Pakistan Development Update:
Reviving Exports

Thursday October 28th, 2021
Islamabad
The persistent, and recently increasing trade deficit has called for import restrictions
The challenge with the trade deficit is not a large import bill...

Rather, it is how small the export receipts are...

*Imports of goods and services as a percentage of GDP, 2020 (Percent)*

*Exports of goods and services as a percentage of GDP, 2020 (Percent)*

Source: Data from World Development Indicators, World Bank staff calculations.
... exports have been low and slow growing...

Global market shares 2000-2020 (Exports per $10,000 of world's exports)

- Source: Data from World Development Indicators, World Bank staff calculations.
... exporters are not being ‘tempted’ into export markets, and not scaling up once they are in...

The incentive framework for exporters in Pakistan may be preventing entry into export markets and growing large, once in the market.

**Exporter entry rate (Percent)**

<table>
<thead>
<tr>
<th>Countries</th>
<th>Entry Rate (Percent)</th>
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</thead>
<tbody>
<tr>
<td>LAO</td>
<td>41</td>
</tr>
<tr>
<td>KHM</td>
<td>35</td>
</tr>
<tr>
<td>BGD</td>
<td>24</td>
</tr>
<tr>
<td>PAK</td>
<td>21</td>
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</table>

**Exporter average size (million USD)**

<table>
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<tr>
<th>Countries</th>
<th>Average Size (million USD)</th>
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<tbody>
<tr>
<td>KHM</td>
<td>4.4</td>
</tr>
<tr>
<td>BGD</td>
<td>3.8</td>
</tr>
<tr>
<td>LAO</td>
<td>1.7</td>
</tr>
<tr>
<td>PAK</td>
<td>1.4</td>
</tr>
</tbody>
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Source: Pakistan exporter microdata (FY15 to FY17) and Exporter Dynamics Database; World Bank staff calculations.
... there are special cases of diversification and upgrading, but they remain ‘pockets’...

Knowledge intensive services exports have been increasing substantially.
Why and What Can Be Done?
Productivity: An upgrading agenda needed!

Integration into global markets takes high productivity levels of productivity, which in turn increases with further integration...

...but Pakistani firms struggle to become more productive as they grow older.

Source: Lovo and Varela (2020). Note: the category of “non-exporters” is set as benchmark, with productivity equal to one. Systematic exporters are firms that exported in every year between 2012 and 2017. Exporters “to be” are firms that change status to exporter in the following year.

Incentives: high effective protection discourages productivity upgrading and exporting

High cascading of duties increase effective protection, associated with lower export orientation

Source: Pakistan customs data and World Integrated Trade Solution; World Bank staff calculations.
Credit: exporters face constraints to scale up – credit is part of the story

Maximizing the export response to the PKR depreciation takes credit for capacity expansion and market intelligence for facilitating entry of new exporters

Pakistan’s export response to a 1 percent appreciation

Pakistan’s export response to a 1 percent depreciation

Source: Brun et al. (2020). Note: the chart shows the quarterly adjustment in exports to a real effective exchange appreciation (left) and depreciation (right) of one percent, along with the confidence interval for the change (shaded green area).