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Founded by M.A. Zuberi

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Make in Pakistan – for export

Did Christmas come early this year? The grand consigliere of Industries and Commerce announced the imminent arrival of a new Industrial Policy. Its contours are to be shared soon, and its roll-out has been planned for June 2019. He told us focus will be on exports - going beyond yesterday's champions like Textiles and Leather to tomorrow's shining stars like engineering goods and IT. He made a mention of tractors (exports already undertaken to Zambia and Madagascar), and indicated white goods (refrigerators, washing machines, etc.) will follow soon.

We couldn't have asked Santa for more. No, it does not have to be a pie in the sky. India's export of engineering goods is over USD 80 billion; ours a measly USD 250 million. A mouth-watering catch-up potential there! We don't want it to rain on the Advisor's parade, but would it be impertinent to raise the two questions of transparency and affordability? Also, how do the provinces fit in? We notice one of the hundred day 'achievements' reported to the PM by Punjab was a brand new industrial policy!

For a government that was voted in on the promise of transparency its record has been less than to be proud of. From foreign policy to exchange rate policy (free float?) more has been left to public speculation than what has been stated publicly. Take the Saudi largesse. We were first led to believe the $ 3 billion will be 'parked' with the SBP. Then there were hints that it will be Saudi 'investment' in Pakistan. Finance Minister has now told the Senate committee that it is an interest bearing loan. We are still not informed of the tenor of this loan.

Why this secrecy? Does the FM not know our accounting systems? There is no way you can keep such transactions shrouded for long. Sooner than later the books shall speak. We hope the Advisor will do a better job with the Industrial Policy and clearly identify the winners and the losers, and who is benefitting by how much and how.

We hope we will have a clear picture of the affordability of the policy: how much it will cost the exchequer in the form of subsidies and how much it will cost the consumers because of protection. The line between private gain and public cost would need to be clearly delineated. Most importantly, how will it be ensured that the chosen winners actually deliver? What happens if after all the subsidies and tariff protection exports don't soar?

We hope the policy is not being designed by the 'advocacy group' that the Advisor helped found and Finance Minister once chaired. One look at the 'Contours of a new Industrial Policy', recently brought out by the group, and you know which direction it is headed: inward looking, and asking for 'do more' without promising to do more itself (in terms of productivity enhancement, for instance).

We are not sure if that able body, Economic Advisory Council, has been in the loop. It consists of several scholars, some of whom have studied industrial policy and know what has worked where, and why. They might well tell the Advisor that the Korean and Taiwanese industrial policies worked well, but it was then. The world has since changed. Those policies may not be replicable today.

The toughest job in designing an Industrial Policy that is driven by the government (rather than the market) is selection of 'determinants' - factors that government uses to decide the particular industries/sectors that will give the biggest bang for the buck.

It is easy to be platitudinous and wistfully think of an industrial policy that promotes exports and generates greater employment, something that policy after policy has sought and failed. Throwing money at the problem is not an answer.

Trained manpower, utilities at competitive prices, greater ease of doing business, all these are obvious and necessary enablers. But would they be enough to make our manufacturing more competitive?

Competitiveness, the key to protecting domestic manufacturing against the onslaught of foreign marauders and carving out greater space in the export markets, is a function of productivity and size - and value chains. Our productivity levels continue to slide - from 4.8% in the 80s to 1.3% now. We can walk out of all the FTAs (when the whole world is looking for more), make gas and electricity cheap (a tiny percentage of cost of production), bring down our wages (already quite low in effective terms), make the exchange rate more favourable (jury is out if it helps exports), and yet we won't be able to either protect domestic market or increase our share in the world markets that has shrunk to 0.12%. (Vietnam, that had a similar share as ours 15 years ago, has shot up to 1.21%)

We don't have the economies of scale to be competitive. The domestic market is not big enough to enable this. Those who talk of installing surplus capacity, and export on marginal-cost basis, have apparently not heard of anti-dumping action, where the rule of thumb is that your export price can't be lower than your domestic price.

For value chains, the first step has to be creation of 'linkages'. Here the Ministry of Industries can do no worse than take a leaf out of Ernest Liu's recent research (Industrial Policies in Production Networks; 2018) that Atif Mian, the discarded member of EAC, drew our attention to. We would need to identify, and promote, industries that provide inputs in supply chain of other industries.

Two parting thoughts: First, we should benchmark productivity levels and reward those who exceed the targets. Second, subsidies and tariff protection should be on a gradually diminishing scale, with a mandated sunset provision. These two alone will ensure the badly missing efficiencies in our manufacturing sector.

An industrial policy that is inward looking, buttressed with efficiency-damaging protection and untargeted subsidies, will never achieve scale and competitiveness. It will become increasingly more dependent on government support, the cost of which will be borne by the consumers. We get confused when we hear of import substitution and exports spoken of in the same breath. Unless the idea is to promote import substitution only where we have a distinct competitive advantage we are afraid 'Make in Pakistan' will become 'Made for Pakistan' - not exports.

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