

PAKISTAN'S EXPORTS: WHAT NEEDS TO BE DONE?

By

Dr.Ashfaq Hasan Khan^{}*

Pakistan's economy has gained more strength, underpinned by a buoyant private sector during the last fiscal year. Wide-ranging structural reforms, prudent macroeconomic policies, financial discipline and a consistency and continuity in policies have transformed Pakistan into a stable and resurgent economy in 2003-04. The stage is now set for economic growth to accelerate with the private sector expected to play the leading role in taking the economy on a higher growth trajectory.

Export is critical for any country for a variety of reasons. First, export sector usually has a high rate of profits and a higher propensity to save. Their profits are high because they produce for world market and therefore achieve greater economies of scale and production efficiency. Second, export sector generate foreign exchange earnings and overcome the foreign resource constraints for greater imports and the attendant rise in the level of economic activity. Third, exports and particularly manufactured exports are highly employment intensive. An increase in exports creates jobs for workers directly engaged in the production of the export commodities. If raw materials and machinery used in such production are supplied by domestic industries, increased demand for their products creates more employment. Finally, higher exports growth help achieve higher economic growth. Given the apparent importance of exports in the economic transformation of nations, the ability to achieve strong export-led economic growth has become vital for Pakistan's overall economic progress and prosperity of the nation. The experiences of the East Asian nations are before us. Exports have played a critical role in sustaining economic growth of 9 – 10% per annum over a fairly long period of time in that part of the world.

When viewed against the experiences of the East Asian Countries Pakistan's export performance has been less than satisfactory. It took 10 years to add \$ 2 billion in

^{*} *The author is Director General, Debt Office and Economic Adviser, Ministry of Finance.*

exports during the 1980s and it took 9 years to add \$ 1.5 billion in exports during the 1990s. It is only over the last 5 years that Pakistan has made considerable progress in exports. During the last 5 years we have added \$ 4.5 billion in exports – raising it from \$ 7.78 billion to \$ 12.3 billion. The performance of exports during the last 5 years has been unprecedented as it took 19 years (1980 – 99) to add \$ 3.5 billion but it took only 5 years (1999-2004) to add \$ 4.5 billion. Pakistan's shares in world exports have also risen over the last 5 years from 0.14% to 0.164%. We have set \$ 13.7 billion exports target for the current fiscal year and the country has already made a good beginning in the current fiscal year by exporting \$ 1.2 billion in the month of July 2004 which is 33% higher than the corresponding month of last year. If we maintained this trend we may even surpass the target.

Notwithstanding our impressive performance over the last 5 years, Pakistan is still far behind many countries in the Asian region as far as exports is concerned. Pakistan's exports to GDP ratio stands at 13% as compared with 32.3% for Indonesia, 44.4% for Philippines; 56% for Thailand; 39% for Korea; 96% for Malaysia; and 27% for Sri Lanka. This simply suggests that Pakistan has to catch up with others.

ROLE OF THE PRIVATE SECTOR

The first thing that the private sector must do is to improve their competitiveness by employing state of the art machinery; through better management; through cost effectiveness; and by improving their working environment. They have a comparative advantage in terms of relatively cheap labour, relatively low cost of capital, a strong macroeconomic environment represented by a stable exchange rate, relatively low inflation and strong growth. The government has attempted to reduce the cost of raw materials by not only reducing but rationalizing the tariff structure of imports. The objective of the exercise was to make our exports competitive in international markets. The electricity charges are though high but these are not bad when compared with other countries in the region. For example, Sri Lanka has much higher electricity charges than Pakistan. It may be pointed out that the government has inherited higher electricity prices which cannot be reduced in a short period of time. The effort is

however on to reduce the electricity charges. It has been done so recently and we will continue to improve upon in future as well. The second most important task that private sector must undertake is to look for new markets and new products. Today our exports are highly concentrated in few items and going into few markets. **More than 75% of our exports originate from four items, namely cotton, rice, leather and sports goods. Similarly more than one-half of our exports go to 7 countries in the world.** This state of affairs will not take us at higher export path. Diversification of exports, both in terms of commodity and regions will be needed. For new markets we need to look at China, Japan, Latin America and in ASEAN Region. With Pakistan becoming member of the ASEAN Regional Forum the task of the private is to establish contacts in that part of the world and exploit the advantage that now exists for us as a member of the ASEAN Regional Forum. A more diversified export mix may enable the country to accomplish stability and growth - oriented policy goals. Further, by providing a broader export base, replacing commodities with positive price trends and adding value to commodities through additional processing and marketing a diversified export portfolio would be expected to minimize the volatility in export earnings and to foster economic growth. It is also suggested that export diversification initiatives need to be undertaken within a broad policy approach where the government should design and support a coherent macroeconomic policy framework consistent with export promotion strategies. While export diversification programs should be implemented primarily by the private sector the role of the government, in this context, should be to prevent distortion and create an environment which promotes diversification.

ROLE OF THE GOVERNMENT

The Government will play its supporting role in achieving the objectives of raising exports. The first and foremost duty of the government is to provide a strong macroeconomic environment an environment where exchange rate is stable; a comfortable foreign exchange reserves; low cost of capital; low inflation, low budget deficit and no debt crisis and consistent and transparent macroeconomic policies. By the grace of God, we have such a conducive macroeconomic environment in the country

today and we are perusing a consistent and transparent economic policies. The second most important duty of the government is to provide strong infrastructure – transport and communication, roads and highways, power, well-functioning ports etc. In highly competitive international markets, poor and overstretched infrastructure facilities can greatly limit the potential gains from an export-oriented trade regime. Buyers in the international market have a range of alternative suppliers, and they value dependability of on-time delivery, ease of communications with their suppliers, and other attributes that exports can only achieve if infrastructure is adequate. The government has already allocated Rs.87 billion or 59% of the Federal PSDP in the budget 2004-05 for strengthening the country's infrastructure. The third most important duty of the government is to enter into active Trade Diplomacy. Our Commercial Attaché in Embassies abroad will have to change their culture from pushing papers to pushing real goods. The government will have to work hard in getting market access and level playing field in major countries and regions. We have to explore the possibilities in joining various Preferential Trading Arrangements (PTAs); we have to enter into bilateral negotiation at all levels for Free Trade Arrangements (FTA); and we have to use our political clouts for raising trade with different countries.

Institutions also play important roles in increasing exports for any country. East Asia is full of examples as to how their institutions have succeeded in enhancing exports. The case of Malaysia is before us. The main features of their success have been the level of professionalism of their agencies responsible for export promotion. We need to reorganize and strengthen our Export Promotion Bureau (EPB) by inducting trained and skilled professionals. This organization needs to be reorganized as a corporate body and not as a government organization. The government is aware of the importance of the Export Processing Zones (EPZs) and as such is poised to revive these Zones. We are also establishing the Textile City in Karachi with a view to enhancing textile exports in a quota free regime.

So far FDI in Pakistan has come to serve domestic market. Time has come to look for FDI in export sector. This is what we need to pursue. It has generally been observed that exporters some time demand that government should pursue a discriminatory policy in favour of exports and provide adhoc incentives under the guise of export promotion. Empirical evidence suggests that discriminatory policy and adhoc incentives to promote exports have not worked on sustained basis. Therefore, we

should not pursue discriminatory policies and avoid giving adhoc incentives to promote exports. It has also been observed globally that rapid export growth has not led to more rapid overall economic growth when increases in exports has largely been attributable to changes in terms of trade or largely attributable to increase in prices in international market. A clear example to quote is the oil price increases of 1973 and 1979 and failures of the member of the OPEC to achieve rapid economic growth. Lesson for us is to increase exports through increasing quantity and not relying exclusively on increases in price of our exportable. Some increases in price is understandable if we move to higher value addition but our efforts should be to increase exports through increasing quantity for which we have to find new markets.

We have made significant progress in exports during the last 5 years but this is not enough. We need quantum jump in export earnings. The Trade Policy 2004-05 is an excellent policy, what is required is the implementation of this policy to achieve the \$ 13.7 billion export target. International environment is becoming highly competitive and therefore, this is a wake up call for our exporters. They will have to play the leading role while the government will play the role of a facilitator. Together we can transform Pakistan into an export-oriented country. Export is our future. Let us build our future by working side by side.