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**South Asia's Turn: Policies to boost competitiveness and create the new export powerhouse. Conference Edition.**

Book launch and discussion. 32<sup>nd</sup> Annual General Meeting and Conference: "Pakistan-China Economic Corridor and Regional Integration". Islamabad: Pakistan Society of Development Economists (PSDE), 13-15 December 2016.

**Comment**

This new World Bank's report<sup>1</sup> is a timely and much needed study of South Asia's export performance, its shortcomings and potentials. A team of economists has looked into the performance of selected industries, comparing them with their peers and coming out with some valuable recommendations.

There is no need to repeat what you have just heard from the World Bank representative. I also should be brief. What qualifies me to talk here anyway? Working at the South Asia Institute of Heidelberg University in the Department of International Economics meant dealing with South Asia's economic and social affairs in general and of Pakistan's in particular. I gratefully acknowledge association with PIDE on several occasions. As I found out, Germany's economic revival after the war and continued success in exports is of limited value elsewhere. To translate accepted wisdom of development economics into success obviously also is not easy. What Lawrence Klein, the Nobel laureate, once told the Annual General Meeting: "In the end it is work ethos and hard labour" is true, but it also needs at least a level playing field. Its absence was much debated in earlier decades and explains to some extent the still low level of exports in South Asia. Measured by China, South Asia is not yet an exports power house, and seeing recent developments in South Asia's largest economy, to expect South Asia to become the new export powerhouse is a charming idea, but more a hope than an expectation.

While independent South Asia tried to industrialize, industry itself changed, it never fully absorbed the rapidly growing work force. Industry nowhere in South Asia became the leading sector, not if measured by GDP and even less if measured by employment.

Trying to shelter the workforce led to split labour markets with those enjoying some safety and security vastly outnumbered by those in 'informal' or 'unorganized' occupations. Nationalization of industry and related services not only brought essential parts of the economy under national regulation, but also under the control of a bureaucracy that was ill prepared for that task and on top of it, in no way could control themselves.

So called developed, industrialized countries opened their markets only late and highly selectively, while new hurdles are constantly being set up.

Economic exchange with neighbouring countries especially in Africa and Asia remained low. As for Pakistan, being a member of SAARC and ECO did not help much.

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<sup>1</sup> Gladys Lopez Acevedo, Denis Medvedev, and Vincent Palmade: South Asia's turn. Policies to boost competitiveness and create the next export powerhouse. Conference Edition. Washington: International Bank for Reconstruction and Development, 2017.

Pakistan used to be more open to international trade than India until recently and has fallen back. Foreign exchange, a main bottleneck of earlier years, no longer is that scarce. Remittances, sent through official and other channels, and foreign credit and loans, allow imports that vastly outnumber exports. The good side is that Pakistani buyers have more choice and are quality conscious. Unlike other countries of the region, it is the less durable products that are often imported here.

So what is needed beyond the points listed in the new World Bank report that I fully subscribe? Most probably we have to look at each and every market separately. In Germany we have the largest number of so called hidden champions, highly medium sized, family owned specialized firms that have been surviving tight and difficult markets. That should be possible everywhere.

The main question is: How will the market develop in the foreseeable future? With the internet of things tangible products become more and more parts of system solutions, rented rather than bought: Established firms stop producing themselves. Good examples would be computing and telecommunication. Legal requirements of product safety and environmental and social standards constantly change. Exporters do not want to be excluded from markets, where they use to be successful. Examples would be leather products and textiles.

Foreign competitors also have to be watched. When Pakistan lost its leading position in ship wrecking, India and Bangladesh jumped in.

Finally, quality sells at a premium. For a major producer of quality cotton there is scope in premium and high end textiles.

Where I fully agree with the report is when it comes to the importance of clusters and economies of agglomeration. The attempts at regional development by spreading industrial investment thinly and evenly, rarely were successful. This is also the idea behind the China Pakistan Economic Corridor that we are discussing at this Meeting.

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