

PAKISTAN'S INDUSTRIAL COMPETITIVENESS

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The United Nation Industrial Development Organization's (UNIDO) annual review of industrial performance contains important insights for Pakistani policy makers. It provides overwhelming evidence to show that Pakistan is rapidly losing ground in world manufacturing market.

The UNIDO Index

The UNIDO report ranks 93 countries on the basis of a Competitive Industrial Performance (CIP) index over 1980-2000. There are methodological and conceptual problems involved in the construction of this index. The index shows a pronounced bias in favor of relatively small export oriented countries and therefore under-rates the performance of large industrial powers such as Brazil, China, India, Indonesia, Nigeria, Pakistan and the USA, it over-estimates the performance of Singapore, Ireland, Switzerland and Finland which are shown to have the top four ranks in 2000 and outperform the United States, Germany and Japan.

The CIP measures industrial performance in terms of (a) manufacturing value added (MVA) per capita (b) manufactured exports per capita (c) the share of MVA in GDP (d) the share of medium and high technology branches (defined in an excessively aggregate manner on the basis of the SITC three digit classification) in MVA (e) the share of manufacturers in total exports and (f) the share of medium and high technology branches (MHT as defined above) in manufacturing exports. Scores obtained on the basis of these indicators are added up and averaged out to yield a CIP value for each country. No theoretical justification is provided for (a) effectively assigning equal weight to all indicators (b) ignoring problems associated with assembly as against manufacturing of MHT products. (This yields an unrealistically high score for Malaysia, Thailand, the Philippines and Mexico) (c) using SITC three digit classifications for ascertaining technological content and (d) using competitiveness rather than productivity as a measure of performance. There is no justification for regarding manufacturing export rates as performance indicators. Germany in the nineteenth century, the USSR during 1927-1970, and China under Mao were insignificant manufacturing exporters yet their industrial performance –measured in terms of total factor productivity growth was outstanding,

Moreover export growth is in many cases a consequence of special privileges enjoyed for example by Israel and Mexico in America and Israel and Morocco in the EU market

Finally the CIP index omits Iran– an outstanding manufacturing sector performer in West Asia- despite including data on that country in the statistical appendixes. This can only be attributed to American political pressure on UNIDO. It is unfortunate that UNIDO like the ADB and the World Bank avoids reference to the good performance of countries that America hates. Using national data Iran's CPI score can be calculated at 0.361, which place it just below China

Pakistan's Industrial Performance

The UNIDO CIP index thus has many limitations but despite these it is the best measure available for assessing comparative industrial performance. Table 1 shows that

- Pakistan's rank fell from 47th to 49th with in the group of 93 countries during 1990-2000. It had risen from 53rd in 1980 to 47th in 1990. Pakistan's CIP growth rate was halved during 1990-2000. Pakistan's CIP score as a ratio of the maximum CIP score fell from 29 percent in 1990 to 28 percent in 2000. It had risen from 25 percent in 1980 to 29 percent in 1990. We see that policy liberalization has seriously hurt Pakistani manufacturing competitiveness in world markets.
- Policy liberalization has also hurt India whose rank declined to 40th in 2000 from 36th in 1990. The value of India's CIP index rose at a faster rate during the 1980s(8 percent) than it did during the 1990s
- China's performance is outstanding but again policy liberalization has slowed down improvement in China's global competitiveness. During 1980-1990 China's rank rose from 39th (behind India) to 26th and its CIP score rose by 29 percent. The gain during 1990-2000 was very modest in comparison, its CIP score rising by 17 percent and improvement in rank being marginal as is the improvement in China's CIP rank as a proportion of the maximum CIP value. As several empirical studies have shown China's productivity growth would have been faster had policy liberalization not been thrust upon China (Bagchi and Eatwell's studies for example)

Table 1: Ranks by Industrial Performance 1980-2000 (n=93)

	2000		1990		1980	
	CIP Score	Rank	CIP Score	Rank	CIP Score	Rank
Maximum Value	0.833	1	0.772	1	0.758	1
Israel	0.458	21	0.430	21	0.415	20
China	0.379	24	0.323	26	0.240	39
India	0.275	40	0.262	36	0.243	38
Pakistan	0.235	49	0.219	47	0.192	53
Minimum Value	0.040		0.058		0.039	

Source UNIDO

Table 2 and 3 compares Pakistan's performance in terms of the components of the CIP, it shows that

- Pakistan's MVA per capita was almost equal to that of India in 1990, by 2000 it had fallen to 70% of the Indian, 18 percent of the Chinese and 1.8 percent of the Israel MVA per capita level.
- Pakistan's manufactured exports per capita exceeded India's by over 160 percent and China's by 7 percent in 1990. By 2000 Pakistan's manufactured exports per capita were only 58 percent higher than that of India. They were less than a third of Chinese manufactured exports per capita and less than 2 percent of Israeli manufactured per capita exports.
- The medium and high technology (MHT) content of Pakistan manufactured net output was 57 percent of that of India in 1990. In 2000 this ratio had risen to 60 percent. There were also modest increases in this ratio relative to China and Israel.
- Pakistani medium and high technology content of manufactured exports was 45 percent of the Indian level in both 1990 and 2000. In comparison to China however Pakistan's relative manufactured export technology content ratio declined from 24 percent in 1990 to 20 percent in 2000. The medium and high technology content of manufactured exports is extremely low –only 9 percent in 2000 as compared to 58 percent for Israel, 20 percent for India and 45 percent for China.

Table 2: Performance As Measured by CIP Components

	1990				2000			
	MVA per capita \$	MHT in MVA percent	MX per capita \$	MHT in manufacturing exports percent	MVA per capita \$	MHT in MVA percent	MX per capita \$	MHT in Manufactured exports
Israel	2576	52.7	2355	41.9	3444	56.1	3680	57.8
China	113	57.6	42	34.4	350	57.3	183	44.6
India	60	55.3	17	17.9	90	58.4	38	19.7
Pakistan	56	31.9	45	8.1	63	35.1	60	8.9

Note a MX – Manufactured exports

Source UNIDO

Table 3: Relative Decline in Pakistan's Manufacturing Competitiveness

Value of Pakistan's Ratio Relative to other countries (percent)

	1990				2000			
	MVA per capita \$	MHT in MVA percent	MX per capita \$	MHT in manufacturing exports percent	MVA per capita \$	MHT in MVA percent	MX per capita \$	MHT in Manufactured exports
Israel	0.02	60.53	1.91	19.33	1.82	62.56	1.63	15.39
China	49.55	55.38	107.14	23.54	18.00	60.72	32.78	19.95
India	93.33	57.68	264.70	45.25	70.00	60.10	157.88	45.17

a MX – Manufactured exports

Source UNIDO

Tables 1 to 3 provide conclusive evidence that both Pakistan and India are losing ground in global manufacturing markets. The main reason for this loss of competitive strength by Pakistan is productivity growth stagnation. As Shahida Wizarat has shown in her path breaking book **Rise and Fall of Industrial Productivity in Paksitan** total factor productivity growth has been declining in Pakistan manufacturing since the collapse of the Ayub Khan regime, Econometric estimations by UNIDO shows that the value of the CIP indicator is strongly significantly associated with technological effort (measured by the R and D to GDP ratio and royalty payments). Regardless of the level of economic development learning and innovation lie at the core of the industrial productivity growth process UNIDO estimations show that the skill index is also positively associated with improvements in CIP, but the association between FDI inflows and CIP index values is negative for the 1990 sample. Foreign investment inflows do not stimulate competitiveness and productivity growth; UNIDO finds that R and D expenditures is by far the most important determinant of the level of MVA and of manufactured exports growth.

High R and D expenditure is associated with growth of medium and high technology (MHT) in net manufacturing output. The UNIDO Report explicitly notes that Indian competitiveness stagnation is a consequence of slow MHT sector growth during the 1990s. This is largely due to policy liberalization, which has induced firms to increase advertising expenditure at the cost of R and D spending

Policy liberalization is destroying Pakistani manufacturing. We continue to pursue a suicidal low, wage labor, repressive industrial strategy that bloats profits for textile and sugar Seths. The production of complex goods in capital goods industries is neglected and imperialist agencies such as the ADB and the World Bank continue to laud the immiserising and detechnologising growth in the manufacturing sector.

Promotion of complex capital industry products is essential for the transition to industrial maturity, flexibility and the move to activities with higher levels of income Elasticities of demand in world markets. Abandoning policy liberalization is essential if we are to move from globally declining industries such as textile and leather and vehicle assembly operations. Equally important is the abandonment of the low wage, labor repressive. Industrial strategy manufacturing growth acceleration is not sufficient. The quality of such growth is equally important. Growth linkages between manufacturing, agriculture and the service sector are strong but more important as the technological linkage, which transfer knowledge and skills for manufacturing to other sectors of the economy.

Maximizing such “ Knowledge linkage” is crucially important and the historical experience of major industrial powers China, South Korea, Germany and Japan has shown that this may involve a rapid of the production of high and medium technology computer destined for use by domestic producers, Unfortunately a liberal policy stance is

fundamentally incompatible with prioritizing the production of technology intensive goods. This means that it is almost impossible to address the basic structural weakness of the economy with the context of the liberal policy paradigm in a country such as Pakistan. The conclusion of the PGRF program offers an important opportunity for reorientating one national industrial strategy.