



Research Proposal: Potential of Import- Substitution & Increasing Exports in Pakistan



Manzil Pakistan is a national non-profit think tank dedicated to developing and advocating public policy that contributes to the development of Pakistan. Our aim is to shape Pakistan to a country where policies on decisions of national interest are driven by non-partisan strategic thinking and implemented through consensus in the best interest of the people of Pakistan.

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Background

Economy of Pakistan currently without any doubt is in critical stage. Many policy measures are constantly under discussion to control downward economic trend of the country. One of the measures discussed and stressed is import substitution. Government of Pakistan via its ministries and policies has introduced measures to provide motivation towards import substitution.

In a recently launched “Roadmap for stability growth and productive employment” by Ministry of Finance tariff policy measures related to competitive import substitutions are discussed under “*The Medium-Term Plan for Strengthening Manufacturing and Exports*”

“*The Finance Supplementary (Second Amendment) Act, 2019*” particularly offers tariff concessions to those industries that can offer import substitution. It has lowered tariffs on the raw materials and intermediate goods that can help local firms in meeting local demand that is currently being fulfilled by the foreign firms.

Also Ministry of Commerce in its draft “*Trade Related Investment Promotion Strategy (TRIPS)*” seeks the following direction for investment related measures to channelize investment into export-oriented production and competitive import substitution.

- a) Identify the priority sectors to incentivize and facilitate efficiency seeking investment in the manufacturing sector
- b) Identify the critical enablers for attracting trade related investment – e.g. competitive production environment, market size and time-bound protection, market access and investment eco-system etc.
- c) Provide the policy measures under the investment enablers in the priority sectors
- d) Devise strategy for investment promotion and implementation of the policy

Manzil Pakistan’s Role

Building on government’s intention and action Manzil Pakistan has made an elementary effort to identify and highlight potential sectors for import substitution. Also at Manzil Pakistan we acknowledge that further due diligence is required to drive any policy recommendation, which can be carried out with anticipated support from Board of Investment Pakistan.

Import Classifications of Pakistan for FY18 & FY19

To understand import classification and segmentation import payment data of all commodities imported by Pakistan in FY18 and FY19 is compared side by side. In Table 1 two pie-charts side by side compare top 10 segments of total imports.

Some apparent observations:

- Top-10 remains same over both years, i.e. FY18 and FY19.
- There is decline in imports of Machinery and Mechanical Appliance in FY19 vis-à-vis FY18 by almost USD 2 billion, a major contribution behind decline in overall imports;
- Metal products import also declined by almost a billion USD;
- Vehicles, Aircraft, Vessels and transport equipment imports declined by almost a billion USD;
- Whereas Mineral Imports were increased by more than a billion USD.

From our cursory research, following major import substitution potential sectors emerge out. The selection is based on technological complexity and industry linkage of the sector. Also recommended policy directions as given in Table 3 required short-term planning and low-investment.

- Textiles and Textile Articles
- Base Metals and Articles or Base Metal
- Vegetable Products
- Prepared Foodstuffs; Beverages, Spirits, Vinegar and Tobacco
- Wood and Articles of Wood
- Live Animals and Animals Products
- Raw Hide and Skins, Leather, Fur skins and Articles thereof
- Footwear, Headgear, Umbrellas, Walking Sticks etc.

Accumulated impact of all these sectors will have an expected potential of reducing our current import bill by **almost 6.5 billion USD**. With optimistic approach of further **including Hi-tech industries** such as Vehicle Aircraft, Vessels, Associated Transport Equipment (current **share is 4.7 percent**), and the potential of reducing imports will further improve and is expected to achieve a substantive value of **16.94 billion** of the total imports of Pakistan. However, long term planning and huge investment is required to substitute hi-tech import commodities. Given the time constraint it is essential to initiate planning from now so that we can secure our future.

Also, the current account deficit would likely to reduce by more than this, because besides import savings if the progress is made satisfactorily the above mentioned sectors would not only cater for domestic consumption but would also have export potential.

In long run progress in these sectors will facilitate diversity in Pakistan's exports which is currently concentrated in raw, resource based and low tech products.

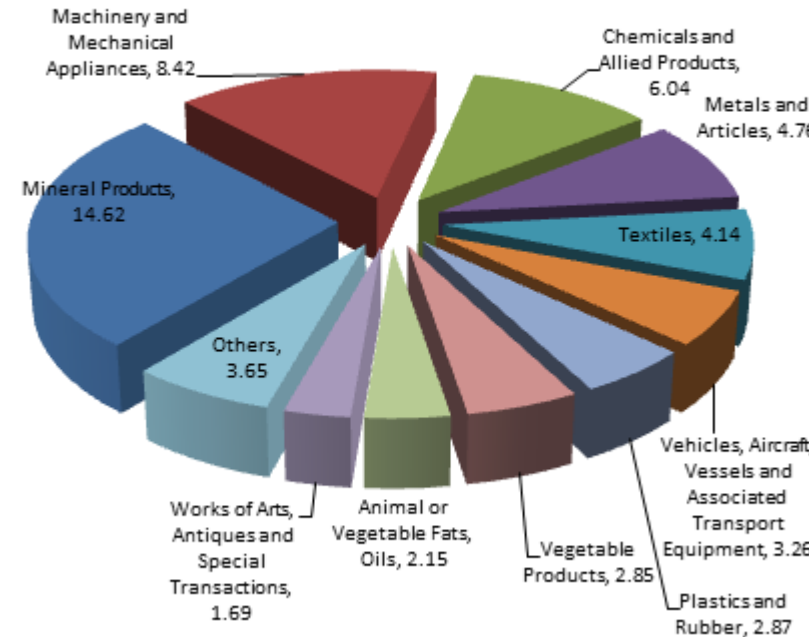
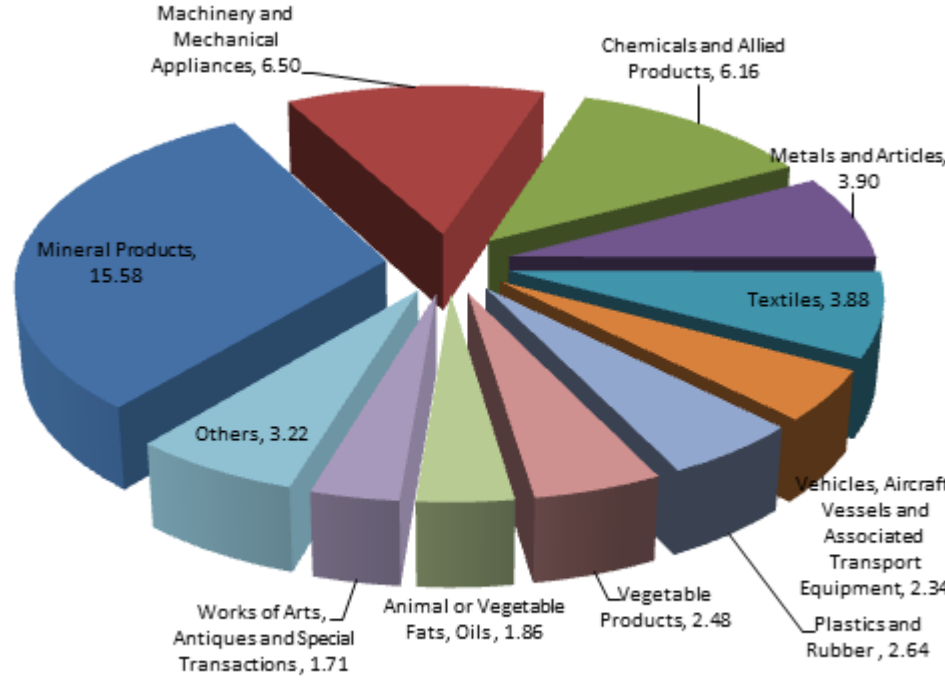
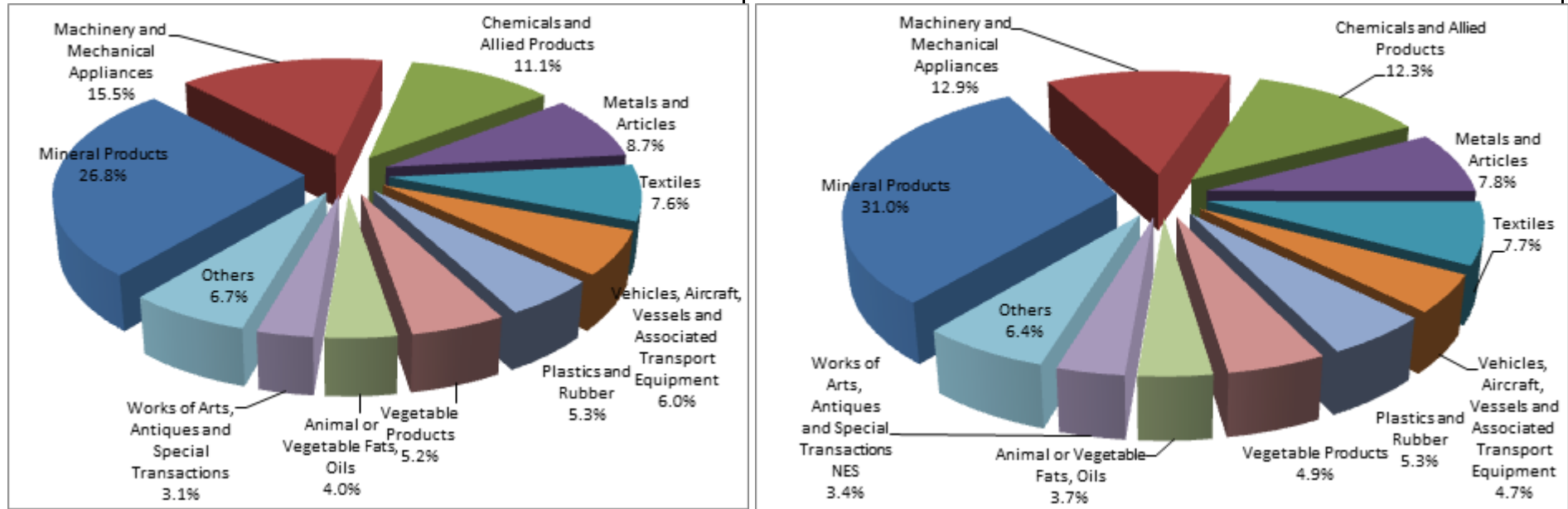
| 2017-18 | 2018-19 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|---|---|---------------------|------------------|-------|-------------------------------------|------|-------------------------------|------|---------------------|------|----------|------|--------|------|--|------|--------------------|------|---------------------|------|--------------------------------|------|--|------|--|----------|---------------------|------------------|-------|-------------------------------------|------|-------------------------------|------|---------------------|------|----------|------|--------|------|--|------|--------------------|------|---------------------|------|--------------------------------|------|--|------|
| Imports in Value (Billion USD) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|  <table border="1"> <caption>Imports in Value (Billion USD) - FY18</caption> <thead> <tr> <th>Category</th> <th>Value (Billion USD)</th> </tr> </thead> <tbody> <tr><td>Mineral Products</td><td>14.62</td></tr> <tr><td>Machinery and Mechanical Appliances</td><td>8.42</td></tr> <tr><td>Chemicals and Allied Products</td><td>6.04</td></tr> <tr><td>Metals and Articles</td><td>4.76</td></tr> <tr><td>Textiles</td><td>4.14</td></tr> <tr><td>Others</td><td>3.65</td></tr> <tr><td>Vehicles, Aircraft, Vessels and Associated Transport Equipment</td><td>3.26</td></tr> <tr><td>Vegetable Products</td><td>2.85</td></tr> <tr><td>Plastics and Rubber</td><td>2.87</td></tr> <tr><td>Animal or Vegetable Fats, Oils</td><td>2.15</td></tr> <tr><td>Works of Arts, Antiques and Special Transactions</td><td>1.69</td></tr> </tbody> </table> | Category | Value (Billion USD) | Mineral Products | 14.62 | Machinery and Mechanical Appliances | 8.42 | Chemicals and Allied Products | 6.04 | Metals and Articles | 4.76 | Textiles | 4.14 | Others | 3.65 | Vehicles, Aircraft, Vessels and Associated Transport Equipment | 3.26 | Vegetable Products | 2.85 | Plastics and Rubber | 2.87 | Animal or Vegetable Fats, Oils | 2.15 | Works of Arts, Antiques and Special Transactions | 1.69 |  <table border="1"> <caption>Imports in Value (Billion USD) - FY19</caption> <thead> <tr> <th>Category</th> <th>Value (Billion USD)</th> </tr> </thead> <tbody> <tr><td>Mineral Products</td><td>15.58</td></tr> <tr><td>Machinery and Mechanical Appliances</td><td>6.50</td></tr> <tr><td>Chemicals and Allied Products</td><td>6.15</td></tr> <tr><td>Metals and Articles</td><td>3.90</td></tr> <tr><td>Textiles</td><td>3.88</td></tr> <tr><td>Others</td><td>3.22</td></tr> <tr><td>Vehicles, Aircraft, Vessels and Associated Transport Equipment</td><td>2.34</td></tr> <tr><td>Vegetable Products</td><td>2.48</td></tr> <tr><td>Plastics and Rubber</td><td>2.64</td></tr> <tr><td>Animal or Vegetable Fats, Oils</td><td>1.86</td></tr> <tr><td>Works of Arts, Antiques and Special Transactions</td><td>1.71</td></tr> </tbody> </table> | Category | Value (Billion USD) | Mineral Products | 15.58 | Machinery and Mechanical Appliances | 6.50 | Chemicals and Allied Products | 6.15 | Metals and Articles | 3.90 | Textiles | 3.88 | Others | 3.22 | Vehicles, Aircraft, Vessels and Associated Transport Equipment | 2.34 | Vegetable Products | 2.48 | Plastics and Rubber | 2.64 | Animal or Vegetable Fats, Oils | 1.86 | Works of Arts, Antiques and Special Transactions | 1.71 |
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| <p align="center">Total Imports in FY18 was 56.5 Billion USD</p> | <p align="center">Total Imports in FY19 was 52.3 Billion USD</p> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

Table 1 Imports In Value

Imports (major product percentage share)



Source: State Bank of Pakistan

Table 2 Major Product Percentage Share

| SELECTED COMMODITIES AND THEIR RECOMMENDED POLICY DIRECTION (Short Term) | | | | |
|---|--|---|-------------------------------------|--|
| Major Group | Group % share in total imports (FY19) | Commodity Description | Import in FY19 (billion USD) | Recommended Policy Direction |
| Textiles and Textile Articles | 7.72% | Cotton | 1.612 | Agricultural Innovation |
| Base Metals and Articles or Base Metal | 7.77% | Iron and Steel | 2.776 | Invest in local alternative (Shipbreaking) |
| Vegetable Products | 4.92% | Edible Vegetables | 0.413 | Agriculture planning |
| | | Oil Seeds and Oleaginous Fruit | 1.232 | Agriculture planning |
| Prepared Foodstuffs; Beverages, Spirits, Vinegar and Tobacco | 1.08% | Preparation of Cereals, Flour and Starch etc. | 0.141 | SME setup |
| | | Preparation of Vegetables, Fruits and Nuts etc. | 0.038 | SME setup |
| Wood and Articles of Wood | 0.38% | Manufactured of Straw, Basket ware and Wickerwork | 0.000 | Promotion of local artisan |
| Live Animals and Animals Products | 0.38% | Dairy, Eggs, Honey and Edible Products | 0.133 | Agriculture planning |
| Raw Hide and Skins, Leather, Fur skins and Articles thereof | 0.14% | Raw Hides, Skins and Leather other than Fur skins | 0.041 | Develop Industry Linkages |
| | | Articles of Leather, Travel Goods and Handbags etc | 0.031 | Develop Industry Linkages |
| | | Furskins and Artificial Fur, Manufactures thereof | 0.001 | Develop Industry Linkages |
| Footwear, Headgear, Umbrellas, Walking Sticks etc. | 0.15% | Footwear, Gaiters & the Like; Parts of such Article | 0.065 | SME setup |
| | | Headgear and other Parts thereof | 0.006 | SME setup |
| | | Umbrellas, Walking-Sticks, hips Riding-Crops,Parts | 0.001 | SME setup |
| | | Prep Feathers, Human Hair/Articles, Artific Flowers | 0.001 | SME setup |
| Total | 22.53% | | 6.491 | |

Table 3 Selected commodities and their recommended policy direction (Short Term)

| SELECTED COMMODITIES AND THEIR RECOMMENDED POLICY DIRECTION (Long Term) | | | | |
|--|--|--|-------------------------------------|---|
| Major Group | Group % share in total imports (FY19) | Commodity Description | Import in FY19 (billion USD) | Recommended Policy Direction |
| Machinery and Mechanical Appliances | 12.93% | Electrical Machinery & Equipment and Parts thereof | 2.61 | 5 year planning and investment required |
| Products of Chemical or Allied Industries | 12.26% | Organic Chemicals | 2.67 | 3-4 year planning and investment required |
| | | Fertilizers | 0.78 | 3-4 year planning and investment required |
| | | Oils & Resinoids, Perfumery or Toilet Preparation | 0.17 | 2-3 year planning and investment required |
| | | Soap, Org. Surface-Active agents ,Washing Products | 0.18 | 2-3 year planning and investment required |
| Textiles and Textile Articles | 7.72% | Man-Made Filaments | 0.73 | 3-4 year planning and investment required |
| | | Man-Made Staple Fibers | 0.75 | 3-4 year planning and investment required |
| Vehicles, Aircraft, Vessels and Associated Transport Equipment | 4.66% | Vehicles other than Railway /Tramway Rolling Stock | 1.96 | 5 year planning and investment required |
| Pulp of Wood or of other Fibrous Cellulosic Material | 1.56% | Paper and Paperboard, Articles of Paper Pulp | 0.56 | 2-3 year planning and investment required |
| Prepared Foodstuffs; Beverages, Spirits, Vinegar and Tobacco | 1.08% | Sugars and Sugar Confectionery | 0.04 | 3-4 year planning and investment required |
| Total | 40.20% | | 10.45 | |

Table 4 Selected commodities and their recommended policy direction (Long Term)

Suggested Methodology

For comprehensive policy analysis of recommended commodities for import substitution following methodology is suggested.

Part-1 Industrial Studies

Detailed industrial studies need to be carried out to outline fundamentals, this may consist of but not limited to below aspects

- Shortfalls, structural issues & intrinsic challenges
- Capacity in terms of output and demand
- Investment (requirement, availability and sources of investment)
- Statutory support and Laws related to the industry
- Timeline and impact assessment for Import substitution and export potential

Part-2 Stakeholder Consultation

For a policy to be successful it is important that all relevant stakeholders are aligned and their respective input and expertise are incorporated. Following measures can be taken to take stakeholders on board.

- Identify national stakeholders (primary, secondary and tertiary)
- Identify international stakeholders
- Reach-out to existing lobbying platforms or associations
- Organise focus groups/ seminar/ workshops

Part-3 Policy Outline

Building on industrial analysis carried out in Part-1 & 2 policy outline will be drafted. The outline should set targets and be reviewed after set and agreed time for review. To draft a sound policy study factors should include but not limited to below aspects

- Map out all available and relevant national and international policies and treaties signed (e.g. trade agreements, compliance conventions etc.).
- Identification of maximum possible linkages and outcomes.
- Identification of target investors.
- International Economic and global environmental factors.

Part-4 Policy Advocacy / Marketing

Drafting a sound policy is essential but actual change comes out when it is implemented. Many policies become redundant because of insufficient advocacy and general misinformation. Below steps can be taken for proper information dissemination.

- Appoint a spokesperson who finds avenues to spread information and handle relevant queries.
- Organise regular review and stakeholder consultation sessions.

Perceived Benefits of Imports Substitution in Pakistan

Pakistan has large domestic market, thus promoting local industries would provide several advantages: employment generation, import reduction (improve current account deficit) and reduce the pressure on foreign reserves. Beside these, the import substitution initiative promotes and initiation of local industries, while demand will also be increased once the import substitution policies will be implemented. This, in turn, generates the gap in the economy, thus call for investment which could be either local / domestic investment or in terms of foreign investment.

Economies across the world have implemented Import Substitution Industrialization, which is a proven trade and economic policy for substituting foreign products with domestic production. It is also proven that import substitution has twin benefits. It also leads to increase in exports in the long terms, once the import substitution industries enters into economies of scale and the production exceeds the domestic demand.

Way Forward

The study presented in this report is a cursory attempt to build understanding of import diversity in Pakistan. Top-10, import categories are analysed side-by side for FY18 and FY19 to check import patterns and effect of import restriction measure taken currently by government 6 categories showed decline accumulating to total of 5.12% of overall import reduction.

The short & long term policy recommendations provided against each sector, further targeting individual commodity, are based on experience and general understanding of microeconomic dynamics in the country. There is a need to further improve recommendations by basing them on sound data and trade patterns.

The methodology provided in previous section lists aspects that should be catered in while doing further research for policy development and implementation.

At the end Manzil Pakistan within its humble capacity in policy research would like to continue the efforts and intends to assist Board of Investment Pakistan for development of sound policy on import substitution.