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HOW CAN PAKISTAN BOOAST ITS EXPORTS

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HOW PAKISTAN CAN ENHANCE ITS EXPORT COMPETITIVENESS

With a population of approximately 220 million and its strategic positioning at the intersection of South, Central, and West Asia, Pakistan holds the promise of evolving into a key economic center for the region (ADB, 2022). The country possesses significant potential for economic growth and development; however, it encounters various challenges in boosting its exports. Despite maintaining a diversified economy with a broad array of export products, the country has struggled to witness substantial growth in its exports over the years.

Pakistan's economic growth hinges on its ability to boost exports, generate foreign income for import financing, debt servicing, currency stabilization, and address the persistent balance of payment deficit. To be competitive, exports should align with market trends, meet international quality standards, and carry relevant certifications. However, the necessary investments to enhance Pakistan's export capacity are insufficient, primarily due to an unfavorable investment environment marked by uncertainty. The volatility in output growth and inflation underscores the unpredictability of demand and macroeconomic conditions, negatively impacting private investments. The Tax, Investment, and Exports (T.I.E) nexus is crucial for fostering economic growth, but its percentage of GDP has notably declined in Pakistan, hampering overall growth.

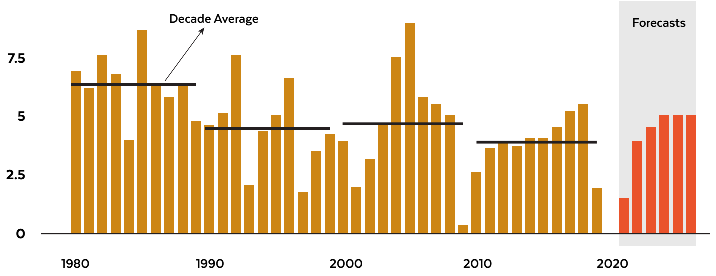
Moreover, the shortage of investment stands out as a key factor contributing to Pakistan's negative export growth over the past decade. Other obstacles include a high tariff structure, inconsistent growth patterns, limited global market penetration, inadequate infrastructure, and technological gaps. Additionally, irrational government policies and complex industry incentives further impede export potential. In contrast, successful Asian counterparts have pursued export-led growth strategies featuring high savings and investment rates, specialization in competitive advantages, and rapid industrialization. The critical question remains: How can Pakistan stimulate exports for sustainable economic growth?

CURRENT EXPORT LANDSCAPE

Historically, Pakistan's growth trajectory has been characterized by fluctuations. While the nation experienced robust growth periods, notably from 1980 to 1992, with annual growth ranging between 5.0% and 6.0%, its overall economic performance has been marked by intermittent successes and setbacks influenced by global events. The momentum observed between 2001 and 2008 was disrupted by the global financial crisis in 2009, and the growth momentum from 2010 to 2019 was curtailed by the COVID-19 pandemic in 2020, leading to the country's first contraction since 1952.

Moreover, the average growth rates have been relatively modest. Following an average annual growth rate of 6.4% in the 1980s, the subsequent decades witnessed averages consistently below 5.0%. Specifically, the 2010s recorded an average growth rate of only 3.5%. Projections from the International Monetary Fund (IMF) indicate a continuation of this subdued growth pace in the foreseeable future (ADB, 2022).

Real Gross Domestic Product Growth Rate, Pakistan, 1980-2026



Source: IMF 2021

Additionally, Pakistan's export portfolio encompasses a diverse array of goods and services. Certain sectors, such as textiles, agriculture, manufacturing, and services, play a pivotal role in driving export revenue. Pakistan is ranked as the 5th most populous country and the 41st largest economy globally. It has sustained an average growth rate of 2.89 percent over the past five years. The services sector plays a predominant role in the economy, contributing 58.6 percent, followed by agriculture at 22.9 percent and industry at 18.5 percent.

Within the economy, wholesale and retail sectors hold the largest share at 18 percent of GDP and 30 percent within services. In the agriculture sector, livestock takes the lead with a 62 percent share, contributing 14 percent to the GDP. Manufacturing holds a significant position in the industry, representing 65 percent and contributing approximately 13 percent to the overall GDP. Despite these economic statistics, the per capita GDP stands at USD 1,568, leading to an increase in the population living below the poverty line, reaching 39.4 percent in 2023 (USD 3.6/day).

Historically grappling with a trade deficit, Pakistan faced a trade deficit of USD 27.5 billion in FY2023, equivalent to 0.7 percent of the GDP. The country's exports amounted to USD 27.7 billion, constituting 0.13 percent of the global exports. On the flip side, imports reached USD 55 billion, positioning Pakistan as the 47th largest importer globally. Textile exports play a dominant role, contributing 60 percent to the total exports.

Additionally, Pakistan holds the position of the fourth largest rice exporter globally, renowned for its Basmati rice. In terms of imports, 75 percent is comprised of capital goods and raw materials, with the remaining 25 percent dedicated to consumer goods. Energy imports, particularly accounting for 35 percent of the total, become crucial as indigenous oil production caters to only 30 percent of the domestic energy demand. Notably, food imports have surged to USD 9 billion, with half of the amount allocated to edible oil (FAO, 2023).

Pakistan	*Exports of goods and services as percent of GDP*
Latest Value	10:47
Year	2022
Measure	Percent
Data Availability	1960 - 2022
Average	11.68
Min - Max	6.22 - 17.27
Source	The World Bank

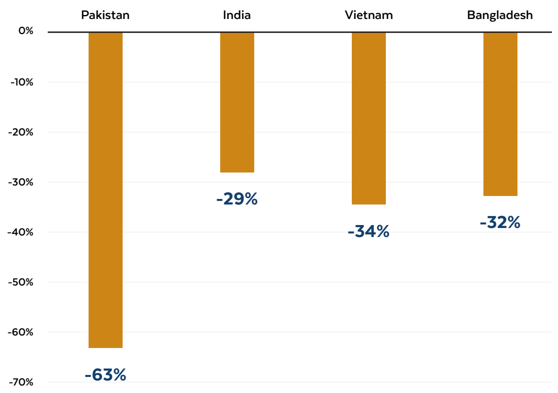
Furthermore, over the last two decades, Pakistan's export performance has shown persistent weakness. According to the World Bank, Pakistan's share in global exports dwindled from 0.18 percent to 0.13 percent. In contrast, during the same period, competing nations experienced significant growth in their shares of global exports. Notably, Bangladesh's share surged from 0.06 percent to 0.19 percent, India's increased from 0.61 percent to 1.65 percent, and Vietnam's rose from 0.14 percent to 1.17 percent (Mehmood & Ahmed, 2017).

CHALLENGES

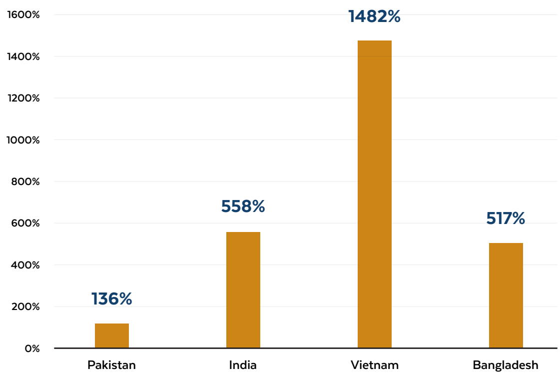
1. Rupee Depreciation:

The J-Curve theory suggests that when a country devalues its currency, there is initially a rapid decline in its trade balance. However, over time, the balance tends to improve as imports become more expensive and exports become more affordable. Nonetheless, this theory does not apply well in the case of Pakistan. From 2002 to 2019, the Pakistani rupee experienced a 63 percent depreciation against the US dollar, dropping from $0.0166 in July 2002 to $0.00616 in July 2019. This translates to a compound annual growth rate (CAGR) of -5.7%, indicating an annual decline of 5.7% in the rupee's value against the US dollar. Concurrently, the country's exports surged by 136%, rising from $9.9 billion in 2002 to $23.35 billion in 2019. This results in a positive CAGR of +5.2%, signifying an annual growth of 5.2% in exports, denominated in US dollars, over the same period (Dawood & Younus, 2020). Compared to its peers, Pakistan has exhibited the poorest performance, as shown below.

Pakistan's Currency has Depreciated at a faster pace than peer Economics



But its exports have grown at the weakest pace



The decrease in imports can be attributed to the significant depreciation of the Pakistani Rupee against the US Dollar and other factors, including a slowdown in investment in the China-Pakistan Economic Corridor (CPEC) project and restrictions on imports, particularly in the automobile sector. However, despite these conditions, the export sector did not capitalize on the advantages of currency depreciation. This indicates the need for the country to diversify its exports, both in terms of the types of goods and the destinations they are shipped to. Moreover, despite having decent road connectivity, efficient seaports, and competitive productivity and pay, the country still faces significant challenges in terms of educating its workforce and enhancing women's participation in the economy.

2. Import Substitution Policies:

The historical trade and industrial policies in Pakistan have consistently favored import-substitution industries, contributing to an anti-export bias. Unlike East Asian countries that adopted similar policies but managed to avoid this bias, Pakistan's exporting sectors faced challenges like higher import prices for inputs compared to international rates. Stronger incentives for import-substitution activities overshadowed efforts by successive governments to promote exports. Even comprehensive tariff reforms and export promotion measures in the 1980s failed to eliminate this bias. Private investments post-1988, although influenced by IFI-financed reforms, showed a limited focus on exports. The current tariff structure, while rationalized during liberalization, still exhibits certain exemptions favoring import-competing industries, indicating a lingering bias in policy. Despite these challenges, a clear shift toward an export-led growth strategy is yet to materialize in policymaking circles.

Furthermore, while elevated tariff rates effectively control unnecessary imports, imposing tariffs on imported raw materials could adversely affect the country's export performance. In the contemporary landscape, global value chains play a crucial role in various production stages, leading to an increased share of exports comprising imported inputs, a trend observed globally and in Pakistan. Estimates indicate that approximately 20 to 30 percent of imported inputs are integrated into different stages of production within Pakistan (State Bank of Pakistan, 2017). Despite the substantial reliance on imported inputs in the production process, applied tariff rates in Pakistan are comparatively high when contrasted with those of its peers and competitors. This notable import intensity in exports implies that the imposition of high tariff rates has the potential to significantly undermine the country's export competitiveness in the international markets.

3. Lack of Legal Framework Hampers Product Innovation and Protection:

Pakistan grapples with a deficiency in its legal infrastructure to safeguard and enforce intellectual property rights, encompassing copyrights, patents, industrial designs, trademarks, and geographical indications. This inadequacy directly impedes export growth in specific sectors and dissuades private enterprises from engaging in costly research and development within the country. The most adversely affected industries in terms of export growth are cotton textiles, basmati rice, and computer software. For example, in the cotton industry, the absence of intellectual property rights (IPRs) discourages investment in the development of advanced cotton seed varieties. The Plant Breeders' Rights Act (PBRA), pending enactment for 11 years, holds the potential to grant patents to seed developers. This lapse in legislation has not only discouraged local companies from investing but has also deterred foreign companies from entering the Pakistani market. Consequently, the market is flooded with low-quality seeds, resulting in suppressed cotton yields and hampering textile export growth.

On the other hand, in the Information and Computer Technology (ICT) industry, an incomplete and outdated legal framework restricts both local and foreign investment. Several pending laws, including the "Data Protection Act," "Confidentiality Law," and "Privacy Law," contribute to the competitive disadvantage faced by Pakistani companies. The absence of "Software Registration" in Pakistan's Patent Ordinance 2000 raises concerns among IT professionals, data processors, and researchers regarding the security of their innovations, source codes, and programs. This legal void undermines the potential for robust growth and innovation in the ICT sector, hindering Pakistan's competitiveness on the global stage.

4. Pakistan's Perception as a Provider of Quality Goods:

In certain sectors, Pakistan has struggled to establish a reputation as a reliable supplier of quality products, particularly evident in horticulture, specifically fruit exports. The entire fruit supply chain seems to be in a state of disrepair, starting from the harvesting of fruits and on-farm transportation all the way through to packaging, grading, farm-to-market transportation, and wholesaling. At every stage of this process, there is a noticeable decline in the quality of the fruit. Despite the presence of certifications held by many major exporters and processors, which are necessary for exports, these certifications primarily ensure food safety and operational standards, not the inherent quality of the products themselves.

Furthermore, for local firms to successfully sell goods and services in the international market, adherence to technical regulations and standards is imperative. Non-compliance with these standards acts as a significant barrier to exports, potentially resulting in outright bans on certain products or the imposition of costly compliance requirements. Pakistan has previously faced export bans on products like surgical equipment and seafood due to non-compliance with international standards. Moreover, many small and medium-sized enterprises (SMEs) struggle to export because obtaining quality certifications comes at a considerable expense. Specific industries, such as the surgical goods sector, face stringent compliance requirements, notably the expensive CE marking. Similarly, fan exporters aiming to enter North American markets must obtain UL certification for safety standards, a process costing nearly a million Rupees per product.

Consequently, only a few large firms in Pakistan reportedly possess such certifications. Another challenge is the lack of awareness among exporters about certification requirements. In the case of meat exports, while firms have obtained Halaal certification for Middle Eastern markets, compliance with HACCP and BRC standards, essential for European and North American countries, is low—less than 15 percent of firms adhere to these standards. Most exporting firms are unaware of Traceability certification, a vital requirement for accessing the European meat market. This highlights the limited perspective of exporters, potentially missing opportunities to tap into high-end markets.

5. Limited Presence of Domestic Brands:

Millions of consumers worldwide use or consume Pakistani products without being aware of their origin. This is largely because many Pakistani firms supply to well-known global brands, and consumers typically recognize the label rather than the product's origin. This business strategy places supplying firms at a disadvantage, as consumer loyalty remains tied to brands, regardless of where the supplies come from. Consequently, suppliers bear the consequences if conflicts of interest arise between vendors and brands. For instance, when the Walt Disney Company blacklisted products from Pakistan, vendors who previously supplied to the company could not independently sell their products. Yet, consumers continued to purchase Walt Disney products sourced from other countries. Similarly, when major apparel and home stores like Nike, JCPenney, Target, Sears, etc., required large apparel firms to establish production units outside Pakistan to reduce supplier risk, local firms had no choice but to comply. Many Pakistani apparel manufacturers had to expand operations outside Pakistan, particularly in Bangladesh.

Typically, firms refrain from investing in brands due to high retail expenses, including distributor networks, commissions, shelving charges, and brand registration in hypermarkets abroad. What they may overlook is the significant cost of not investing in branding. In the case of basmati rice, the private sector has struggled to counter the branding and marketing techniques of its Indian competitors. Pakistani basmati exporters often opt to supply unbranded rice in bulk. Anecdotal evidence suggests that in some cases, importing countries repackage and label Pakistani rice for onward shipments, while in others, Pakistani exporters themselves package their shipments under importers' brand names. Consequently, well-established Indian brands, with robust distribution and marketing networks have managed to quadruple their exports in just a decade, surpassing Pakistani competitors by a considerable margin

Pakistani exports compared to those of India and China

	Software	***Pharma***	***Hi-Tech***
Pakistan	$2bn	$0.3bn	$0.3bn
India	$149bn	$24bn	$21bn
China	$62bn	$23bn	$75bn

Source: Dawn, 2022

SOLUTIONS

1. Shifting Towards Unconventional Policies:

Transitioning towards unconventional policies is essential to elevate Pakistan's production and export capabilities. Achieving this upgrade necessitates a purposeful effort, emphasizing the imperative need for a transparent and objective Industrial Policy. Such a policy would facilitate Pakistan's structural transformation, aligning it with the successful trajectories witnessed in various Asian economies. The industrial policy must explicitly prioritize export orientation, providing businesses with a clear understanding of the actions taken by policymakers. Similar to the approach adopted by Southeast Asian Newly Industrialized Economies (NIEs), the emphasis should shift from sector-specific incentives to a more comprehensive institutional support system for exporters. This includes implementing a duty-free regime for inputs used in exports, fostering strategic collaboration between the public and private sectors, enhancing capacity through targeted education and training in specific sectors, establishing agreements to ensure the transfer of foreign technology, and making export credit accessible to smaller firms for technology upgrades.

Furthermore, Pakistan should foster the development of competitive and globally acknowledged laboratory testing, certification, and accreditation services, along with supporting facilities that offer internationally traceable measurement services. Overcoming cost barriers is crucial for demonstrating standards compliance, and there should be a specific focus on ensuring that smaller firms derive greater advantages from access to a credible local testing facility.

2. Revitalizing Productivity:

Collaborative efforts between the government and the private sector are crucial to enhance productivity. The government should focus on strengthening institutions like TEVTA, promoting industry-university collaboration, and facilitating systematic training for entrepreneurs in export clusters. Key government bodies such as the National Productivity Organization, Engineering Development Board, Trade Development Authority of Pakistan, and SMEDA can play pivotal roles.

Rather than relying on subsidies, the government should prioritize foundational aspects, including legislation, rigorous quality regulation, research institution strengthening, capacity building, technology upgradation, fiber diversification, and tariff rationalization. Simultaneously, the industry must evolve to meet global challenges by becoming drivers of technological change, investing in skills, fostering innovation, diversifying products, and exploring new markets. The government could encourage this through a system of rewards and penalties, promoting a long-term investment perspective. A policy shift is essential for Pakistan's global competitiveness, emphasizing not only cost-cutting incentives but also gains in productivity and product quality.

3. Elevating Global Presence:

There is a need to incentivize local firms to invest in branding by alleviating high retail expenses, including distributor networks, commissions, and brand registration costs in hypermarkets abroad. This can be achieved through financial support or subsidy programs. Secondly, launching awareness campaigns is crucial to educate consumers about the origin of Pakistani products. Utilizing digital platforms, advertisements, and collaborations with global brands can significantly contribute to enhancing consumer awareness and brand recognition.

Moreover, the government should actively encourage collaboration between local suppliers and global brands. Facilitating negotiations, providing financial support, and creating platforms for dialogue can help build mutually beneficial partnerships, mitigate conflicts of interest, and foster a fair business environment. Additionally, implementing export marketing support programs is essential, especially in sectors where branding plays a pivotal role. This includes assistance in developing effective marketing strategies, participating in international trade shows, and utilizing digital platforms for enhanced global visibility.

Furthermore, addressing barriers to brand investment is critical. Identifying and rectifying regulatory or financial impediments that discourage firms from investing in branding will contribute to a more conducive environment. Streamlining processes for brand registration and providing financial incentives can encourage local suppliers to establish recognizable brands, instilling trust and loyalty among consumers. Overall, these strategic initiatives can empower Pakistani suppliers to navigate challenges related to brand recognition and enhance their competitiveness on the global stage.

4. Prioritizing Market-Based Exchange Rates for Sustainable Economic Growth:

A fundamental step for policymakers is to uphold market-based exchange rates. Despite the prevalent desire for a "strong" currency among Pakistanis, historical evidence demonstrates its detrimental impact on exports and macroeconomic stability. An overvalued currency hampers the competitiveness of exporters in global markets, resulting in a decline in market share. Furthermore, it discourages investments in the export sector, diminishing a country's capacity to enhance long-term trade relations with the world.

Also, identifying new export markets through thorough market research, promoting the production and export of high-value goods to enhance profitability, expanding the range of exported products while ensuring adherence to international standards, investing in technology and innovation for increased competitiveness, providing targeted incentives for exporters exploring new markets, and negotiating favorable terms in trade agreements to facilitate easier access to diverse markets. Collaboration between the government and the private sector, alongside investments in skills development for the workforce involved in export-oriented industries, is crucial.

Given the recent protests by garment workers in Bangladesh demanding a higher pay increase, Pakistan can strategically capitalize on this situation by promoting itself as a stable and cost-effective alternative for international clothing brands. The country can position itself as a reliable manufacturing hub with competitive labor costs. Also, the Pakistani government and industry stakeholders should actively engage with global brands, highlighting the country's skilled workforce, infrastructure, and favorable business environment. By emphasizing stability and reasonable wage structures, Pakistan can attract investments, enabling the country to increase its share in the global garment market and potentially become a preferred destination for outsourcing as the cost of manufacturing becomes more comparable to that in Bangladesh.

RECOMMENDATIONS

- Gradually decrease effective rates of protection by adopting a comprehensive tariff rationalization strategy to incentivize exports.
- Redirect export financing from working capital towards capacity expansion, utilizing the Long-Term Financing Facility.
- Enhance market intelligence services by aiding new exporters and assessing the efficacy of existing interventions for heightened effectiveness.
- Formulate and execute a long-term strategy aimed at enhancing the productivity of firms, promoting competition, fostering innovation, and optimizing export potential.
- Establishing Research & Innovation Centers collaboratively in a Public-Private Partnership (PPP) model is essential. These centers should serve as knowledge repositories for the export sector and the broader domain of textiles and multiple other sectors.
- Enhance the domestic environment to support potential exporters, focusing on infrastructure, regulations, access to finance, insurance, and fiscal policies.
- Foster strategic cooperation among private and public entities, as well as among domestic producers, exporters, and policymakers.
- Improve the productivity and technological aspects of domestic goods, providing incentives for innovation.
- Contribute to building the country's image in foreign markets through marketing and information provision and advocate for targeted assistance with ongoing evaluation.
- Support these efforts with monetary and fiscal policies designed to improve the overall enabling environment and stimulate institutional development, considering institutional complementarities.

CONCLUSION

Pakistan's ability to boost its exports hinges on a comprehensive and strategic approach that addresses key challenges. While efforts to enhance the domestic enabling environment, foster cooperation between public and private sectors, improve productivity, and facilitate credit access are crucial, the country's success in stimulating export growth also requires sustained commitment, adaptive policies, and a proactive response to global market dynamics. Understanding the reasons behind any historical shortcomings in export growth, such as potential issues related to infrastructure, regulations, or innovation, is fundamental to devising effective solutions. Moving forward, a holistic and dynamic strategy, coupled with a commitment to address underlying issues, will be essential for Pakistan to unlock its export potential and compete successfully in the global marketplace.

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