INTERNATIONAL THE NEWS

17th January, 2020

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Exports: How the 'unprotected' are beating the 'protected' at their game

LAHORE: Pakistan's exports are hostage to vested interests and they always get away with concessions from the government despite delivering less than the sectors operating without any incentives, and are still demanding of the state to do more.

Pakistani planners are still living in the 20th century and have a mindset of giving concessions to few exporting sectors and protection to some select blue-eyed domestic producers.

This policy pitfall has denied level-playing field to exporters and local manufacturers that were left out, resulting in development of a limited export sectors always looking to the government for dole-outs to stay competitive. The pampered domestic industries exploited this protection to market their raw materials at higher than global rates.

This blockaded many sectors from going into exports and kept the rates of products made from protected materials expensive. It also discouraged the foreign producers from exploring Pakistani markets.

On the other hand the exports were mainly restricted to the protected sectors, that too in few markets. They were competitive because of concessions and caved in whenever concessions were withdrawn or reduced. These exporters also exploited these concessions for the domestic market as well. It was observed many times that the sales tax refunds of exporters exceeded the total sales tax deposited by both exporters and domestic sectors. The government then zero-rates the exporting sectors.

No government ever tried to analyse the trade situation of the country and continued with past practices. They however withdrew zero-rating on export sectors and again introduced the refund system. This was a good move that paid dividends. However it took some impracticable decisions of fixing the tariffs of both power and gas for five exporting sectors only.

They did not take into account that the production costs might increase in future. Then the government was forced by the IMF (International Monetary Fund) to levy a recovery charge on power losses starting from back dates without any exception. The five protected sectors are now asked to pay the new levies over and above the fixed tariff. They are naturally protesting.

However, the ground reality is that the protected sectors have failed to deliver. Logically there was no need to give these concessions to few sectors as other exporting sectors and the entire domestic industry was paying the normal government notified tariff. Even then, cement sector posted a growth of over 30 percent last year and the same in the first six months of this fiscal. They were paying high gas and power tariff.

In addition they were also paying higher duty on import of coal they use as fuel in their processes. This sector in fact took full advantage of the devaluation of Pakistani rupee. It also proved it was efficient and competitive in the global market even before devaluation that provided it an added advantage.

The five protected sectors could not cash on the added advantage of devaluation because they were highly inefficient and even the high dollar value advantage could not improve their quality and efficiency. In fact they are simply moving up on the basis of concessional gas and power tariffs. In the agriculture sector our rice exports registered huge increase.

The Kinnow exports are up and many more vegetables and fruits exports are posting growth because of devaluation advantage. Pakistan's exports have increased at a pathetic pace of less than 4 percent in last six months.

There is a need to withdraw tariff concession or provide these concessions to the entire exporting and industrial sectors. Alternately the government should withdraw this concession from yarn and fabric sectors that are beneficiary of over 80 percent of the total concession and restrict it to the readymade garments and knitwear sectors only.

In case of expensive supply of yarn and fabric the government should allow duty-free import of these two items.