



# Export-led-Growth Channel of Development for Pakistan and Competitiveness of the Economy

*This Webinar is organized by PIDE in Collaboration with the World Bank on Oct 12, 2020*

### Preamble

From the last couple of decades, policies in policy conversation always remain missed in our national dialogue. The major problem with our system is the policy inconsistency and poor policy development. Our situation is getting worse as the government refuses to make policies and everything is done by the donors especially the tax policy. Resultantly, our governance system is declining all the time. Moreover, the exports and competitiveness of the economy are always a puzzle game for every government. There is no thinking about the competitiveness of the economy and export-led-growth channel of development for Pakistan in our policy design rather all the focus is on crisis management and stabilization.

This webinar enlightens us to understand

- what can be done to achieve the growth acceleration through export-led channels?
- what are the tools available to stimulus the export-led growth? Further,
- what are the incentives for the firms to become exporters?

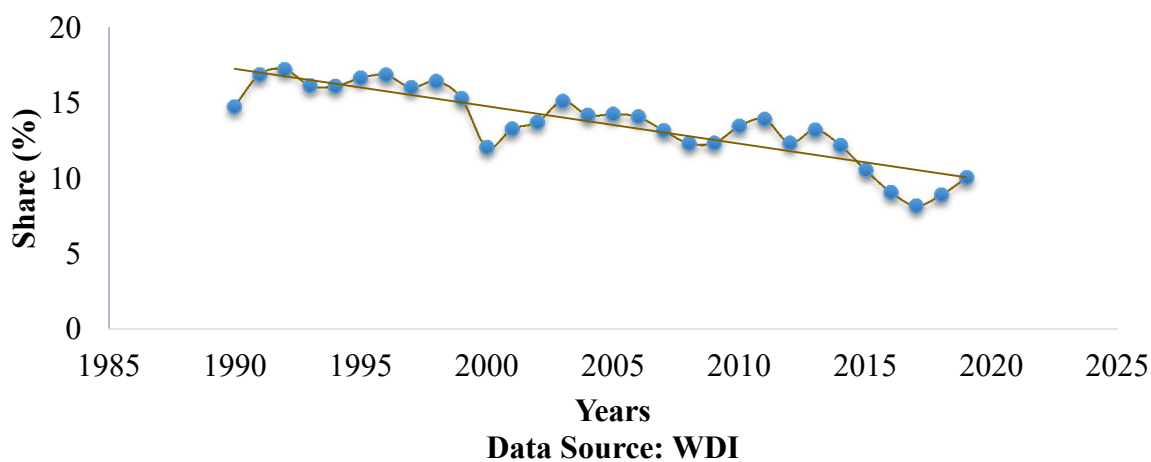


## Key Messages

### Export-led growth

Pakistan's exports show a downward trend from the last three decades as depicted in figure 1. This decline in exports is a dominant issue despite the fact that we have had so many fund programs like every government. Also, we had five currency prices recently identified and those currency prices need to be looked at but everybody believes that export-led growth is significant. Regardless of plethora of advice and prescriptions, we are still coming down. The IMF 'BIG BOY' is riding us and our government running around a skeletal craggy landscape with loans but not quite knowing what to do about exports to break out of this trap.

**Figure 1: Exports of Goods & Services (% of GDP)**



### Issue Contemplation

We are familiar with all the reasons such as the low rate of per capita GDP and productivity growth, the rapidly expanding workforce about 1.7 million people every year, the stagnation of exports, decline in suboptimal levels of savings and investments, and persisting fiscal issues. However, we will focus on Pakistan's GDP growth rate. If the growth could surge into the high single digit range many of Pakistan's problems near and far will appear less daunting as has been the case in china. If the growth remains where it has been in the past decade the potential growth seems to be declined, both economic and social problems could worsen.

### Policy Failure Distortions

There was a time when Pakistan's economy was a model for the Koreans, but now the Korea and Vietnam has twice the per capita GDP than that of Pakistan, this does not mean that they discovered a secret formula or they have rocket scientists and they achieved the resources which are beyond the reach of Pakistan but this is due to the policy action failures. When policy fails exports share declines and leading with exports is the only way of sustaining a high growth objective.

## Feasibility of Export-led-growth

Now the question arises whether the export-led growth is feasible over the next two decades or more? Answer depends on three points:

- First what was old normal during the last half of 20<sup>th</sup> century (such as tariff barriers were lowered by multilateral trade negotiations and subsidies were established abroad) that facilitated the export-led growth.
- Second prevailing and evolving global environment which is less conducive to the new normal that Pakistan faces.
- And the last point explores the kind of strategy that could enable Pakistan to export its way out of a low growth equilibrium which is where it has been stuck for a long time.

## Export Diversification an Initiative of Export-led-growth

There are a number of stepping stones to export diversification into higher value activities that could initiate export-led-growth. They will need to be underpinned by a mix of industry, technology and urban policies. The four points will vigorously be pursued in tandem with the widely discussed fiscal, trade and exchange rate measures.

**Firstly**, Pakistan needs to begin narrowing the technology gap which is a major cause of export diversification. For instance, investment is required not only in public and private research, building the research capabilities of universities and consulting entities, but also in physical research infrastructure. The research spending should be in those sectors which derives more growth. In addition, there is no need for highly trained professionals because countries with less trained professionals have major innovations because they focus on research personnel, adequacy of physical infrastructure, the density of collaboration with researchers, and a supportive system of innovations. So Pakistan should focus on these areas; however, temporary shortage of technical skills can be alleviated by attracting foreign workers by making adjustments to its visa policies and by improving education at every level so these workers will have made a major contribution to development.

**Secondly**, Pakistan needs a foreign direct investment for export led growth. As East Asian investment in textile, leather goods and food processing will not result in long run growth so Pakistan must attract few anchor firms like FDI that can partner with local businesses, inject capital, transfer technology, improve skills, and help firms to achieve scale.

**Thirdly**, in order to attract FDI, Pakistan needs two major economic zones. First the government should consider designating the sealcoat as a special economic zone and second making it an industrial hub which can compete with other destinations in Asia.

**Lastly**, FDI, foreign workers and tourists will not flock to Pakistan as long people feel unsafe and basic services are inadequate; therefore, Pakistan should create a safe environment and improve the livability like Dubai and Singapore. Now the question arises that is the government capable of comprehending this agenda. The answer depicts that there are many funds which are mostly spent on pure administration and spending on research is 1% or may be negative. Hence, FDI is always in conflict that is why we have not got the kind of FDI that china and Vietnam has got.

### **Government Capacity and Conflict of Administration**

As the private sector gives productivity and export led growth. They work in an environment and this environment is given by the public policy and government so the government has the capacity to do that. The only issue is that as we see the countries with more capital income have no conflict of administration to implement policies.

### **Issues Hindering the Export-led-growth**

The issues that hinder growth over the years are:

- Uncertainty in business, macroeconomic uncertainty, uncertainty in competition and all these uncertainties are due to the policy reforms adopted by Pakistan because Asian countries progress in credible reform results in growth achievements.
- However, exports are special according to **Gonzalo (considering Pakistan's data)** exporting firm's growth is greater than importing firm's growth; thus, for the increase in exporting firm's business environment should be improved.
- Besides, trade costs should be reduced. Likewise, the cost of export is also important because it reduces the incentives for firms to seek access to protect the export market.

### **Concluding Remarks and Recommendations**

In retrospection, the government has a role to intervene in the market but the failure is due to "coordination failure". As the government may resort to subsidies, to price distortions and tariffs but does not solve the coordination failures. However, after solving the basic issues, the industrial policies and interventions in sectors to boost certain tradeable sectors and exports in terms of playing field, macro stability, reduce trade costs, and non-distortive policy etcetera could be required. Furthermore, for policy effectiveness we can get help from east Asian experiences like Taiwan started making videos in the seventies video machine and they stop when they could not get market share in them and they stop all protecting, all interventions in the sector so we can see a lot of success. Actually, we do not have enough dollars to finance imports for domestic consumption, as a result, we lower the growth and start creeping up this cycle. Therefore, there should be efficiency seeking investment. Similarly, we should use an export led model because many multinational companies are enjoying more production by selling at high profits due to protectionism and tariffs etcetera. In this pandemic, we should put the environment for production in order to become competitive and efficient enough. Lastly, Exchange rate in Pakistan is asymmetry; it should be undervalued which would be helpful for export-led-growth strategy.



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