DAWN
Business & Finance

Keeping exports on the road to recovery

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EXPORTS recovered to $23.2 billion from a seven-year low in fiscal year 2017-18 amid growth in global commodity prices. The trend, however, did not last long.

Domestic drivers of exports also contributed partially to the rise of exports, but failed to sustain the momentum in June and July.

The last fiscal year witnessed a 35 per cent increase in the global commodity index. The export proceeds, however, stagnated following a nearly three per cent decline in the global commodity index in July 2018.

The fluctuations in export earnings reflect a higher dependence on changes in commodity prices in the international market. The current export mix will take a hit as soon as pressure mounts in the international commodity market.

At the same time Pakistan's import bill is also heavily dependent on commodities and a spike in commodity prices dragged up the import bill. The issue, therefore, can only be managed by encouraging value addition and diversification of products in the export basket to include non-commodity based products.

Former finance minister Dr Miftah Ismail said that export proceeds posted a robust growth between March and May. He attributed this growth to the depreciation of the rupee and improvements in energy supply.

Meanwhile, Dr Ismail linked the decline in exports to fluctuations in the currency. He said the impact of recent depreciations will be visible from export proceeds in the next few months. However, he agreed that commodity prices also led to an increase in exports.

The endogenous factors causing a surge in exports include the Prime Minister's export package which dictated the release of nearly Rs40bn in cash support for promoting exports. The total value of the package is assessed to be Rs180bn.

The currency has been devalued from around $105 a dollar to nearly $122 which will have an impact on the price of exportable commodities. But factors including an improvement in energy supply and the policy of zero electricity loadshedding for the industrial sector helped to some extent in reviving exports.

The recovery, however, remained fragile due to the long-term structural frailties of the export sector. Pakistan's share in global export has dropped by nearly 19pc since 2003 owing to structural problems.

In Pakistan, structural reforms face two challenges: policymakers' lukewarm commitments and resistance from vested interests.

The new government should initiate work on structural reforms as soon as it assumes power. These should focus on increasing the share of value-added products such as pharmaceutical, information technology-based and engineering ones in the export mix.

Currently, the country lacks product and market diversification. As a result, Pakistan accesses low-end markets and fetches low prices.

The bigger challenge for the new government will be to attract investments in export-oriented industries. Currently, domestic investment is concentrated in real estate, the stock market and power generation.
Officials in the commerce ministry believe the new government will have to devise a comprehensive plan which would include a short-term policy for consolidating gains, a mid-term strategy to improve competitiveness and a long-term plan for launching structural reforms.
It was also observed that Pakistan's export basket is heavily reliant on textiles. In 2017-18, the share of textiles was 58.3pc, followed by 20.7pc of food commodities. Other factors that have slowed the growth of exports include a lack of funds for research and development, low labour productivity, rent-seeking and inconsistent economic policies.

Published in Dawn, The Business and Finance Weekly, August 20th, 2018
