The role of firms in Enhancing Economic Competitiveness[1]

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The challenge of improving competitiveness is intricate as nations themselves do not directly compete; rather, it is the myriad firms, enterprises, and companies within these nations that engage in competition. While factors like endowments, public policies, institutions, macroeconomic conditions, and business environment elements such as tariffs, taxation, regulations, utility pricing, and the ease and cost of doing business certainly play a role, the primary responsibility lies with the individual firms participating in the international markets for goods and services. Consequently, a comprehensive analysis of competitiveness necessitates a two-layered approach—one at the national level and another at the firm level.

At the national level, a conducive environment entails well-functioning governance institutions, streamlined investment climate, emphasis on human capital—especially female labour participation—rationalized tariffs and taxes, and targeted policies promoting exports. For firms to excel in global competition, investments in the workforce, professionalized management structures, collaboration with international experts, engagement in joint ventures with foreign companies, participation in global value chains, service exports, innovation, and digitalization are imperative. External drivers of globalization influence the decisions countries must make. The firms thriving under these circumstances must be agile and quick to respond to the ever-changing global dynamics. The pursuit of fixed points, baselines, benchmarks, and milestones would prove futile.

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According to the International Trade Centre, ‘export competitiveness’ involves the capacity of firms to produce, distribute, and sell products and services more effectively and efficiently than their competitors..

Export sector leaders should shift their focus away from seeking concessions and subsidies in Islamabad and focus on exploring new markets, developing products, conducting research and development, ensuring quality, managing supply chains and logistics, timely delivery, and maintaining positive customer relations.. Instead of frequent visits to Islamabad, exporters should direct their efforts towards international markets like Shanghai, Lagos, Johannesburg, Manila, Jakarta, Tashkent, Tehran, and Istanbul.

Investing in the Workforce

Addressing low productivity is crucial in our export industries, with rates only reaching 30-40% of China’s. Despite being a low-wage country, when adjusted for productivity, efficiency, quality, reliability, and innovation, Pakistan is relatively expensive. The labour force’s average schooling of five years and a 40% illiteracy rate put the country at a disadvantage compared to competitors. It is imperative for exporting firms and the government to collaborate in overturning this situation and not accept the current state of affairs.

Exporters Councils should take over the management of technical and vocational institutes , and transition from a credential-based, supply-driven approach to a performance-based, demand-driven model that designs and deliver hands-on training courses. Enrolled individuals can receive practical training through short attachments with exporting companies, along with continuous short courses on new technologies. Upon completing the courses, successful trainees may secure apprenticeships, leading to regular job opportunities for those who excel.

Providing healthcare for families and educational facilities for workers’ children serves as a key motivator for retention. Owners should establish arrangements with social security institutions, charitable hospitals, or ensure access to Sehat Health cards and facilitate education of workers’ children in quality schools. Contributions to the workers’ welfare fund should be transferred from the government to sectoral export councils and supplemented by mortgage loans from banks facilitate low-cost housing for workers and their families.

Professionalization of Management

Export firms should hire professionals, aligning their compensation with market standards, offering opportunities for advancement, and providing profit-sharing incentives. The benefits to the companies far outweigh the minimal costs incurred. It's encouraging that some offspring of our first-generation industry leaders, educated at reputable universities, are returning with innovative ideas. However, relatives, friends, and associates should only be accommodated in companies if suitably qualified, well-trained, and capable contributors. Loyalty is important, but it must be coupled with professional and technical skills for optimal productivity.

Use of Expert Advice

Engaging management consultancy firms is crucial for evaluating strategic positioning, work processes, factory layouts, inventory management, logistics, and supply chain management. These firms can provide valuable insights by benchmarking against competitors in other countries, offering strategic recommendations for implementation. Unlike many Pakistani firms, Indian companies regularly collaborate with international consultancy firms, leveraging their expertise to acquire significant assets worldwide, attract foreign direct investment, and establish joint ventures and marketing arrangements with these consultancy firms acting as informal ambassadors. Despite concerns about high costs, the long-term benefits of working with global consultancy firms can significantly contribute to the growth and global presence of Pakistani firms in promoting exports.

Logistics and Global Value Chains

Pakistan, according to a recently published Asian Development Bank report,[2] is at the bottom of global value chain (GVC) trade participation rates. GVC trade's significance is evident, exemplified by Apple's iPhone, which relies on over 90% of its components from various countries, including Korea and Taiwan. However, punitive tariffs, cumbersome trade

[2] Asian Development Bank, Islamic Development Bank Institute. *Pakistan's Economy and Trade in the Age of Global Value Chains*, (Manila, Philippines, January 2022). https://www.adb.org/publications/pakistan-economy-trade-global-value-chains

facilitation, and high logistics costs hinder the process,. Evacuating goods from North to South remains a challenge.

China is reallocating fabrication to low unit labour cost countries and outsourcing labour-intensive aspects to low-income countries. This allows China to specialize in areas requiring skilled labour, technical expertise, and capital.

Export of Services

In the last decade, global trade in services has outpaced goods trade by over 60%. Technology has enhanced the tradability of services internationally. Electronic platforms and internet connectivity have notably expanded access for individuals, as well as small and medium enterprises, overcoming traditional barriers faced in exporting goods.

Pakistan's export performance of services, especially in business process outsourcing and offshoring by advanced countries, has been disappointing until recently. The boundaries between manufacturing and services are becoming blurred .Services contribute significantly to the value chain of traded manufactured goods, encompassing R&D, design, engineering, sales and marketing, finance, and human resources. Unlike goods, services trade is driven by higher efficiency, cost-effectiveness, customer satisfaction, and rapid turnaround time, without relying on government subsidies. Additionally, the services sector has a lower carbon intensity compared to manufacturing, making it a valuable contributor to mitigating climate change risks.

Pakistan's annual services exports stand at $5-6 billion, a stark contrast to India's $300 billion, which is 50 times larger despite India's economy being only eight times the size of Pakistan's.. A study suggests that a single job created in the services sector generates four additional jobs due to increased incomes and subsequent consumption.

Locally, family offices of major business houses should enter the venture capital space. The returns are high and Upfront capital costs in services are low. Startups can evolve because of network effects into unicorns based solely on innovative ideas. The sector boasts relatively high female participation, particularly in IT, offering a potential solution to narrow the gender gap.

Beyond the ICT sector, professional and business such as accounting, legal, engineering, management consultancy, architecture, and health services should also enter the Middle Eastern markets. . Despite success of individual Pakistanis in these professions abroad, minimal efforts have been made to incentivize local firms to export these services. Public policy interventions, aligned with stakeholders, should focus on facilitation, removing barriers, and inclusion in bilateral and regional trade agreements, following the guiding principle of 'Do no Harm.' Accelerating the flow of quality graduates in these professions is essential, as current limitations hinder growth, and top firms are reluctant to take risks in highly competitive global markets.

Innovation, Technology and Digitalization

It is increasingly evident that sustained economic growth in the twenty-first century hinges on innovation, technological diffusion, and human capital. The traditional pursuit of resource discoveries like oil, gas, or precious minerals is unlikely to significantly impact living standards. While short-term gains from physical or natural capital persist, countries must prepare for the transition towards building capabilities and ecosystems for a technologically advanced world. Those dismissing globalization fail to recognize the inevitability of technological advances dismantling geopolitical barriers.

Efficiency-driven economies require modern machinery, better technical and managerial skills, promotion of a culture of firm level learning, innovation and knowledge. Human capital development, training of scientists and engineers, R&D, and lifelong learning practices are the foundations of the new knowledge economy.

Digital technology has shifted from being a driver of marginal efficiency to an enabler of fundamental innovation and disruption. Data is crucial for enhancing efficiency, productivity, supply chains, and fostering innovation. Firms have to use big data and data analytics as a routine in their operational decision making and future strategic planning.

With a youthful population of 60 percent below the age of 30, Pakistan is well-positioned to address labour shortages in aging societies. Countries like Japan and the UK have adjusted immigration policies to attract skilled workers. To seize this opportunity, Pakistan must focus on digitalizing the economy and upskilling its IT graduates. The current output of 20,000-

25,000 graduates annually, with only a quarter deemed employable, is insufficient. To enhance workforce readiness, efforts should include introducing STEM subjects right from the school, include expanding university enrolment, ensuring high-quality education, and foster industry academia collaboration by organizing certification courses and boot camps nationwide. This would entail recruiting and training teachers in STEM subjects and infrastructure, including high-speed internet, devices, and cloud computing. A World Bank survey exposed deficiencies, with only 9,800 of 33,500 schools having optical fiber nodes, and 2,200 facing poor cell phone connectivity.

Joint Venture Collaboration

Attracting Foreign Direct Investment (FDI) in export-oriented industries is crucial for productivity and efficiency. While Pakistan's FDI has been primarily market-seeking, studies show a strong link between export growth and FDI flows. Unfortunately, the export sector in Pakistan has missed opportunities to tap into global supply chains, technology, design, branding, and managerial practices due to limited FDI. Countries like China and Vietnam have greatly benefited from foreign investors in export manufacturing, influencing domestic firms to adopt best practices in production, skills, and marketing innovation.

A recent World Bank study[3] has documented that foreign-owned exporting firms in Pakistan are 66 percent more productive than domestic exporting firms and the productivity of firms that are acquired by multinationals tend to increase after the acquisition. This is a lesson for Pakistani-owned companies to catch up to the levels achieved by MNCs. The cumulative effect of 30 percent productivity gains would translate into additional annual exports of $8 billion to $9 billion without incurring huge costs.

Pakistani firms should leverage strong economic ties with China, through trade, investment, and technology transfer , form joint ventures with them and   attract Chinese companies to special economic zones. Under FTA II with China, 83 percent of Pakistan's global exports have been liberalized, encompassing textiles, garments, leather, chemicals, seafood, and meat. Eliminating duties and reducing transport costs enhances the

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[3] World Bank Pakistan Development Update, Macroeconomics, Trade and Investment Global Practice, *Pakistan Development Update October 2021: Reviving Exports*, 28 October 2021, https://thedocs.worldbank.org/en/doc/4fe3cf6ba63e2d9af67a7890d018a59b-0310062021/original/PDU-Oct-2021-Final-Public.pdf

competitiveness of Pakistani products in the Chinese market. Gaining a one percent market share of Chinese imports could boost total exports by $20 billion . While maintaining and strengthening relations with the US and Europe, the business community should avail economic opportunities in Asia. Political challenges currently hinder regional integration in South Asia, but it presents a low-cost, high-payoff opportunity. Historical trade routes connected the entire subcontinent, and positive steps have been taken with Central Asian Republics and Iran. Utilizing the Gwadar port can enhance trade with Central Asian Republics. Attention should shift towards East Asia, the fastest-growing region.

Pakistan’s exports under FTAs represent only 10 percent of the total, with no FTAs with major destinations like the US, UK, Germany, and Afghanistan, which collectively make up 37 percent of total exports. Efforts should be intensified to complete the ongoing negotiations with the GCC and initiate with ASEAN and EU.