

RAMPING UP EXPORTS; STRATEGY AND DIRECTION¹.

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First of all, let me thank Humanex for providing this opportunity to share my views on a very important subject. I don't want to repeat what Tariq Ikram has said because he has covered a lot of things which I had proposed to speak to you about but because of the youngsters present here, young people who have not seen what Pakistan's economic trajectory has been, I want to remind them that Pakistan inherited absolutely no industry unit in the territory which is Pakistan. Most of the industries were all in India. There was only one decrepit Dalmia Cement Factory here in Pakistan and some workshops in Mughalpura and others. But by the end of 1969-70, the World Bank in its Development policy report on Pakistan said, Pakistan's manufactured exports today exceed those of the Philippines, Indonesia, Malaysia and Thailand. This is 1969-70. So that is the glorious period where Pakistan was ahead of India, Bangladesh... Bangladesh was not formed at that time... Look where those Asian countries are today and where we are. I just wanted to remind you that we talk in abstract terms about potential but we should look at our past achievements and then ask a question, what happened. And that's a very pertinent question. The first shock came when we nationalised our industries which were at an infancy stage. You know, industries don't take off just like that. They take time to mature and scale up. Our educational institutions, financial institutions, banks, insurance were all nationalized making a drastic rupture and reversal of our industrialization path. Private sector which was the dynamic force behind the manufactured exports just drifted away and bureaucrats like me were given the charge of running the enterprises and we had no clue as to what the business is all about. Mr. Ziaul Haq didn't do very much during his 11 year tenure to remedy the situation. . He didn't reverse that process when he came to power because he had a different agenda. And it was Nawaz Sharif who embarked upon the path of liberalisation, privatisation and deregulation but he was there for two years only.

¹ Address delivered at the Seminar on Ramping up Exports organized by Humanex at Karachi on 7th March 2024

These reforms were not actively pursued and carried forward by the successor government. As we know these particular policies take a long time to take roots and therefore have to be continued diligently. It's not switch on and switch off kind of situation. And then President Musharraf came and Tariq Ikram has already pointed out that we had a team together which ensured stable exchange rate, accumulation of foreign exchange reserves from less than a billion dollars to \$13.5 billion, FDI flows of \$8 billion when India was getting only \$12 billion and India today is getting \$80 billion and we are getting only \$2 billion of FDI. And exports and tax revenues, multiplied two and three fold respectively and GDP growth between 2000-2007 averaged 6.5 percent annually. Then came the Global Financial crisis of 2008 and as the Government did not take timely decisions to adjust the prices the economy went through a crisis and the incoming elected government had to approach the IMF for a bail out. By 2013 Pakistan had reached \$25 billion of exports and I made the calculation that if we had continued on a 7 per cent export growth trajectory, we would have attained export level of \$50 billion by 2023-24. That means the \$50 billion, plus \$30 billion of remittances would have adequately financed imports worth \$80 billion without resorting to excessive external borrowing. When you do not borrow, your external debt to GDP ratios start declining and debt repayments and interest payments can be comfortably financed from internally generated earnings of exports, remittances and foreign investment. You don't have to go to the IMF again as your own foreign exchange reserves start accumulating to the level where they provide you a safety cushion against unanticipated internal or external shocks. . But what happened between 2013-2023? Our exports after remaining stagnant or declining amounted to \$ 27 billion in 2022 and then jumped to \$ 32 billion in Fiscal 2023. The situation had reached an alarming population when the current account deficit hit an astonishing \$ 17 billion or 4.7 percent of GDP. To finance these large deficits our external financing requirements escalated to \$ 34 billion by Fy 2022.

The question you would rightly ask me: why did we lose that momentum of 7 percent export growth? First, we had neglected export sector in the priority allocation of energy. I went to Faisalabad in 2015 or 2016 at the invitation of the

chamber of commerce. I was not governor at that time. I was running IBA. The exporters there had received firm orders for delivery at Christmas time but they failed to deliver on time because there was load-shedding of electricity and load-shedding of gas. And I said to every minister at that time, for god's sake, the exporters are earning the foreign exchange for the country and they should be given priority in allocation of electricity and gas but that did not happen. They lost their buyers who went to Vietnam, Bangladesh and Cambodia. Once they walk away and find alternative sourcing they don't come back. So your long established relationship is completely destroyed. At SBP we considered the exporter as our major client and we worked together in order to make everything happen for boosting exports. Secondly, we had an overvalued exchange rate for a very long period of time. We were depleting our foreign exchange reserves by defending an artificial exchange rate which penalised the exporters and encouraged the importers so you were actually subsidising imports and discriminating against the earners of foreign exchange. However, in the last three years when my friend and colleague Razak Dawood was Commerce minister, he was able to take exports from \$24 billion to \$32 billion, adding \$8 billion in three years or 10 percent average per annum. So my calculations were not off the mark and it's a doable proposition to increase exports by 7 percent annually provided there are no distortions or anti export biased policies. I just want to endorse what Tariq had said by adopting a different methodology. I am tracing the historical trajectory and providing you evidence to support what he has presented before you this morning.

I want us to look at the two successful models of Japan and Korea. I am not taking China, China is an exceptional case. There is nobody who can actually match China. The concept of Japan, Incorporated where the government ministries through the MITI and the private sector through JETRO worked together and took Japan from a war-stricken country to one of the dynamic exporting houses which posed a threat to the United States in the early 1990s. What are we doing, as Tariq rightly said, we are embroiled in a blame game. The private sector says, government doesn't do anything, it's inefficient, incompetent, it only takes money, creates hurdles and the government says the private sector doesn't pay taxes that are due, asks for

subsidies, concessions, exemptions and favours. So we are in an adversarial and confrontational mode not in a collaborative and consensual mode. Unless, the private sector and the government put their heads together and work together, I don't think we will be able to realise the export potential which Tariq has very diligently put out before you.

Let me venture to suggest that we have to rethink the respective roles and the responsibilities of the private sector and the government to be able to switch to collaboration and synergetic way of working together. That's the message I want to convey to you this morning.

The private sector has to improve its corporate governance, it has to go away from a mind-set where they are publishing advertisements and commercials seeking concessions and tax breaks and subsidies and demanding low interest rates. Do not take the crutches provided by the government to move forward because one day the crutches will be removed and you will fall so stand on your own two feet robustly by building energy and dynamism. . Assure quality, delivery on time, manage your supply chain and don't treat your workers as a cost item, invest in your workers so that they can raise overall productivity. I have a number from the world bank study which says if the corporate sector is able to increase productivity especially in the exports by just three per cent from the current less than one per cent, GDP growth will become six per cent growth. The transient and ill trained labour force is just not interested in raising productivity because of the insecurity of their jobs. Human resource today is the reservoir which absorbs technology and new techniques of production and processing with consequential gains in efficiency. Besides moving away from contract labour and daily wage earners, providing on the job training, remunerating the workers on performance, the private sector must have qualified and experienced professionals throughout their various cadres particularly in the management cadre. This equation between investment in human resources and professional management raises the profitability of the company.

Next, the care for the Environment, social and governance ESG, have become critical for international buyers today to the extent that they can cancel their

purchases if the suppliers are not observing the standards, guidelines and best ESG practices. ., I go all over Pakistan but what I have seen in Sialkot over last twenty years is worth repeating before this audience. From 500 million dollars of exports when I went there the first time today their exports are close to 2.5 billion when Pakistan's overall exports were either declining or remained stagnant in the same period.. They take things in their own hand , resolve their problems collectively and take the needed initiatives without waiting for the Government departments to step in although they present a good example of successful public private partnership . and they have assimilated new technologies and techniques, improved their cost ratios, set up labs for quality assurance, establish training facilities for their employees, including marketable technical and vocational skills, and logistic centre including an international airport, a commercial airline, a dry port etc. . So they are doing things which are pivotal to export growth I present you this evidence of a city which is really doing a great job. The purpose of presenting this case study is to persuade business houses form other major urban centres to work together and create similar clusters for exporting activities.

My next plea to the private sector is not to become too complacent by depending upon the Europe GSP+ or the US markets. No doubt they are big but are declining economies, rapid growth is taking place in Asia. It is widely believed that the 21st century belongs to Asia. Ergo, we in Pakistan have to adapt, adjust and produce goods and services for which there is demand in this dynamic region. We have an FTA with China and Razak Bhai and Imran Khan went to China and the Chinese said we would allow \$1 billion incremental exports and would double it to \$2 billion exports as soon as you cross the first billion. It was a pity that the Commerce Minister couldn't find except for rice, people who were interested in selling to China. Their answer was what they were producing for Europe and United States, couldn't be diverted to China as their demand pattern was different. Yes, in the short term this is true. But Come to think about it, One per cent of share in the Chinese market means Pakistan can bring in \$24 billion of exports annually in the next five to seven years provided our exporters start planning in advance to respond to the demands of China and other emerging markets in Asia, Africa.

I now turn next to the question: what has the government to do. We have heard so many lamentable tales about the role of the Government and all of you have first hand experience. I won't dwell much at length but lay down what should be the revised role of the government in order to strike partnership with the private businesses for expanding exports. Government has to have a set of predictable, uninterrupted and consistent policies so the investors have the confidence that if they invest today in production of exportable goods exports they are going to reap the benefits whenever the investment matures. If the goalpost keeps changing not with every change in the government but from one budget to another under the same government don't expect any investment to take place for expanding the export base. Next, the Government has to ensure macroeconomic stability, stable exchange rate, low debt ratios, foreign exchange reserves at a comfortable stage . This would encourage the exporters to expand their business and to invest. All the taxes, direct or indirect hidden or implicit have to be removed. Government has too large a footprint and business men have to run to ministries regulatory bodies, departments and agencies chasing approvals , permissions and clearances and NOCs . This is not what they should be doing with their time and energies. .Instead, they should be tapping new markets around the world . Government has to introduce E Government and promote digital economy because digital economy not only creates transparency but efficiency also reducing the transaction cost. They have to invest in research and development especially in export oriented industries and services and efficient import substitution in agriculture sector by increasing the average per acre yields . It is a pity Our investment in research and development is declining, both in the private and the public sector. R&D outcomes, patents, innovations in the private sector should be given tax break rather than just inputs . Training and upskilling, Reskilling for technical and vocational occupations which are missing in this country and for which there is a demand from countries like Japan and Korea should stepped up under Public Private partnership. . Energy pricing for exporters have to be provided at competitive prices within the region . At present they have become distorted largely because exporters and industry sectors are cross-subsidising the residential consumers like you and me,. Our

exporters are after all competing with India and Bangladesh so these countries should be the benchmark for fixing energy prices. Losses being incurred because of the inefficiencies of the DISCOS and the Sui companies can be minimized as has been the case in KE by privatizing the DISCOs. . There is an emergent need to set up an effective coordination mechanism between the federal ,provincial and the local governments. When I went to Shanghai for a CPEC conference all the Chinese companies investing in Gwadar were there. They complained that they had got permission from the federal government, then they had to go to the provincial government and then to the Gwadar Development Authority and the Gwadar Port Authority (which were fighting with each other on matters of turf) and they wasted most of their time chasing this paperwork. Now that is not how exports will take off or joint ventures set up. Chinese investors are not coming into Pakistan, but they are going to Cambodia, Vietnam, Bangladesh because we have too much hassle, bureaucratic red tape, and lack of coordination. So I will end by saying that achieving the goal of Export Competitiveness is a joint responsibility of the government and the private sector. Export competitiveness refers to the capacity to produce, distribute and sell products and services more effectively and efficiently than it is being done by your relevant competitors. That is the bottom line, you have benchmark yourself against your competitors and if you can sell goods and produce goods at a much cost efficient prices, exports will reach 100 billion by 2040 and I have no doubt about it. Thank you very much!

Q&A

Dr Ishrat Hussain: Ok. Thank you very much. I think the problems are quite well known so I won't repeat those problems. For example, we have tariff protection for domestic producers, the division of responsibilities between the federal and the provincial governments is unclear and overlapping , there is trust deficit between the exporters and the government, the capability of the civil servants has eroded over time .The old tradition that the generalists can take decisions pertaining to a variety of subjects has become irrelevant in view of the complex nature of the problems which require subject matter expertise. .

I'd like to focus on what really needs to be done in order to overcome these defects and deficiencies. As you heard from the person who was representing Pakistan Single Window we have 77 interventions by different agencies and departments of the government as far as export sector is concerned. To me, this is absolutely ludicrous because this is not facilitation, this is stopping them from going for exports. That's a barrier to entry for the new comers to export because those already entrenched have gamed the whole system and can get to the 77 regulatory agencies and are able to export but a new comer or a bright young man or woman who has some very good ideas and has got entrepreneurial risk-taking instinct will find it very difficult to overcome these 77 hurdles. The first thing the Commerce Minister did in 2019 was to start the regulatory guillotine exercise in association with business bodies. This exercise entailed mapping all the existing regulations and then see which of these have become outdated and can be completely eliminated, or can be merged, or simplified. My regulatory philosophy which I tried to promote in this exercise was to move away from prior clearances, NOCs, permits and licenses towards post-compliance audit. Specify all the parameters and review whether those parameters are being complied with or not. We have a mind-set which assumes people are cheating. I apply a rule of 95 to five, five per cent are cheating but because of those five per cent you are penalising those 95 per cent honest ones. Under a post-compliance audit system only those five per cent who are cheating will be penalised. So you reverse the regulatory system from a punitive mode to a facilitative mode. New comers with capital, skills, entrepreneurial initiative would provide competition to the existing firms. We have to bring in new exporters and as Tariq Ikram today pointed out there are products in which there are small and medium enterprises doing half a million or 300,000, 400,000 dollars exports. If these obstacles are removed, and doing business is eased and cost imposed by simplification of regulatory regime (shift to post compliance audit) is reduced these enterprises would scale up to a million dollars and so on.

The above analysis shows that the way to implement a robust export strategy is to have a collaborative partnership between the private sector and the Government, eliminate the burden of unnecessary regulations, remove all implicit or hidden taxes,

create a level playing field for new entrants, strengthen coordination between different levels of government, actively seek the inputs from the exporters in designing public policies, and public investment projects.. Getting refunds from the FBR should be made expeditious through FASTER which is an end-to-end solution. Under the system you upload your claim, and supporting documents, the AI processes it against the pre specified parameters and if all the parameters are observed then the money is transferred directly through IBAN to the exporter's bank account .There's no interaction between the tax official and the tax payer at any stage in this process and not even the person who used to charge 3 per cent for issuing the cheque has disappeared from the scene. There are digital solutions which can possibly help the exporters and the businesses.

Q&A

Dr. Ishrat Hussain: Listen Adnan, nothing happens with reshuffling the boxes that merge the BoI with this or that. It is the processes, mindset and the attitude which really matter. . In Japan, the MITI had kept all the ministries aligned although it was not a supra body above them The ministries exhibited an ingrained attitude that they have to put their act together and then bring the private sector on the same wavelength to produce the desired results. i.e. increase Japanese exports . The country took off and became a a threat to the supremacy of United States in 1990s just like what China is doing today.. So, what happens here , many of us have worked in the government ,our efforts are focused on preserving our turf, we do not cooperate with each other and pick up faults rather than reaching compromises or consensus . So we have a problem of a negative mind-set in the bureaucracy and in the political leadership. Unless you turn this into a positive mind-set that we are going to do this for the country's sake not for the ministry's sake, not for my own sake, we will not be able to achieve anything worthwhile. I have come to the conclusion that it is a basic attitudinal problem and mind-set problem rather than a matter of just box reshuffling or reorganizing. Unless our attitude and mind set are changed we can't move ahead at the pace required to catch up with other countries. .