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Micromanagement of exports — I

Pakistan devalued its currency by more than 30 percent during Jan'18-Aug'19 and more than 20 percent since January 2019, but its exports have almost remained flat or seen a marginal increase. After signing the IMF agreement, success in partially filling our begging bowl, and compressing imports, complacency has set in the relevant ministries to increase exports on a war footing. The policymakers have resigned to the snail's pace magic of price (i.e., devaluation) mechanism to lift our exports to reach the FY20 target to $ 26.2 billion. By the end of Aug'19 Pakistan exports are already behind the target by roughly $ 0.7 billion growing at 8 percent as compared to much needed sustained growth of 15-20 percent per year. It is time to adopt a different paradigm than to wait for the conventional short-lived and given our past experience, unsustainable price magic to work. At the risk of offending the policymakers, it needs to be emphasised that micromanagement of exports is the only paradigm to possibly achieve a discrete double digit sustained jump in exports. It is a common knowledge that micromanagement has negative connotations when applied to firms, organizations and employees, and its minuses are argued to outweigh its pluses at these levels. However, in the following write-up, broad contours of micromanagement are suggested for a sector composed of roughly 3700(FY17) exportable products, thousands of firms and many public organisations.

First, a brief discussion why micromanagement is needed? The world has already entered a phase in which it is likely to experience a timid growth in the international trade due to pressure on exchange rates of various currencies, uncertainty on the US-China trade war and a likelihood of a mild recession in 2020. The relevant ministries in Pakistan will have all the above reasons as easy scapegoats for unmet export targets at the end of FY2020. With exchange rates of many countries, including those of our competitors India, BD, Vietnam, Tunisia and Turkey, searching for new equilibriums and pass through effect of rising costs of imported inputs due to massive devaluation, the price advantage of the last 20 months is likely to erode before we can even observe a permanent and notable jump in our world share of exports. Of course gradual adjustments based on REER during the IMF program will be only sufficient to show a modest increase or at worst prevent a decline in exports, until it is time for another round of bailout. So the only option is to enhance productivity, keep costs under control and improve quality, instead of giving handouts to exporters, as it burdens public finances, is discriminatory and implicitly introduces a regime of multiple exchange rates at the micro/meso level. Our exports require diversification of products and markets on a war footing and that can only possibly come about through micromanagement.

The micromanagement of the export sector with thousands of products cannot be carried out unless it is data-driven at the 4-8 digit level. Data is central to product and market diversification and unless information on exports cost structure including its drivers, profile and trends is not available and used in real time, the tool of micromanagement to achieve sustainable growth in exports will remain blunt. Basically, the data-driven micromanagement of exports has three mutually reinforcing stages: a) a strong and dynamic institution collecting, analyzing and forecasting trade data at the 4-8 digit level on real time basis; b) an effective and real time consultations and consensus building with relevant stake holders; and c) institutional coordination for active micromanagement that includes real time implementation of policy matrix. In essence, micromanagement of exports cannot be undertaken without an institutional setup similar to State Bank of Pakistan's and FBR's. Elaboration on each of the above 3 stages is as follows:-

Foreign Trade Institute of Pakistan (FTIP) was initially established in 1989 through a resolution to provide specialized training to officers of commerce and trade group. It was restructured as Pakistan Institute of Trade and Development (PITAD) in 2007-08 to overcome the constraint of "lack of effective research and information on multi-pronged trade and globalization issues." Interestingly, a look at its website reveals the following: a) As members of Board of Governors, MoC and Trade Bodies have a stranglehold on its running. No BOG meeting has been held since 2013, a body which is supposed to monitor and provide guidance to its yearly research activities; b) It just lists 20 working papers, out of which 10 relate to Pakistan-India trade liberalization, a redundant topic more in the political domain rather than an active trade policy issue. Only 3 completed studies are listed. All these studies and working papers are dated 2013 or earlier. There is no research director and just 3 research associates; and c) the institute remains active as a training outlet. Trainings are an easy way out to justify an institutional existence, in the absence of any effective monitoring and value for money evaluation of training programmes. No mention of criteria or skill benchmarks used to select the resource persons for these trainings. Absence of any mention of foreign trade specialists involved in PITAD trainings.

(To be continued)

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