Supporting Export Competitiveness amid COVID-19 in Pakistan

Sustainable Development Policy Institute (SDPI)

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Contents

Motivation

Exploring possibilities for an export-led recovery

Enabling non-traditional export sectors to pivot better

Early growth signs in exports as lockdowns ease – is this sustainable?

Problem framing

Challenges faced by trade sector during pandemic; revenue loss or gain when we compare pre-pandemic and peak of pandemic periods?

Types of additional costs faced by trade sector during lockdowns?

Coping strategies adopted by exporting firms?

Did government support help to pivot? Which measures delivered most? What new measures are desired?

Type of engagement which could strengthen understanding of loss and response during future crises?

Methodology & Data

Early evidence

- Finding answers in data on flow and direction of trade
- Iterative rounds of public private dialogues
- Enterprise survey

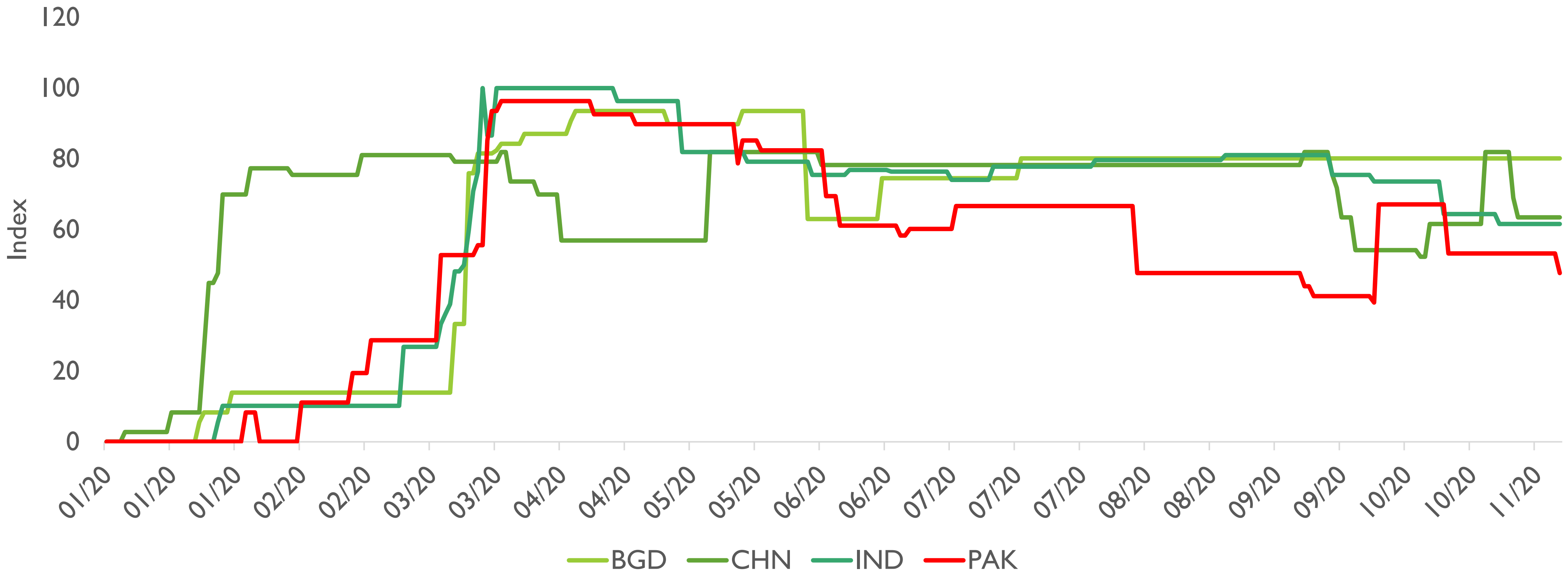
Methods

- Delphi technique
- Cross sectional regressions
- Diffusion index
- Extensive triangulation of qualitative information

Sample Distribution

Sectors	Exporting Firms (Number)
Traditional Sector	183
Value added textile	136
Value added leather	47
Non-Traditional Sector	73
Agro-processing	23
Processed food	50
Services Sector	
Digital sector	50
Freelancers	
Total Sample Size	**306**

Stringency index for lockdown (select countries)

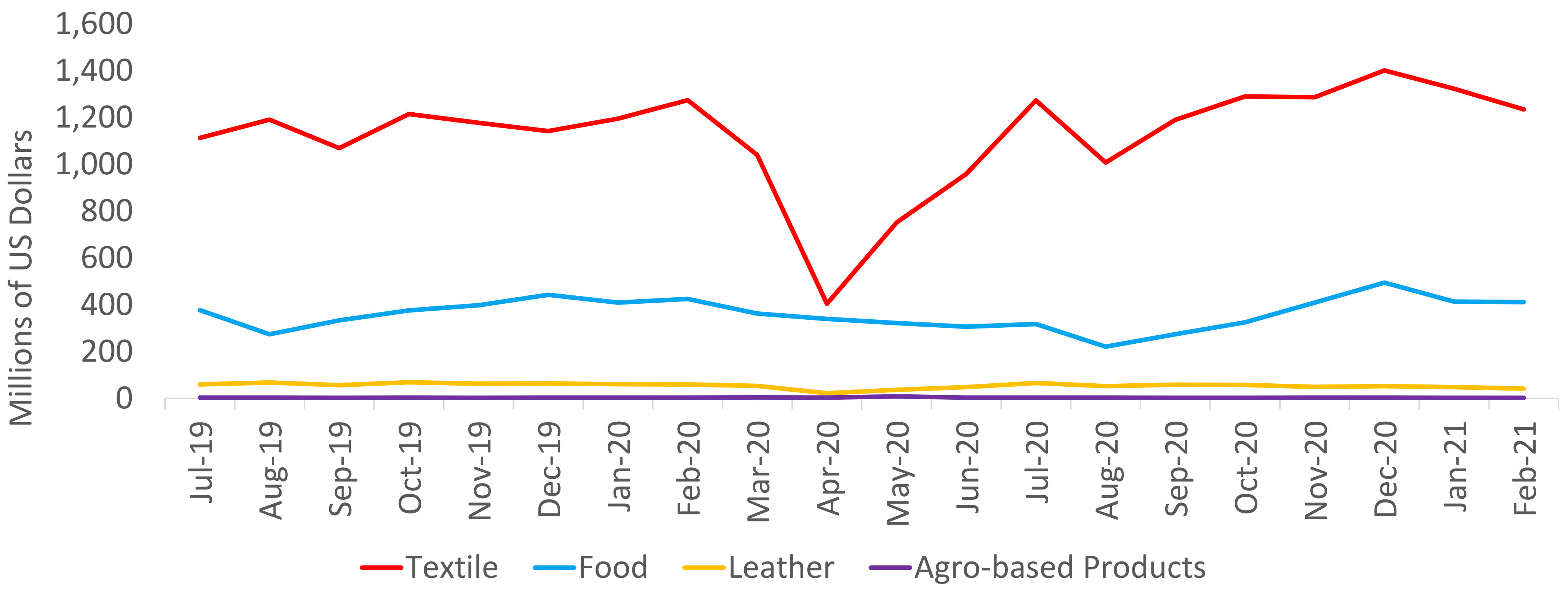


Source: Oxford Covid-19 Tracker

Pakistan's trade amid pandemic

Source: SBP

Pakistan's Exports
July 2019 - Feb. 2021



Source: SBP

Trade in Telecommunication and ICT Services
July 2019 – January 2021

Source: SBP

Survey findings

Reporting a lockdown

- 70% of exporting firms reported a shutdown during the pandemic
- Shutdown period ranges from 14 to 52 days; 60% faced export revenue loss
- 15% struggled to deliver in time; report decrease in future orders
- 10% firms report a shift in consumer demand

Cash flow/working capital sustainability

- 15% reported cash flow sustainability of less than 30 days
- The measures to deal with cash flow challenges include temporary shutdown of operations, slashing volume/operating costs, layoffs, and borrowing

Survey findings -II

Increase in Operations Cost

- 80% report increase in freight costs. All firms report higher costs associated with SoPs, training labor on SOPs & hygiene; 14% report change in export documentation
- Firms see adoption of safe production methods as part of their organizational learning

Cost Structure and Role of Expectations

- In terms of the fixed costs, rentals, salaries and access to utilities continue to top the list
- As markets open fully, there is fear that many suppliers will chase stagnant or low demand. As a result, marketing and publicity expense expected to increase
- Agro-processing & leather expect higher increase in cost compared to other sectors

Survey findings -III

Government Support & Uptake

- Only 50% availed at least one facility offered under the government's package
- Agro-sector industries reported the lowest percentage at 13%
- Only 17% micro-sized firms could avail government facilitation

Which schemes were most effective?

- The most effective schemes: (i) information on new business opportunities and how to pivot, (ii) relief in utility bills (iii) facilitation with digital payments, and (iv) ensuring availability of working capital
- The least effective measures were those adopted by tax authorities

Survey findings - IV

HR related challenges

- 19% laid off their staff. Highest percentage in Khyber Pakhtunkhwa (31%), followed by Sindh (17%), and Punjab (15%)
- The agro-based industries reported the lowest job losses (13%). Textile reported the highest (23%)
- Small-sized firms reported the highest percentage of staff laid off at 25%

Reskilling and upskilling

- 60% adopted flexible working hours for the first time
- 81% firms invested in improving employee skills/arrange new training
- 61% used online marketing/sales channels for the first time

Survey findings -V

Challenges in acquiring raw material

- 77% report constraints in acquiring domestic inputs
- 29% reported challenges in acquiring foreign inputs
- Small-sized firms were the most constrained (97%)
- Larger firms more constrained than the smaller firms in acquiring foreign inputs

Coping strategies

- Delaying goods delivery, temporary decrease in output, seeking new procurement channels
- Raising working capital to make advanced payments for raw material

State of Digital Sector

Firms providing web development services, online marketing, content writing, online education, telemedicine, graphic design, mobile applications, data entry, visual arts and related services

64% report a decrease in their turnover and 36% report a increase

65% received a new contract during the lockdown period

58% used lockdown time to learn skills; build social media presence; other achievements: special deals to customers; diversified client base; better bargaining power to renegotiate contracts

Increased incidence of anxiety and stress (26%)

Can Digital Sector Scale?

- Less than half reported receiving payments from abroad as a major challenge
- However, there are difficulties in sending payments abroad
- 30% reported lack of reliable internet/penetration as a key challenge
- 25% inform of a complex tax regime for services sector (little relief for pivoting)
- 21% see heightened online security challenges
- Other issues: employee skills, credit, import of software and duties on import of software

Sensemaking -I

Trade costs have increased for exporters and importers

- Transport accounts for an estimated 15 to 31% depending upon the sector
- Smaller firms in agro-processing and food sector inform of higher logistics costs

COVID-19 has led to productivity losses

- 41% observed productivity loss
- 59% textile sector firms see decreased productivity

Temporary trade measures & stringent SPS measures have become new normal

- These have cost implications; not all countries accepting electronic trade documentation
- Sunk costs: safe packaging, hygienic and safe transportation, warehousing, and distribution

Sensemaking -II

A more conscious buyer looking into production process, labour standards, workplace safety & hygiene

- Example: global sales affected as Leather Working Group (LWG) certification see change
- Similar evidence in agriculture, food, and surgical

High information & networking costs dampen ambitions of product and market diversification

- Information and networking costs will continue to see an increase as exhibitors shift from physical exhibitions to other marketing channels
- Travel protocols for both persons and goods seeing frequent changes

Sensemaking -III

COVID-19 increased incidence of informal trade; expected to be temporary

- Continued tariff reform could help along side administrative measures

Firms forced to embrace e-commerce and digital trade integration

- Physical trade exhibitions were cancelled, and traders had to look for alternate measures
- TDAP launched first virtual exhibition and latter organized a physical one after approvals in Gulf

Learning by exporting

- Dynamic firms were able to expand their portfolio amid COVID-19
- Large firms had better bargaining power once lockdown opened

Startup exporters in digital space pivoted well

- However, find it hard to access trade finance.

Concluding remarks

- Budget FY22 - an opportunity to introduce trade-focused proposals
- Revisit tariff and textile policies (including FTAs) to facilitate post-pandemic recovery
- E-commerce policy implementation will benefit from supportive legislative efforts on data protection, online security etc.
- Increased coordination across commercial officers posted abroad could help
- Prioritize deeper public private dialogue for accessing evidence from businesses

Thank you!

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