Exports? Without a culture?

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The substantial increase in exports of 20.8 percent during the last year is a genuine silver lining to the black clouds hanging over the economy. After hovering around 8 - 8.5 billion dollars from 1994, the exports dipped to 7.8 billion dollars in 1998-99, following the nuclear tests so proudly conducted by Nawaz Sharif. On taking over the government General Musharraf's regime (I wish we could put a politically correct name to it) brought in professional economy-managers who placed exports as one of their top priority agendas. Shaukat Aziz, Razzaq Dawood, Dr. Ishrat Hussain and Tariq Ikram (EPB chairman) were all no-nonsense number crunching experts in their respective areas. Their teamwork effort started paying dividends immediately as exports began to grow - 8.5 billion, then 9.2 billion and now 11.8 billion. There was a lull in 2001-02 due to Nine Eleven which has broken now. I would say it is no less than a miracle that 'under the given conditions', the stagnancy of exports has been broken. I would save the interesting details of how this was brought about, what levers were pulled, what holes were plugged, for another column. Here I want to qualify the caveat 'under the given conditions'.

Pakistan Development Policy review - A New Dawn?, a World Bank document begins with, "In the first 20 years after independence in 1947, Pakistan had the highest growth rate in South Asia. In 1965 it exported more manufactures than Indonesia, Malaysia, Philippines, Thailand, and Turkey combined. It would have made anyone's list of the Asian countries most likely to enjoy miracle-level growth rates over the ensuing decades. This did not happen. While the growth rate in the 1980s was still over 6 percent per year, after the early part of the 1990s it fell to around 4 percent a year. Pakistan became the slowest growing country in South Asia, an exact reversal of its previous role........"

The latest statistics given in 'The World Development Indicators (WDI) 2003' which is the World Bank's premier annual compilation of data about development reveal quite a dismal picture. Pakistan's GNI (old GNP) has fallen from $ 500 in 1997 to $ 410 in 2001, and is the lowest among regional developing countries like Malaysia (3,540), Thailand (1,980), Philippines (1,020), China (940), Sri Lanka (840) and India (480).

The change in International Trade (exports and imports), expressed as a percentage of GDP, from 1990 to 2001 for Pakistan is minus 13.1 percent as against Malaysia (125.4), Thailand (99.6), Sri Lanka (40.1), Bangladesh (130.6) and India (65.1).

Numbers do not capture the full reality of situations, ever. There are non-empirical factors as important, and perhaps sometimes more critical, that provide more meaningful insights. In last week's column I had quoted Dr Mahboob-ul-Haq's doctrine of development strategy that unabashedly advocated domestic growth through capital formation without equity considerations. A by product of that macro policy mindset, prevalent till hence, has been that while domestic growth numbers were being rejoiced for past fifty years, trade deficits were not paid much heed to. Exports were an esoteric activity to rid of surpluses from agro-based commodities — first jute and tea from East Pakistan and later, after dismemberment, cotton, rice and leather.

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Inside View

Value addition and global trade were never on priority list. At one point in the 80's cotton yarn was being exported to competitors with a negative value addition. The inflow of 'un-earned' foreign exchange, through foreign remittances of expatriates and International Aid, camouflaged worsening trade balances.

In the nineties as the world order changed, the chickens came home to roost. Endemic trade deficits (up to 35 percent of exports at one point) and rising debts began to pinch hard. Leaf curl virus had capped (even reversed) cotton production and the nascent value-addition textile industry went belly up. Suddenly in the late nineties there was a rude awakening to look at exports. This is where the story began.

The loud fervour for exports met with a bleak reality. Pakistan is virtually a one-crop economy, cotton. Around 68 percent of exports are made up of domestically grown cotton. Rice and leather make up the rest of exports. Cotton, rice and leather products make up 90 percent of exports. Ten product categories and ten countries account for over 80 percent of Pakistan's total exports. And quota allocations play a major role in determination of these products and countries. As 2005 approaches and quotas will disappear, no one is sure what is going to happen. Even worst, god forbid, if the EU and the U.S were to impose trade sanctions on Pakistan in some eventuality, which is not too remote under the new terrorism-paradigm emerging globally with Pakistan shifting into limelight, then the consequences are unimaginable.

The efforts to diversify exports in terms of products and target regions are afoot, at least on the drawing board, with Tariq Ikram following the trail of opportunities through his well researched global market trends. But non-empirical ground realities are moving on a different tangent.

First there is the ogre of country image, haunted by many jinnies and bogeymen. For a plethora of diverse reasons, Pakistan is not considered a business-friendly country. Travel advisory restrictions from many potential buyer countries hampers flow of business visits. Visa restrictions were only recently eased, thanks to a direct intervention by General Musharraf despite Ministry of Interior's hilarious stance on 'reciprocity' in a diplomatic tit for tat attitude. Images of rabid fanatics on the streets in Pakistan flashing on world media does not give much comfort to paranoid westerners, specially US businessmen. The Spartan social life, as dictated by shariah laws, holds no attraction for foreign businessmen who travel abroad for fun as much as business. In the words of a European diplomat's wife, Pakistan is a 'punishment post' for foreigners' wives. The starkly segregated social milieu does not gel with a cosmopolitan business culture. Only die-hard businessmen with special interests in Pakistan would dare to venture out here. We have serious barriers to social interface for potential business partners.

Next, the infrastructure required for a conducive business environment is frail: civil courts proceedings favour the offenders not the aggrieved. Arbitration of trade disputes is not globally integrated. Tax and Tariff laws are hostile to locals, what to say of foreigners. Policies are as consistent as weather at Headingley. Cost of utilities is uncompetitive, and availability cumbersome. Communications and transport infrastructure is either immature or non-existent, such as refrigerated transport for perishable goods. Most of all, the social and political ethos is quite anti-western. West is viewed as agent of profligate culture and hostile to Islam. These factors do matter for an 'export culture' that Pakistan has not developed. We can't be culturally hostile and business friendly at the same time.

In preparing the Textile Vision 2005, we were asked to set a target for Pakistan's ranking within Asian Countries. In 1998 we ranked 8th. If we were to rank 5th we would need to increase our textile exports to 13 billion dollars by 2005. As we crunched and massaged numbers, I remembered the story of an owner whose horse was running third behind the first two going neck to neck. Near the end the front two horses moved away from each other creating a gap. He was shouting furiously to his jockey to go through the opening, which didn't happen. When he was livid at the jockey at the end of race, the jockey had a very plausible explanation: "Boss have you ever tried going through a gap which is moving faster than you are?"

Pakistan is in the same situation: It is not what we are doing; others seem to be doing better! And there in lies the caveat.