The good news is that Strategic Trade Policy Framework [STPF] (2018-23) seeks to increase exports to $61bn by 2023 with a minimum target of 36.2bn which is roughly equal to the 35bn target of STPF 2015-18. Integration to global value chains, improving FDI inflows and developing entrepreneurship are some of the other major objectives. Particularly small and medium scale entrepreneurs are identified as high priority areas, absolutely ignored in STPF 2015-18.

Reasons for STPF 2015-18 failure
STPF 2015-18 fared badly missing all the targets. Key target of enhancement of annual exports to US$ 35bn turned on its head and actually exports fell below US dollar 20bn annually. Similar was the fate of other key targets, which include improving export competitiveness, transition from factor-driven economy to efficient and innovation driven economy, and increasing share in regional trade. A closer look into STPF 2015-18 helps identify factors responsible for the poor outcomes.

Pakistan needs to rethink the design and nature of incentives. Rather than offering static type incentives to size and time, these incentives should be evolving as the size of the firm or exporter grows.

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First, STPF 2015-18 lacked coherence with other macroeconomic policies and industrial policy. Resultantly, the policy not only lacked ownership but also suffered systematic coordination and implementation inefficiencies. Economic policy mainly designed to suit import substitution, compromised the effectiveness of export oriented STPF 2015-18. For example, when fiscal policy was targeting ease of doing of business through tax cuts and exemptions, monetary policy seemed designed for imports promotion and overvalued rupee was eroding the already existing competitiveness. This holds true for many other policies.

Second, the policy lacked quantitative analysis and failed to articulate the reasons for set targets. It seemed to have flown with the last year’s trend. Flowing with the trend in 2012-13 and 2013-14, export target was set to US dollar 35 bn ignoring that exports’ rise in previous two years was mainly financed by good agriculture produce. It missed analysis of factors to be focused on to achieve the targets sustainably if agriculture contribution drops. Clearly, STPF 2015-18 failed to count the sluggish global growth and the other after effects of global financial crisis.

Third, STPF (2015-18) ignored trade diplomacy to the extent of even making a mention of the term. In today’s world of trade agreements, commercial diplomacy has emerged as single most important factor to promote trade through getting access to market, particularly non-traditional markets. This may explain why we failed in market diversification which Bangladesh and other countries of the region dis successfully.

Fourth, though the STPF-215-18 uses term improve export competitiveness as second major target but seems failing to encompassing the term. It does not even mention the word price competitiveness; rest aside the steps to be taken in this regard. Experts agree that more than anything else, it was appreciated Pakistani Rupee [PKR] behind negative growth of exports. PKR appreciated by roughly 25% during 2010-2017 causing serious loss of external competitiveness.

Fifth, trade policy of 2015-18 missed a well-designed how to do part. For example, it does not offer any information on factors behind low diversification—both in products and market. While much was written in document about product development and diversification, all four markets identified to increase market share appear to have guided by raw agriculture products. Mention the word “skills” only two times, the policy aimed “transition from factor-driven economy to efficiency-driven and innovation-driven economy” through “strengthening of skill development institutes of fan, cutlery and leather industry”.

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Steps needs to be taken

Pakistan needs to rethink the design and nature of incentives. Rather than offering static type incentives to size and time, these incentives should be evolving as the size of the firm or exporter grows. For example, incentives for technology up-gradation and exports should not be generalized and fixed. Rather, financial benefits can be provided based on the export destination country-higher for new destination- and nature of product, higher for new product, or value addition. Treating every one equal discourages the efforts for looking new markets and developing new products. Overall, the package of incentives in STPF (2015-18) ignored structural factors behind lower export competitiveness in all forms. This must be avoided in upcoming framework.

Picking priority sectors and setting sectoral specific strategies is another area where STPF 2018-23 needs to improve over the outgoing framework. It is now a standard practice to identify booster sectors’ under the export policy on well researched bases. Incentives and enablers vary by sector and by size of firm. In this regard, sector specific sub strategies must be in place. For example sector specific export promotion councils can be formed. Sector specific trade and investment agreement institute a production network which is very crucial for being part of value chains.

While STPF (2013-18) was absolutely silent on it, export credit insurance [ECI] can be introduced to protect exporters of products and services against the risk of non-payment by a foreign buyer. This is important to handle the liquidity constraints of Pakistani exports, particular the SMEs. Pakistan must encourage SMEs involving in exports if it has to have sustained rise in efficiency based product diversification and exports. Through ECI commercial or political losses in exports can be covered. India does cover up to 90% of lost for small industry. The ratio is decreasing in size and scale of industry. It will motivate the exporters to explore new markets.

Availability of affordable finance should be placed as key target in STPF (2018-23). Role of financial markets, availability of diversified funding instruments and continuous reform of finance and insurance sectors will be critically important for achieving target set in new trade strategy. Currently, the area of long-term project financing remains neglected in Pakistan. Raising long-term project financing from local private sector, regional and global financial markets to facilitate industrial investments is also missing from the current discourse. SMEs should be the key focus in this regard. Export consultancy services needs to be strengthened by region and by type of industry. A particular focus should be especially on SME consortia. An assessment of opportunities and associated risk in foreign market should be undertaken particularly for SMEs.

Need to focus more on joint trainings

Let me reassert that other than financial incentives and regulatory measures, Pakistan needs to focus on joint management trainings, joint certification etc. to improve the productivity gains based on learning. The export inception councils should be established ensuring quality of exports, Pakistan is losing already captured market because of falling quality. With branding, we also need to focus on packaging, India has special institute for it. Overwhelming evidence exists that effective pursuit of strategic trade policy is dependent on better coordination among various components of the macro-economic policies. To ensure better trade policy governance, STPF (2018-23) must attach priority focus on policy coherence. Trade policy should be well integrated with industrial, energy, labour and development policy. Only an improved coordination between policy instruments deployed in fiscal, monetary and exchange rate and industrial policies with those of the trade policy can help achieve the targets set in for 2023.