

Growth through value-addition

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YUSUF H. SHIRAZI



One of the greatest achievements of the present Government is macro economic stability. There are now unprecedented foreign exchange reserves - of over US\$10 billion. Interest rates have fallen rapidly, now in single digits, the least in recent memory. The rupee has upvalued from Rs 67 to about Rs 58 per dollar a rare phenomenon in Pakistan. If the dollar-rupee parity is not defended, it will be equivalent to India and Bangladesh's at about Rs 47 to Rs 50 per dollar, which would reflect the true impact of policy, resource base of the country, quality of human resource and entrepreneurship!

ENGINEERING VISION

The stage is thus set for a growth economy with initiatives of fresh investment, optimum use of the existing investment through increased production and export, which will create employment and increase revenues, the two priority issues now.

In this connection, presiding over a recent meeting of 'Engineering Vision', the President, General Pervaiz Musharraf, said, that when his government took over, the agreed economic strategy was to focus on sustained growth through simple manufactures and agriculture, which have both given results.

Now, the emphasis is on strategic industrial led growth and value-added exports, transfer of hi-tech technology and import substitution. Emphasizing later in an export trophy function, the President reiterated the shift in focus from traditional simple manufactures to hi-tech industries, particularly engineering sector, raising annual export target of US\$10 billion to a projected US\$80-90 billion.

This would naturally include the ten basic industries including steel, heavy chemical and mechanical complexes and engineering, nationalized during the 70s and also recommended to be phased out for being "internationally incompetent" following the globalization led

growth strategy, which now is being questioned both in the developed and the developing world.

The President had the lacking of all the relevant honourable

Ministers, Secretaries to the Government, Industrialists and members of the vending industry in developing this strategy, and all were present in the meeting.

The consensus was on value addition through manufacturing and not just packaging and assembly. In this strategy alone lies continued macro-economic stability, achieved by the government, an antidote to deficit finance, trade imbalance and inflation, the country's chronic problems.

BRIEFCASE ASSEMBLERS

It is in this perspective that one would also like to highlight assembly by some "Brief Case Assemblers" of several engineering goods, including tractors, cars and engineering production contracts, sometime ago, and now, television sets, motorcycles, trucks and buses, to name a few - through smuggling, under-invoicing if not dumping and 'pass through' spare parts.

This is all happening inspite of the fact that packaging and assembly through irregular channels does not add value, nor create employment, earn foreign exchange, or reduce costs.

What is assembling or packaging for then? This is a menace which has continuously been highlighted by concerned manufacturers generally and vending industry particularly for some time now.

It is, in fact, alleged that massive under-invoicing of parts is being undertaken at an 'agreed value' for custom clearance, which, in fact, is ridiculously low, as compared with regular imports by the organized sector. China, in this connection, in fact, with a view to conserve foreign exchange has fixed minimum export price.

In case of motorcycles, for example, according to present Chinese export official check price, the

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minimum export price of a unit imported in Pakistan is between \$300 to \$650. These units, however, are being imported in the range of \$233 to \$486 or Rs 10,781 to Rs 25,962 each - actually about double - with duty and sales tax paid value - as under-invoiced, as shown in the translation from the original Chinese script in the following table:

The Table of Motorcycle Exporters' Agreed Prices				
Product category	Motorcycle Unit	US Dollar/ Per Motorcycle or set.		
Commodity numbers	Displacement	Prices		
		Straddle type	Pedal type	Beam bending type
8711.1000	50CC	160	210	
	50CC	200	210	
8711.12000	50CC-60CC		325	
	70CC	310		310
	80CC	320		320
	90CC	320	400	310
	100CC	340	440	400
	110CC-	350	460	410
	120CC			
	125CC	450	500	450
	150CC	600	650	

Further, a contention that there is no law to restrict such import under global discipline appears to be a case of misfeasance, as the organized sector cannot do so in whatsoever circumstances.

If at all, it is so, then, it does

agreements, in-house frame and engine assembly, paint shop, maintenance, testing, after Sales / Warranty arrangements, etc. and foreign exchange savings done by their earlier counterparts. Without

Form' protection factor of lesser duty on industrial raw materials and higher tariff on CKD parts and CBU imports withdrawn in the last budget and to be effective within the next couple of years.

INDO-PAKISTAN COST COMPATIBILITY

The two economies of India and Pakistan can indeed benefit from each other. Trade with India may, however, be in the interest of Pakistan more than India with a market of over one billion people as against Pakistan's 140 million. However, Pakistan will have to harmonize its economy with that of India: otherwise Pakistan will be the loser.

Indian rupee to dollar parity, for example, is Rs 47.65 against Pakistan's Rs 57.88. In India, sales tax is 5% to 7% and rarely 12% depending upon state to state, sales tax being a provincial subject there. Sales tax in Pakistan is 15 to 18%. Corporate Tax in India is 30% as against Pakistan's 35% to 43%,

not to speak of Presumptive tax at about 6%, whether there is income liable to tax or not. In India, there is no such tax at all. Socio physical infrastructure cost in India is 2/3rd of that in Pakistan. India does not

these pre-requisites, will endanger loss of users life on the one hand and loss of revenue on the other, not to speak of the industry development!

In order to checkmate such spurious manufacturers, Pakistan

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fill in the gaps in investment, production and export, so very vital for any viable economy, in every respect.

POLITICO-ECONOMIC SUPREMACY

There is also a view of dismantling all imports and export barriers against engineering goods, among others. However, protection is not as out of mode as sometimes made out. Examples of protection in US and EU to agriculture, textiles and steel are well known.

Let us, therefore, dovetail our industrial policies with local priorities which generate employment, technology transfers and save foreign exchange. In this respect, reliance must be placed on what Mr. Wolfensohn, the World Bank President, believes in i.e. globalization through localization: He says: "We need local ownership and local participation. Gone are the days when development could be done behind closed doors in Washington or Western capitals or any capital for that matter".

Such thoughts thus must be harmonized with local aspirations. Experience in countries like Malaysia shows that as long as a country has sufficient reserves - which thanks to the recent landmark, we do, then industrial policy can be formulated

circumstances.

If at all, it is so, then, it does necessitate formulation of law - if the interpretation hasn't taken care of it. Such an interpretation, misfeasance or facts of the law, however, are resulting into a huge loss of revenue as, among others, Completely knocked down - CKD - kits are generally imported at 30-35% customs duty while such 'pass through under-invoiced' parts are subject to spare parts duty at 25% - an anomaly - against completely built up - CBU - rate of 60% to 200% applicable to the organized sector, if these parts are not deleted, as a part of the deletion program.

Thus, there is an obvious case of rationalization of such a practice causing huge revenue loss, to say the least, at a heavy cost to government's own growth strategy through value-addition, creation of employment, earning and saving of foreign exchange. The least that may be expected, in this respect, is that no adventurer is allowed to undertake assembly without a Technical Assistance Agreement and / or Joint Venture Agreement with the foreign 'principals' have possession of drawings of the components and parts alongwith long term vending

spurious manufacturers, Pakistan Association of Automotive Parts and Accessories and Manufacturers - PAAPAM - and Pakistan Automotive Manufacturers Association - PAMA - in addition to many other concerned associations, have jointly and severally represented their views to discourage such "Brief Case Assemblers", to help grow the industry - "comprised of 850 units, employing 1.1 million persons on average with 5 family members each and a total capital investment of over Rs 50 billion in the industry". They contribute annually over 40 billion rupees to revenues - 5% of the country's total revenues - saving foreign exchange of Rs 750 billion rupees and earning foreign exchange through exports of over Rs 175 billion. Further, they emphasize that significant deletion has been obtained already in several industries from about 50% to 85% in tractors, 50% to 70% in cars, trucks, buses and 85% in motorcycles. They argue that further investment due to extremely hi-tech value added parts, which need to be deleted, would be otherwise jeopardized. This would require, continuation of the present policies and adequate protection to the industry, with the present 'S

of that in Pakistan. India does not

mention this in their reply to the



TABLE A

IN PAKISTAN AND INDIA

(A SAMPLE STUDY)

INDIA				PAKISTAN			
Model	On Road Price Indian Rs. (Mumbai)	NOGL Price Indian Rs. (Mumbai)	NOGL Price US\$ (Mumbai)	Equivalent Model	On Road Price Pak Rs.	NOGL Price Pak Rs.	NOGL Price US\$
CITY DX (1.3L)	731,911	515,422	10,570	CITY EXI-S MT (1.3L)	779,000	596,434	9,949
CITY EXI (1.5L)	857,866	604,126	12,390	CITY EXI (1.5L)	939,000	718,936	11,992
CITY EXI AT (1.5L)	921,907	649,225	13,315	CITY EXI AT (1.5L)	979,000	749,562	12,503
CITY VTEC (1.5L)	960,536	676,429	13,873	CITY VTEC (1.6 VTEC)	1,099,000	841,436	14,036

Exchange Rate : 1 US\$ = 59.95 Pak Rs., 1 US\$ = 48.76 India Rs.

Calculations: NOGL US\$ Calculations are based on the formula used in the study by Engineering Development Board.

that simultaneously promotes export based industries, nurtures import substitution industry and protects strategic industries. The industry and especially hi-tech manufacturing industry can be nurtured and promoted to become globally competitive. In India, the engineering industry is now one of the top tax generators for the government. They did it through focussing on manufacturing and value addition and not packaging or assembly. In following such a policy the present government has killed one lion - economic instability.

The other lions that now need to be killed are revenue shortfall and unemployment - at 9% against 7% now with the threatening inflation increasing from 3.5% to 5% in the

recent past. The remedy lies in industry and in particular in manufacturing - not packaging or assembly. A balance must be struck irrespective of external pressures at times. The reliance on these policies would be in the larger national interest - socio-politico-economic sovereignty, to say the least:

Such thoughts thus must be harmonized with local aspirations. Experience in countries like Malaysia shows that as long as a country has sufficient reserves ? which thanks to the recent landmark, we do, then industrial policy can be formulated that simultaneously promotes export based industries, nurtures import substitution industry and protects strategic industries.

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بِنَانَةِ سُجْنَتِ خَامِبَار

(In self reliance lies the solution)
The author is Chairman Atlas
Honda group

