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Improving Pakistan's Exports Through Diversification[1]

Exports of Pakistani goods have observed a decline during the recent years with the volume falling from $24.8 billion in the financial year (FY) 2013 to $21.7 billion during FY2017. The downturn can partly be attributed to the global slowdown, as many of the major economies of the world also observed decline in their exports during this period. For example, the trade giants China and the United State observed declines in exports by 3.7% and 4.6%, respectively, in the FY 2015-2016. Contrary to the trends for exports, Pakistani imports have maintained a continuous increasing trend during this period, leading to a sharp rise in the trade deficit which increased from $16.9 billion in the FY 2013 to $26.9 billion in the FY 2017.

In the recent years, the gap between the foreign exchange outflows and inflows was managed using the worker remittances, however, during the FY 2017 remittances too have shown a negative trend and the inflow has reduced by 3.1%. As a consequence, the cumulative forex inflows from remittances and exports fall short of the imports. This widening gap between the inflow and outflow of forex can drag the country into a serious balance of payment problem if appropriate precautionary steps are not taken.

Numerous factors are playing their role in the declining exports, of which diversification is a major factor. Diversification in the external sector takes two forms: (i) diversification in the commodities being traded; and (ii) diversification in the trading partners. Pakistan's external sector is not very diversified in either form.

Pakistani exports rely heavily on textile, and during the FY 2017 its share in Pakistani export was 58%. On the other hand, textile accounts for only 4% share in the global trade. The engineering goods make 34% of the global trade and only 1% share in Pakistani trade. There are some sectors in which Pakistan could easily manage reasonable volume of exports, but the export culture in those sectors is not strong. For example, livestock has a reasonable share in Pakistan's GDP but has very small share in Pakistan's exports.

Pakistan's external sector also lacks diversification in terms of export destinations. About 33% of Pakistani exports are traded with only three countries, i.e. the USA, China and the United Kingdom. About 60% of total exports are traded with only 10 countries. Share of Pakistan's exports to neighbouring and regional countries is very small. During the FY17, Afghanistan was the only destination among the SAARC countries to which Pakistan's exports exceeded $ 1 billion. The growth in exports to Afghanistan is negative, and during the FY 17 they declined by 8.3%, owing mainly to the political and diplomatic relations. Similarly, the exports to Bangladesh also declined by 10% during FY 17.

POLICY OPTIONS FOR DIVERSIFICATION IN EXPORT GOODS

Diversification in Commodities

Livestock:

Having abundant resources for livestock farming, even a little attention to the sector can enhance its export share. There is a need of introducing the export culture in the livestock sector. The livestock exports of Pakistan originate only from a few producers with the majority never engaging in the export business. There is a need to introduce them to the external sector and encourage them to contribute to the country's exports. The Pakistan Agriculture Research Council (PARC) has the technology and skill to produce high standard dairy products, and should be taken on board for the capacity building in livestock exports.

Fishing and Marine Products:

Fishing has one of highest export orientation, and the EU countries have been the major buyers of Pakistani fish. But owing to the quality concerns, the fish exports to the EU are now negligible. There is a need to re-establish the fish industry on scientific basis in order to facilitate marine exports. The north-western part of China, which has been recently linked to Pakistan via CPEC, can be a big market for Pakistani fish. A revival of the fishing industry can contribute significantly to the country's exports. Like the livestock, PARC has the skills in inland fish farming whereas Fisheries Development Board should take the responsibility of promoting marine exports.

Rice:

Pakistan has suffered losses in the Basmati rice exports because India out-manoeuvred it in the Middle Eastern market. China is a big importer of rice. Although they have a preference for sticky types of rice, which are suitable for chopsticks, but with such a big population there must be a niche market for Basmati or other types of rice produced in Pakistan. The business attaché in China can be assigned the task to find such markets and to facilitate the trade. It is also possible to grow the varieties having higher export orientation, just like India has done in the recent past. The PARC should be mobilized to introduce commercially profitable varieties of rice.

Marble and Granite:

Marble and Granite industry can provide substantial export revenues along the CPEC route, with or without the help of the CPEC Special Economic Zones. The Chinese have well developed tile industries having linkages with the international market. The joint ventures with China would be helpful in this regard. This requires providing sufficient profits to make the venture interesting to the Chinese but ensuring that there is a complete technology transfer, and the domestic industry develops the required skills for competing in the international market in the long run. The Ministry of Commerce should coordinate the joint business venture in this sector.

Engineering Goods:

The contribution of engineering goods in Pakistan's exports is very small even though the country has lots of well-trained human resources. It would be helpful to provide Pakistani engineers opportunities to establish production units and to train in procedures required for exports of engineering goods. The Pakistan Engineering Council and TEVTA should be assigned the task to identify suitable engineering products and to train persons in the relevant skills.

Medical and Surgical Instruments:

Pakistan has a good infrastructure for manufacturing medical and surgical goods and 80% of its production is exported. However, share of Pakistani exports of these instruments in the world trade is very small. There are lots of opportunities to expand trade in this sector having a global market of $70 billion. Some studies show huge potential for expanding exports of these goods to Scandinavian countries, Spain and Saudi Arabia. The commercial councillors/ business attaché in these countries should be asked to facilitate trade of these goods.

Sports Goods:

Pakistan produces top quality sports goods, which are praised by top sports organization like FIFA. However, the share of trade of Pakistani sports goods to the total world trade in these goods is very small. The problem with the products is perhaps not of quality but of the narrow diversification in export destinations. Germany, France, Italy, Belgium and some other European countries are among the top importers of the sports goods. The commercial councillors/business attaché in these countries may be asked to facilitate Pakistani exporters to the markets of these countries by arranging exhibitions and facilitating interaction between traders.

Diversification in Destinations

Pakistani exports to the regional countries are very low, except for China and Afghanistan. The exports to Iran for the FY2016 have been $30 million, which is just 0.14% of the country's total exports. The exports to the Central Asian States have been less than $ 27 million. The diplomatic missions in these countries could be asked to advise, and facilitate, about the appropriate commodities which could be traded. It would help a lot if the foreign missions convey timely information about business exhibitions in the host countries and facilitate the Pakistani business community to participate in them.

The political and diplomatic relations also play very important role in trade. Because of diplomatic relations, the exports to Afghanistan, India and Bangladesh have witnessed sharp decline in the current financial year. Improvement of relations with the neighbouring countries can help enhance exports.

There is also a need to enhance trade with the countries having good diplomatic relations with Pakistan. Diplomatic ties with Turkey and Saudi Arabia can be exploited in this regard.

Diversification and Global Quality Standards

There is lack of knowledge about the requirements for exporting goods including that linked to intellectual property rights and their enforcement, and the required quality standards for the products. Several trading partners of Pakistan have refused/reduced trade with Pakistan due to the export of substandard goods. For example, the fish export to EU declined due to quality concerns. This lack of information transforms to lesser diversification in exports and consequently its decline.

The Intellectual Property Organization (IPO) and Pakistan Standard and Quality Control Authority (PSQCA) may be requested to conduct trainings for exporters and potential exporters about the requirements of international business and the required quality standards.

[1]This viewpoint is based on a special round table held at PIDE on the subject that included all the stakeholders.

Pakistan Institute of Development Economics

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