DAWN

Curbing surging imports

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TRADE diplomats dismiss as 'counterproductive' any attempt on the part of the Caretaker government to curb surging imports to control the widening trade deficit. They warn against resorting to tariff and non-tariff barriers to suppress imports as it could rupture the growth momentum, hurt exports and mount inflationary pressures.

Pakistan's trade deficit ballooned to $33.9 billion in eleven months (July-May 2018), up 13.4 per cent over the same period last year. It is expected to touch $40bn by the end of the concluding year when final yearly data will be posted.

Total imports over the 11 month period galloped to a record $55.2bn while exports crawl up to $21.3bn. For the full year, optimistically speaking, exports can hit the target of $23bn but assuming other things remain unchanged imports may climb to around $63bn. In the last reported month of May 2018 export was counted to be $5.8bn and in June 2018 it could easily be close to $7 bn.

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The trade data testifies beyond doubt that measures directed to contain imports and boost exports have not turned up the desired results. As external front vulnerabilities intensified the last government introduced cash margin requirements and enhanced regulatory duties on 58 non essential items to squeeze importers liquidity and make luxury items dearer in the local market.

A rupee devaluation of around 15pc in three rounds of the current fiscal, when it dropped from Rs109 to Rs121 in the interbank against the dollar, was also absorbed without making a dramatic impact on the trade deficit.

The Caretaker government made a vain effort last week to calm the market by assuring that adequate financing has already been arranged and is in pipeline. The statement provided some comfort but business circles were not sufficiently convinced.

"It would have served the purpose better had they exhibited good sense and identified the generous friendly country or agency that has pledged support," commented a tycoon from Lahore.

The current level of SBP reserves at $10bn is not sufficient to cover the two month import bill of about $12bn.

"Yes the country did face external sector problems in the past but after a long time the internal economic indicators are comparatively sound and the private sector is showing real interest in betting on the future within Pakistan.

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"Please move and fix the external sector. Don't let this opportunity of growth revival in the country pass. Ban imports of avoidable items, use the bound rate buffer to raise regulatory duties or do whatever else it takes to curtail imports, as boosting exports significantly in the absence of exportable surpluses is not doable.

"The government must reduce the trade deficit and improve the current account situation to halt foreign exchange draw down and mitigate the risk perception," commented another leading light of the private sector.

"What do we need all these imported juices, confectionary items, canned fruits and cosmetics for? Yes oil and gas import is unavoidable and machinery is necessary to feed industrial growth but we need not spend $6bn on food imports. Pakistan is an agrarian economy and it is thankfully food secure," he pleaded.

Most federal secretaries in Islamabad were not accessible because of the reshuffling going on at the highest administrative levels. Usman Qureshi, a senior officer in the Ministry of Commerce told Dawn that the ministry had been asked by Dr Shamshad Akhtar, caretaker finance minister to propose measures to manage the trade deficit.

Responding to a question regarding the food bill he said that edible oil, pulses, tea and powdered milk are big ticket import items.

“We can’t clamp duties unilaterally. There are always two sides to a story and we can’t possibly ignore the price impact on the kitchen budget of ordinary Pakistanis when considering an option,” he said. “Besides, our past experience tells us that demand for some items is inelastic and higher duties only end up encouraging smuggling,” he argued.

Another officer seconded him. Tariq Huda from the commerce ministry blamed the Ministry of Food for rampant import of pulses in the country.

In his conversation over phone he maintained that in the absence of a well rounded, comprehensive set of economic policies for taxation, agriculture and industry the commerce ministry on its own is not in a position to increase exports or decrease imports.

“In the last three months on our recommendation the government has already exhausted the option of regulatory duty hike. Now we are focusing on building capacities to better regulate items for human consumption,” he told Dawn.

Dr Manzoor Ahmed, a reputed expert who served a Pakistan permanent representative at WTO in the past was not too optimistic.

“There is no ‘quick fix’ solution to address the country’s external sector vulnerabilities. I don’t see suppressing trade as a solution,” he said. He regretted that the past two democratic governments did not do enough to promote exports. He opposed enhancing RD on import of edible oil or pulses as doing so will impact the poor the most.

“The last government provided tax relief to the rich and now you want the poor to pay for the follies of the government. As long you are hostile to the idea of regional trade you will not be able to draw benefits of cross border free flow of goods and services. We know cheaper options are available in the region but we still like to import. No one will help as long we are not ready to help ourselves,” he said.

“There is no point in tinkering with the economic matrix of Pakistan at this point as it could initiate a chain of reactions that on a balance actually weigh heavier than the perceived benefits. Is it wise to compromise long term prospects for short term measly benefits?” a former secretary reacted to a suggestion to this effect.

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