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Leveraging Manufacturing Sector for Exports of Pakistan

Dr. Zahid Riaz, Associate Professor, Faculty of Business Administration, Lahore School of Economics.

Background

- Pakistan has experienced recurring periods of economic instability that has triggered current account and trade deficits in the past two decades. Since 2016, Pakistan has entered the phase of economic prosperity but it also seems to be unsustainable due to depleting foreign exchange reserves and deficits of current account and trade.
- The lack of economic sustainability can also be observed with respect to the export and import trends of Pakistan over the period of last five years (2013-2018) as shown in the Figure-1.
- It is also true that Pakistan as a developing economy has been bestowed with the variety of natural resources and climate but in order to move upward and gain middle-income status **it needs to leverage its manufacturing sector** – the second most important sector of the economy.

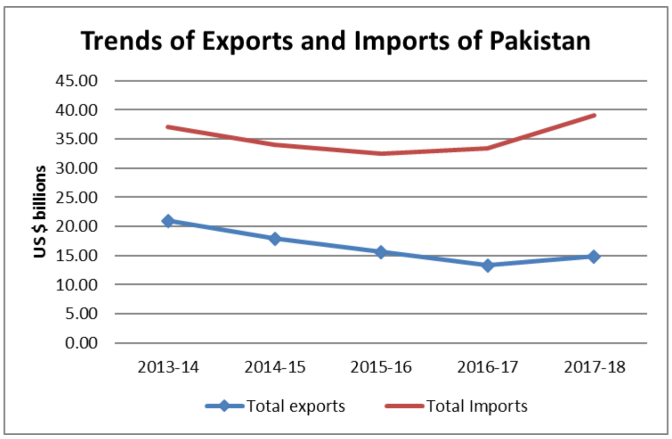

Figure-1

- In the recent times, the contemporaries of Pakistan namely China and India have leveraged their manufacturing sectors to increase exports and sustain their economic growth spurts.
- These countries have learned from the stellar rise of the East Asian economies mainly South Korea and Japan. Before making its mark as a leading Asian Tiger in the world economy, South Korea emulated Japan's model in copybook fashion.
- Pakistan can enlighten itself from the "flying geese (FG) model" coined originally by Kaname Akamatsu in the context of East Asian economies.
- As per the FG model, Pakistan can leapfrog the ladder of economic development by identifying and leveraging the relevant manufacturing sectors that have sequential development of imports followed by local production/consumption and then to the exports.
- In the later stages of catching up, Pakistan can undergo the structural transformation and industrial upgradation by producing complex and sophisticated products.
- Finally, Pakistan can position itself on the global value chains (GVCs) for the continuous interaction with the advanced countries and ultimately sustain its comparative advantage.

Large Scale Manufacturing and Exports

- In the context of Pakistan, the growth trends of key industrial sectors over the period of last five years (2013-2018) are illustrated in Figure-2.

Figure-2

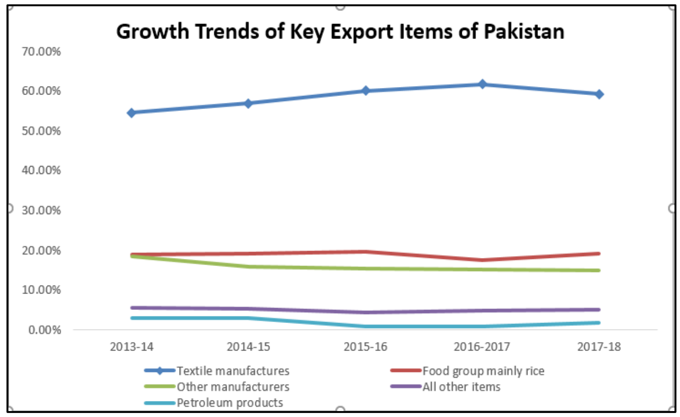

Figure-3

- The textile sector has almost **negligible growth** over the period of 2013-2018. Ironically, the textile is the **major contributor** in the **exports** of Pakistan as exhibited in Figure-3.
- The strategic trade policy for textile sector can be made in view of the factor, intermediate and product markets and the current success of the industry should be augmented for its positioning on the both ends of GVCs.
- Through public-private partnership, a consortium between the Chinese textile industry and national textile champions can be established for technology transfer and research and development (R&D) activities.
- The consortium can identify market niches for creating linkages on the both ends of the GVCs.
- The special economic zones (SEZs) of CPEC can facilitate the establishment of these joint ventures (JVs).
- Textile industry can collaborate with the local R&D institutions for the industrial upgradation with a focus on the GVCs.
- It is prudent for Pakistan to **diversify its exports** while taking the advantage of the increased local production of the electronics, iron and steel products and automobile sectors.
- These products are mostly produced and consumed locally thereby indicating the presence of local economies of the scale.
- The sector-specific strategic trade policies should be introduced for orienting these sectors towards exports. Especially, the modern infrastructure and Gwadar port can facilitate local and international manufacturers to economize on transportation costs for gaining competitive advantage.

Key Policy Recommendations

Textile.

1. Industrial upgradation can be made by identifying the higher value added positions on the GVCs.
2. In a short run, the consortium can be made between key Pakistani and Chinese textile manufacturers and exporters for technology transfer and R&D activities.
3. In the medium run, the consortium can develop JVs among Pakistani and Chinese firms and these JVs can be incentivized in the SEZs of Pakistan.

Electronics.

1. With the skilled and cheap labor, Pakistan can become the assemblers of the electronic products for the original equipment manufacturers (OEM). This short run activity will positively impact the exports of the Pakistan.
2. In the long run, Pakistan can climb the ladder and become an OEM through reverse engineering and technology transfer.
3. The notion of CPEC should be extended beyond the infrastructure and geared towards transfer of technology, skills and knowledge from China into Pakistan.

Automobile.

1. The future arrangements of FDI with international firms should ensure technology transfer through a rigorous deletion process.
2. The current auto manufactures can be encouraged to work with local auto-component and spare parts suppliers for the industrial upgrading.
3. In the short run, Pakistan can choose to become a supplier of spare parts to other underdeveloped and developing economies.

Note: The data was collected from the Economic Surveys of Pakistan for the respective years (2013-14-2017-18). For the latest year (2017-18), the provisional data has been used whereas for the all previous years the actual reported data of the Economic Surveys of Pakistan has been cited.