

Course: Economic Development in Pakistan-II (4660) Semester: Spring,2023

Level: MSc

Total Marks: 100

Pass Marks: 40

ASSIGNMENT No. 2

(Unit 5-9)

Q.1 Explain the dynamic processes, whereby dynamic elements in real world economist trends to negate the equitable distribution of free trade. Discuss in detail. (20)

In the real world, the dynamic processes associated with free trade can sometimes lead to a negation of equitable distribution. While free trade has the potential to generate economic growth, create new opportunities, and increase overall welfare, it is not guaranteed to benefit all individuals and sectors equally. Several dynamic elements contribute to this outcome. Let's discuss these dynamics in detail:

Unequal Distribution of Gains: Free trade can lead to the concentration of gains in certain sectors or among specific individuals or groups. Industries that are internationally competitive may experience significant growth and increased profits, while other sectors that are less competitive or face higher import competition may struggle or decline. This can result in an uneven distribution of economic gains, exacerbating income inequality.

Displacement and Job Loss: As free trade opens up markets and exposes domestic industries to international competition, some sectors may experience job losses or face challenges in remaining competitive. Workers in these sectors may face displacement and find it difficult to transition to new employment opportunities, especially if they lack the necessary skills or resources. This can contribute to localized economic hardships and negatively impact equitable distribution.

Wage Pressures: Free trade can lead to wage pressures, particularly in sectors facing increased import competition. The availability of cheaper labor in foreign markets can put downward pressure on wages in domestic industries. While this may benefit consumers through lower prices, it can negatively affect workers' wages and their ability to maintain a decent standard of living, further widening income disparities.

Technological Disruptions: Free trade often coincides with technological advancements and innovation. While these advancements can enhance productivity and overall economic growth, they can also lead to job displacement and skills gaps. As industries adopt new technologies and automate processes, certain types of jobs may become obsolete, requiring workers to acquire new skills or find alternative employment. This transition can be challenging, particularly for workers who lack access to education and training opportunities.

Market Concentration and Monopoly Power: In some cases, free trade can lead to market concentration and the emergence of dominant players or monopolies. This concentration of market power can limit competition, reduce consumer choice, and hinder equitable distribution. Large multinational corporations may have the resources and capabilities to exploit market advantages, leading to unequal

bargaining power and the extraction of excessive profits at the expense of smaller businesses and workers.

Institutional and Policy Factors: Equitable distribution can also be affected by institutional and policy factors. Weak labor protections, inadequate social safety nets, and insufficient regulation of markets can exacerbate inequalities and limit the redistributive effects of free trade. In some cases, policy choices may prioritize economic growth over equity considerations, leading to a neglect of measures to mitigate disparities.

It is important to note that while the dynamics associated with free trade can result in an unequal distribution of benefits, they are not inherent to free trade itself. Equitable distribution requires supportive policies and institutions that address income disparities, provide social safety nets, invest in education and skills development, and ensure fair competition. Governments can employ measures such as targeted social programs, retraining initiatives, and policies that promote inclusive growth to mitigate the negative impacts of free trade and foster more equitable outcomes.

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Q.2 Highlight the factors depending on which underdeveloped countries at their own determine the quantum of their trade. Give your opinion. (20)

The factors that underdeveloped countries can consider when determining the quantum of their trade are multi-faceted and depend on various aspects of their economic, social, and political circumstances. Here are some key factors that can influence their trade decisions:

Comparative Advantage: Underdeveloped countries can assess their comparative advantage in the production of certain goods and services. Comparative advantage refers to the ability to produce a particular product at a lower opportunity cost compared to other countries. By identifying their strengths and competitive sectors, underdeveloped countries can focus on exporting those products in which they have a comparative advantage.

Resource Endowment: The availability and quality of natural resources in underdeveloped countries can shape their trade decisions. Countries rich in natural resources may opt to export those resources to generate revenue and capitalize on their comparative advantage. Additionally, they can explore value-added processing of these resources to diversify their exports and enhance their economic gains.

Market Access and Demand: Evaluating market access and demand is crucial for underdeveloped countries. They need to identify potential export markets and assess the demand for their products. Understanding the preferences, tastes, and purchasing power of target markets enables countries to tailor their production and trade strategies accordingly.

Infrastructure and Logistics: The state of infrastructure and logistics plays a significant role in determining trade volumes. Efficient transportation networks, ports, and customs procedures reduce trade costs, facilitate the movement of goods, and enhance competitiveness. Underdeveloped countries need to assess their infrastructure gaps and invest in improvements to facilitate trade.

Trade Agreements and Regional Integration: Engaging in regional trade agreements and regional integration initiatives can expand market access for underdeveloped countries. These agreements can reduce trade barriers, promote intra-regional trade, and create opportunities for economic growth. Participating in such arrangements can shape the quantum of trade and diversify export destinations.

Trade Policy and Regulatory Environment: The trade policy framework and regulatory environment established by underdeveloped countries significantly impact their trade decisions. Countries can implement measures such as tariffs, quotas, subsidies, and export promotion policies to influence the quantum of their trade. Ensuring a transparent, predictable, and business-friendly trade environment can attract investment and facilitate trade expansion.

Economic Diversification: Underdeveloped countries may prioritize diversifying their economies to reduce dependence on a few primary products or sectors. By promoting diversification, countries can enhance their resilience to external shocks, develop new industries, and expand their export base. This can lead to a more balanced and sustainable trade portfolio.

Opinion:

In my opinion, underdeveloped countries should approach their trade decisions holistically, considering a combination of the factors mentioned above. It is essential to conduct thorough assessments, identify strengths, and align trade strategies with national development goals. A comprehensive approach that takes into account comparative advantage, resource endowment, market access, infrastructure, trade policies, and economic diversification can help underdeveloped countries maximize the benefits of trade and promote sustainable development. Furthermore, fostering a supportive domestic environment, investing in human capital, and promoting innovation are crucial for underdeveloped countries to enhance their competitiveness in the global market and drive long-term economic growth.

Q.3 Discuss the role international aid giving agencies can play to ameliorate the balance of payments position of developing countries. (20)

International aid-giving agencies play a crucial role in ameliorating the balance of payments position of developing countries. These agencies provide financial assistance, technical expertise, and policy support to help address the balance of payments challenges faced by developing countries. Here are several ways in which international aid-giving agencies can contribute to improving the balance of payments position:

Financial Assistance: Aid-giving agencies provide financial resources to developing countries through grants, loans, or concessional financing. This financial assistance can help address immediate balance of payments deficits, support import financing, and stabilize foreign exchange reserves. Such support enables countries to meet their external obligations, maintain macroeconomic stability, and prevent potential disruptions in trade and economic activities.

Debt Relief and Restructuring: Aid-giving agencies often work with developing countries to provide debt relief or restructuring arrangements. These measures can alleviate the burden of high external debt and create more sustainable repayment terms. By reducing debt service obligations, countries can allocate resources to address balance of payments challenges, invest in productive sectors, and promote economic growth.

Technical Assistance and Capacity Building: Aid-giving agencies offer technical expertise and capacity-building support to developing countries. This assistance helps countries improve their policy formulation, implement effective economic management strategies, and strengthen institutions responsible for managing the balance of payments. Technical assistance can enhance countries' ability to develop sound monetary, fiscal, and exchange rate policies that promote external stability and strengthen the balance of payments position.

Trade Facilitation and Market Access: Aid-giving agencies work to enhance trade facilitation and promote market access for developing countries. By supporting trade-related infrastructure development, improving customs procedures, and reducing trade barriers, these agencies help countries expand their export potential and diversify their trade portfolios. Increased exports contribute to foreign exchange earnings and improve the balance of payments position.

Support for Structural Reforms: Aid-giving agencies often encourage and support developing countries in implementing structural reforms. These reforms may involve measures to enhance competitiveness, promote economic diversification, improve investment climates, and strengthen governance frameworks. By assisting countries in implementing such reforms, aid-giving agencies aim to create an enabling environment that fosters sustained economic growth and improves the balance of payments situation.

Knowledge Sharing and Policy Dialogue: Aid-giving agencies facilitate knowledge sharing and policy dialogue between developing countries and international organizations. Through research, policy analysis, and seminars, these agencies promote a better understanding of the balance of payments challenges faced by developing countries. They facilitate the exchange of experiences, best practices, and innovative solutions to address balance of payments issues effectively.

Crisis Response and Risk Management: Aid-giving agencies are often at the forefront of responding to financial crises and managing risks faced by developing countries. They provide emergency assistance and contingency financing to mitigate balance of payments shocks and stabilize economies during times of crisis. By assisting countries in managing risks, aid-giving agencies contribute to preserving external stability and restoring confidence in the balance of payments.

It is important to note that aid-giving agencies should collaborate closely with recipient countries and align their assistance with national development strategies. Efforts should be made to ensure aid effectiveness, promote

ownership, and build local capacities to enable sustainable improvements in the balance of payments position.

Q.4 What role do prices play in structural theories of economic development?(20)

In structural theories of economic development, prices play a significant role in shaping the process and outcomes of development. These theories focus on the structural transformation of economies from predominantly agrarian or traditional sectors to modern industrial sectors. Prices, both relative and absolute, influence resource allocation, investment decisions, technological change, and sectoral shifts. Here's a closer look at the role of prices in structural theories of economic development:

Relative Price Changes: Relative price changes, which refer to changes in the prices of different goods and services relative to each other, influence the allocation of resources across sectors. Structural theories highlight the importance of relative price signals in determining the profitability and attractiveness of different industries. When relative prices shift in favor of certain sectors,

resources (capital, labor, and entrepreneurship) tend to flow towards those sectors, stimulating industrialization and structural transformation.

Terms of Trade: The terms of trade, which represent the ratio between export prices and import prices, can impact a country's economic development. Structural theories emphasize that favorable changes in the terms of trade (improved export prices relative to import prices) can provide the necessary resources and incentives for industrialization. Higher export prices increase foreign exchange earnings, which can be used to import capital goods, technology, and intermediate inputs necessary for industrial development.

Price Distortions: Price distortions, including market imperfections, subsidies, taxes, and regulations, can hinder the structural transformation process. Structural theories emphasize the need to address such distortions to enable efficient resource allocation and promote industrialization. Distorted prices can lead to misallocation of resources, hinder entrepreneurship, discourage investment, and impede the competitiveness of domestic industries.

Relative Factor Prices: Relative factor prices, such as wages, interest rates, and capital costs, influence the choice of production techniques and the allocation of resources across sectors. Structural theories highlight that changes in relative factor prices can impact the adoption of labor-intensive or capital-intensive technologies, driving structural shifts. For example, if labor becomes relatively expensive, firms may opt for capital-intensive technologies, potentially leading to industrialization and a shift away from traditional agriculture.

Price Signals and Technology Adoption: Prices play a crucial role in influencing technology adoption and innovation. Structural theories emphasize that relative

price signals can incentivize firms to adopt new technologies and techniques of production. For instance, if energy prices rise, firms may be motivated to invest in energy-efficient technologies. Price signals also affect the decision-making of entrepreneurs, encouraging them to invest in industries with better growth prospects and profitability.

Price Stability and Investment: Price stability is vital for economic development and investment decisions. Structural theories emphasize the importance of stable and predictable prices in fostering investment and industrialization. Inflation or price volatility can introduce uncertainty and deter investment, hindering the structural transformation process. Stable prices, particularly for essential inputs and intermediate goods, promote a conducive environment for investment, innovation, and long-term planning.

prices play a central role in structural theories of economic development. Relative price changes, terms of trade, price distortions, relative factor prices, and price stability all influence resource allocation, investment decisions, technology adoption, and sectoral shifts. Understanding and addressing these price dynamics are crucial for promoting industrialization, structural transformation, and sustainable economic development.

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Q.5 Discuss the measures taken by the government of Pakistan to induce private investment in Pakistan. Discuss in detail. (20)

The government of Pakistan has implemented various measures to induce private investment in the country. Recognizing the crucial role of private investment in promoting economic growth, creating employment opportunities, and fostering innovation, the government has taken several steps to attract and facilitate private sector investment. Here are some key measures:

Investment Policy Reforms: The government has introduced investment policy reforms to create an investor-friendly environment. These reforms aim to simplify procedures, reduce bureaucratic hurdles, and provide incentives to attract both domestic and foreign investors. The Board of Investment (BOI) has been tasked with implementing these reforms and facilitating investment in various sectors.

Ease of Doing Business: Pakistan has implemented initiatives to improve the ease of doing business, making it easier for private investors to start and operate businesses. Reforms in areas such as business registration, contract enforcement, property rights, and tax administration have been undertaken to streamline procedures and reduce compliance costs.

Special Economic Zones (SEZs): The government has established Special Economic Zones (SEZs) to promote industrialization and attract investment. These SEZs offer various incentives, including tax breaks, customs duty exemptions, and streamlined regulatory processes. Infrastructure development in SEZs, such as provision of utilities and transportation facilities, is prioritized to create an investor-friendly environment.

Public-Private Partnerships (PPPs): The government has actively encouraged public-private partnerships to facilitate investment in infrastructure development projects. PPPs involve collaboration between the public and private sectors, sharing risks and responsibilities in infrastructure projects. These partnerships help attract private investment while leveraging public resources and expertise.

Incentives and Tax Reforms: The government has introduced tax incentives and reforms to encourage private investment. These include tax holidays, reduced tax rates, investment tax credits, and exemptions from customs duties on import of machinery and equipment. The aim is to provide financial incentives that lower the cost of investment and improve the return on investment for private businesses.

Investment Promotion and Facilitation: Pakistan has established investment promotion agencies, such as the Board of Investment (BOI) and various provincial investment departments, to actively promote and facilitate investment. These agencies provide information, guidance, and support services to investors, helping them navigate investment processes and identify investment opportunities.

Sector-specific Policies and Initiatives: The government has implemented sector-specific policies and initiatives to attract investment in priority sectors such as energy, infrastructure, agriculture, tourism, and information technology. These policies include sector-specific incentives, streamlined regulatory frameworks, and investment facilitation measures tailored to the needs of each sector.

Infrastructure Development: The government has prioritized infrastructure development, including transportation networks, energy infrastructure, and telecommunications. Improving infrastructure not only facilitates investment but also enhances the overall business environment and competitiveness of industries.

Skills Development and Education: Recognizing the importance of human capital in attracting investment, the government has focused on skills development and education reforms. Efforts have been made to enhance the quality of education, promote vocational training, and bridge the skills gap to meet the requirements of the private sector.

Investor Protection: The government has taken steps to strengthen investor protection measures and improve the legal and regulatory framework. This includes enforcing contract enforcement mechanisms, intellectual property rights protection, and ensuring transparency and accountability in business transactions.

It is worth noting that the effectiveness of these measures depends on their implementation and the broader policy environment. Consistency, transparency, and sustained efforts in implementing these measures are crucial to create a favorable investment climate and attract private investment in Pakistan.