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Editorial

Tepid expansion in exports

Although there has been a lot of improvement in the merchandise account of the country during the first five months of FY20, this positive development has been highly lop-sided in the sense that it has been basically due to the compression of imports while expansion in exports is only lukewarm. Talking to Media persons in Faisalabad, Chairman, Pakistan Textile Exporters Association (PTEA), Sohail Pasha hailed the sharp fall in trade deficit during July-November, 2019 to dollar 9.50 billion from dollar 14.5 billion in the same period of last year. This decline in trade deficit, nonetheless, was mainly contributed by the import side as exports fell by 0.67 percent in November over the preceding month and their rise in the first five months of FY20 was less than 5 percent, indicating that it will be very difficult to achieve the export growth target during the current year. It was for the first time in the last 15 years that imports are decreasing but lower exports still continued to be the main issue due to lack of diversification of export destinations and products and high cost of doing business.

Coming to the textile industry itself, Pasha reiterated that this export-oriented sector of the economy in the last decade with its share of 60 percent in total exports stagnated thereafter and this was a consistent source of concern. Challenges like high priced energy imports and imposition of duties and taxes on inputs / raw materials were adversely impacting production, employment and exports in this sector. Although government has taken certain steps to address the issue of refunds by liquidation of sales tax refund claims yet huge amounts are still stuck in income tax and customs duty drawbacks. In order to promote investment in export-oriented sectors, the SBP has enhanced financing limits for exporters under subsidised loan schemes including Export Finance Scheme (EFS) and Long Term Finance Facility (LTFF), however, the same has not been implemented as yet. In order to cut down the production cost of exports, a special tariff for energy supply to zero rated industries (Gas/RLNG) @ 6.5 per MMBtu and electricity @ 7.5 cents per kwh) has been discontinued since June, 2019.

The statement of Pasha Chairman PTEA appears to be largely valid in the prevailing situation and his grievances would seem to be quite plausible. He has appreciated the fact that trade deficit of the country has nose-dived in the recent past but the improvement is largely attributable to compression in imports while exports are almost stagnant and only playing a minor role in narrowing the trade deficit. The reality is that most of the other analysts are also raising the same question, ignoring the fact that this is not something unique in our context and most of the other countries also witness same situations when they depreciate their currencies to improve their trade balances. It is a known fact that while the demand for imports is quite elastic and the consumers' response to the price changes of imports is immediate, it takes time to create export surpluses in the economy when competitiveness of exports increases as a result of depreciation of the currency. We are pretty sure that, all other things remaining unchanged, exports of the country would also expand substantially with the passage of time to further ease pressure on the external sector of the economy.

The Chairman PETA was also right in raising the issue of sales tax and income tax refunds and customs duty drawbacks which should be disbursed to exporters without any further loss of time in order to improve liquidity in the sector. Such an arrangement would not only improve the amount of exports but would also create more employment opportunities and reduce poverty. He has also demanded increase in the limits of EFS and LTFF for the exporters. The SBP has raised these limits recently and should consider further enhancement if there is sufficient justification. The decrease in energy rates could improve exports but such a step would either increase the losses of DISCOS or force the government to increase tariffs on other categories of consumers. Pasha has also talked about diversification of exports but he needs to understand order to achieve such a goal, exporters themselves have to be more active and make strenuous efforts to improve the quality and quantity of their products. The exporters, in our view, should try to stand on their own legs in this regard rather than seek crutches which may prove to be temporary. While the government can design conducive policies, nitty-gritty of imports and exports is mainly the domain of the private sector which should be dynamic and forward-looking.