BUSINESS RECORDER
Founded by M.A. Zuberi

Soaring trade deficit

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The trade deficit has moved up by 34 times from $1.1 billion in FY03 to $37.7 billion in FY18, on PBS data. This sums up yields of second round of opening up of the economy started taking place since 2002. This is by no means sustainable and the country needs a bailout package every 4-5 years; and the gap has now widened to an alarming level.

The quantum of trade deficit really moved out of bound in the recent PMLN government tenure; the deficit moved up from $20 billion in FY13 to whopping $37.7 billion in FY18.

This shows that the efforts to expand economy without delving into the competitiveness issues in the domestic economy have lead to an unsustainable path.

Earlier, the home remittances were the silver lining; as inward money sent by workers abroad were growing in tandem to trade deficit; but that is not the case for the past two years or so and it explains why the current account deficit soared to alarming levels. (Read: Remittances: cold comfort, published on July 12, 2018).

The world is changing with developed economies; especially the US is focusing inwards on domestic economy.

The trade war has started and it is going to adversely affect the economies which have experienced unprecedented exports growth in the last decade or so.

Pakistan being the lager; has an opportunity to benefit from trade war amongst giants.

But before delving into the argument of opening up of goods and services exports for Pakistan, the country needs to strengthen the domestic economy.

The urgency has to be in building competitiveness in the domestic industries by doing away with protective environment for low economic but high financial returns yielding domestic sectors.

The solo focus on providing cash subsidy to traditional exports sector can inch up the exports for the time being but its fiscal cost has long term fiscal ramification.

Plus, the marginal return on providing cash subsidy diminishes with the growth in exports and subsidies. Similarly, curbing non-essential imports has limited potential as under-invoicing impedes the full benefit of duties on non-essential imports.

Secondly, these kind of distortions may not help in import substituting without bring competitiveness in the domestic economy.

The need is to focus on the import substitution in the medium to long term.

The country is required to encourage the sectors where domestic economy is competitive and has the potential to export.

For instance, cotton is an export crop as compared to sugarcane where the prime consumption domestically.

According to SBP latest quarterly report “Sugar was planted on an area of 1.3 million hectors, with cane production of 81.1 million tons in FY18.

This will produce about 6.3 million ton sugar, where as the country requirement is around 3.4 million ton (16.3 Kg per capita consumption).

This means 0.6 million hectors is cropped extra than required which can be used for oilseed cultivation”

The extra sugar is exported at a subsidy while oil seeds are imported.

Why such a misplaced policy? Is it linked to politically influenced sugar mafia? Such imbalances are required to be rectified. Similarly, we need to find other avenues of exports and look for import substitution.

Whoever comes in power, ought to work on improving competitiveness of the domestic economy by removing inefficacies in energy, agriculture and other sectors.

The immediate need is to arrest the rising trend in imports which is consistently over $5 billion per month for three months.

The import growth is not tapering off much despite 15 percent currency depreciation and other import curbing measures. The need is to tighten the demand through raising interest rates.

The monetary policy is expected to be this Saturday. There should be at least 100 bps increase in the policy rate. And the market at large thinks the same, with 9 out of 12 bank and research houses surveyed by BR Research expect a 100 bps rise in the upcoming policy, while three expect a 50 bps increase.