THE CASE FOR EXPORT-LED GROWTH

Shahid Sattar and Sarim Karim

Pakistan's development history has been in a state of crisis for decades. One major factor underlying this struggle is an imbalance in the Balance of Payments that can only be corrected through enhanced foreign exchange earnings via exports. Currently, the economy relies on unsustainable sources such as remittances, foreign loans, and tariffs, along with indirect taxes, to support a heavily import-based economy. Pakistan is among the seven most trade-averse countries in the world, with the highest average tariff among 70 countries, and there is a strong inclination toward import substitution in its economic policies. Industries such as automobile, fertilisers, and capital inputs are protected with tariffs as high as 500% on imports. Pakistan's adherence to this protectionist model has not provided solutions to the various macroeconomic crises, including an unsustainable debt burden, high inflation, and increasing poverty.

Export-led industrialisation is a development strategy that aims to expand trade in goods for which the nation has a comparative advantage. This model involves developing export surpluses in sectors with a comparative advantage. An orientation towards exports has proven successful worldwide, from Singapore to Rwanda. Exports provide revenue that stabilises an economy, balances budgets, and funds structural transition towards industrialisation. Secondly, exports facilitate a 'learning by doing' approach, whereby producers and policymakers gain expertise through competition with the international market. These externalities form the foundation of export-led development. Pakistan stands to gain immensely from prioritising its export sector, as its expansion guarantees higher economic growth rates, greater employment, fiscal stability, and a range of positive externalities explained below.

1. Rising exports have a positive impact on economic growth, as evidenced by the global average of GDP growth rates increasing by 1-2% after the trade liberalisation waves following the establishment of the WTO.

- In the case of Pakistan, the country experienced its highest growth rates during periods of rising exports, with exports playing a significant role in determining growth.
- The World Bank identified exports as a significant factor behind Pakistan's recovery after the contraction of the economy in 2019 due to the pandemic.

2. As a result of export growth, average incomes and wages experienced a substantial increase ranging from 10% to 20%.

- Since 1990, export growth has played a crucial role in raising average incomes by 24%.
- For the poorest 40% of the global population, trade has had an even more significant impact, leading to a 50% increase in their incomes.

3. Exports and trade openness have an effect on reducing prices.

- When countries engage in trade, resources are allocated more efficiently, avoiding the wastage of producing goods that require scarce factor inputs.
- Exposure to more competition also drives prices down.
- According to a 2020 study by the World Bank, 45 out of 54 countries examined experienced a decrease in consumer prices as a result of trade, indicating the positive impact of trade on prices.
- This effect is particularly strong on food and agricultural products.

4. Export-led development plays an instrumental role in alleviating poverty. Over the past three decades, there has been a significant increase of 15% in the share of developing countries in global trade since 1990.

- This increase has coincided with a remarkable reduction of global extreme poverty by half. The correlation between the expansion of trade opportunities for developing countries and the substantial reduction in poverty levels highlights the effect of trade in poverty alleviation efforts.

5. There is a strong connection between employment and export-led growth, as they are interrelated.

- Increasing exports have the capacity to create jobs across all segments of the market.
- Pakistan's major exporting industry, textiles and garment production, is also its largest employer.
- Notably, an OECD study conducted in 2012 revealed that openness to trade is associated with improved working conditions compared to protectionist measures.
- This suggests that trade openness promotes better employment opportunities and fosters favorable working conditions, emphasising the positive relationship between trade and labour markets.

6. Competition stimulated by exports leads to the expansion of competitiveness and productivity among local producers. When domestic producers are exposed to international competition, they are encouraged to innovate, improve efficiency, and enhance the quality of their products.

- The presence of foreign competitors in the market drives local producers to adopt more advanced technologies and practices, ultimately boosting their competitiveness.
- As a result, increased competitiveness leads to higher productivity levels among local producers, benefiting both the domestic economy and consumers who receive better quality, lower prices, and greater variety.

7. Commitment to export-led growth and subsequent liberalization of trade barriers generates an increase in foreign direct investment (FDI) and other forms of investment.

- This is primarily because trade liberalisation removes barriers such as tariffs and controls that hinder capital flows. When these barriers are eliminated, countries become more attractive for investments, as investors are encouraged by the ease of doing business and the potential for market access.
- Furthermore, supply chain integration plays a significant role in motivating technology transfers and investment. As countries integrate into global supply chains, they gain access to advanced technologies and expertise from their trading partners.
- This exchange of knowledge and technology fosters innovation and promotes investment in industries that can take advantage of the integrated supply chains.

8. Exports lead to diversification, enhancing economic resilience in the face of external shocks.

- Through trade, countries can expand their markets and reduce dependence on a single market for revenue. This diversification helps mitigate the risk of volatility and demand fluctuations by spreading economic activities across multiple markets.
- Moreover, diversification also extends to product diversification, where countries are no longer reliant on a narrow range of products to generate revenue. By diversifying their product offerings, countries become more resilient against supply shocks and are better equipped to handle disruptions in specific sectors.
- This diversification also promotes the expansion of production capabilities and increases the overall competitiveness of the nation.

9. Exports play a significant role in fostering fiscal stability for countries.

- Export earnings generated through trade can be utilised to service foreign debt obligations and cover the costs of importing goods and services.
- By promoting exports, countries can generate a surplus in their balance of trade, which helps balance the current account deficit.
- In the case of Pakistan, increasing exports can help address the current account deficit challenging the country.
- By expanding its export base and improving trade performance, Pakistan can earn foreign exchange that can be utilized to address the deficit, reduce dependency on external borrowing, and enhance fiscal stability.

10. Exports facilitate various aspects related to technology and knowledge transfers, skill sharing, adoption of new technology, and incentives for innovation.

- Through trade, countries have the opportunity to exchange technologies and knowledge with their trading partners.
- This transfer of technology can occur through direct investment, licensing agreements, or collaborative research and development initiatives. By engaging in trade, countries can learn from each other, acquire new skills and knowledge, and apply them to their own industries.
- Trade also serves as a platform for skill sharing, as it creates opportunities for workers to gain exposure to different work practices, technologies, and management techniques. The interaction between workers from different countries and companies fosters the exchange of skills and expertise, leading to the development of a more knowledgeable and skilled workforce.
- Additionally, trade encourages the adoption of new technologies by exposing domestic industries to foreign products and processes. As countries import goods and services that incorporate advanced technologies, they are prompted to upgrade their own technologies to remain competitive. This adoption of new technology enhances productivity and efficiency in domestic industries.

- Furthermore, trade provides incentives for innovation. When companies compete in global markets, they are motivated to innovate and develop new products, processes, and services to meet the evolving demands of customers worldwide. The pressure to stay competitive drives companies to invest in research and development, leading to technological advancements and innovation.

11. Trade has enabled the global dissemination of technologies important for ecological sustainability.

- It connects countries, facilitates knowledge sharing, and encourages innovation in the renewable energy sector.
- Technology that was prohibitively expensive or advanced has become available due to trade.
- Trade promotes quality improvement and environmentally friendly practices among local producers by enforcing international sustainability standards.

12. Export growth fosters increased female labour force participation through the creation of new job opportunities.

- The ratio of employed women to the total population rose to over 20% since 1991 as a result of trade liberalisation, according to the World Bank.
- Additionally, trade has enabled more women to transition from informal and domestic labour into the formal sector, providing them with better working conditions and greater economic empowerment.

It should be clear that export-led growth offers a sustainable and equitable model for Pakistan's economic development. However, without implementation none of the reforms, policies, or plans will generate results. For example, the GoP introduced the Regionally Competitive Energy Tariff (RCET) in 2018 and quickly reneged on it merely four years later. The textile sector's investments into increased capacity, expansion, and over USD 5 billion in R&D were suddenly rendered moot. The four years of export growth could not be translated into development due to inconsistent implementation of policy. Similarly, Pakistan has thrice attempted to reform its railways since 2018, and failed to follow through on any of its proposed acts. The issue of half-hearted implementation reduces investor confidence, and prevents exports from being able to actualise their growth potential.

The nation must orient towards export-led growth. Trade benefits all members of society through employment, income, and reduced prices. It fosters structural transition via enhancing innovation, knowledge capital, and easing access to green technology. Exports are also responsible for fiscal stability, balancing current account deficits, and improving foreign exchange. These benefits can no longer be ignored as Pakistan attempts to navigate its contemporary economic turmoil. Only by embracing an export culture and actively pursuing export growth can the nation achieve the outcomes it desperately needs.

The authors are affiliated with the All Pakistan Textile Mills Association (APTMA).