What Impedes Pakistani Exports?

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We have recently seen the risks of default looming in Pakistan amid persistent current account deficit, burgeoning external debt obligations, and recent uncertainty-led depreciation of the Rupee. Pakistan has been a foreign exchange deficient country since the beginning, as is shown by our history of 22 approaches to the IMF. A simple explanation is that we export fewer goods and services than we import. Remittances have been providing a cushion in this regard but not sufficiently enough to offset the trade deficit. The result is persistent external financing needs, with external debt reaching to 36% of GDP, and depreciation of the Rupee, with around 5.4% annual rate of depreciation since 1947.

As far as the current situation is concerned, our exports of goods stood at $32.5 billion in 2021-22, against the exports of $25.304 billion in the fiscal year 2020-21: an increase of 28%. Likewise, exports of services are recorded at $6.97 billion. In comparison, the imports of goods amounted to $72.05 billion in 2021-22, exhibiting an increase of 28%. With the services imports of $12.14 billion, we have a combined trade deficit of $44.773 billion in goods and services, showing an increase of around 44% during the fiscal year 2021-22. During the same period, remittance flows to Pakistan increased by 20 % in 2021-22, amounting to $31.238 billion. Though remittances have eased the burden on foreign exchange a bit, they could not counterbalance the overall current account deficit. As a result, the current account deficit was recorded at $17.5 billion (4.6% of GDP) in the financial year 2021-22. Last year, the current account deficit was just $2.82 billion (0.8% of GDP). These figures have serious implications for our foreign exchange reserves and the stability of the Pakistan Rupee. For instance, the overall foreign currency reserves held by the country, including both the reserves held by the SBP and those held by the commercial banks, stood at only $14.21 billion on July 31, 2022, hardly enough to pay for two months' imports. Similarly, the Pakistan Rupee touched a record low of 240 per US Dollar in July 2022 before retreating slightly in August, after the assurance of IMF to release $1.1 billion.

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Are external debt or the IMF bailout packages a durable solution? I would like to posit that no. The only durable solution is an increase in exports. Alternatively, we have to resolve the structural issues to raise our exports. Pakistan's export performance has been stagnant over the last two decades. Overall, Pakistan's share in global trade dropped from 0.15 % in 2005 to 0.12 % in 2021 while China doubled and Vietnam tripled their shares during the same period. Specifically, we have been losing our export competitiveness, while the share of Pakistan's competitors has been increasing substantially in the global markets. For instance, from 2005 to 2021, Bangladesh's share in world exports increased from 0.06 % to 0.19 %, India's from 0.61 % to 1.65 %, and Vietnam's from 0.14 %to 1.17 %. Currently, Pakistan is among the top ten countries with the lowest export orientation in the World, with an export to GDP ratio averaging 12.3% for the period 2000-2020. Second, Pakistan's exports lack diversification, including both product diversification as well as market diversification. For instance, Pakistan's exports are mainly comprising resource-based items such as cotton, rice, and hides and skins over the past many decades, dominated largely by textiles products and rice. Similarly, Pakistan's export market is concentrated as its main trading partners are only three, the United States, Europe, and the PRC, though it also sells much of its rice to the Middle East. The only economy for which it is a major market is Afghanistan. Third, Pakistan has never been efficient with respect to value-addition. Unlike Pakistan, most of its regional neighbours and competitors were able to transform their export base from primary commodities to high-value-added items. For example, over the past two decades, compared to an increase of 16 % points in the share of manufactured exports in Pakistan's total exports, the share of regional competitors has on average increased by 43 % points. Further, exporters in Pakistan are relatively small – affecting their bargaining power when negotiating with international buyers – and they operate under substantial supply constraints.

So, we need structural reforms which promote our exports; enlarge our product and market diversification; encourage value addition in exports; and enhance the scope of our exporters. In this regard, the cost of doing business needs serious attention as exporters from Pakistan are facing tough competition from Bangladesh, India, and Vietnam. Internal security, productivity-oriented or growth-oriented incentives mechanism, rationalising energy prices, and enabling regulatory environment should be the priority areas to reduce the costs of doing business in the country. Likewise, to encourage technological upgradation and enhance the size of businesses, we have to open our market to global firms, especially for joint ventures. In other words, limited competition has halted the development of a competitive private sector in Pakistan in addition to inversely impacting the welfare of consumers. Third, rationalizing the tariff structure from the perspective of anti-exports bias is essential as applied tariff rates are relatively high in Pakistan when compared to its peers/competitors. While higher tariff rates could help curb unnecessary imports, tariffs on imported raw materials could impact the country's export performance. With the increasing importance of global value chains at different stages of production, the share of exports made up of imported inputs has also increased across the globe, including Pakistan. Estimates suggest that around 20 % to 30 % of imported inputs have been used at different stages of production in Pakistan. So, we have to rationalize our tariff structure. Finally, skill up-gradation of our labour force and women's participation in the market should be focused on by providing a conducive environment.

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