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Exports: the lesser god on govt's totem pole

The consensus opinion is that current account will rear its head again, sooner rather than later, if exports remain sluggish. We also hear Ministry of Commerce knows it and is expending a lot of energyto find a way for exports to climb the greasy pole.

Reportedly, a team has been set up to design an export growth strategy. We are sure the team,that includes 'fringe-dwellers' as well as one who claims to have crafted a successful export policy in his last incarnation despite his peripheral role, will come up with innovative ideas –not the mantra of subsidies and market access suggested by the Planning Minister in his recent article in the press.

Throwing money at the problem will be ducking the issue. Well-designed subsidies may be warranted to level-off the lower costs of our competitors, but it will not address the core issue: falling productivity levels. In fact, it could exacerbate the problem as untargeted subsidies induce inefficiencies. It could also add to the 'product concentration' risk.

Greater market access, the standard 'staff solution', is most welcome – if we ensure that it does not make us less competitive elsewhere. We have had the duty-freeaccess to the EU markets for quite some time now. During the period, exports to EU have grown but not our total exports. Does it suggest 'trade diversion'? Also, how does it square up with the 'market concentration' risk?

Policy-making is much more than stringing together great ideas. In the ultimate analysis, it is the art of the possible, where competing demands jostle for space; where competing interests collide. In the game of trade-offs the government as a whole chooses policies that suit special interests; policies that cause the least pain, not what is most needed.

Throughout our history, revenue compulsion has trumped the export imperative. Our latest dalliance with the IMF is illustrative. The focus is almost entirely on raising more revenues. Exports figure only as a sub-set of the market-based exchange rate policy. It dangerously assumes that devaluation ensures export growth.

IMF prognostication is also dangerous because it strikes at the root of its own creation. If the whole world decides to lap up IMF advice we could well see a chain of competing exchange rate adjustments. Bretton Woods happened precisely to forestall that, the tendency to beggar thy neighbour.

Tariff policy is the other export-related area that the Programme hints at. It, however, treats it gingerly because of the fear that it could induce greater imports, despite the deterrence of market-based exchange rate policy, upsetting the current account applecart.

What imperils export growth is well known. We have a shallow – and largely uncompetitive – export base, penetrating new markets is an expensive and risky proposition, our tariff policy is inimical to value addition and makes it impossible for us to become a part of the global value-chain. Most disturbingly, it fortifies the anti-export bias.

It is when we subject these encumbrances to a microscopic examination that the reality hits us: we are in a state of denial. The government promises it but does not, perhaps will not, have an export-led growth strategy. We have never had one. Government has been partial to Import substitution policies, not knowing how it is a negation of export-led growth.

Do the exporters themselves want an export-led growth strategy?

Despite all the noise they keep making we see most major exporters, not just the textile barons, eying the domestic market more than the export market. We don't blame them. Business 101 is unequivocal: you are in the business of making money.Period!If producing for the heavily protected domestic makes more money than being competitive in the export market that is the wayinterest and investment will flow.

Little wonder their 'contribution' to the export effort rarely extends beyond the issues of refunds, cheaper utilities, social compliance costs, and export subsidies.

Ask the knitwear exporter with a strong footprint in the US to explore the Brazilian market as well and you will find him hard of hearing. The pharmaceutical guy has a long list of demands but you don't see setting up of FDA-approved labs on the list. The software sector demands, and getsall kinds of facilities but prefers keeping theexport proceeds abroad - State Bank figures don't reflect much of a growth.

All of the above is fully understandable. It is BUS 101 calling. The answer, therefore, is not cajoling and coaxing but BUS 202: tilt individual interestto coincide with the larger interests. In other words, make exports more financially rewarding.

There are two ways to make exports more rewarding. You can either subsidise recklessly, which will please most exporters, or redesign the entire architecture – which will make many unhappy but will yield handsome dividends in the long run.

We can almost hear Razak Dawood singing with Leonard Cohen, "I have been here before/I know the room/I have walked the floor". But if he really believes in sustainable export growth he should, for starters,go down a couple of floors to spend more time in his room in the Ministry of Industries.

It is not Commerce but Industries that is the keeper of keys to a genuine export-led growth strategy. Absent a pro-active industrial policy our exports will flounder at current levels with minor gyrations caused by world prices.

The first element of an export-led strategy is the recognition that exports is more than earning hard currency. Dollars should be viewed as a by-product of the export strategy and not the primary objective. Export effort has to be situated in the context of its developmental role – jobs, cost of living, competitiveness, and reduced disparities.

Next, we need to realize we don't have a big enough market to justify the so called import substitution policy. We won't get the economies of scale, requiring ever-increasing dependence on greater tariff protection.

To craft a pro-export industrial policy Razak will do well to have the National Tariff Commission carry out two studies. First, determine the extent of value addition in our export products. Second, work out the effective rate of protection that our manufactures enjoy.

The results, we are sure, will be eye-opening. If that won't make an unassailable case for export-led growth strategy let the vested interests have the last hurrah.

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