

# Pakistan's Industrial Competitiveness: Issues and Challenges

**Nasir Iqbal, Musleh ud Din & Ghulam Mustafa**

June 26, 2019

# Roadmap

- Why Industrial Competitiveness?
- Where we are?
- What are the binding constraints/Challenges?
- What are the Solutions?
  - Proximate
  - Fundamental
- Policy Recommendations

# Why Industrial Competitiveness (IC)?

- IC is catalyst for higher productivity, innovation, employment generation and exports
- In an era of rapid technological change, developing countries including Pakistan are striving to improve IC to stimulate their economies, create jobs and boost economic growth
- Pakistan's economic prosperity and sustained development heavily depend on raising the share of manufacturing sector
  - Currently contributes just 13% of GDP (GoP, 2019)
- Textile and clothing sector is a leading manufacturing sector of Pakistan which has inherent advantage based on domestic availability of cotton
  - It absorbs 40% of industrial labor force and contributes about 60% to overall exports of Pakistan

# Where we are?

---

Export share with  
respect to other  
countries

<b>Countries</b>	<b>2005-09</b>	<b>2010-14</b>	<b>2015-18</b>
Bangladesh	16.47	18.93	16.35
China	32.45	25.23	20.01
India	21.48	24.01	19.33
Indonesia	29.70	24.56	20.22
Pakistan	13.56	12.24	9.34

# Where we are?

## Global competitiveness ranking of Pakistan

Performance Overview 2018 **Key** ◊ Previous edition ▲ Lower middle income group average □ South Asia average



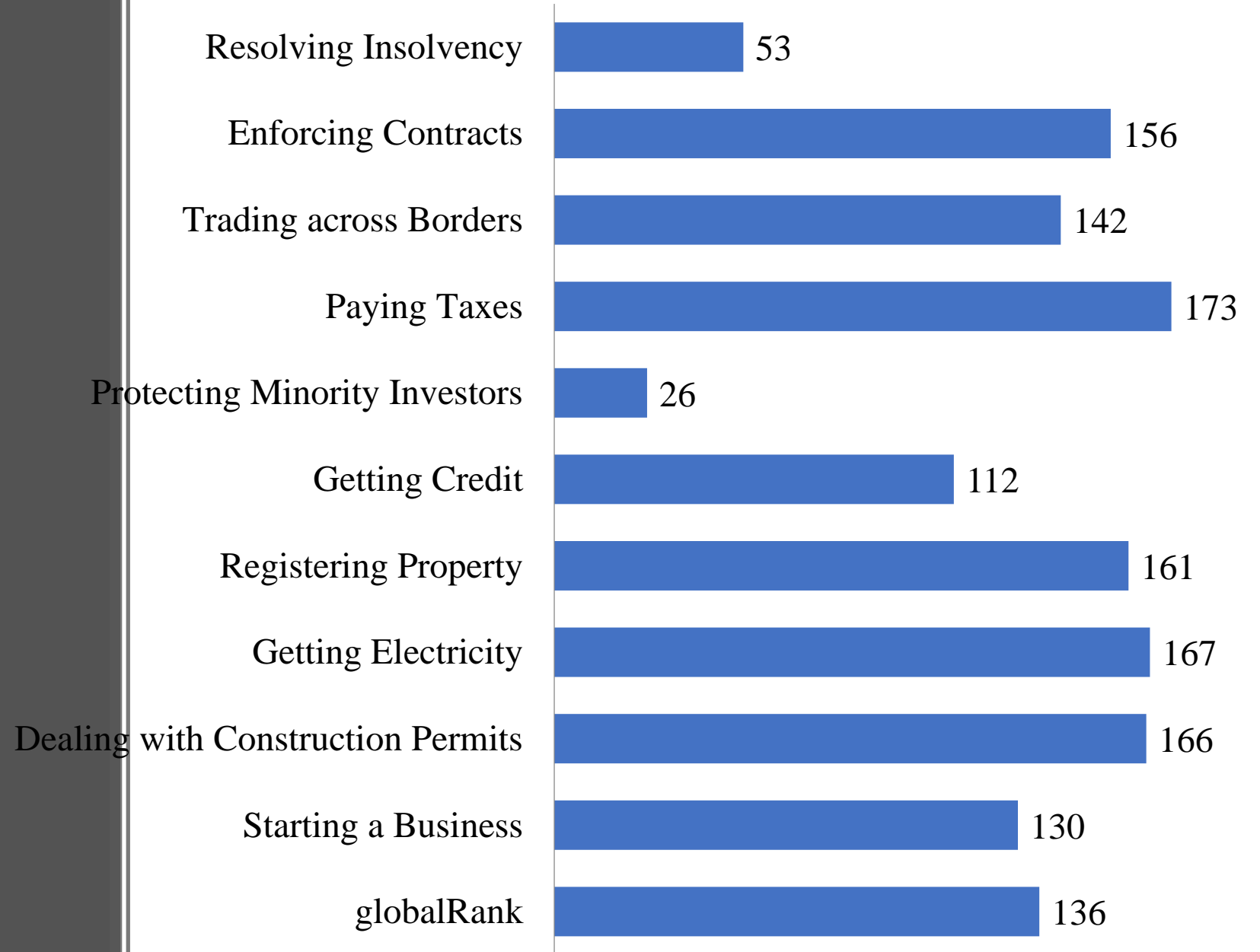
# Objectives

- Identify the key challenges
- Perform “Growth Diagnostic” analysis to find the bindings constraints to
  - Industrial Competitiveness (overall)
  - Exports diversification
  - Manufacturing sector development
  - Revealed comparative advantage
- With the focus on two types of factors
  - Proximate
  - Fundamental

# Constraints?

---

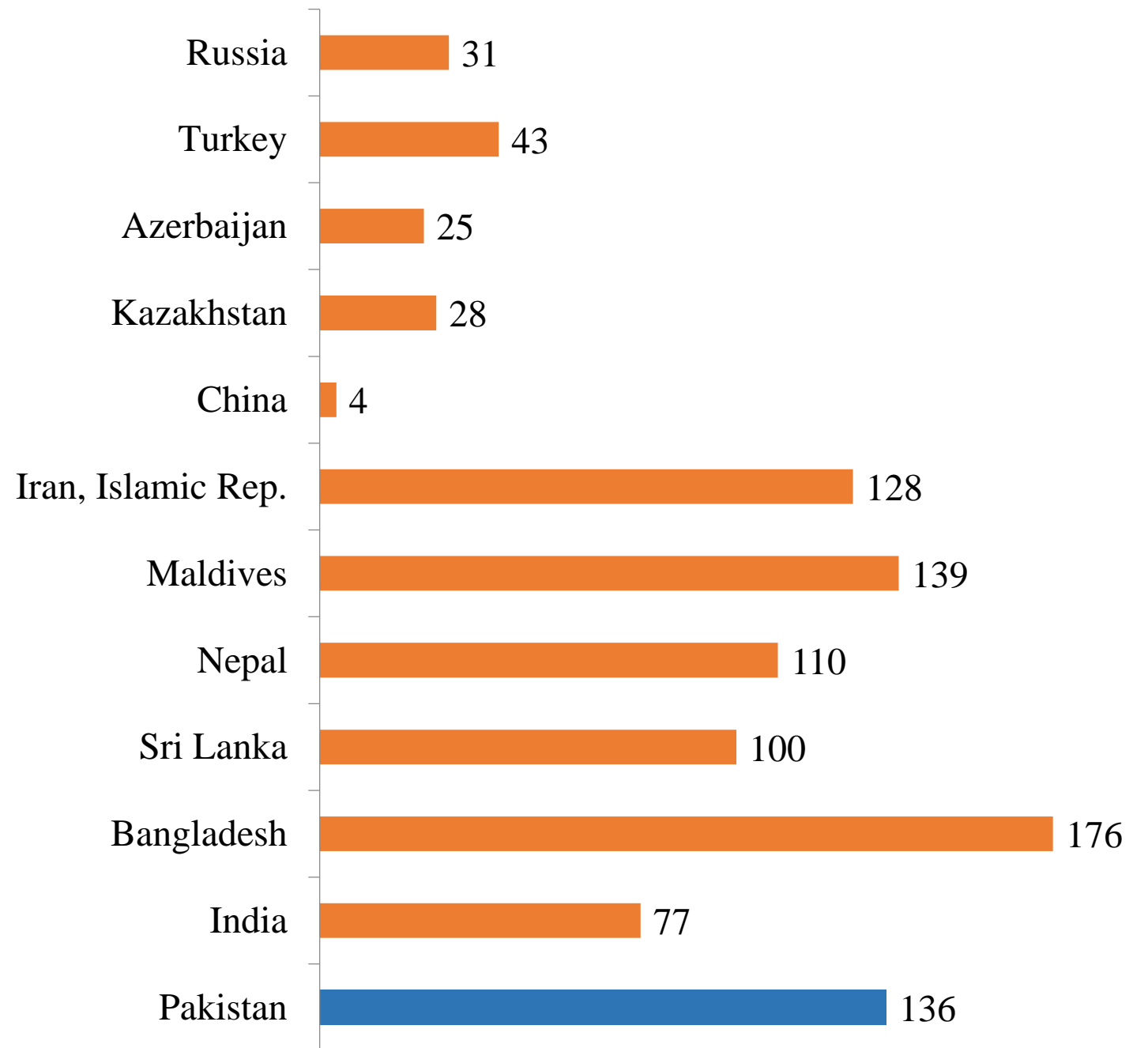
- **Ease of Doing Business of Pakistan**



# Constraints?

---

- **Ranking of Countries by Ease of Doing Business**





# Constraints?

- **Skilled Labor**

- Manufacturing sector of Pakistan is facing the problem of low skilled labor which hinders industrial sector to grow and compete with other economies
- Pakistan holds 134<sup>th</sup> position in terms of human capital out of 150 countries and learning gap of schooling is 4.5 years

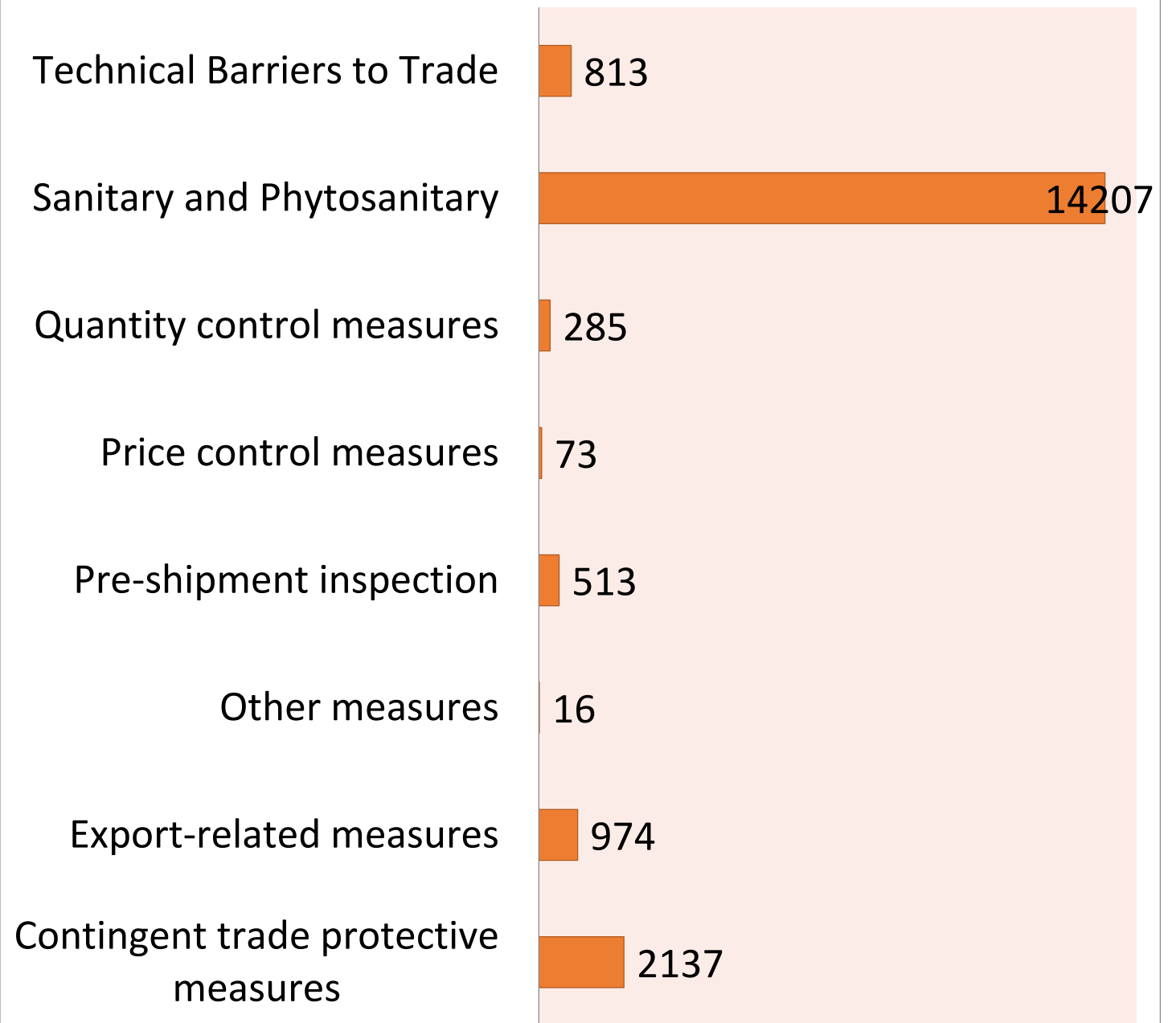
- **Declining Agricultural Productivity**

- Agriculture sector plays a vital role in determining the performance of manufacturing sector as a supplier of key raw materials for industrial growth
- Specifically, cotton crop has a significant role in growth of textile sector. Overall, crop growth shows a volatile and falling trend during the last five years. Estimates indicate that during 2011-12, crop growth was 3.22%, and it has continued to fall to 0.91% during 2016-17.

# Constraints?

---

- **Imposition of Non-Tariff Measures (NTMs) on Pakistan Exports**



# Constraints?

---

- **Low Export Diversification (10 products)**

Rank	Product description	Export share
1	textiles	18.10%
2	Cotton	16%
3	Knit or crochet clothing, accessories	11.50%
4	Clothing, accessories (not knit or crochet)	11.30%
5	Cereals	8%
6	Leather/animal gut articles	2.90%
7	Sugar, sugar confectionery	2.30%
8	Optical, technical, medical apparatus	1.90%
9	Fish	1.90%
10	Salt, sulphur, stone, cement	1.80%

# Constraints?

- **Fundamental Causes of low competitiveness**
  - Institutional quality
  - Terrorism
  - Poor infrastructure
  - Social structure

# Model, Data and Estimation Methodology

- The study estimates determinants of industrial competitiveness in Pakistan using the following model

$$y_t = \alpha_0 + B_i X_t + \mu_t \dots \dots \dots (1)$$

- The proposed model is estimated by using Fully Modified OLS
- Time series data

# Results and discuss

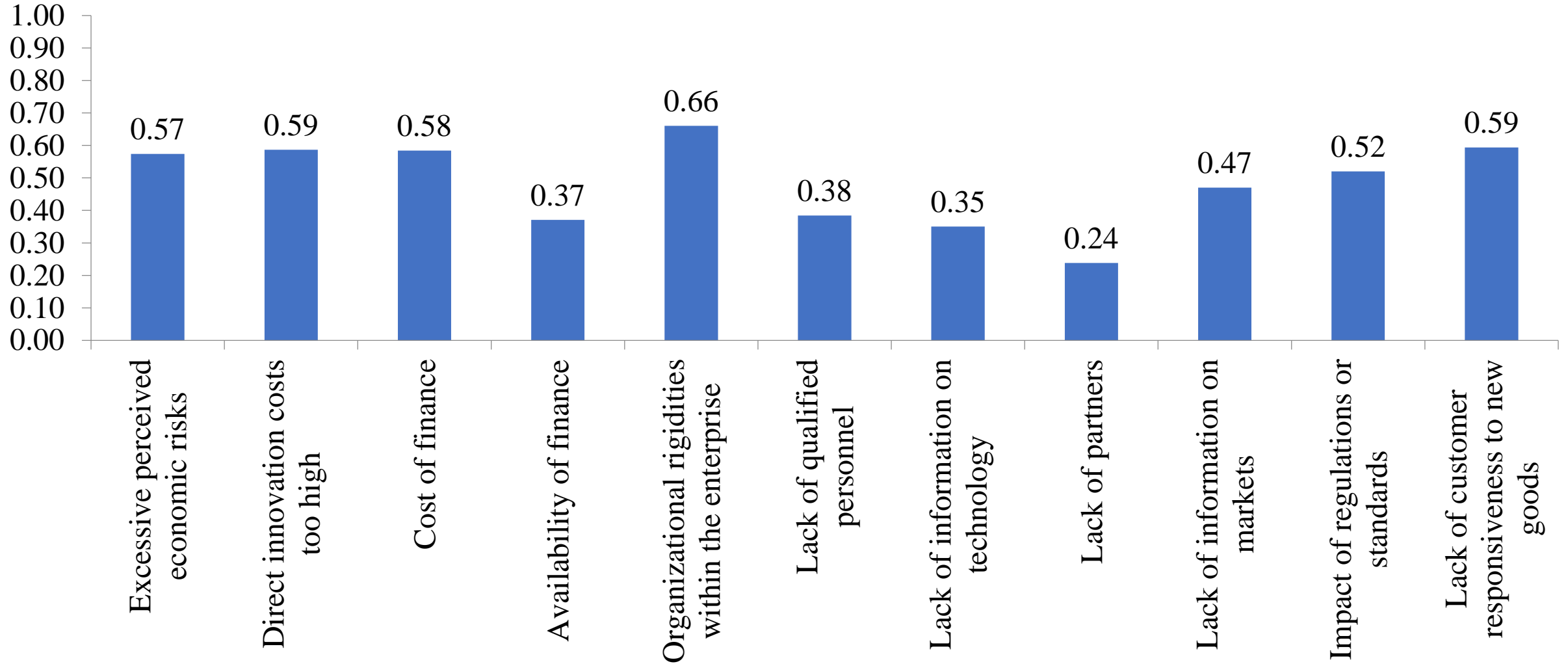
Variables	1	2	3	4	5
<b>Proximate factors</b>					
Human Capital	0.428267***		0.45529***	0.45686***	
Trade openness	0.000445		0.00200	0.000822	
Macroeconomic Instability		-1.35385	-0.06564**	-0.05893*	
Real Effective Exchange Rate	-0.00116***		-0.00106***	-0.0009**	
Employment (Industrial)	0.815123***		0.836456***	0.89218***	0.457674***
Agriculture Production	0.65981***		0.598145***	0.59620***	1.016036***
Energy Consumption					0.03773**
Term of Trade					-0.31551***
<b>Fundamental Factor</b>					
Institutional Quality		0.079939**	0.000674	0.000683	0.00428***
Terrorism				-3.58E-05**	-3.39E-05***
Constant	3.6459***	10.713***	3.4452***	3.34760***	10.09557***

# Results and discuss

	Model-1 RCA	Model-2 RCA	Model-3 ME Share	Model-4 ME Share
Real Effective Exchange Rate	-0.02862**	-0.02951**	-0.00232***	-0.00232***
Human Capital	3.68089**	3.636876**	0.20436***	0.199861***
Industry EMP	1.636457***	1.608459***	-0.21477***	-0.20481***
Trade Openness	-0.00198	-0.28469		
Institutional Quality	0.016208	0.015258	0.002154**	0.002158**
Macroeconomic Instability	-1.60109*	-1.56845*	-0.21208***	-0.20153***
Terrorism				-3.87E-06
C	-36.8753*	-35.1814	2.273466***	-0.20481***

**\*, \*\*, and \*\*\* indicate significance of coefficients at  $pr < 0.10$ ,  $pr < 0.05$ , and  $pr < 0.01$  respectively**

# Factors inhibit firm development





# Four major constraints to business (demand side)

- Four major constraints to business
  - (i) lack of desire to expand,
  - (ii) Less use of technology
  - (iii) apparent lack of demand for formal finance,
  - (iv) weak contract enforcement

# Conclusion

- Policies to enhance industrial and export competitiveness need to focus on
  - improvement in institutional quality,
  - encouragement of research and development,
  - technological up-gradation and
  - skill development.
- Given the right policy environment, Pakistan has great potential to expand its export-oriented manufacturing sector which can be instrumental in promoting macroeconomic stability, creating jobs and boosting the country's long term growth prospects

- Burdening export industry with liquidity crises should be resolved by adopting following policies.
  - Maintaining zero-rated industry regime
  - ensuring refund payments to exporters on shipments
  - Provide level playing field to domestic industry viz-a-viz imports under exemption schemes
  - reducing interest rate

Thank you

Q & A