Productivity increase & international trade are central to development models used by miracle economies of East Asia.
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As several analysts have emphasised over the years, Pakistan never really looked at international commerce as a driver of growth. This was an opportunity lost. Those who have studied the more rapidly growing emerging economies find one common ground on which their advance was based: it was the policymakers’ focus on international trade. When looked at from the perspective of the development of economic thought, there was nothing new in this emphasis. After all, Adam Smith, the founder of modern economics, identified two factors that could move economies forward: they were specialisation and market expansion. The former increased workers’ productivity and increased the competitiveness of the products they produced. But an increase in the level of output needed new markets and these were to be found beyond the country’s borders. This approach, according to Smith, was critical for climbing out of backwardness. Productivity increase and international trade became central to the development models used by the miracle economies of East Asia, including China.

Pakistan, unfortunately, neglected both elements in the growth model. Even when the country’s policymakers thought about international trade, they tended to focus on a wrong set of priorities. They sought markets for the products that were surplus to the needs of the domestic economy. And they searched markets for them in the countries in which there were relatively large demands for these products. The result was that for decades, low-value added cotton and leather products became the staples for industrial enterprises that were engaged in international trade.

Much of the state’s attention was focused on improving market access in North America, the European Union, and Japan for cotton and leather products. There was much jubilation recently when Brussels granted Pakistani textiles privileged access to the European markets by lowering the duties charged on imports from Pakistan. This action will no doubt result in increasing the value of Pakistani exports and help to narrow the trade gap in the country’s external accounts. But it could have negative long-term consequences. This could happen by atrophying the development of the Pakistani export industry, keeping it fixed on old ways. Complacency could develop, more capital may get attracted to the established industries and the required effort may not be put in to develop new markets.

That said, there is growing recognition that Pakistan should trade more with the countries in its immediate neighbourhood. Two of these — China and India — have large and growing markets. The Middle East continues to invite investment into the sectors into which Pakistan could attempt to link itself. Trade with Afghanistan developed rapidly when that country had foreign money to spend on consumer goods and construction material. But the development paradigm I am advocating should look at new markets and new exportable products.

Let us start with products. At this time, trade in ‘parts and components’ is the fastest growing element in international commerce. Pakistan should make an effort to develop a supplier chain to feed into the automobile industries of China and India. There are reasonably well-developed centres of engineering in what is sometimes referred to as the ‘golden triangle’. This includes the production centres of Gujranwala, Gujrat and Sialkot. The country’s IT industry is also
developing well. In this sector, with enormous export potential, some Pakistan companies have made positive moves. Instead of focusing on providing services to the established industries in the West as India has done, these firms have concentrated on developing new products. The Lahore-based Netsol Technologies is an example of an enterprise that has developed one high-demand product — leasing software for the automobile industry. The company’s revenue per employer is much higher than such large Indian firms as Infosys and Tata Consulting in India. State policy contributed to the impressive growth of Netsol since computer imports were allowed into the country duty-free and no tax was paid on income from exports. Agricultural processing and packaging is another area where the country can draw high returns. The development of the fashion cottage industry is a little known and little analysed export-oriented activity that has begun to provide decent incomes to the entrepreneurs — mostly upper class women — who have become active in this area. The more successful operators in this area have good contacts with the Pakistani expatriates, who have the incomes to purchase their high quality products.

In so far as the search for new markets is concerned, it may not hurt to borrow from the Indian initiatives in Africa, the continent which has begun to rise economically. “Indian investors may be gloomy about their domestic economy after a sharp slowdown in growth to less than five per cent a year, but they seem to have lost none of their enthusiasm for Africa’s emerging markets across the Indian Ocean,” says the Financial Times in a recent news story. According to a report issued by McKinsey consulting titled Joining Hands to Unlock Africa’s Potential: A New Indian Industry-led Approach to Africa, “Indian companies should be able to quadruple export earnings from Africa to $160 billion by 2025 by focusing on information technology services, agriculture, infrastructure, pharmaceuticals, and consumer goods.” These are also some of the items I have included in my list of those that have enormous potential for Pakistan. Public policy, therefore, should be formulated by making initiatives such that these are central to it.

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