Export-led growth takeoff

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Setting the stage for sustainable economic growth, Pakistan's exports for the month of December 2020 grew by 18.3% to USD 2.357 billion as compared to USD 1.993 billion in December 2019, an increase of USD 364 million over December 2019. According to the Advisor for Commerce and Investment, Abdul Razak Dawood, this is the highest export ever in the month of December. The Advisor credited the resilience of Pakistan's economy and lauded exporters as a great asset for the country.

The textile sector of the country, which comprises the majority of export orders, has finally garnered much-needed support and emerged out of its rut. Textile exports are now undergoing rapid expansion, clocking historic levels of production and expediting economic growth. This is particularly impressive given that we are nearing the end of a difficult year, marred by lockdowns and low productivity across the globe. Exports in November 2020 posted a growth of 7.2 percent as compared to the corresponding month of 2019. The textile sector has had its order books full for much of the year, but by identifying key setbacks and garnering policy support and facilitation from the government at unprecedented levels, the sector has been successful in meeting a majority of the demand, increasing its output and improving its logistics network.

Pakistan requires an economic growth rate of 7-8 per cent in the next 30 years to meet the needs of population growth and absorb new entrants into the labour force. This necessitates considerable GDP growth in tandem with incomes and higher exports to strengthen the economy, as well as the addressal of several key issues that plague the country. There has been noticeable growth in large scale manufacturing, exports and inputs of the construction sector, while private sector demand for credit has also risen. The current account surplus increased to $447 million in November 2020 for the fifth month in a row, mainly owing to rising exports and remittances, against a deficit of $326 million in the same month of last year. With all this in mind, we seem to be entering the new year on a positive note, but we must move forward with a cohesive and sustainable growth strategy, and a specific focus on implementation of key reforms, as our population is rising rapidly while GDP growth is hardly keeping pace.

Historically, Pakistan's average GDP growth has remained less than 5% and its average investment rate around 15%. There have been downward trends in investment and total factor productivity growth. The problems in Pakistan are more in terms of software than hardware, i.e., there is more hindrance in terms of management and productivity than physical infrastructure. The country's exchange rate policy has always tended towards overvaluation, contributing to repeated Balance of Payments crises and IMF borrowing. Currency undervaluation would have been far more beneficial for economic growth, as the overvalued rate evidently subsidized imported consumption and distorted the competitiveness of exportable items (PIDE). There is an urgent need to tackle these economic distortions and to formulate sustainable policies.

Textiles have been greatly affected by inappropriate tactics and plans of action mainly by the government. Years 2013 to 2018 were marked with a dismal due to the lack of funds allocated to the automation of processes and irregular plans of the ruling regime. The situation further worsened with a 61% surge in power tariff, coupled with Rs. 3.61 per unit imposed as taxes. The textile sector is highly sensitive to energy outages, so these matters ballooned into a large-scale hindrance in its growth and it was difficult to meet costs, let alone achieve much-needed revenue targets that could allow for modernization or expansion.

How was export growth achieved?

There is no doubt that the Pakistani economy has made advancements in this decade, as an export growth of 18.3% YoY is no small feat. It indicates Pakistan's ability to improve its economic standing despite the external and seemingly insurmountable challenge presented by COVID-19. This indeed highlights improvements in policymaking, thereby facilitating the efforts of exporters in upscaling production and aptly meeting market demands. Jobs have been created for women and the youth, contributing more to employment than any other sector and creating livelihood for millions of families. Keeping the robust nature of the sector in mind, as well as the support it provides for the economy as a whole, exporters ensured that the most effective measures were taken to meet global textile trends, and to embody the recent growth of Bangladesh in the sector – a thriving textile economy which we are catching up to, given that our handling of the pandemic's economic fallout has been more effective. Pakistani exporters therefore took cues from its neighboring competitors, and in 2020 the sector achieved regionally competitive energy prices, which must be maintained if the export-led growth strategy is to be effective over the long-term.

The rise in exports also makes evident the immense support received by the sector that has helped it to achieve its true potential. The Advisor for Commerce and Investment aptly identified export-led growth as the right path for Pakistan's economy and subsequently fought for the requirements of the textile sector, leading to the long-awaited resolution of a number of issues, such as regionally competitive energy and approval for removal of ACDs and RDs on selected HS Codes of the textile sector in September, including those on synthetic fibers, wool and vegetable based fibers. He outlined his policy for cost reduction by reducing all duties on raw materials as well as intermediaries, as an essential part of promoting industrialization under 'Make in Pakistan' and ensuring export-led growth.

How can it be maintained?

While the current landscape presents a cause for celebration, it also presents a do-or-die situation for exporters and government alike. It is often in periods of high growth that the effort and momentum need to be ramped up, so that the benefits to the economy can be reaped consistently. In this regard, government schemes to support exporters must not be discontinued, or slacken at any cost.

The government is about to finalize the Textile Policy 2020-25, which will improve several aspects of Pakistan's industry, e.g. export incentives, market diversification particularly into higher value-added products, and lower rates on utilities to boost production of textiles and clothing in the country. The implementation of this policy is absolutely essential and eagerly awaited, as it will lead to the streamlining of recent export growth and allow continued expansion in the textile sector. The proposed package carries special duty-drawback rates, rationalization of duty on the textile value chain, and subsidy on long-term loans and development subsidies. The policy aims to reduce the input cost of textile and clothing sector and make it competitive with the regional players.

Given the large share of the population that lacks access to quality education, there is a need to improve infrastructure and accessibility, as well as to revise curriculum so that unemployment and low productivity in the labour force can be prevented. R&D support for academia and industry as well as collaborative efforts to introduce industry-oriented solutions/innovations could take the economy a long way. To sum up, investment in human capital is an essential ingredient for boosting productivity. As per the International Labour Organization (ILO) estimate for 2009-2019, China's output per person, which is a measure of labour productivity, increased by 388%, India's by 177%, and Bangladesh's by 109% while ours increased by a mere 32%.

The target is not short-term growth; rather it is long-term sustainable growth which necessitates robust productivity reforms and investments in human capital. In this regard, efforts to employ a larger segment of the population towards the task of textile sector productivity would prove invaluable in streamlining economic growth. The government must prioritize investment in human capital, value-addition and software reforms. The government's affinity for building bridges must be replaced with a focus on the human factor, as research has shown that Pakistan has more of a software (management and productivity) problem than a shortage of hardware (physical infrastructure). These policy adjustments can be crucial to accelerate growth and employment, utilize Pakistan's first-rate talent to its full potential, and empower the youth to shape the policy landscape, thereby advancing towards 2030 with an improved outlook and discarding the setbacks of decades past. The first step in this strategy is the implementation of the Textile Policy 2020-25.