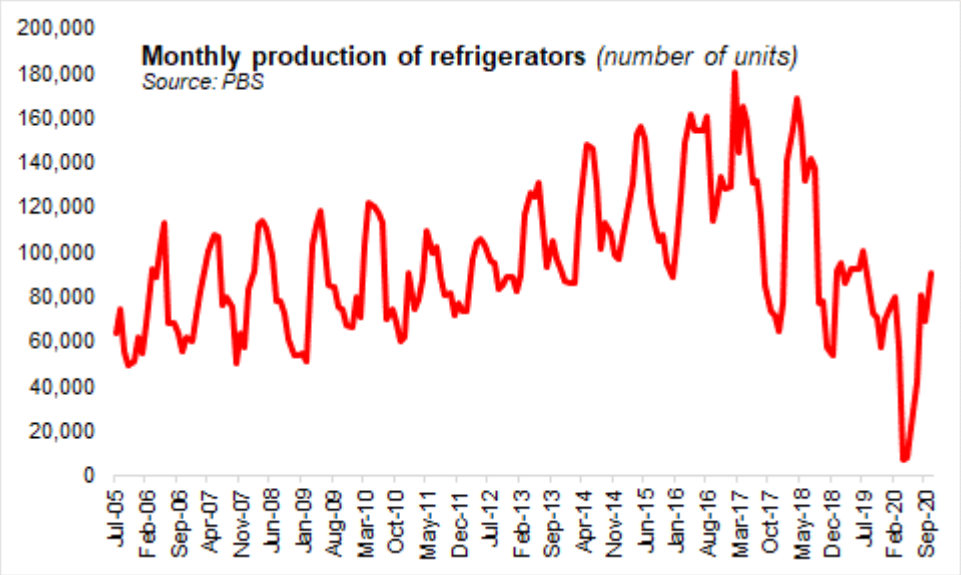
A recent report on Pakistan's refrigerator industry by Pakistan Business Council, the first in PBC's series of sectoral studies, warrants attention. With no more than 2-3 percent of local demand being met by imported refrigerator, Pakistan domestic production meets the country's current annual demand as well as demand in the near future given that the average capacity utilization stands at around 75-80 percent as per industry estimates gathered by the PBC. For a labour intensive industry such as refrigerator, one would have thought Pakistan should be able to export surplus capacity. Only that it hasn't been able to.

According the PBC's report, titled "Enhancing the Competitiveness of Pakistan's Refrigerator Industry", the breakup of the cost of producing a refrigerator in Pakistan is roughly as follows: (a) utilities: 5 to 7%; (b) labor cost: 3 to 5 %; (c) raw material: 70 to 80%, and (d) overheads 8 to 12 % where variation within these ranges varies from one manufacturer to another.

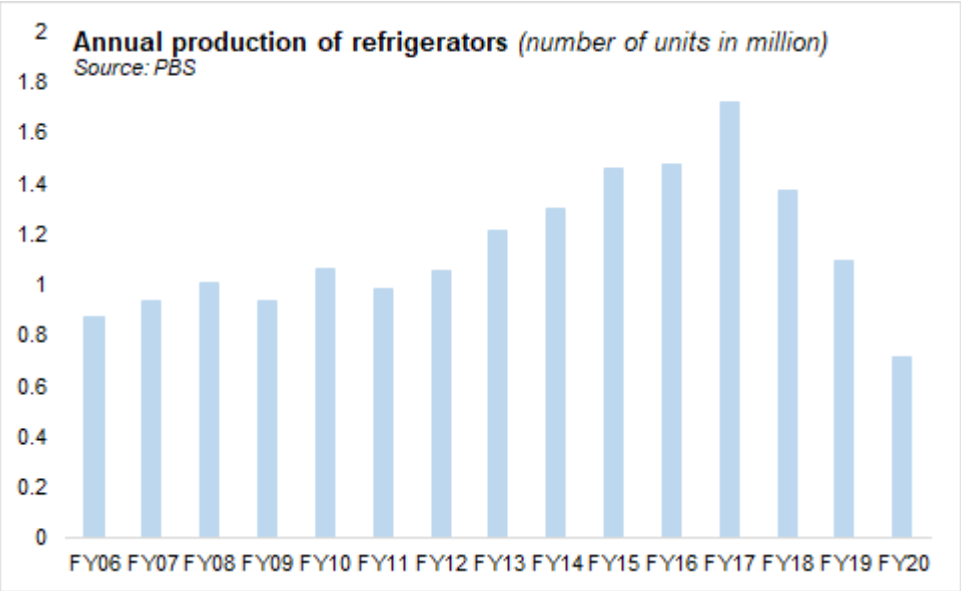


This implies that cheap labour isn't quite Pakistan's strength; nor is the fact that Pakistan's labour productivity growth between 2010-2017 was merely 0.3 percent as against 0.7 percent in the case of India, and 2.4 percent in the case of China. The cost breakup also implies that Pakistan's higher cost of electricity and gas isn't also the reason why the country has been unable to export such a not so sophisticated engineering product.

Considering that about 85 percent of raw materials need to produce refrigerators are imported in Pakistan, one might have thought that perhaps a flawed duty structure is the reason why the country hasn't been able to become a assembling hub for refrigerators. Then again, as PBC notes, most imported raw materials are correctly classified hence there is no duty on them, with the exception of cold-rolled tempered glass.

One of the biggest impingements is Pakistan's low economies of scale. For instance, the minimum production capacity of a compressor factory is 15 million units per year, which is many times Pakistan's refrigerator demand of 1.2 to 1.6 million tons per year. Scale is the reason why locally produced or assembled inputs make up to 75 percent of India's

refrigerator production; India's refrigerator production is 11 times higher than Pakistan's whereas China's is 12 times higher. Volume, therefore, is the key.



One way to increase volume is to increase local demand, where one option is to lower the rate of sales on refrigerator – after all, its not a luxury in today's day and age. Other options include encouraging value-added packaged foods industry and the rolling out China-like 'old for new' policy with the idea of promoting energy saving technology that will kill two birds with one stone.

Building up on local demand growth may also pave way to find suitable scale to be able to export at competitive prices where, as the PBC advocates, there is a need to help local producers find markets in underdeveloped countries and regions which are not currently being catered by big global players that mostly produce frost-free refrigerators. But for that, domestic firms might have to invest in research and development alongside brand development since home appliances purchases are driven significantly by the power of brand.