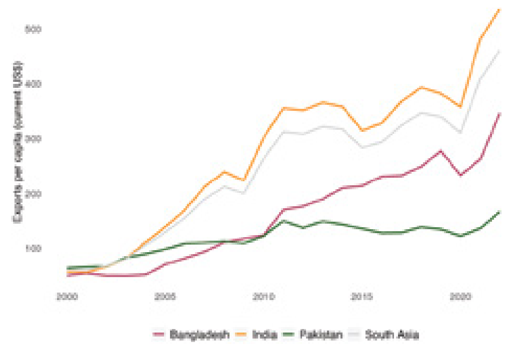
A DYNAMIC EXPORT CULTURE IS IMPERATIVE

Gohar Ejaz

Despite the USD 3 billion IMF stand-by arrangement and other foreign exchange deposits, Pakistan's external position remains vulnerable. The IMF projects gross external financing requirements over the next five years to range between USD 28 billion to USD 33 billion annually. Given the high costs of debt servicing and borderline sustainability of current external debt, the economy cannot afford to keep borrowing to meet these requirements. A sustained increase in exports is the only way forward.

A recent article claimed that the salaried class pays 200% more tax than exporters. Realistically, the only remedy available to the salaried class and all other classes in the context of Pakistan's broader economic challenges is to become exporters. Pakistan's exports per capita in 2022 stood at only USD 167 and have remained stagnant over the past decade while Bangladesh, India and the region in general have experienced tremendous growth (see Figure 1). A cultural revolution geared towards exports is required to change this trend.

Figure 1. Pakistan's exports per capita have stagnated while the region has experienced tremendous growth.



Source: Author's calculations using World Bank data

However, the current economic and political situation has created conditions that are not conducive towards the growth of export sectors. Withdrawal of regionally competitive energy tariffs and zero-rating (SRO 1125) for exporters, high interest rates, exchange rate depreciation, import restrictions and high economic uncertainty have caused exports to decline from around USD 40 billion in FY22 to USD 35 billion in FY23. The textile industry alone—responsible for over one-third of total exports—has experienced a 30% reduction in output since March 2023, and a further reduction of 25% is expected over the coming weeks as the impact of high energy prices continues to bite.

Prioritising political gains over shared economic prosperity, the government is unwilling to implement the structural reforms necessary to facilitate exports and is rather making policy decisions that are further undermining the international competitiveness of export sectors. This phenomenon is also not unique to the current government. Time and time again, successive governments have taken short-sighted policy decisions to preserve their own political positions while ignoring the country's overall economic position.

Given that this has become a chronic illness of our governance structure, safeguards to protect the county's economic interests from politically motivated decisions must be built into the system. In this regard, we propose the formation of a High-Level Export Council—an autonomous body with representation from export industries, experts in the fields of international trade and international trade law, and relevant government ministries.

The council's primary objective will be to foster collaboration, communication, and coordination between the government and export-related sectors with the overarching goal of creating an export culture, enhancing export competitiveness, and facilitating sustainable economic growth. It will have a two-pronged mandate. First, to align all government policies and decisions with the overarching objective of export creation. Second, to serve as an advisor to the government—upon its request—on the critical appraisal of new policies so that these policies do not infringe upon the objective of export creation.

If a government policy decision is perceived as a barrier towards export creation, export sectors and related stakeholders will be able to petition the council to review the decision. The council shall conduct an initial assessment of the petition's merit and may appoint an expert committee to conduct an objective in-depth analysis and submit a report on the matter. It will then hold mediation sessions involving all relevant stakeholders to discuss the petition and proposed solutions. The council will strive to reach a consensus-based resolution, and its decision shall be binding on all parties involved. In the interest of transparency, all of the council's proceedings shall be made publicly available.

The government must also focus all possible resources towards embedding a culture of exports into the very veins of our economy. In the near-term, this entails the provision of competitive energy tariffs through a separate power tariff category for exporters based on the actual cost-of-service, restoration of zero-rating (SRO 1125) for exporters, and withdrawal of all remaining import restrictions so that export industries may resume operations and complete expansions that are already underway.

This must be followed by the implementation of a comprehensive medium-term policy that offers strong incentives to increase the export industry's share of value added by localising backward and forward linkages, and to diversify exports into other high-potential markets. It must also liberalise Pakistan's trade policy so that investment in unproductive and heavily protected sectors like the auto industry is diverted towards sectors in which we have a comparative advantage.

If the status quo is maintained and import-based consumption is financed through external borrowing while domestic resources are spent away on unproductive activities, the economy will keep spiraling back into balance of payments crises and ultimately a sovereign default with unprecedented economic consequences for the masses. Pakistan's only salvation lies in realising USD 100 billion in annual exports within the next five years. The textile industry stands ready to play its role in achieving this target, provided that it receives a stable supply of power and gas at internationally competitive prices.

The author is the Federal Minister for Commerce and Industries under the current Caretaker Government.