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Doing the limbo

It has been a historic failure since independence that no regime has been able to boost trade activities of Pakistan, as it was never made part of the primary objectives.

Security states can never focus on promoting trade because it requires openness for innovations, ideas, knowledge, skills and expertise from all walks of lives, instead of quota, subsidies, and incentives at the cost of others that have remained the hallmark of policymaking. With such narrow-mindedness in place, it is no wonder that regimes never focused on promoting exports.

If planners want Pakistan to get out of the list of poor nations, the first casualty should be this narrow-mindedness. Without promoting trade, Pakistan cannot achieve prosperity.

If we want to boost exports of Pakistan made-ups then from the Prime Minister of Pakistan to every common man has to contribute in their capacity to achieve this objective. We need to achieve exportable surplus and then remove all stumbling blocks to maximise our share in global trade.

Currently, the stage is now or never. All regional countries such as China, India, and even Bangladesh that once lagged behind Pakistan in exports some decades back, have left us far behind and are continuously moving forward. We have to focus on each and every product with the possibility to make it ready for exporting to any other part of the world for earning foreign exchange and removing all difficulties by going into minute details.

The government is preparing Strategic Trade Policy Framework (STPF) for 2020-25 that envisages to be based upon four basic pillars, including making exports a driver of economic growth as the only sustainable source of earning foreign exchange; enhancement of exports is a national effort and not just the responsibility of the Ministry of Commerce; to introduce strategic interventions in priority sectors under Make in Pakistan initiative; and to align with macro-economic framework and other national policies such as textiles policy, industrial policy etc.

Implementation of the policy initiatives is of critical importance to the success of STPF 2020-25. In order to monitor and evaluate the implementation of STPF 2020-25, it has been decided to constitute a cross functional committee comprising of: Prime Minister of Pakistan (Chairman), Advisor to PM Commerce and Industries, Advisor to PM Finance and Revenue, Minister for Energy/Power Division, Minister for National Food Security and Research, Governor State Bank of Pakistan, Secretary Commerce, Secretary Finance, Secretary Industries, Chairman Board of Investment, Chairman Federal Board of Revenue Other departments or private sector can be co-opted on need basis by the committee.

The 18 percent decline in Pakistan's share in global market during the last decade means that Pakistan's export competitiveness in the global market has been eroding. The regaining of the global market share vitally depends on the restoration of Pakistan's export competitiveness.

The cost of doing business especially those related to trading across borders impacts competitiveness. Besides, the tariffs, the inefficient logistics, cumbersome administrative procedures, documentary requirements and dwell time at ports add to the transaction costs and in turn affect competitiveness. Furthermore, the areas of exports support incentives mechanism such as duty drawback schemes, sales tax refunds and low-cost financing facility etc, will require review to make it reliable, consistent and automated. There would be continuous regionally competitive energy prices for export-oriented sectors. There would be competitive wages for the workers benchmarked with regional peers and participation of women workforce with equal opportunities.

Tariff rationalisation: The excessive import tariffs, especially on raw materials, intermediate goods and machinery, have affected the competitiveness of manufacturing by increasing the cost of inputs and capital goods. Effectively employed, the tariffs play an important role in allocation of resources, protection of the domestic industry against foreign competition, improving competitiveness of the domestic industry, generating employment opportunities, attracting and protecting investments, improving balance of payments, serving as a source of revenue and income distribution by levying higher import duties on luxury goods and lowering tariffs on raw materials and intermediate goods.

In order to leverage the tariffs as an instrument of trade policy, Ministry of Commerce will implement Tariff Policy with following major objectives:

i) To make the tariff structure a true reflection of trade policy priorities;

ii) To improve competitiveness of manufacturing especially the export sector through duty free access to imported raw materials;

iii) To rationalise the tariff structure for enhancing the efficiency of the existing domestic activities, especially in the manufacturing sector and for improving the resource allocation;

iv) To reduce the relative disincentive for the exporting activities;

v) To improve the growth potential of the country and increase employment opportunities by attracting investment into efficient industries;

vi) To encourage value addition through the principle of cascading of tariffs;

vii) To remove anomalies in the tariff structure, which is causing distortions between sectors and in the value chain of the same sectors.

Productivity enhancement: Productivity enhancement is vital for improving competitiveness of the economy, as it means more output with less input. Productivity enhancement is about finding more efficient and effective ways of producing goods and services so that more can be produced with the same amount of effort. It is also about producing higher value-added products and services that are worth more in the market.

The productivity enhancement depends primarily on the enterprises besides the government policies. At the enterprise level, the productivity improvement comes from technology adoption, a culture of innovation, human resource development and management efficiencies. The government needs to foster a culture of innovation, facilitate development of skilled workforce, open the industries to competitive pressures and incentivise efficiencies.

In order to incentivise technology adoption and up-gradation by the enterprises a Technology Up-gradation Scheme, was announced in STPF 2015-18 for certain sectors. In order to make the investment in new technologies more attractive, an improved scheme will be introduced.

Trade related investment: Investment and trade have a critical nexus. Investment in export-led production is an indispensable component of any export-led growth strategy. Pakistan's economic growth during the last five years has been mainly domestic-market driven rather than export-led.

Foreign direct investment (FDI) is one of the vital tools that countries employ to develop industrial base, upgrade infrastructure and seek innovation and technology. The FDI flows have increased dramatically in recent decades. Development in trade logistics, trade liberalisation through World Trade Organization and regional trade agreements and emergence of global value chains (GVCs) remained vital factors for this evolution. Resultantly, the policies to attract FDI inflows, trade and investment have become increasingly intertwined.

A comprehensive Trade Related Investment Policy Framework is under preparation and it will be integrated into trade policy after its approval.

Integration into GVCs: In today's global economy the production patterns have become increasingly vertically fragmented across the national borders which in turn has restructured the production and world trade around GVCs in which the range of activities in the process eg concept, design, production, marketing, distribution, retailing and R&D, are performed in several countries. The traditional domination of trade in final goods and services is increasingly giving way to vertical specialisation in which the countries specialising in different steps of the production process are vertically connected in the value chain through trade in intermediate inputs. The shifting pattern of global trade, on the one hand, challenges the viability of Pakistan's export basket, heavily dependent on vertically-integrated low-potential sectors and on the other hand offers immense opportunities to integrate into global value chains of high-value sectors by specialising in specific aspects or stages of production.

To integrate and upgrade into the global value chain, firms require participating in the production processes in the entire value chain. Ideally firms should participate in a higher value-added process to fetch higher value in the end. Countries with advance R&D infrastructure, technology and skilled workforce participate at the downstream value-added component of the value chain. To facilitate firms to upgrade their processes, Ministry of Commerce will offer support incentives as well.

All in all, preparing detailed policies should help Pakistan focus on improving trade activities, especially exports, which in the long run would increase foreign exchange reserves of the country.