

# Industrial Growth: Moving up the Competitiveness Curve

**Omar Ayub Khan**

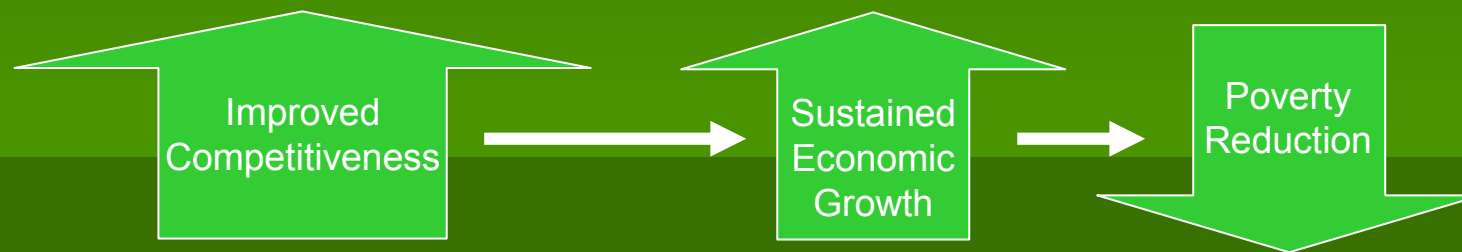
Minister of State for Finance,  
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Industrial Growth: Moving up the Competitiveness Curve

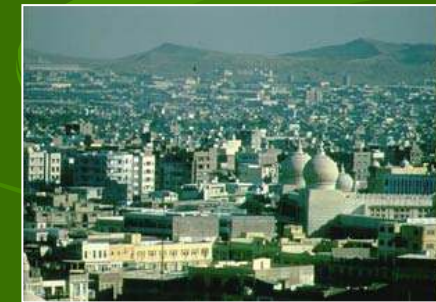
# Crafting a Competitive Advantage

*Improving Pakistan's Competitiveness*



Globalization is a reality that countries can no longer escape

Competitiveness is the only way to benefit from globalization and not become a victim



Industrial Growth: Moving up the Competitiveness Curve

## Crafting a Competitive Advantage

### *Improving Pakistan's Competitiveness*



The World Economic Forum's Global Competitiveness Report Is the Most Influential Ranking of a Country's Competitiveness and it Effects Pakistan's Image in the World Among Business, Government and Financial Leaders

Understanding and Monitoring the Rankings is Important

Improved Competitiveness Leads to Sustained Economic Growth Which Has Proven to Be Effective in Poverty Reduction and Employment Generation

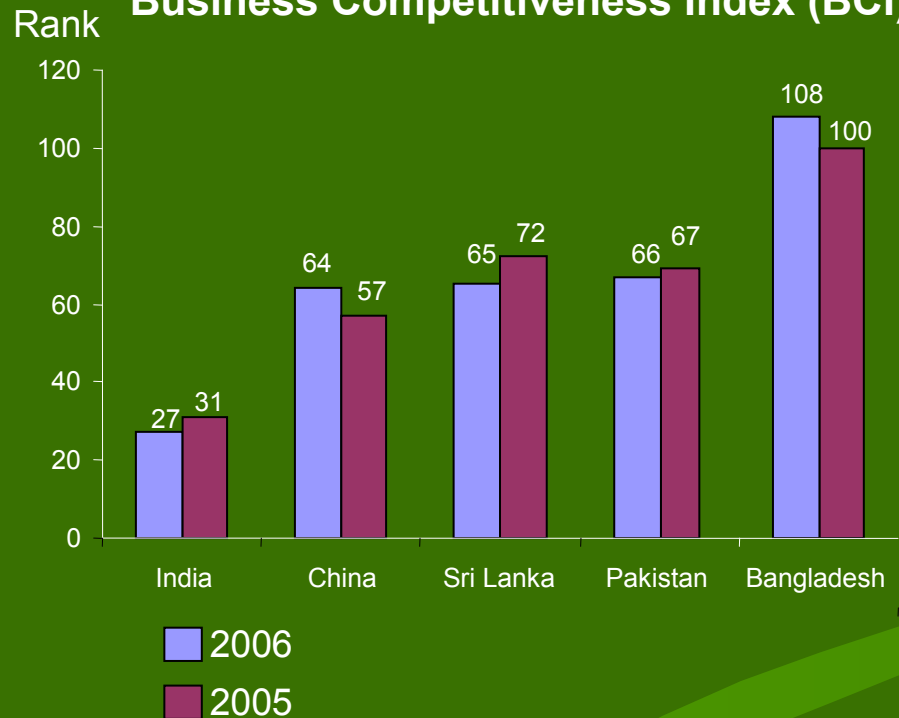


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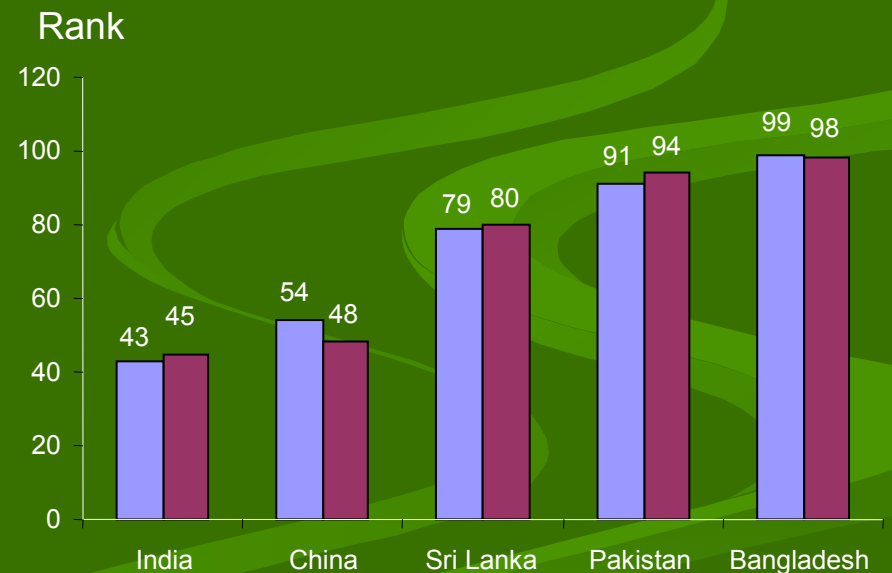
# Crafting a Competitive Advantage

Pakistan ranked 66<sup>th</sup> on the Business Competitiveness Index of Michael Porter which includes sophistication of company operations and strategy, and Quality of national business environment. Pakistan ranked 91<sup>st</sup> on the Global Competitiveness Index up from 94<sup>th</sup> place in 2005. Lower rankings on the GCI reflect inclusion of low health and education indicators

### Business Competitiveness Index (BCI)



### Global Competitiveness Index (GCI)



Source: World Economic Forum, Global Competitiveness Report, 2006-2007.

# Crafting a Competitive Advantage

Methodology for the Global Competitiveness Index Has 9 Key “Pillars”

Improving Pakistan’s Competitiveness

Weighting of Global Competitiveness Index 9 “Pillars”

		<u>Ranks</u>	
	<u>Weight</u>	<u>Pak</u>	<u>India</u>
<u>Basic Requirements (50%)</u>			
■ 1. Institutions	12.5%	79	34
■ 2. Infrastructure	12.5%	67	62
■ 3. Macroeconomy	12.5%	86	88
■ 4. Health and Primary Education	12.5%	108	93
<u>Efficiency Enhancers (40%)</u>			
■ 5. Higher Education and Training	13.3%	104	49
■ 6. Market Efficiency	13.3%	54	21
■ 7. Technological Readiness	13.3%	89	55
<u>Innovation and Sophistication (10%)</u>			
■ 8. Business Sophistication	5.0%	66	25
■ 9. Innovation	5.0%	60	26

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Global Competitiveness Report 2006

Dynamism as defined by Michael Porter

## Improving Pakistan's Competitiveness – Outperforming India on GCI

		PAKISTAN	INDIA
1	HIRING AND FIRING PRACTICES	26	101
2	TIME REQUIRED TO START BUSINESS	30	97
3	INTEREST RATE SPREAD	37	51
4	REAL EFFECTIVE EXCHANGE RATE	45	78
5	GOVERNMENT INEFFICIENCY (RED TAPE, BUREAUCRACY AND WASTE)	47	51
6	QUALITY OF PORT STRUCTURE	52	61
7	MARKET FLEXIBILITY	54	77
8	PUBLIC TRUST OF POLITICIANS	55	59
9	BURDEN OF GOVERNMENT POLICY	55	67
10	OVERALL INFRASTRUCTURE QUALITY	67	69
11	GOVERNMENT DEBT/GDP RATIO	69	88
12	3 <sup>RD</sup> PILLAR: MACRO ECONOMY	86	88
13	QUALITY OF ELECTRICITY SUPPLY	87	97
14	MALARIA PREVALENCE	87	94
15	GOVERNMENT SURPLUS/DEFICIT	89	122

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## Improving Pakistan's Competitiveness – India Outperforming Pakistan on GCI

		PAKISTAN	INDIA
1	EFFICACY OF CORPORATE BOARDS	122	25
2	EXTENT OF STAFF TRAINING	104	26
3	PREVALENCE OF FOREIGN TECHNOLOGY LICENSING	65	3
4	QUALITY OF MANAGEMENT SCHOOLS	64	4
5	EFFECTIVENESS OF ANTITRUST POLICY	81	26
6	INTENSITY OF LOCAL COMPETITION	87	43
7	BUYER SOPHISTICATION	63	24
8	LOCAL SUPPLIER QUANTITY	42	4
9	VENTURE CAPITAL AVAILABILITY	54	20
10	LOCAL SUPPLIER QUALITY	60	26
11	PRODUCTION PROCESS SOPHISTICATION	67	34
12	DEGREE OF CUSTOMER ORIENTATION	68	28

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Global Competitiveness Report 2006

## We Need to Improve Further

		PAKISTAN	INDIA	MALAYSIA
1	HIRING AND FIRING PRACTICES	26	101	59
2	TIME REQUIRED TO START BUSINESS	30	97	40
3	INTEREST RATE SPREAD	37	51	20
4	REAL EFFECTIVE EXCHANGE RATE	45	78	30
5	GOVERNMENT INEFFICIENCY (RED TAPE, BUREAUCRACY AND WASTE)	25	59	24
6	QUALITY OF PORT STRUCTURE	52	61	13
7	MARKET FLEXIBILITY	54	77	26
8	PUBLIC TRUST OF POLITICIANS	55	59	17
9	BURDEN OF GOVERNMENT POLICY	55	67	7
10	OVERALL INFRASTRUCTURE QUALITY	67	69	19
11	GOVERNMENT DEBT/GDP RATIO	69	88	49
12	3 <sup>RD</sup> PILLAR: MACRO ECONOMY	86	88	31
13	QUALITY OF ELECTRICITY SUPPLY	87	97	33
14	MALARIA PREVALENCE	87	94	77
15	GOVERNMENT SURPLUS/DEFICIT	89	122	91

## Crafting a Competitive Advantage

### Global Competitiveness Report Recognized Government of Pakistan's Reforms

<u>Confidence in Government Integrity</u>	<u>2005</u>	<u>→</u>	<u>2006</u>	<u>Improvements</u>
• Ease of Government Compliance	94	→	55	39
• Public Trust in Government	83	→	55	28
• Ethics and Corruption	79	→	59	20
• Favoritism of Government Officials	69	→	52	17
• Government Efficiency	61	→	47	14
• Undue Influence	81	→	72	10
<u>Financial Sector Reforms</u>				
• Interest Rate Spreads	67	→	37	30
• Financial Market	71	→	53	18

# Crafting a Competitive Advantage

## Ranking Reflecting Private Sector Competitiveness

	Ranking	
	<u>Pakistan</u>	<u>India</u>
■ Willingness to delegate authority	107	26
■ Extent of staff training	104	26
■ Reliance on professional management	91	22
■ Extent of incentive compensation	89	19
■ Extent of regional sales	78	42
■ Company spending on research & development	59	25
■ Control of international distribution	51	27
■ Capacity for innovation	41	25

## Crafting a Competitive Advantage

### Private Sector Development and Enhancing the Role of the Private Sector

The Government of Pakistan will enhance the role of the private sector by:

- 1) Lowering the barriers to small and medium enterprises (SMEs)
- 2) Encouraging a modern banking sector that expands lending
- 3) Encouraging domestic as well as foreign investment
- 4) Attracting foreign investment (FDI) – Example of automotive industry: auto production targets and employment

## Crafting a Competitive Advantage

### Success Factors for Special Economic Zone's (SEZ)

- High Quality Infrastructure
- Well-thought out “Industry Attraction Plan”
- Access to a productive labour pool
- Streamlined processes

*Countries with successful SEZs are characterized by a well thought out strategy, committed policy makers, and an ability to quickly deploy resources to fix weaknesses and leverage strengths.*

# Crafting a Competitive Advantage

## SEZs in China

- China has 1550 officially sanctioned SEZs



- National Level Zones: 204
- Provincial Level Zones: 1346

## Crafting a Competitive Advantage

SEZs have played a critical role in China's economic development

- Special Economic Zones were first established in 1980 in 4 key coastal cities and served as laboratories for economic reform
- China's SEZs make up a tremendous part of the country's economy
  - As a whole, SEZs account for 68% of GDP, or \$1.5 trillion
  - The top 54 national level zones had a GDP of \$132 billion in 2006, 5.9% of China's total
  - 87% of China's exports are produced in SEZs
  - The national level zones attracted \$9.2 billion in FDI in 2004

## Crafting a Competitive Advantage

Chinese government plays the central role in SEZ development

- All zones are owned, developed, and managed by either central, provincial, or municipal governments
- Investors can only acquire land use rights, not buy
- Tax incentives were set by the central government and foreign investors enjoyed the most favorable terms
- Tax rates were recently unified and incentives are focused on promoting encouraged industries
- Rampant and inefficient SEZ development at the local levels caused the central government to step in and rationalize thousands of zones

## Crafting a Competitive Advantage

### Initiatives are Undertaken to Promote SEZs in Pakistan

- Benchmark the SEZ experience from similar developing countries
- Identify key lessons that Pakistan can use in its own SEZ strategy
- Make recommendations for how Pakistan should proceed with SEZ strategy in order to maximize benefits for employment, investment, and competitiveness

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# Crafting a Competitive Advantage

Special Economic Zones, Industrial and IT parks and SME cluster development

Existing and Planned Industrial Parks, e.g.,

- “Textile City” in Karachi
- “Marble City” near Hub in Balochistan.... also Lasbela Industrial Estate Limited... various factories including Cadbury and “Faraz” Apple Juice
- Bin Qasim Industrial Park near Karachi
- Gwadar Port – for Arabian Sea and Gulf trade
- Planned projects around Pakistan
- Specially designed parks for automotive and food processing



Sindh

NWFP

Punjab

Balochistan

## Crafting a Competitive Advantage

### *Policies for Value Addition in Agriculture and Food Processing*

- De-bottlenecking of food processing value chain including storage, equipment, packaging/ labeling and quality control
- Transition from traditional (Pakistan) to global (e.g., Thailand) approach to food processing
- Improving quality of food e.g., fortifying wheat flour, better packaging, consumer awareness of health issues
- Strengthening science-based institutions such as PARC/ National Agricultural Research Council
- Improving process efficiency and minimizing post harvests waste
- Promoting forward and backward linkages between processors, farms and markets
- Improving export oriented infrastructure



**Thank You**

# Industrial Growth: Moving up the Competitiveness Curve

## *END OF MAIN SLIDES FOR PILLAR 2*

- *Remaining slides are supporting information and are hyperlinked to main slides*
- *Go back to Start Pillar 2 Presentation*

# Industrial Growth: Moving up the Competitiveness Curve

## Automotive Industry in Pakistan (Top 4 OEMS)

<u>Assembler</u>	<u>Production</u>		<u>Capacity</u>	<u>Target</u>
	<u>2001</u>	<u>2006</u>	<u>2006</u>	<u>2011</u>
----- <i>Units</i> -----				
Pak Suzuki	19,139	99,734	120,000	250,000
Indus Motors (Toyota)	13,210	41,552	50,000	100,000
Honda Atlas	5,824	30,464	32,500	100,000
Dewan Farroq (Kia and Hyundai)	8,514	17,972	20,000	50,000
<b><u>TOTAL</u></b>	<b><u>46,678</u></b>	<b><u>189,722</u></b>	<b><u>222,000</u></b>	<b><u>500,000</u></b>

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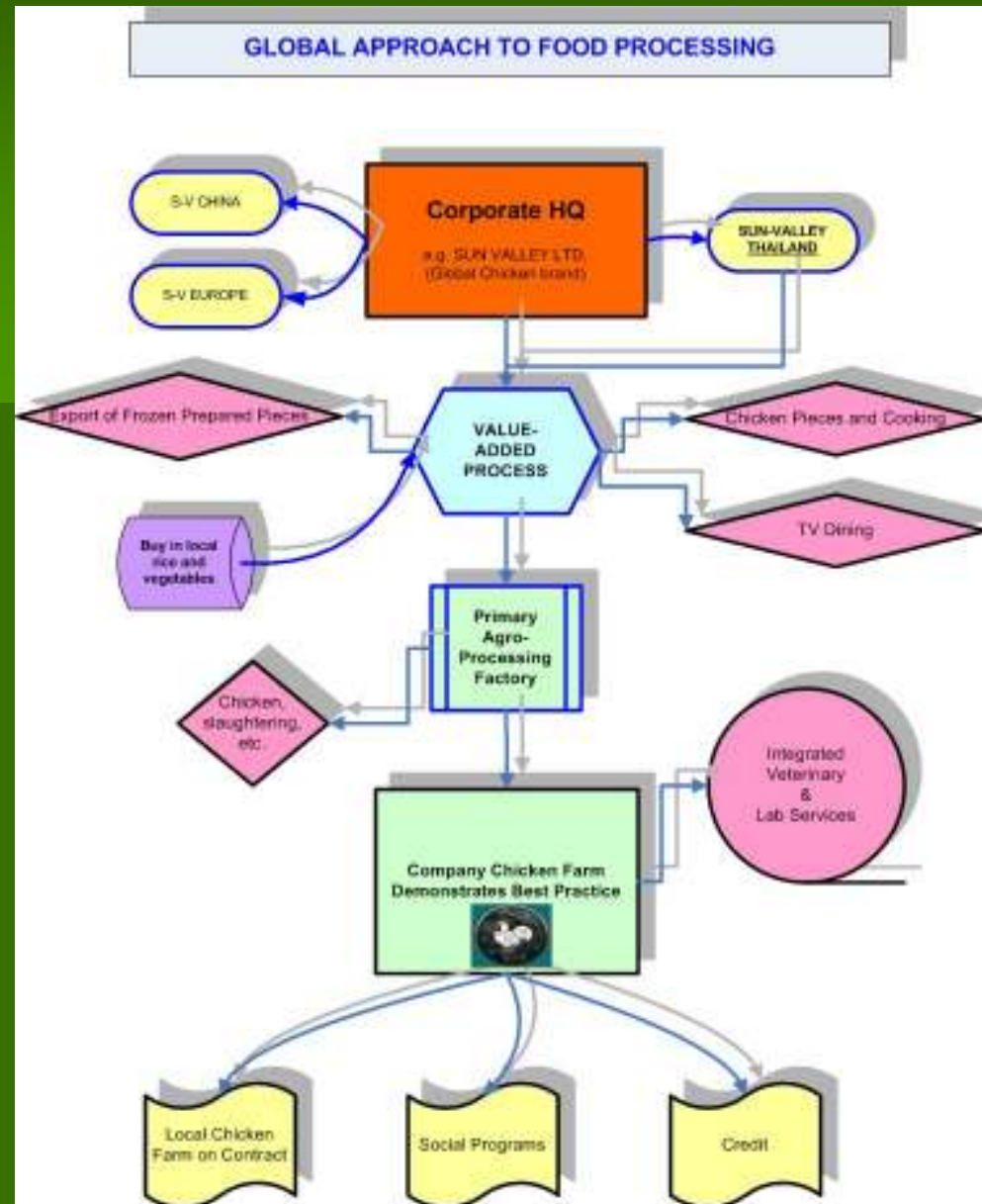
## Automotive industry employment targets, 2011

<u>Occupation</u>	<u>Jobs</u>	<u>%</u>
Management	21,000	7%
Professional/engineers	15,000	5%
Technicians	9,000	3%
Maintenance engineers	33,000	11%
Service engineers	15,000	5%
Assembly workers	54,000	18%
Machine tool operators	45,000	15%
Other unskilled	108,000	36%
<b><u>TOTAL</u></b>	<b><u>300,000</u></b>	<b><u>100%</u></b>

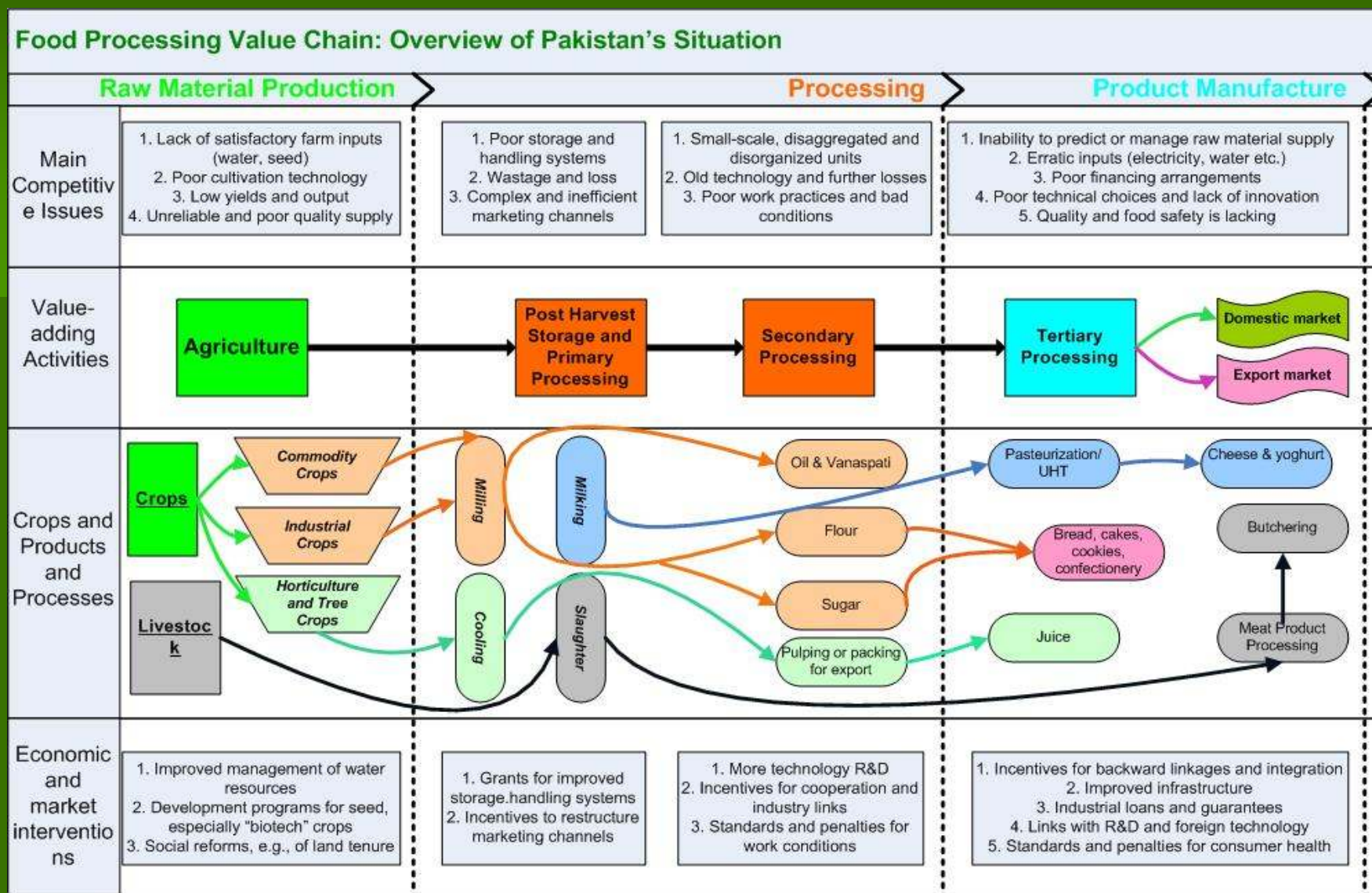
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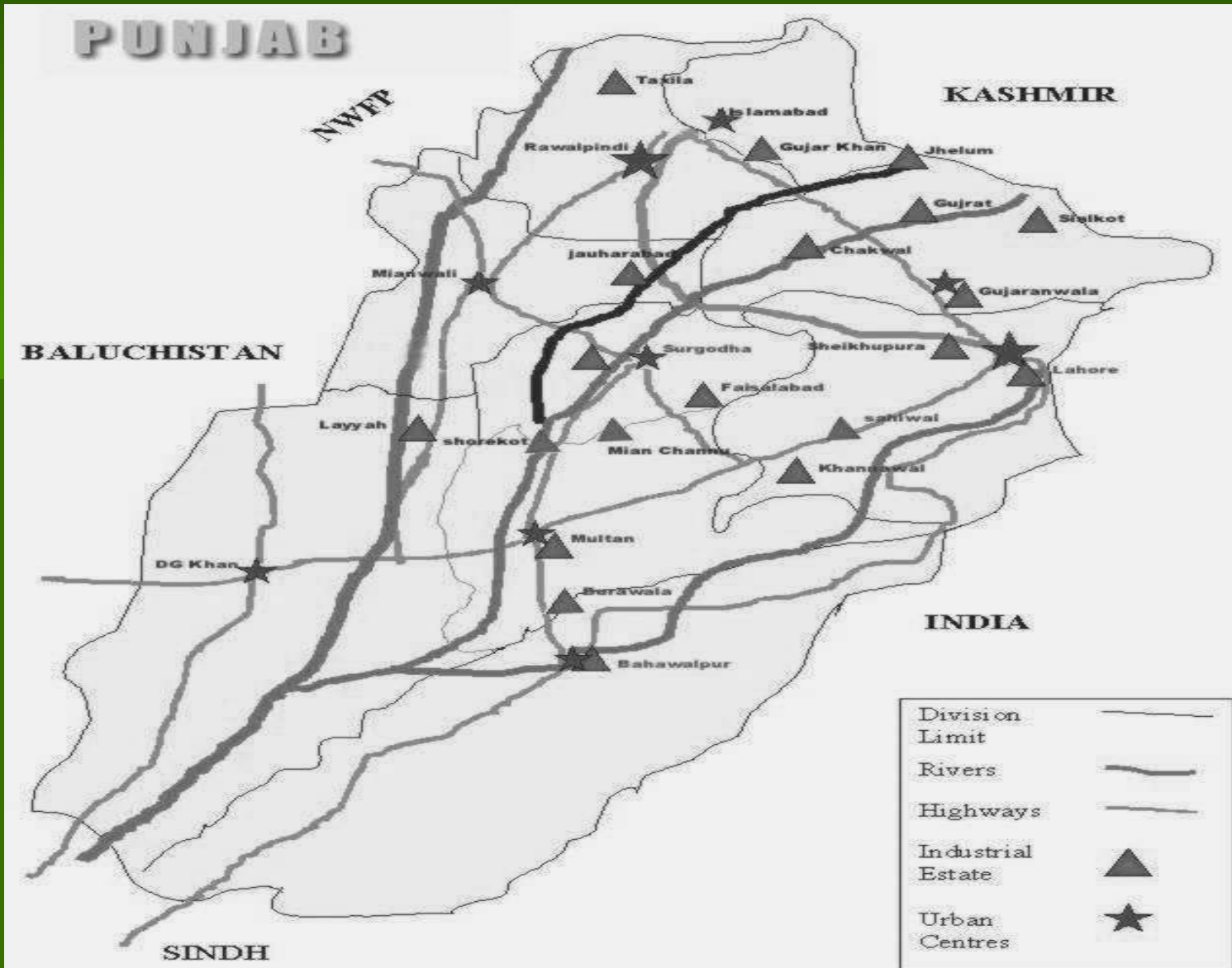


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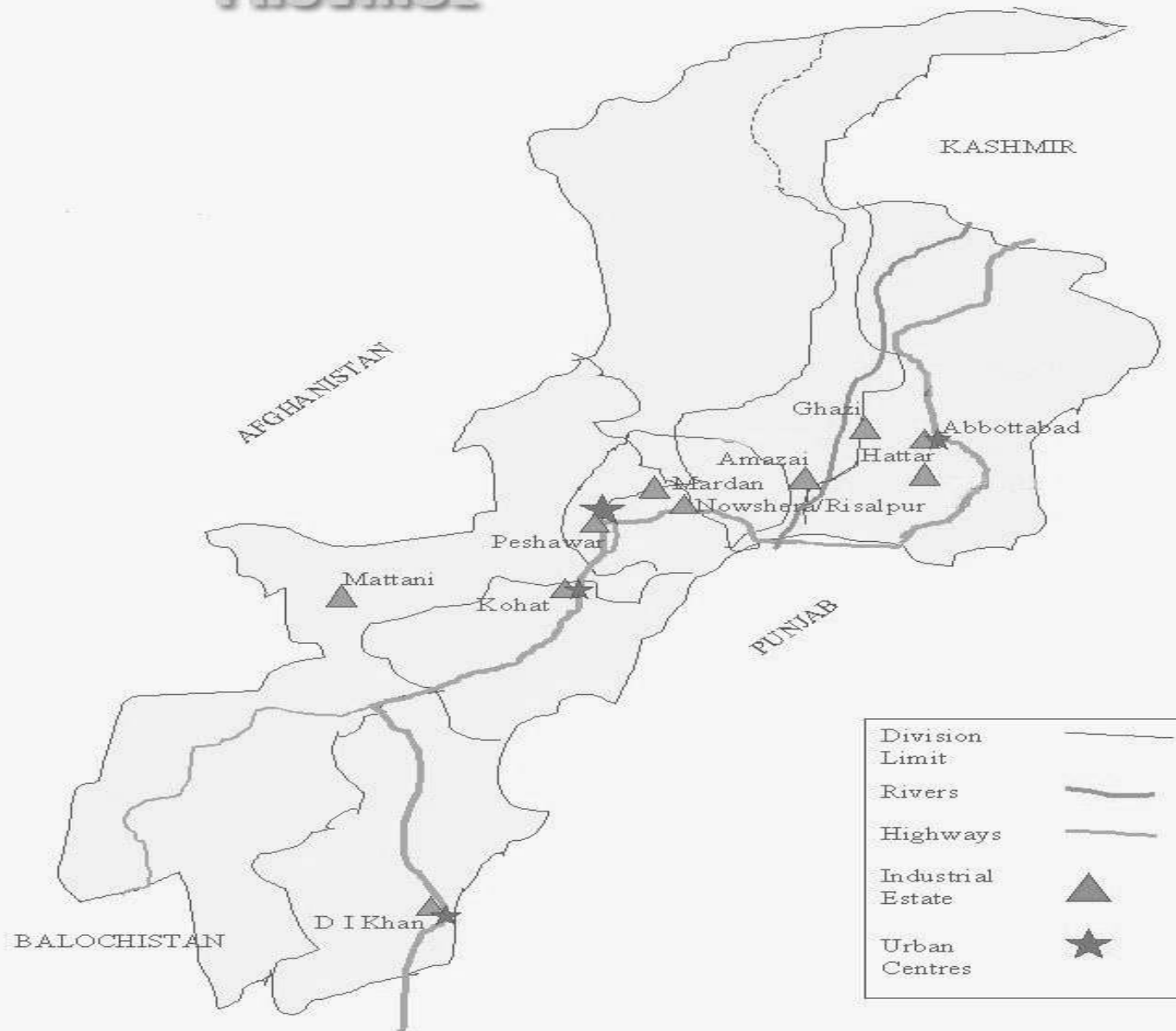






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# NORTH WEST FRONTIER PROVINCE



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## Industrial Growth: Moving up the Competitiveness Curve

# Crafting a Competitive Advantage

## Intensifying Deregulation, Privatization and Liberalization

Privatization by Sector, Value and Number of Transactions, up to Dec 2006

<u>Sector</u>	<u>Total Value Million Rupees</u>	<u>% Total Value</u>	<u>Average Value</u>	<u>Number of transactions</u>	<u>% Total Number</u>
Banking and Finance	113,475	27.11	4,364	26	15.95
Energy	57,559	13.75	4,111	14	8.59
Telecomms.	186,058*	44.44	46,515	4	2.45
	<i>* includes privatization of 26 of class B shares of PTCL</i>				
Industrial units	59,316*	14.17	565	105	64.42
	<i>*includes KESC and Pakistan Steel Mills</i>				
Newspapers	270	0.06	54	5	3.07
Tourism	1,805	0.43	451	4	2.45
Other	152	0.04	30	5	3.07
<b><u>TOTAL</u></b>	<b>418,635</b>	<b>100.00</b>	<b>2,568</b>	<b>163</b>	<b>100.00</b>