

Drivers of Growth

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The next budget needs to articulate a vision because a growth revival has become urgent. What should be the contours of this vision and how can it be realized? In this writer's view it will have to be largely premised on broadening of the export base and on stimulating construction activity through policy reform. We can push ourselves onto a higher and sustainable growth path by harnessing the potential offered by vibrant regional economies. This will require a change in mindsets and attitudes and in the ways of doing business; entailing some 'social and political compromises' and trade-offs involving a sharp policy shift away from import substitution to exports and productivity improvements through better access to technology, complemented by adequate investment in high quality education and skills. Addressing these structural issues will, of-course, take time and some doing.

Growth in exports is critical for financing the import bill, especially considering lingering doubts about the continuing robustness of remittances from the sluggish West and the heavy dependence on the economic health and stability of GCC countries and their policies that will allow for continued inflow of workers. However, the key constraint to the expansion of our exports is their disproportionate geographic and product (low-tech and of sunset and low growth industries) concentration.

Our country image continues to be somewhat negative with our Global Competitiveness ranking having worsened over time, from 83 in 2007 to 133 in 2013. Meanwhile, the global scene has changed dramatically with Asia emerging as the new engine of growth and several countries in the continent having had a head-start, leaving us with little choice but to partner with them if we also wish to surge ahead.

The changing environment has created new imperatives. On the one hand, our future economic growth faces a potential slowdown as demand declines in our traditional export markets. On the other hand, the dynamic regional markets of young consumers, as distinct from aging populations and contracting Western and Japanese markets, provide opportunities to overcome this demand insufficiency for our products and for gradually moving up the value chain for products and services. While our exports will benefit from the G-plus status granted by EU and from the Chinese graduating out of low value-added products in general and textiles in particular, these developments may simply encourage concentration of exports in textiles. We need to think beyond the economic returns derived from just one or two sectors and incentivize the development of a diverse and vibrant exporting sector.

Consequently, the only way forward initially, given our weak global competitiveness, to attain healthy rates of growth under the evolving international ecosystem is to become an integral part of global producer-driven or buyer-driven supply/value chains that have enabled the fragmentation of production of different components in different parts of the world. With industry being facilitated to exploit this as an entry point we should be able to position ourselves for creating a deeper and diversified export base.

Today it is possible to sub-divide production processes, using modern technology and the opportunities for trade provided by lower transportation costs and improved physical infrastructure and communication systems- facilitating the management of supply chains over long distances.

With our productivity lowest in South Asia and our exports disproportionately comprising a few commodities, participation in global production networks and benefitting from the dynamic complementarities associated with intra-industry value chains (for example of textiles, leather and automotive products) provides the only realistic opportunity initially to initiate a self-sustaining process of growth. This could mean us specializing in producing yarn and cloth, Bangladesh and Sri Lanka in stitching garments, others designing them and using their marketing muscle. Of-course, the availability of energy at affordable prices would be fundamental to the successful implementation of this strategy.

Similar opportunities of being a part of global supply chains exist in the case of services, given the global market for out-sourced information and digital based services. Today's communication technology has enabled trade in services over time and space. Services can now be exported via e-commerce and even stored electronically and used long after they have been produced, becoming a potentially high value-added component in our comparative advantage in exporting labor-intensive services like, typing, data entry, low-end software programming, call centers, etc..

Pakistan has a relatively decent physical infrastructure and the availability, at relatively low wages, of a relatively large young labour force proficient in the English language. This can enable regional entrepreneurs to play the same role as Japanese businesses did in SE Asia by establishing industries across borders that benefited from lower wages. All would gain from the advantage of regional proximity.

A growth process stimulated by this strategy will have a multiplier effect, spreading and inducing change in the rest of the economy as other sectors adopt new technologies and management practices and build capacity all round, helping improve productivity and thereby the transformation of the whole economy. Capital accumulation, higher incomes and enhanced employment opportunities will augment domestic demand. This in turn will reinforce the growth process on a durable basis, as an expanding middle class creates a demand for housing, hotels and restaurants and retail for a wide range of consumer goods and personal services, generating jobs for even those already in the labour force but with modest education and skills.

Modifications in building and zoning regulations, rationalization of government levies related to development, commercialization and property taxes and the disposal of prime commercial land tied up in unproductive State functions (like elaborate housing for officials) can further facilitate the setting into motion of a virtuous circle.