percent of the manufacturing sector, has shrunk to its all-time lowest level of 1.1 percent per annum over the last seven years, with still no signs of a pickup in the current period. One key reason is that over the last few decades, Pakistan’s exports have not been significantly upgraded in terms of technology or sophistication. As a result of this stagnation in product sophistication, researchers from the Lahore School of Economics have found that Pakistan is on the brink of, if not already in the midst of, premature deindustrialization that blocks off the main avenue for the country to catch up with advanced economies.

However, some positive recent developments like the improvement in the internal security conditions and the announcement of China-Pakistan Economic Corridor investment package of about US$ 46 billion, could boost both domestic and foreign direct investment in the country. This raises the chance that Pakistan’s manufacturing growth might be revived and once again achieve the levels reached in the previous high growth cycles.

The researchers found that the main reason behind the crises in the Pakistani manufacturing sector is that there has not been any proactive industrial policy since the 1990’s. Based on their analysis, the researchers suggest that there is an urgent need to develop and implement a comprehensive and proactive industrial policy. This policy should consider the main constraints of the sector such as, curtailing unnecessary taxes on manufacturing, prioritizing manufacturing in the management of power and gas shortages, insulating the sector from the chronic exchange rate overvaluation, and finally helping the sector move up the sophistication curve by developing the required technical and skilled manpower. Only with a focused industrial policy can there be a revival in manufacturing growth in Pakistan.

This research was funded by the Lahore School of Economics (LSE) and was published in the Lahore Journal of Economics. The researchers included Dr. Naved Hamid, Director, Centre for Research in Economics and Business, Lahore School of Economics and Ms. Maha Khan, Research and Teaching Fellow, Centre for Research in Economics and Business, Lahore School of Economics.

Link to the Article: <https://www.thenews.com.pk/print/148913-Industrial-policy-can-help-end-crisis-in-manufacturing>