Addressing Pakistan’s Declining Exports

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Framing the Issue

• During 2015-16, the value of merchandise exports reduced by 8.3%.

• Pakistan’s share in global exports has dropped from 0.15% in 2011 to 0.13% in 2016, while peer economies, like Bangladesh, India and Vietnam stood at 0.19%, 1.61%, and 0.97% respectively in 2016, suggesting the need to examine the macro and micro level issues affecting competitiveness.

• It is also important to explore how Pakistan can elevate the current levels of export competitiveness by making use of its Generalised Scheme of Preferences (GSP) plus status and bilateral and regional trade agreements (e.g. with China, Malaysia and Sri Lanka).
Governments own analysis on falling exports
SDPI’s analysis on *falling exports*
A longer term decline in export contribution

Overtime falling competitiveness leading to a reduction in export as percentage of national output
Major Export Destinations in 2015

Not able to diversify, away from traditional partners. Falling unit prices of exports.
Not able to source imports from cheapest sources. High tariffs, regulatory duties and complex non-tariff barriers.
Key Challenges
The fragmented management of export promotion measures undermined the ambitions of past trade policies
The regulatory regime faced by the private sector has constrained additions to installed capacity of exporting entities
Exchange rate could not be used as an effective instrument for export promotion
The country’s ability to participate in global value chains and conduct regional trade has weakened overtime.
Pakistan’s ability to fully exploit its GSP plus status granted by the EU remains uncertain
Past FTAs have not been accompanied by lowering of regulatory burden on industry
Entrenched business interests continue to influence the political process, making the business environment opaque and non-competitive.
Some Options
Short-term
The primary focus should be to increase the competitiveness of the private sector generally and of the export-oriented sectors in particular.

- Reducing the costs of businesses in getting the necessary product compliance certifications required for entering foreign markets.
- Using the Export Development Fund (EDF) to cover part of the costs of energy and inland transportation (including transit levies) faced by SMEs in export sectors, especially in the case of trade with regional neighbors and transit trade.
- Expedite outreach and implementation of other measures announced under Strategic Trade Policy Framework (STPF) aimed at enhancing knowledge and capacity of current and potential exporters.
Medium-term
Medium-term tasks for MoC

• MoC needs restructuring.

• Merger of Ministries of Commerce, Industries and Textile Production for a stronger focus on competitiveness.

• Greater regional integration through deep agreements that go beyond market access can support the objectives under STPF.

• A research and evaluation unit within MoC is also required to provide timely analysis.
Inter-ministerial Medium-term tasks

• It is important to ensure efficient and timely implementation of the no duty no refund regime for exports
• The availability of refinance under Export Finance Scheme (EFS) needs to be expanded
• Post-Brexit situation will require a more focused approach by Pakistan to enhance Pakistan’s trading benefits from GSP plus scheme
• Curtail informal trade to safeguard local competitiveness
• MoC in consultation with FBR should pursue rationalization of the tariff regime
• To complement these measures there is a need for a scheme for ‘Common Bonded Warehouses’.
• Assisting exporting sectors to integrate with global value chains
• In the case of the services sector a strong effort is required to become part of the regional value chain of initially providing low end, low value-added services.
Role of Political Leadership

• High-powered Cabinet Committee on Exports

• Federal plus inter-provincial working group on tax harmonisation
Long-term Option
The extensive information under the Cost of Doing Business database may be used to negotiate with provincial governments a more conducive business environment.
The country’s energy costs also remain high because of the types of fuels used for generation, the contracted rates for electricity generation and governance issues reflected in energy theft.
In the case of SMEs the government can help them by conducting their energy audits to make their processes more energy efficient.
Conclusion

The highest levels of political and administrative leadership in the country will need to focus on

• Implementation of STPF and branding of ‘make-in-Pakistan’
• Reconsideration of the working relationship between key institutions at the federal as well as at the inter-ministerial and inter-governmental level for reducing the cost of doing business
• Implementation of trade facilitation measures, and improvements in trade-related infrastructure, especially to benefit from the opportunities of transit trade, China-Pakistan Economic Corridor and Central Asia Regional Economic Cooperation programme.
Thank You

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