BUSINESS RECORDER
Founded by M.A. Zuberi

6th April, 2019

Exports vital for economic progress

Prime Minister Imran Khan while addressing the eighteenth meeting of the Board of Administrators of the Export Development Fund (EDF) stated that the economic future of the country is linked to an increase in exports, adding that Pakistan's exports have remained below potential. There is much truth to his assertion that Pakistan's exports have remained below potential as studies and reports prepared by domestic and international consultants all indicate that Pakistan's export potential is at least double what has been.

The reasons for our sustained inability to reach potential are varied and include: (i) failure of successive governments to support producing to export rather than producing only to export surplus; (ii) cartels and influential groups have been able to convince government after government to support their particular sub sector and the latest example is export of sugar that is being produced at a cost higher than the international market and therefore requires a massive dose of subsidy to exports; and also accounts for the diversion of land away from cotton, a major export item, to sugar. This flawed policy also accounts for the rise in sugar weight in the Large Scale Manufacturing (LSM) index; (iii) free trade agreements signed with a few countries that have benefited Pakistan less than the country with which the agreement was signed. In this context it is relevant to note that the imbalance in our trade with China is significant - over 9 billion dollars - with Chinese exports estimated at 11.458 billion dollars and Pakistan's export to China at 1.381 billion dollars. The Special Advisor to the Prime Minister on Commerce, Razzak Dawood, was initially gung-ho about raising the issue with China and seek a more balanced trade through an agreement that would allow Pakistan to enjoy the same conditions as allowed to ASEAN countries; however he was offered the option of doubling our exports to China which would be by about one billion dollars - an amount that would not make too much difference.

So far the Khan administration is embarked on a strategy to provide incentives to industry through subsidized utility tariff and tax concessions, decisions which are increasing the country's indebtedness, particularly of the energy sector, and generating a greater revenue shortfall than was budgeted with serious implications on the cost of living of the poor. And together with the steady rupee depreciation, by more than 35 percent during this year, (an over-valued rupee during the Ishaq Dar led Finance Ministry was rightly held responsible for declining exports as Pakistan's international competitiveness declined and imports became more attractive) PTI's policies have cost the economy a lot more than the contraction in the current account deficit this year. State Bank of Pakistan's report indicated that during the first half of the current year LSM declined by 1.5 percent (against over 6 percent growth during the comparable period of the year before) and while there was a growth in the services sector it was not in high end services but in retail and wholesale trade. And finally, the administration is also focused on luring direct foreign investment (though it is adding up the pledges which almost always fall far short of expectations) and seeking to improve Pakistan's ranking in ease of doing business. All these elements were researched during the tenure of previous administrations (with or without international consultants) and an attempt was made to implement them but there were several lacunae in their implementation not least being a recalcitrant bureaucracy - elements that continue to impede today.

Be that as it may, one would urge the Prime Minister to revisit his growth model, and acknowledge that the export-led growth is not the only model for growth; instead he must focus on other key areas. He should be wary of extending fiscal and monetary incentives to a sector that sustains the status quo of exports and instead focus on extending incentives to developing an industrial base that is dedicated to raising value-added exports. He must also ensure that private sector savings are encouraged to meet the country's private and public investment needs (rather than relying on expensive foreign loans or printing money or indeed issuing debt equity instruments) - an objective that is severely compromised today because of rising inflationary pressures. The Prime Minister must also give directions to his finance minister to focus on reducing the budget deficit preferably through voluntary reduction in allocations to high allocations for non-current expenditure items.

Sadly what is spreading the perception of uncertainty in the markets, a factor that can by itself reduce output with all investment decisions stayed, is Finance Minister Asad Umer's contradictory statements (Pakistan will not go on the International Monetary Fund programme on the Fund's terms, Pakistan will go on a programme as without it the country would default), dire warnings to the people (the public will scream in agony for at least two years as reforms begin to take effect but with no reforms being implemented to-date) and continuing to target the previous administration instead of beginning to defend his own flawed policies and delays in taking corrective actions. Umer would be well advised to understand that a finance minister must be careful of what he says as his statements impact on the markets; and take some lessons from the serious negative impact on the economy of Ishaq Dar's statements trashing the policies of his predecessor during his six weeks as the country's finance minister in 2008.

RECORDER REPORT