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Growth Structure of Exports, Remittances and Foreign Direct Investment in Pakistan

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1. Introduction[1]

This paper develops a narrative on the macroeconomic condition of Pakistan by analyzing the three sectors namely:1) exports, 2) foreign direct investment and 3) remittances to (i). uncover the policy, planning and institutional failures and, (ii). extend achievable, targeted and robust policy frameworks and recommendations that can enable the country to operate at its true economic potential and ensure a sustainable and growing economy that has poverty-reductionist and human developmental capabilities, tendencies and implications.

2. Exports

2.1. Current Structure/Make-up of Exports

The recent export data from the July-December period on a year-over-year basis from 2014 to 2017 points towards a negative growth in exports. Exports declined by 3.8% in July-December, 2016 compared to the same period in 2015. Details on percentage and value change in exports are presented in Table 1 below:

Table 1 - EXPORTS FROM PAKISTAN

MONTH	2013-14 EXPORT	2014-15 EXPORT	2015-16 EXPORT	2016-17 EXPORT	VALUE IN MILLION $ CHANGE OVER EXPORT VALUE	%
JULY	2,095	1,923	1,588	1,475	(113)	(7.13)
AUGUST	1,983	1,902	1,829	1,653	(176)	(9.62)
SEPTEMBER	2,617	2,175	1,726	**1,538**	(188)	(10.87)
OCTOBER	1,864	1,951	1,722	1,756	34	1.97
NOVEMBER	1,796	1,958	1,659	1,762	103	6.23
DECEMBER	2,261	2,149	1,782	1,727	(55)	(3.08)
JULY-DECEMBER	**12,617**	**12,058**	**10,306**	**9,911**	**(395)**	**(3.83)**

Source: Trade Development Authority of Pakistan

Table 2 shows the current make-up/structure of Pakistan's exports during the July-December period from 2016 compared to estimates from the same period in 2015. Clearly, textiles and clothing make-up the largest share of the total exports of Pakistan, trailed by a significant margin by agricultural and food commodities and then by mineral and metallic products.

Table 2 - EXPORTS FROM PAKISTAN
DURING JULY-DECEMBER 2016-17

NO.	COMMODITIES	VALUE IN '000' $ JULY-DECEMBER 2016-17 EXPORT	2015-16 EXPORT	% CHNG.
A)	TEXTILE & CLOTHING ETC.	6,156,584	6,259,783	(1.65)
B)	AGRO FOOD.	1,671,612	1,879,367	(11.05)
C)	MINERAL & METAL.	97,174	102,637	(5.32)
D)	ENGINEERING GOODS & OTHER MANF. GROUP	974,342	1,039,155	(6.24)
E)	OTHER SECTORS	1,012,044	1,027,833	(1.54)
a)	LEATHER SECTOR			
b)	CARPETS & RUGS MATS			
	Qty.000 Square Meters	972	948	2.53
	Value	43,631	52,514	(16.92)
	A.U.P. per Square Meters	44.89	55.39	(18.97)
c)	ALL OTHER	495,970	465,164	6.62
	TOTAL	9,911,756	10,305,775	(3.82)

Source: Trade Development Authority of Pakistan

2.2. Export Implications of the GSP-Plus

Pakistan's export performance under the GSP-plus status has not been as dissatisfactory as the general export performance of the country[1].However, serious work needs to be done by the government and the private sector to fully harness the economic potential of the GSP-plus status. According to EU's trade estimates, the region is a destination to around 21% of Pakistan's total exports – out of which more than 75% belong to the textile and clothing category[2]. The trade volume between the two regions has grown by 4.7% on an annual basis between 2007 and 2011.

The GSP-plus envisaged an export-led growth strategy for Pakistan and other beneficiaries of the preferential trade agreement who could find themselves competitive enough to get embedded in the international trade system. While it would be unfair to say that Pakistan has fared poorly at benefiting from the GSP-plus status, it will be safe to assume that the targeted benefits of the status could only be partially achieved.

While exports have grown and commentators in the EU region express satisfaction over the contribution of the status as a driver of developing country exports, there are certain areas that could have improved Pakistan's export volume to the EU thereby improving the balance of payments and exports situation of the country.

Amongst areas and sectors of the economy that have been ignored and therefore underutilized, foremost is the emphasis on creating a diversified export basket. Textiles and clothing is the backbone of the Pakistani economy and this sector alone contributes more than 75% of exports to the EU region. The over-reliance on the textile sector and the resulting lack of diversification puts Pakistan at a great trading risk while also over-burdening the under-resourced textile sector of the country which has a set of problems of its own.The energy crisis in the country and the government's holding back of promised tax refunds to the textile sector have constrained the institutional, technical and economic capacity of the sector.

Amidst such vulnerability of the textile sector, the inability of the country to diversify into other exportable commodities and products exacerbates the inherent risks of trading, even at preferential rates, with a technologically and institutionally advanced economy as that of the EU region.

Therefore, without a doubt, Pakistan's failure to fully benefit from the GSP-plus emanates out of the country's inability to utilize its natural, human and physical resources to create an effective mix of exportable commodities and products that can alleviate the risks of trade un-competitiveness. Apart from lack of product and export category diversification, the country has not been able to fully utilize the diversity present within the EU market. The 28 country union could have provided great avenues for social, cultural and economic integration, if policy-makers on the Pakistani side understood the true potential of the EU region. While Pakistan continues to experience positive exports growth to the EU region, the import potential of all 28 countries has not been exploited alike. Some countries like the United Kingdom (voted to leave EU) and Finland for instance have been prioritized as export destinations by the Pakistani investors while the importing potential of many other countries, continues to be under-estimated and therefore under-utilized[3].

In the nutshell, Pakistan has been unable to utilize the full benefits of the GSP-plus status due to ineffective and weak policy-making and implementation, lack of coordination and frequent disagreements between the government and industries and the surge in capital flight from key areas of the economy such

[1] According to our research, Pakistan underwent negative export growth during the July-Sep quarter of 2016-17 compared to 2015-16. The negative growth is estimated - for five major export commodity baskets – 9.27%. The export to the EU region however, underwent a positive growth in excess of 6% during the same period.

[2] Retrieved from the European Union's Trade Statistics: http://ec.europa.eu/trade/policy/countries-and-regions/countries/pakistan/jh

[3] World Trade Integrated Solutions (WTIS) data.

as infrastructure, technology, quality control and supply-chain management. Pakistan lagged in exports and growth behind competing countries such as Bangladesh, China, India, Morocco, Tunisia, Turkey and Vietnam[4]. These countries have shown much faster growth in exports and occupied a good share of foreign markets including the one of the EU.

2.3. Policy Framework to Enhance Export Competitiveness

The following set of policies that work in tandem with, and do so to expand the scope and analytical outreach of the trade policy framework of Pakistan, need to be considered in order to enhance and increase the international competitiveness of Pakistani exports. Policy-makers need to assess the bottlenecks and constraints, financial, institutional, technical and economic, to conduct a country-wide situation analysis.

This analysis should focus at the following three areas:

1. Market access to existing markets needs to be improved while exploration of new potential markets needs to be undertaken
2. Mechanization and technological enhancement of the production process within various productive sectors of the economy
3. Capacity building, enhancement and training of low-growth and underperforming sectors of the economy, like those identified above.

3. Foreign Direct Investment (FDI)

The discourse on foreign direct investment in Pakistan has to go beyond the traditional focus on the dual paradigm of security and extremism. While concerns regarding security and extremism have done to crowd-out foreign direct investment in the country, there are other controllable factors, most of them related to policy-making on part of the government, that have contributed to the lackluster performance in the growth of foreign direct investment in Pakistan.

The causal analysis of the decline in non-CPEC FDI from Pakistan which has declined around 45% in the period July-November 2016-17 over the same period in 2015-16 reveals that security and extremism, two factors that have been commonly cited as the drivers of negative growth in FDI assume little importance in light of the country's FDI growth during the military dictatorial period from 2000 to 2007.

Pakistan's active engagement in the global war on terror and the political economy of FDI during this time meant that if security concerns were so highly correlated with FDI, the country's FDI would have been the lowest during these seven years. However, data reveals that the FDI surged exponentially during these reaching a peak of $5.4 Billion (this high trend was linked with war on terror and these investments were made by coalition partners to mitigate terrorism) in the financial year 2007-2008 following which a period of decline started. The country's total; FDI was recorded at $824 million in the financial year 2012.

Therefore, while security concerns cannot be ignored as possible contributors to the crowding-out of non-CPEC FDI from the country, the following matrix includes factors that could have contributed to the decline while also assessing the intensity and scale of each to provide policy-makers in the country a tool to base their future policy decision on, while also enabling the government and private sector organizations to build their capacity in areas where Pakistan's industry has an engine to attract foreign direct investment. The functionality of the matrix is that like a policy analysis tool (template) that policy-makers can populate in context of the available data/information pertaining to each vertical and horizontal dimension of the matrix.

An investment policy was introduced to attract new investor in 2013. The idea was to take FDI stock 20% of the GDP by attracting $2 million in 2013, $2.5 billion in 2014, $ 2.75 in 2015, $ 3.25 in 2016 and $ 4 billion in 2017 through decreasing the cost of working together. In any case, in financial year 2013-2014 government could not accomplish its target.

The data points out that since 2007 more than half of the FDI inflows have been in two sectors; oil and gas and telecommunications. In IT sector the government needs to introduce policies in order to diversify its FDI inflows in other sectors as well. The government should focus on the stable macroeconomic policies and better law and order situations in the country to attract the foreign investors. Discontinuation of the ongoing policies with every changing government is discouraging for foreign investors which portraits Pakistan as an unstable economy, so it should be put into consideration. As Gulf countries are budget surplus so the government should focus on this specific region for FDI inflows[5].

Non-CPEC FDI Risk Analysis Matrix:

Contributory Factor	Scale of Risk	Intensity of Risk	Mitigating Factor	Policy
Energy and Infrastructural Deficiencies				
Institutional Void				
Lack of Governance				
Protectionist Policies: Presence of Tariffs and Quotas				
Capacity Shortfalls of Government				
Security and Extremism: International Imagery				
Presence of CPEC				

[4] http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_122530.02.2017.pdf
[5] Islamabad Policy Research Institute: http://www.ipripak.org/foreign-direct-investment-fdi-and-trade-liberalization-policies-in-pakistan/

3.1. Policy Measures to Attract Non-CPEC FDI

Industries and product categories that the country has competitive advantage in, apart from textiles and cotton, need to be explored and advanced through effective policy-making and promotion at the federal and provincial level. Industries like cement and commodities like sugar need to be promoted as high growth and high value commodities that can provide safe and secure opportunities for high profit earning for foreign investors.

The Board of Investment's (BOI) policy, 2013[6] that outlines a conceptual framework for cooperation of economic sectors for mobilizing the private investment, both domestic and foreign, provides targets and strategic solutions to the foreign direct investment problems of Pakistan. Amongst others, creation of one window, public-private sector dialogue, development of special economic zones and coordination with stakeholder ministries to realize 7%-8% growth target.

4. Remittances

Foreign remittances have been an important source of revenue for Pakistan. According to the world development indicators data, the personal remittances in the country increased by 17% in 2014 following which it increased by 12% in 2015[7]. Saudi Arabia continues to be the top remitter for Pakistan trailed by the United Arab Emirates, United States of America and the United Kingdom.Pakistan has been an attractive market for global labor imports and the country's workers have successfully embedded into labor markets across the Middle East, Europe and North America.

In the gulf region, Pakistan's remittances originate from countries including Bahrain, Kuwait, Qatar and Oman. The growth rates of remittances from these countries have been impressive even though the recent trends point towards the decline in investments due to labor market and worker issues faced by foreign workers in these countries.The European Union countries including Germany, Spain, Italy and Ireland also contribute to the remittance structure of Pakistan.

The visa regimes and the structural problems foremost of which are unfair pay and exploitative working hours continue to be experienced by Pakistani workers abroad. Even though remittances have continued to increase, their sustainability is a serious concern for a remittance-driven economy like Pakistan. The labor laws in Saudi Arabia and the Gulf countries and the stringency of policies have made remittances uncertain.

The informality of Pakistan's labor market that is devoid of labor market policies, laws and reforms posits several challenges and concerns for Pakistan's domestic and foreign workers employed in the Gulf, Europe and North American region. The workers continue to experience poor working and adverse foreign exchange conditions with regards to foreign remittances. The lack of formal money transfer channels and ease in the process of sending money also explain the declining trend in remittances.

4.1. Policy and Institutional Measures to Streamline the Flow of Remittances in Pakistan:

The problems pertaining to remittances need to be resolved through the following policy and institutional measures:

- The government of Pakistan through establishment and capacity development of relevant institutions must do to support initiatives that support the foreign workers technically, financially and through skill development exercises.
- People-centered, pro-poor and inclusive policy-making that focuses on the working conditions of the foreign workers must be adopted within Pakistan.
- The government through its foreign policy and international relations instruments needs to advance and take-up the visa and work permit related issues experienced by Pakistan's foreign workers.
- State-level talks between Pakistani and the governments of the concerned states need to address the problems faced by the country's foreign workers.
- Protection and prosperity of overseas Pakistanis should be a key element of the country's foreign policy.
- Regional organizations like the Economic Cooperation Organization (ECO) should be used to advance the agenda for unfair pay and poor working conditions especially in the Gulf countries.
- Capacity-building and development of the ministry of Overseas Pakistanis and human resource development[8].
- The services offered by the ministry are limited in both scale and scope; identity cards, police certificates and pension applications are all what the ministry office currently facilitates.
- The ministry could potentially collaborate with public sector organizations (PSOs) like the Punjab skills development fund (PSDF) to offer training and skills development programs in areas like technology and skilled and semi-skilled trades.

5. Conclusion:

Clearly, Pakistan's macroeconomic woes, as evident from the country's performance in exports, remittances and foreign direct investment, are deep rooted, interwoven and entrenched in social, political and economic structures that are complex and not easily decipherable. Therefore, an integrated and comprehensive policy approach that addresses the issues in depth and is able to overcome the policy and institutional barriers that are impeding growth in each of these sectors must be adopted and put forth for implementation. The government supported by the private sector, NGO's and multinational corporations has a significant role to play to realize the economic potential of the three sectors that can put the country back on the road to economic recovery. Without sustainable exports, an unfettered flow of foreign remittances and growth in foreign direct investment, the national output, savings, poverty-reduction and growth targets of the country, as laid out in the Punjab growth strategy (2015)[9] and the sustainable development goals (SDGs)[10] seem quite unachievable.

[6] The Investment Policy was released by the Federal Board of Investment of the Government of Pakistan in 2013.
[7] Word Development Indicators (WDI); the data product of the World Bank reports data on personal remittances for all countries.
[8] The Ministries of Overseas Pakistanis and Human Resource Development that worked in Individual Capacities prior to 2013 were merged to make one-unit in 2013. The capacity of the new combined unit is yet to be developed to serve the interests of the overseas Pakistanis.
[9] The Punjab growth strategy laid out in 2015 is a set of comprehensive strategic goals adopted by the Punjab government to be achieved in 2018.
[10] The sustainable development goals (SDGs) are a set of goals for sectors like poverty, education, health and sanitation that are adopted by the UNDP for achievement by international governments until 2030.