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Sectoral Diversification of Pakistan's Export

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by
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The growth in global economy continued to be subdued for the last six years and growth outlook of 2017 is also gloomy. The falling import demand in Europe and weak aggregate demand in Japan and US is one of the main causes of sluggish growth in world trade. This is also the reason why developing countries have seen declining exports. Since, US, China, and EU-- Pakistan's major trading partners — witnessed a sluggish economic growth during past few years, this economic slowdown and weak demand have also significantly impacted Pakistan's export growth.

The recent slowdown in global economy has adversely affected the exports of regional countries like India, which experienced decline by 17.2 and 1.3 percent in 2015 and 2016, respectively. However, the countries like Bangladesh and Vietnam, which are in competition with Pakistan's exports to US and EU, have registered steady growth. Pakistan's exports have declined during the last three years and stood at $20.5 billion in 2016 compared to Bangladesh's $31.7 billion and India's $ 264.4 billion.

Currently, the turbulence in global trade is particularly due to the arrival of Trump administration in the USA. If this leads to greater protectionism and potentially a trade war between the USA and China, there is likelihood of a further fall in the volume of world trade which could adversely affect Pakistan's already fumbling exports sector.

In the last three years Pakistan has accumulated additional $12.2 billion of external debt and liabilities as against $14.7 billion in the previous five years. As such, the speed of borrowing has been higher in recent years. The level of external debt is expected to rise further because of debt taken for CPEC projects. Therefore exports will have to grow even more if this large volume of debt is to be serviced.

Undoubtedly, many factors including developments in international markets and domestic policies contribute to the success or failure of export-led growth strategies. Pakistan is among the countries that have been unable to fully emulate the rapid export-led growth and to withstand growing Chinese competition.

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Furthermore, there is possibility of another adding-up constraint on the efforts of Pakistan and other developing countries to simultaneously export similar types of manufactured goods to the same markets in industrialized countries. In theory, the exporting nations need not to face demand-side constraints, and have reciprocal demand for each other's exports. However, there is a growing body of literature that suggests that these optimistic conditions do no hold in general.

The prolonged slow down in world economy have further aggravated the problem for developing countries' exporting sectors. Therefore, there is extensive use of different exports incentives in order to capture the market shares. Considering the sectoral diversification of major exports of Pakistan and its competitors, provision of different exports incentives by competitors to their exports can hurt Pakistan's exports because of relative decrease in Pakistan's exports competitiveness.

The literature on international trade has also identified exports diversification as an important ingredient of sustainable growth (see Rosenstein-Rodan, 1943; Prebisch, 1950; Singer, 1950; Krugman, 1979; Grossman & Helpman, 1991). For instance, the "East Asian miracle," showed how growth can be accelerated by introducing new products within existing industries and to move production from low value-added to high value-added sectors. A number of empirical studies have also highlighted diversification as important driver of for exports and GDP growth. For a sample of 91 countries, Al-Marhubi (2000) show that diversification promotes growth. Hausmann *et al.* (2005) explain GDP growth of countries with respect to mix of products they exports which include low-productivity and high productivity goods. Countries that export products around the high-productivity end of the spectrum exhibit higher rates of growth relative to countries that export low-productivity goods.

There are several reasons why export diversification is necessary for sustained economic growth. For instance, trade literature shows that diversification helps mitigate the negative effects of economic shocks. Dependence on a few commodities would imply highly volatile foreign exchange earnings in response of demand and supply shocks. Diversification is particularly important for countries specializing in the production of primary commodities in order to counter the adverse effects of declining terms of trade in the long run. This is particularly because of low-income elasticity of the primary commodities and limited scope for forward and backward linkages. Thus, the prospects of raising future revenues from the exports of primary

commodities and benefiting from growth spillover are limited, at least in the long term perspective.

Table 1-3 shows sectoral diversification of Pakistan India and Bangladesh's exports. For Pakistan and Bangladesh, the top three sectors with respect to their shares in total exports are textiles, clothing, and fresh foods. Bangladesh's exports are highly concentrated in clothing with 82% share in total exports; while Pakistan's exports of textiles, clothing, and fresh foods are combined 71.7% of total exports. Similarly, in case of India Textile and clothing have 5.5% and 5.4% share in total exports respectively.

Pakistan's exports face considerable competition in destination markets from its competitors, particularly from Bangladesh. Since Bangladesh's exports are highly concentrated in clothing and textile sector, government is more inclined to give incentives to exporters in order to provide competitive edge. The fact that the key exporting sectors of Pakistan, Bangladesh and India are the same and within those, there are identical top exporting products (including cotton and cotton related products, men's/boys trousers, rice, telecommunication products, and leather products), the competition among these countries to capture export markets become more fierce and intense.

Furthermore, Pakistan, Bangladesh and India's exports of clothing sector have the same major destination markets i.e. United States of America, Germany, United Kingdom, United States of America, United Kingdom and Germany. While exports of clothing sector during 2011 to 2015 was overall 4.6% and 2% for India and Bangladesh respectively; Pakistan's exports of clothing sector grew only by 0.9% in the same period. Pakistan and Bangladesh also share the same destination markets for exports of processed food, leather products, and IT and consumable products sectors.

Pakistan's key exporting sectors had dismal performance during recent years. Not a single sector exhibited exports growth in double digits during 2011-2015 and all major sectors except clothing, processed food and unclassified products registered negative exports growth. This highlights that Pakistan's exporters are unable to withstand competition in international markets—particularly from India and Bangladesh.

One of the main reasons for sluggish exports growth is that Pakistan has not diversified the exports nor exploited the new potential markets. Furthermore, there is little or no improvement in productivity that entails cost advantage over competitors and quality of products has

restricted the expansion of exports. Another plausible reason for unimpressive exports growth in the last few decades is the transmission of international shocks to the domestic economy which again is because of low diversification of products and markets.

Table: 1
Sectoral Diversification in Products for Pakistan's Exports

Sector	Average share of sector in country's exports 2011-2015	Share of top 3 detailed products (HS6) in sector's exports		Sector's leading exported product HS6
		2011	2015	
Textiles	36.2 %	26.0 %	31.3 %	520512 Cotton yarn,>/=85%,single,uncombed,714.29 >dtex>/=232.56, not put up
Clothing	19.3 %	29.5 %	31.8 %	620342 Mens/boys trousers and shorts, of cotton, not knitted
Fresh food	16.2 %	60.1 %	58.5 %	100630 Rice, semi-milled or wholly milled, whether or not polished or glazed
Miscellaneous manufacturing	5.9 %	60.5 %	63.9 %	901890 Instruments and appliances used in medical or veterinary sciences, nes
Processed food	4.9 %	56.8 %	52.8 %	110100 Wheat or meslin flour
Chemicals	4.1 %	44.9 %	47.9 %	220710 Undenaturd ethyl alcohol of an alcohol strgth by vol of 80% vol/higher
Minerals	4.1 %	90.6 %	55.7 %	270900 Petroleum oils and oils obtained from bituminous minerals, crude
Basic manufactures	3.8 %	62.7 %	66.2 %	252329 Portland cement nes
Leather products	2.6 %	45.9 %	53.8 %	411310 Leather further prepared after tanning or crusting "incl. parchment-dr
Non-electronic machinery	0.8 %	37.0 %	31.2 %	841451 Fans: table,roof etc w a self-cont elec mtr of an output nt excdg 125W
Wood products	0.4 %	74.4 %	72.4 %	481159 Paper and paperboard, surface-coloured, surface-decorated or printed,
Unclassified products	0.4 %	98.8 %	88.6 %	631090 Used or new rags of textile materials, not sorted
IT & consumable electronics	0.2 %	84.5 %	87.3 %	851712 Telephones for cellular networks mobile telephones or for other wirele
Electronic components	0.2 %	57.5 %	57.4 %	850710 Lead-acid electric accumulators of a kind usd f startg piston engines
Transport equipment	0.2 %	40.1 %	48.5 %	890510 Dredgers

Table: 2 Sectoral Diversification in Products for Bangladesh's Exports				
Sector	Average share of sector in country's exports 2011-2015	Share of top 3 detailed products (HS6) in sector's exports		Sector's leading exported product HS6
		2011	2015	
Clothing	82.1 %	51.3 %	40.4 %	620342 Mens/boys trousers and shorts, of cotton, not knitted
Textiles	5.4 %	69.1 %	41.7 %	530710 Yarn of jute or of other textile based fibres, single
Fresh food	3.4 %	64.3 %	65.3 %	030617 Other frozen shrimps and prawns
Leather products	3.1 %	49.3 %	49.4 %	640391 Footwear,outer soles of rubber/plast uppers of leather covg ankle nes
Processed food	2.0 %	82.6 %	78.5 %	030617 Other frozen shrimps and prawns
Miscellaneous manufacturing	0.8 %	91.6 %	31.5 %	670419 False beard,eyebrows and the like,of synthetic textile materials,nes
Minerals	0.7 %	74.2 %	72.0 %	740400 Waste and scrap, copper or copper alloy
Chemicals	0.4 %	73.0 %	64.9 %	300490 Medicaments nes, in dosage
Basic manufactures	0.3 %	65.5 %	74.0 %	691110 Tableware and kitchenware of porcelain or china
Unclassified products	0.3 %	99.7 %	99.8 %	999999 Commodities not elsewhere specified
Transport equipment	0.3 %	97.5 %	95.2 %	871200 Bicycles and other cycles (including delivery tricycles),not motorised
Wood products	0.2 %	99.7 %	53.7 %	440290 Wood charcoal, incl. shell or nut charcoal, whether or not agglomerate
Non-electronic machinery	0.1 %	69.2 %	54.3 %	847690 Parts of automatic goods-vending machine
Electronic components	0.1 %	62.0 %	51.6 %	850710 Lead-acid electric accumulators of a kind usd f startg piston engines
IT & consumable electronics	0.0 %	82.7 %	84.9 %	851712 Telephones for cellular networks mobile telephones or for other wirele

Table: 3 Sectoral Diversification in Products for India's Exports				
Sector	Average share of sector in country's exports 2011-2015	Share of top 3 detailed products (HS6) in sector's exports		Sector's leading exported product HS6
		2011	2015	
Minerals	28.1 %	88.1 %	88.9 %	710239 Diamonds non-industrial nes excluding mounted or set diamonds
Chemicals	12.6 %	26.1 %	30.2 %	300490 Medicaments nes, in dosage
Fresh food	10.3 %	38.5 %	47.9 %	100630 Rice, semi-milled or wholly milled, whether or not polished or glazed
Basic manufactures	8.4 %	15.8 %	16.9 %	740311 Copper cathodes and sections of cathodes unwrought
Miscellaneous manufacturing	6.8 %	70.2 %	60.6 %	711319 Articles of jewellry&pt therof of/o prec met w/n platd/clad w prec met
Transport equipment	6.7 %	34.3 %	34.8 %	870322 Automobiles w reciprocatg piston engine displacg > 1000 cc to 1500 cc
Textiles	5.5 %	14.9 %	16.7 %	630260 Toilet&kitchen linen,of terry towellg or similar terry fab,of cotton
Clothing	5.4 %	26.2 %	20.6 %	610910 T-shirts, singlets and other vests, of cotton, knitted
Non-electronic machinery	4.4 %	15.6 %	15.9 %	870190 Wheeled tractors nes
Processed food	3.8 %	47.4 %	43.7 %	030617 Other frozen shrimps and prawns
Unclassified products	2.3 %	99.8 %	99.6 %	710812 Gold in unwrought forms non-monetary
Electronic components	1.9 %	19.5 %	18.7 %	850440 Static converters, nes
Leather products	1.6 %	32.0 %	33.7 %	640351 Footwear, outer soles and uppers of leather, covering the ankle, nes
IT & consumable electronics	1.3 %	76.9 %	35.6 %	851770 Parts of telephone sets, telephones for cellular networks or for other
Wood products	0.4 %	27.5 %	33.1 %	482390 Paper and paper articles, nes

Table: 4 Sectoral Diversification in Destination for Pakistan's Exports					
Sector	Sector's export growth in value (% p.a) 2011-2015	Share of top 3 importing countries in sector's exports		List of the top 3 importing countries	
		2011	2015	2011	2015
Unclassified products	9.9 %	37.1 %	51.5 %	United States of America ; Egypt ; Hungary	United States of America ; Germany ; Italy
Processed food	2.5 %	77.9 %	74.2 %	Afghanistan ; United Arab Emirates ; China	Afghanistan ; United Arab Emirates ; United States of America
Clothing	0.9 %	62.4 %	55.4 %	United States of America ; Germany ; United Kingdom	United States of America ; United Kingdom ; Germany
IT & consumable electronics	-0.7 %	58.8 %	82.3 %	United Arab Emirates ; France ; Saudi Arabia	United Arab Emirates ; Singapore ; Hong Kong (SARC)
Leather products	-0.9 %	41.6 %	36.4 %	Hong Kong (SARC) ; Italy ; China	Hong Kong (SARC) ; Italy ; Germany
Textiles	-2.6 %	35.7 %	42.7 %	United States of America ; China ; Bangladesh	United States of America ; China ; United Kingdom
Electronic components	-2.7 %	75.7 %	77.3 %	Afghanistan ; United Kingdom ; Kuwait	Afghanistan ; United Arab Emirates ; Saudi Arabia
Transport equipment	-4.5 %	41.1 %	35.6 %	United Arab Emirates ; Afghanistan ; Italy	Saudi Arabia ; Afghanistan ; Bangladesh
Chemicals	-4.6 %	35.1 %	36.7 %	Turkey ; Afghanistan ; Republic of Korea	Afghanistan ; China ; Republic of Korea
Wood products	-5.3 %	62.9 %	73.7 %	Afghanistan ; United States of America ; Egypt	Afghanistan ; Iran (Islamic Republic of) ; Egypt
Fresh food	-6.1 %	29.3 %	27.2 %	Afghanistan ; United Arab Emirates ; Bangladesh	Afghanistan ; United Arab Emirates ; China
Basic manufactures	-7.1 %	56.7 %	47.2 %	Afghanistan ; India ; China	Afghanistan ; United States of America ; India
Miscellaneous manufacturing	-9.5 %	56.0 %	43.3 %	United Arab Emirates ; United States of America ; Germany	United States of America ; Germany ; United Kingdom
Non-electronic machinery	-10.2 %	40.4 %	35.7 %	United Arab Emirates ; United Kingdom ; Afghanistan	United Arab Emirates ; Bangladesh ; United States of America
Minerals	-22.2 %	84.5 %	55.0 %	Afghanistan ; United Arab Emirates ; China	China ; Singapore ; Afghanistan

Table: 5 Sectoral Diversification in Destination for Bangladesh's Exports					
Sector	Sector's export growth in value (% p.a) 2011-2015	Share of top 3 importing countries in sector's exports		List of the top 3 importing countries	
		2011	2015	2011	2015
IT & consumable electronics	20.7 %	63.9 %	88.7 %	Japan ; France ; India	Hong Kong (SARC) ; Japan ; Malaysia
Leather products	15.1 %	41.1 %	36.9 %	Japan ; Hong Kong (SARC) ; Italy	Germany ; United States of America ; Japan
Unclassified products	9.0 %	56.5 %	66.1 %	China ; United States of America ; United Kingdom	United States of America ; Japan ; China
Electronic components	8.3 %	70.2 %	55.1 %	Japan ; India ; Nepal	Japan ; China ; Nepal
Clothing	2.0 %	51.8 %	44.8 %	United States of America ; Germany ; United Kingdom	United States of America ; Germany ; United Kingdom
Processed food	-0.3 %	44.5 %	41.2 %	Belgium ; United Kingdom ; United States of America	United Kingdom ; Germany ; Belgium
Transport equipment	-0.5 %	89.9 %	66.5 %	Germany ; United Kingdom ; Belgium	United Kingdom ; India ; Germany
Basic manufactures	-0.8 %	48.0 %	49.9 %	India ; United States of America ; Italy	India ; United States of America ; United Kingdom
Chemicals	-3.1 %	57.6 %	60.5 %	China ; Thailand ; Brazil	India ; China ; Sri Lanka
Fresh food	-4.1 %	41.1 %	34.3 %	India ; Belgium ; United Kingdom	India ; United Kingdom ; Belgium
Non-electronic machinery	-4.5 %	81.9 %	63.5 %	Singapore ; Japan ; India	Japan ; India ; Singapore
Minerals	-17.6 %	82.5 %	72.0 %	India ; Republic of Korea ; China	India ; Republic of Korea ; Japan
Textiles	-17.7 %	48.2 %	39.9 %	United States of America ; Germany ; United Kingdom	United States of America ; Turkey ; India
Miscellaneous manufacturing	-28.2 %	57.4 %	47.2 %	United States of America ; Germany ; United Kingdom	United States of America ; China ; Belgium
Wood products	-69.8 %	59.0 %	50.1 %	United States of America ; Germany ; United Kingdom	China ; India ; Malaysia

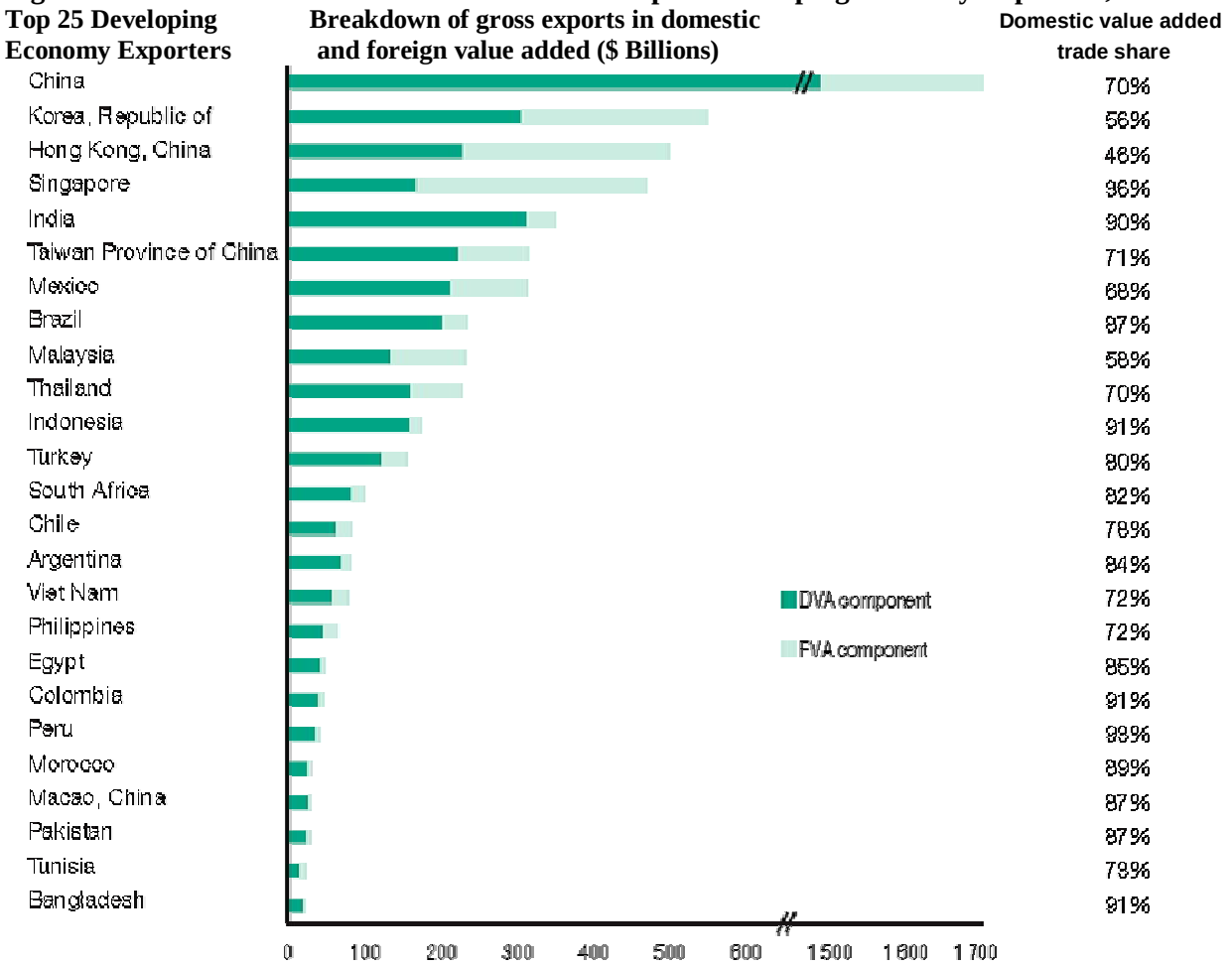
Table 6 Sectoral Diversification in Destination for India's Exports					
Sector	Sector's export growth in value (% p.a) 2011-2015	Share of top 3 importing countries in sector's exports		List of the top 3 importing countries	
		2011	2015	2011	2015
Wood products	6.5 %	29.5 %	29.2 %	United States of America ; United Arab Emirates ; Sri Lanka	United States of America ; United Arab Emirates ; Sri Lanka
Leather products	5.8 %	37.2 %	38.2 %	United Kingdom ; Germany ; Italy	United States of America ; United Kingdom ; Germany
Non-electronic machinery	5.6 %	26.3 %	25.9 %	United States of America ; Germany ; United Arab Emirates	United States of America ; United Arab Emirates ; Germany
Clothing	4.6 %	43.0 %	51.1 %	United States of America ; United Kingdom ; Germany	United States of America ; United Arab Emirates ; United Kingdom
Textiles	2.7 %	27.9 %	38.5 %	United States of America ; United Arab Emirates ; Bangladesh	United States of America ; China ; Bangladesh
Chemicals	2.7 %	24.7 %	27.7 %	United States of America ; China ; Germany	United States of America ; China ; Germany
Transport equipment	2.5 %	35.1 %	28.3 %	Singapore ; United States of America ; United Arab Emirates	Sri Lanka ; United Arab Emirates ; United States of America
Electronic components	1.7 %	26.9 %	25.6 %	United States of America ; Germany ; United Arab Emirates	United States of America ; United Arab Emirates ; Germany
Fresh food	1.4 %	31.1 %	29.5 %	China ; United States of America ; Viet Nam	Viet Nam ; United States of America ; Saudi Arabia
Basic manufactures	0.9 %	30.5 %	27.2 %	United States of America ; China ; United Arab Emirates	United States of America ; China ; United Arab Emirates
Processed food	0.2 %	26.0 %	30.7 %	United States of America ; Japan ; Viet Nam	United States of America ; Viet Nam ; United Arab Emirates
Miscellaneous manufacturing	-6.1 %	71.4 %	61.4 %	United Arab Emirates ; United States of America ; Hong Kong (SARC)	United Arab Emirates ; United States of America ; Hong Kong (SARC)
Minerals	-12.3 %	34.7 %	41.9 %	United Arab Emirates ; Hong Kong (SARC) ; Singapore	United States of America ; Hong Kong (SARC) ; United Arab Emirates
Unclassified products	-14.3 %	94.8 %	88.0 %	Area Nes ; United Arab Emirates ; Singapore	United Arab Emirates ; Singapore ; Area Nes
IT & consumable electronics	-24.7 %	33.3 %	37.7 %	United Arab Emirates ; United States of America ; Netherlands	United States of America ; United Arab Emirates ; Israel

Rapidly declining trade costs owning to large reductions in trade barriers, infrastructure developments, and technological advancements have changed the structure of global trade. The export oriented countries, particularly China, India and other emerging economies have become major drivers of global trade. It is because of reduction in trade costs that global fragmentation of production is taking place, resulting in greater trade flows, particularly within global value chains, and an increased the variety in the types of traded goods and services.

International production, trade and investments are increasingly organized within global value chains (GCVs)–where different stages of the production process are located across different countries. The GVC paradigm in trade theory implies that the comparative advantage of a country or a region changes much faster than earlier, and that it is not exclusively directed at goods, but at tasks. This tendency opens many opportunities and challenges for firms and workers both in developed countries and the emerging world. Figure 1 shows the top 25 developing economies in terms of domestic and foreign value added content of their exports, which in a way shows the interconnectedness of production processes in trading chains that stretches across many countries, with each country specializing in particular stages of a good's production sequence—a trend that has largely eluded Pakistan.

Countries that have similar endowments, skills and technological base, and are Pakistan's current and potential competitors have become comparatively more open and integrated in international trade, and as result are getting large gains by increasing number of exporters, variety of products and value of exports. These successful stories are not restricted to China and East Asia but also include Turkey, Costa Rica, Chile, and Mauritius.

Figure1: Domestic Value Added Trade Shares of Top 25 Developing Economy Exporters, 2010



Source: UNCTAD-Eora GVC Database.

Note: Excludes predominantly oil-exporting countries.

There are several impediments that the firms in Pakistan have to face including the fiscal constraints, low technological base and above all the trade policies that discourage the firms to participate in the global value chains. Government and export promotion agencies have also not played their role in exploring new markets and reducing institutional obstacles. This has resulted in slow growth of exports that is dependent on traditional exports to few international destinations. This is also because export market penetration has never been focus of our trade policy, let alone entering into new markets with existing products or new products. The trade policies are also oblivious of the need to enter and explore new markets with new products.

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