

International Competitiveness- Where Pakistan Stands?

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Main objectives

- To understand the concept of competitiveness
- To analyze Pakistan's position in world market
- To see what lessons Pakistan can learn from newly emerging economies

What is Competitiveness?

- “A country’s share of world markets for its products”

(source: World Economic Forum - GCR(2005))

- “A collection of factors, policies and institutions which determine the level of productivity of a country and that, therefore determine the level of prosperity that can be attained by an economy”

(source: World Economic Forum - GCR(2006))

Concept of Competitiveness

- A controversial concept
- Intensely debated
- First developed by Porter in nineties
- Often equated with Macro Economic or Micro Economic issues
- To some extent, the debate on the concept is simply revisiting traditional issues under new names

Debate

Issue of competitiveness has been taken to two extremes

- Argument that competitiveness is a firm level issue (i.e firms compete ,not nations)

(Krugman 1994)

- Comprehensive definitions and measuring through index

(World Economic Forum or UNIDO)

Porter's view (1990)

- How a country could play a strategic game and succeed in extracting high levels of gains from trade based on new trade theories.
- Stressed on development of innovative or comparative advantage and upgrading to maintain higher market shares.
- Productivity is the most useful concept of international competitiveness.
- TFP index measures growth and efficiency- Industry could be competitive under technical and scale efficiency, but not when using unit labor cost.

Porter's view (contd.)

Four conditions incorporate both internal and external factors allow firms to compete successfully

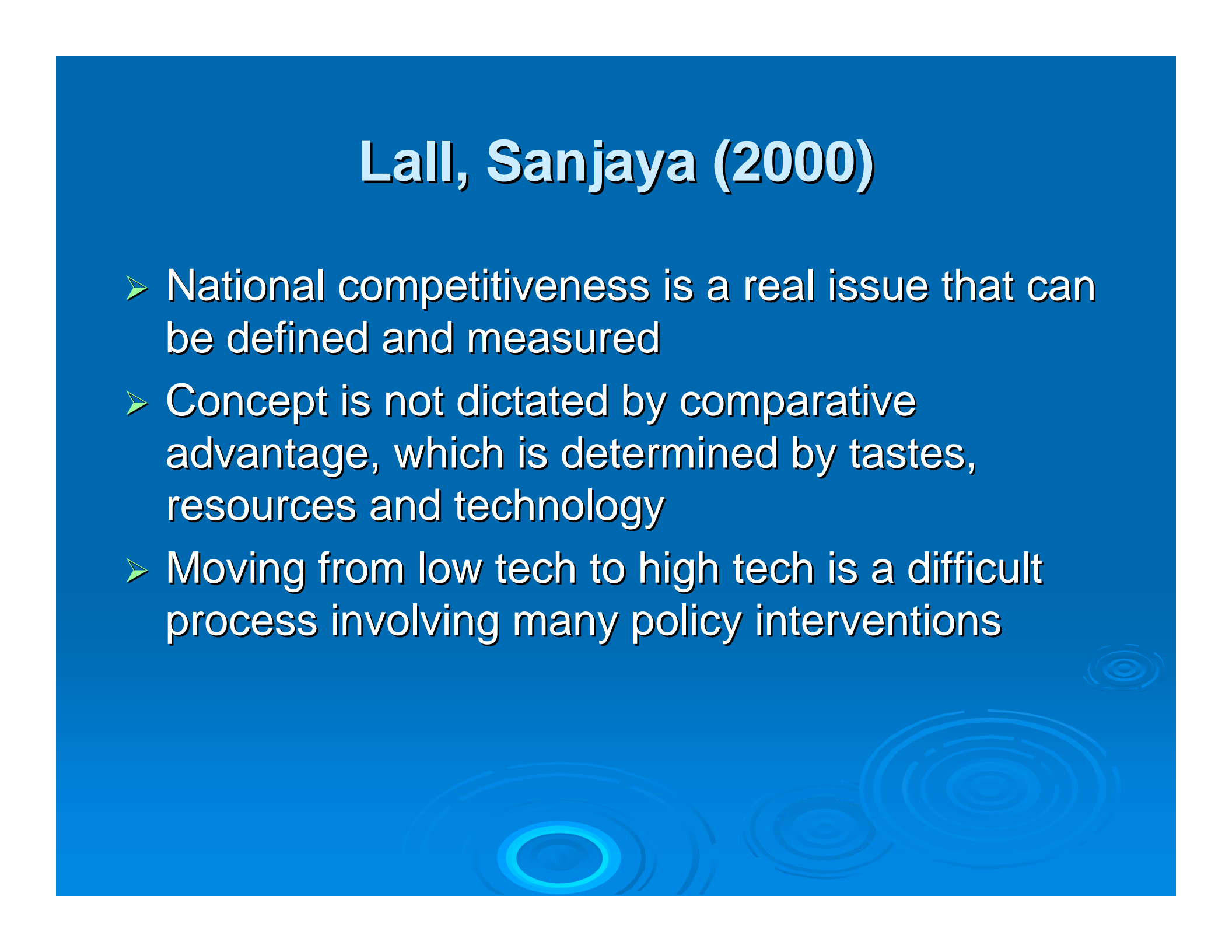
- Factor conditions-availability of skilled labor, infrastructure
- Demand conditions for the products of the industry
- Supporting industries
- Firm strategy, structure and rivalry

Together these four factors create the context in which firms are born and compete (Porter 1990)

Krugman's, Paul view (1994, 1996 a, 1996b)

- Defining competitiveness in context of trade is futile exercise, and is dangerous because it leads to misunderstand the theory of comparative advantage & benefits of free trade
- Firms compete for export not the nations
- “Dangerous Obsession”

Lall, Sanjaya (2000)

- National competitiveness is a real issue that can be defined and measured
 - Concept is not dictated by comparative advantage, which is determined by tastes, resources and technology
 - Moving from low tech to high tech is a difficult process involving many policy interventions
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Measuring Competitiveness

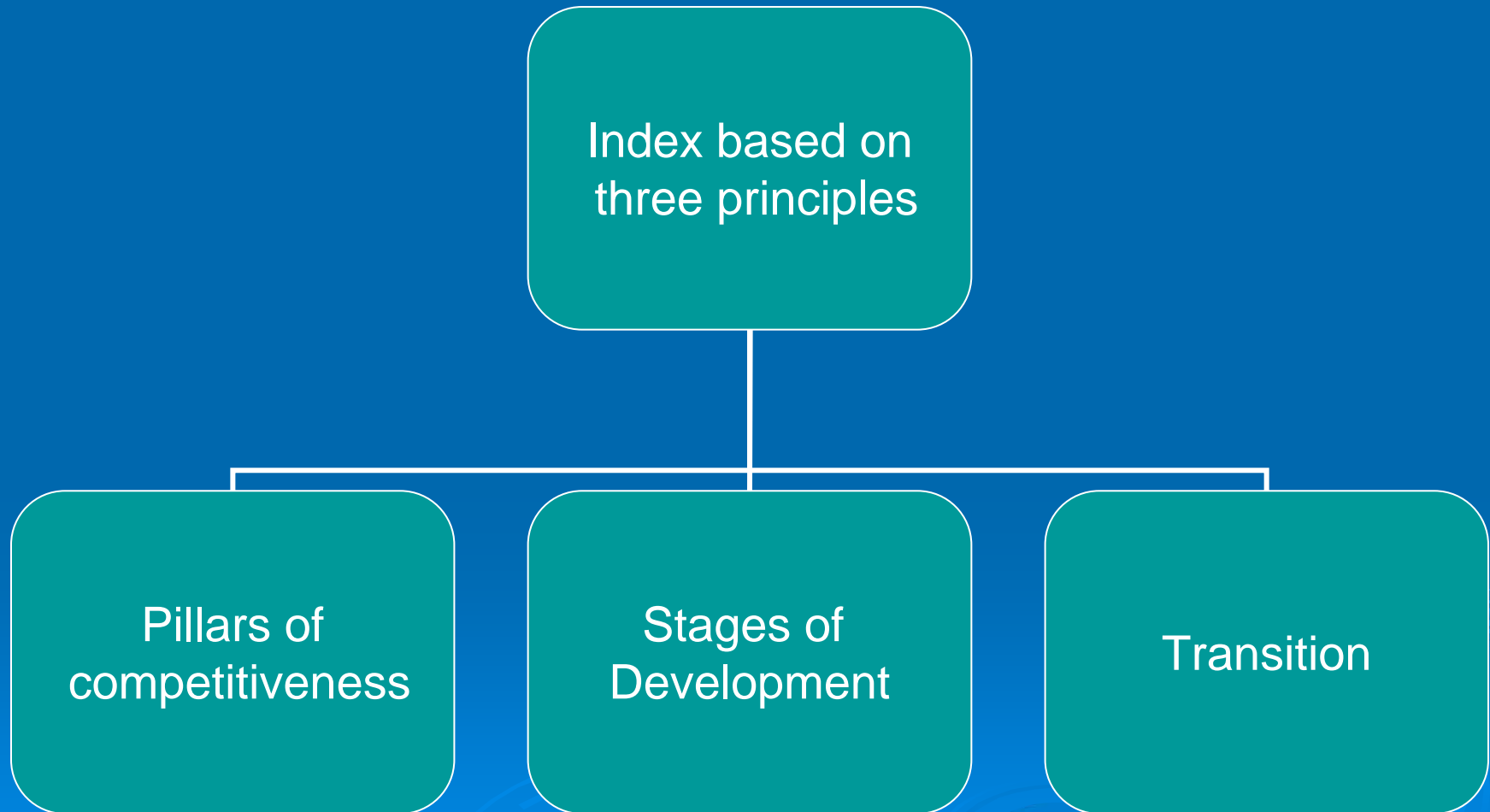
Few recent indices are

- Global Competitiveness Report- World Economic Forum
- World Competitiveness year book-International Institute for Management Development
- World Industrial Development Report UNIDO
- Wignaraja and Taylor
- Harbison-Myers

Three Index by World Economic Forum

- The Growth Competitiveness Index (GCI)
- Business Competitiveness Index (BCI)
- The Global Competitiveness Index (The latest index)

Global Competitiveness Index



Principle 1-Nine Pillars

The new index (2005-2006) is based on nine pillars

1. Institutions
2. Infrastructure
3. Macro economy
4. Health and primary education
5. Higher education and training
6. Market efficiency
7. Technological readiness
8. Business sophistication
9. Innovation

Principle 2-Stages of Development

1-Factor – Driven stage

Firms compete in prices ,taking advantage of cheap factors e.g Pakistan, India

2-Efficiency-Driven stage

Firms carry on efficient production practices to increase productivity e.g Poland, Brazil, Mexico

3-Innovation-Driven stage

Firms produce innovative products using sophisticated production methods e.g Finland, Germany, Japan

Principle3-Transition

- Weights are given to each sub index
- Economies develop and move from one stage to the next.

Global Competitive Index Top 10

Country	2006 ranks	2005 ranks
Switzerland	1	4
Finland	2	2
Sweden	3	7
Denmark	4	3
Singapore	5	5
United States	6	1
Japan	7	10
Germany	8	6
Netherlands	9	11
United Kingdom	10	9

Few Selected Economies

country	2006 ranking	2005 ranking
Hong Kong SAR	11	14
Taiwan	13	8
Ireland	21	21
Korea, Rep.	24	19
Chile	27	27
India	43	45
Sri Lanka	79	80
Pakistan	91	94
Bangladesh	99	98
Nepal	110	-

World Market Trends

- Technological progress
- Technology Intensive Activities
- Shift- From simple to complex
Technological progress
- FDI- That offer enormous export policies

Technological Groups

Technological groups are generally classified in terms of products as:

- Primary
- Low Technology
- Medium Technology
- High Technology

Pakistan's Competitiveness - Where Country stands?

Discouraging facts

- Competitive position of Pakistani firms appear weak
- In comparison to newly emerged economies Pakistan's competitive situation has emerged stagnant
- The country's exports are mainly related to low technology products

Pakistan's Competitiveness - Where Country stands?

Encouraging facts

- A recovery in economy due to current economic reforms, debt restructuring & concessional financing
- Stabilization measures and structural reforms have created foundation for increased per capita GDP growth
- Pursuing policies to stimulate private investment & higher productivity, Pakistan could see real per capita GDP increase over next decade by over 5% on average

Pakistan's Growth Performance 1960 and Onwards

Economic Growth	Causes
1960s Above average	Reform efforts, Economic and political stability
1970s Weak	First oil crisis, Restrictive economic policies, Bangladesh emerged as a new state
1980s Above average	Reform efforts, Economic and political stability
1990s Weak	Political unrest, nuclear explosion and sanctions, Macro economic instability

Value Chain Analysis (VCA)-World Bank

(VCA identifies particular areas where policy/institutional actions may have greatest positive impact on the productivity)

Findings of this analysis identified constraints

- Inadequate infrastructure
- Weak legal & enforcement framework
- Inadequate coordination among govt. agencies
- Food quality & safety standards
- Inadequate access to finance

Constraints discourage private investment & make domestic production less competitive in Pakistan

Manufacturing Value Added Analysis (MVA)- ADB

(MVA shows export performance of countries by assessing performance in manufacturing activity)

- MVA in Pakistan grew at compound real annual rate of 5.5% between 1980-2000
- Pakistan's MVA growth was higher than Bangladesh but lower than other economies

Results show

- Manufacturing activity in Pakistan is not technology intensive-export performance is not satisfactory.

Pakistan's Exports-Market Positioning Matrix

<p><u>Lost Opportunities / Underachievers</u></p> <p>Leather accessories Baby Carriages Foot wear with metal toe-cap Women garments Dried fruits Medical instruments</p>	<p><u>Rising Stars/Champions</u></p> <p>Household linens Curtains and other furnishings Equine leather T-shirts, vests Poly carboxylic acids Blankets and travel rugs</p>
<p><u>Retreats/Declining Sectors</u></p> <p>Textile yarn Floor coverings Refined petroleum products Sports goods Knitted or crocheted fabrics Other garments, not knitted or crocheted Fresh Fruits</p>	<p><u>Falling Stars/Achievers in Adversity</u></p> <p>Cotton & Textile fabrics Garments Women fabric Clothing accessories of fabric Carved and modeled goods Carboxylic acids</p>

Source: Pakistan International Competitiveness: Issues 2004 (ADB Sponsored)
 Industrial Competitiveness: The Challenge for Pakistan 2004(ADB Institute)

Improving Competitiveness - What Pakistan Needs to Compete?

- Good Governance
- Fiscal Disciplines
- Monetary Disciplines
- Investment in Human Resources
- Upgrading Technology
- Investment Friendly Business Environment
- Cluster Development

Steps taken by Government of Pakistan to improve competitiveness

- Creation of Competitive Support fund-A joint initiative of Ministry of Finance & USAID
- Trade policies have been liberalized
- Two Export zones established (Karachi & industrial city of Punjab)
- Policies for inward FDI have been liberalized in 1997
- Technical and vocational Institutes are established
- Planning Commission's Medium Term Development Framework(2005-10) will increase allocation for higher Education, R & D, etc. in country

Newly Emerged Economies

1970-80s

Republic of Korea
Hong Kong
Singapore
Taiwan

1980s

ASEAN

1990s

China
Chile
Ireland

Korea

- Government of Korea followed flexible approach to develop business sector
- Adopted policy approaches which they borrowed from other countries
- Meaningful planning between Public and private sector
- Industrial promotion supported by private sector
- Well managed export promotion system was adopted
- Bureaucracy was involved
- Their President & ministries collaborated with firms to identify and solve problems

Taiwan

- Government focused on high tech industry
- Formed R&D consortium and this gained power in 1990s
- Brought together firms, public sector, research institutions & trade associations
- Alliance was mainly in IT sector, telecommunication & data switching system

Chile

- Government introduced reforms & gradually implemented them in banking, pension, tax system, insurance sectors
- Reforms introduced a tough regulatory and supervisory framework for financial institutions
- Good corporate governance and transparency
- Improved access to financial resources for small firms

Ireland

- Government opened Ireland to foreign industrial investment in 1960s
- Became member of European Union
- Invested heavily in educational system
- Adopted digital communication technology in 1980s
- Establishment of international financial services centre with low corporate tax rate of 12.5%-It went successful

Singapore

- The country strongly increased high technology exports and also maintained export growth in low technology products
- Government gave grants and incentives to firms in order to attract multi national companies
- Investment by MNCs in electronics industry was a major opportunity for Singapore
- Some supporting industries were promoted by government-Cluster development fund was established
- Foreign firms were attracted to invest in country
- FDI promotion & local capability building

What Pakistan Can Learn From Newly Emerging Economies?

- Breaking low technology production trap
- Breaking low level skill trap
- Higher Investment and restructuring of Industrial Sector
- Good governance, new incentives
- Public Private partnerships
- Revising structure, Reforms and Fiscal Discipline

(Contd..)

- Investing in clusters and providing suitable export opportunities for their products
- Investment in Human Capital to have skilled labor force
- Focus on FDI

Further research possibilities-A suggested model

$$\text{Exp} = f (\text{INS}, \text{INF}, \text{ME}, \text{HE}, \text{HT}, \text{M EF}, \text{TR}, \text{BS}, \text{INO})$$

Where

Exp Exports

INS Institutions

INF Infrastructure

ME Macro economy

HE Health and Primary Education

HT Higher Education and Training

M EF Market Efficiency

TR Technological Readiness

BS Business Sophistication

INO Innovation

Explanation

- One equation model
- Dependent variable export performance
- Two ideas:
 - This model can disaggregate total exports on sectoral basis e.g Textile and non textile.
 - To add more variables besides these scores



*Suggestions
&
Questions?*

Thank You

