SECTION: THINKTANK

COVER TITLE: Exports in Doldrums

HEADLINE: Re-energising Exports

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Pakistan's exports have been sharply declining since 1990 with our share in the global market shrinking and the gap between imports and exports steadily widening. In the same time-frame, our closest competitors, India and Bangladesh, have improved their market share exponentially.

The crisis is not related to one particular period, or one particular policy. The problem is deep structural, which is that we are producing pure cotton textiles as our major commodity for exports, with limited diversification, while global demand has changed.

The world demand today is for man-made fibre and cotton mix. Even if we are given a quota under the Generalised System of Preferences (GSP) in the European Union (EU), we would be unable to capture the market because we are not yet producing man-made fibre garments or mix cotton fabrics.

Lack of diversification

Look at any contemporary sportswear for example. It is no longer cotton but is a mix and blend of various fibres. We have not switched from where we were in the 1990s, nor have we taken into account what the changing demands and preferences are. We have stuck to the old ways of doing things. The demand for our commodities is a sunset industry, while the demand for other commodities is a sunrise industry, but we have not yet moved away from the sunset industries to the sunrise industries.

We are producing rice, leather, sports goods, some surgical goods, and some textiles but have not diversified into consumer electronics, semi-conductors, delight machinery like die cutters and perforating machines and other industrial goods for which there are a lot of international buyers. There is an imbalance between what the world is asking us to produce and what we are producing. Unless we come to grips with this particular problem, we are not going to see any resurgence in our exports.

Even in the textile sector, we have been concentrating on yarn and greige fabric, which is an unfinished woven or knitted fabric that hasn't been bleached or dyed, while Bangladesh, which does not produce a single bale of cotton, was manufacturing $3 billion worth of ready-made garments in 2003 – the same amount of ready-made garments we used to produce in 2003. But by 2016, Bangladesh had crossed the $30 billion mark, and we are still at $3 billion. We have not done well in the ready-made garments industry, which should have been easy and simple for us.

Inefficiencies in the system

Our labour productivity is low, electricity and gas costs are high, and shipments, clearances, customs, port authorities and all government departments create a lot of hindrance. That is another key reason behind our dismal performance. In the last three years, Pakistan had orders for providing goods to the international market but there was a shortage of electricity and gas. So we could not produce those goods and ship them on time.

International markets are very competitive and they require shipments according to their schedule and according to their quality requirements. If we do not do that, the buyers will go to Vietnam, they will go to Bangladesh, and they will go to Cambodia. They do not owe anything to Pakistan. We lost a lot of orders because of this in the past three years.

Since the intensification of terrorist acts in Pakistan, international buyers refuse to visit here. When they do not come and visit Pakistan, then they cannot see for themselves what kind of goods they can purchase from here. They cannot check the specification of goods, the quality or whether it suits them or not. This has been an additional problem.

Multiple taxation

What we need to do in the future is to reduce our cost of doing business in Pakistan and keep government officials away from harassing exporters. The whole system of exporters first paying taxes and import duties, sales tax and then getting a refund has created a major liquidity problem.

When we say zero duty, we should not ask for any advance taxes to be deposited to the Federal Board of Revenue (FBR). We have to change the whole system of our taxation on exports, both at the federal and provincial levels. Now all four provinces have also started taxing services, and there is no coordination between the federal government and provincial governments.

You have to pay the Khyber Pakhtunkhwa if you want to sell goods in Peshawar; if you want to sell goods in Faisalabad, then you pay the Punjab government because these are services, be they retail, wholesale or even transportation services. The same goes for Sindh. In effect, it is multiple taxation, and inevitably, profit margins are being squeezed.

On the other hand, if you sell goods in Pakistani retail shops, there is no risk as you do not find buyers insisting on high quality. You can sell anything in the Pakistani market and make hefty premiums. If the same lawn cloth is exported and you have to go through such a hassle and get 10 percent of a profit margin, why not sell the same lawn cloth in a high-end mall for a 15 percent profit margin and less hassle? You will not export, instead you will sell in the local market. That is exactly what is really happening.

We have to look at our exports strategy, examine our taxation system, and create incentives for exporters to do business in which they are profitable and can compete with other countries. If other countries are providing rebates or cash incentives, we should do the same. We should invest in research and development, and see whether we, as a country, can produce the goods which are being demanded by the rest of the world at a price which is lower than our competitors.

Explore new markets

If Cambodia, Vietnam and Bangladesh are selling something at $5, we should be able to sell it by $4.5, so that our goods penetrate international markets. You need to give a discount in the beginning, but if you are greedy and want to make huge margins right from the beginning, you will never be able to enter those markets. That is what our businessmen are doing. They are not going to China, they are not going to East Asia, where the purchasing power is. They just rely on the EU, because they have the GSP Plus treatment, or they go to the United States where our exports are completely stagnant. But growth rates in the United States and Europe are less than two percent, whereas the growth rate in China is seven percent.

We should also open trade with India. India is growing very fast and we can produce goods which we can sell in Indian markets, and we can procure raw materials which will be cheaper to use for our final products. Why should it go from India to Dubai, and from Dubai to Karachi, and then from Karachi to Lahore? We have the Wagah Border and can have trucks coming in from Amritsar all the way to Lahore in one hour and at a very small fraction of the cost. We have to think in terms which are non-conventional. We have our disputes with India, and we are not going to give up on Kashmir under any circumstances, but that does not mean we should not do business with India. This is something which is in our interest and we will be able to penetrate into a much larger market.

We should do business with Iran, given that there are a lot of commodities which Iran needs from Pakistan and we can get commodities from Iran through the entire Makran coast. We can also get electricity from Iran. We are now in a tense relationship with Afghanistan, which used to be a consistent buyer of Pakistani goods, bringing in more than $2 billion annually. If we continue to have tense relations with Afghanistan, we will lose that market too. Afghanistan, China, Iran, Central Asia and India all are very close to our borders.

Countries with contiguous borders to larger markets do excellent trade among themselves. Mexico and Canada are prime examples of being very small countries, but are taking advantage of the proximity to a big market of 300 million people in the United States. Mexico is booming, and so is Canada which is a small country with 25 to 30 million people. We should learn a lesson from other countries and emulate their best practices. If we carry on with a laissez faire, business as usual attitude, as we have been doing for the past three decades, export growth will remain in the doldrums.

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