Strategic Trade Policy Framework 2012-15

Comments and Recommendations

Spearhead Research

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STPF 2012-15 outlines various aspects of trade that need to be worked on to further the goals of economic revival. While this document calls for greater attention to some pertinent areas of trade, it fails in terms of being a country-specific, homegrown solution to Pakistan's trade woes. As a continuation of an earlier policy from 2009-2012, it has not been updated to take advantage of certain changes that have taken place since that time. The document thus, does not take into account the changes in the policy environment such as the GSP plus status[1] awarded by the EU to Pakistan—ideally, the trade policy should have been updated to help capitalize on this opportunity. Moreover, the document bases the likelihood of the success of the trade policy on the idea that it has helped achieve success in the past as well—while both assumptions need to be substantiated, it is also the job of the Ministry of Trade and Commerce to take into account the dynamic policy environment while setting economic goals.

This document has added legitimacy to the argument that there is a great need to have a clearer vision in order to frame policies that work well in unison towards a common goal. If the goal, in fact, is to increase exports to USD95bn during 2012-2015 (as against the current PKR24bn level), the understanding that focusing all energies on keeping the national currency[2] high compared to the dollar will be counter-productive is essential. Without the realization that even short-term strategies should augment long/ medium term policies, it will become impossible to have clarity and make progress.

STPF 2012-15 calls for a shift towards Domestic Commerce and an emphasis on locally manufactured goods without addressing concerns relating to quality management and assurance, setting up the needed infrastructure and the costs associated. The policy framework talks about the creation of a Trade Committee with the purpose of monitoring the implementation of the SPTF. While the creation of such is necessary to monitor progress, the document does not outline the areas that will be monitored and the methods of monitoring those areas. Along with this, the creation of the Domestic Commerce Wing, Land Ports Authority, Exim Bank, Services Sector Expos and Regulatory Units while good suggestions on paper will be a costly exercise. It has already been acknowledged by the previous and the current government that the STP 2009-2012 could not be implemented in letter and spirit because there were issues regarding the release of the funds required from the Ministry of Finance to ensure proper implementation. It would be beneficial thus, to conduct a cost-and-benefit analysis for the creation of these institutions. Serious thought is required to determine the capacity and utility of each one of these.

Recommendations and Comments

The 3-year time horizon for the policy framework need not be shortened in order to help make it more current as this has not worked well in the past yet it is important to realize that any significant changes in the environment call for a rethink and if not a complete overhaul, demand that policy solutions be worked on, tweaked and at times enhanced to adapt to changing contextual factors. The environment hence, needs to be analyzed from a national as well as an international angle. Following the **PEST** model can help vis-à-vis environmental scanning where macroeconomic factors (political, economic, social and technological) can be analyzed to realize opportunities and hedge safely against potential threats. Though STPF 2012-15 identifies key factors responsible for poor performance such as the power crisis[3], high costs of production, the security situation, gas shortages, high oil prices and the erosion of competitiveness, it does not go into detail regarding solutions and alternatives let alone future projections with respect to challenges underlined in the document.

That the policy stresses the need to improve safety standards and working conditions is a positive sign given that Pakistan has faced bans in the past on textile exports (the mainstay of Pakistan's exports) but the plan does not outline the concrete measures that will be taken to ensure compliance to internationally set standards. The desire to achieve more sophistication in production, come up with a diversified range of exports and identify new markets has been emphasized in this document but little has been said about how this will be achieved in wake of limited economic and noneconomic resources and other challenging environmental factors such as a deficit in the required infrastructure (in case of some non-textile products like fish and fish related products require modern refrigeration and cold cycles that cannot be ensured in an environment of serious power shortages).

The document mentions the regional aspect[4] of trade and commerce but does not take into account the fact that the security, foreign and trade policy need to be in synchrony in order to be effective. While it mentions the fact that the trade policy was chalked out by taking all stakeholders on board, it fails to come off as a wholesome, indigenous document. The understanding that to sustain the ecosystem, it is necessary especially with reference to imports and exports that have a direct impact on the country's vulnerability, the intelligence agencies also be engaged in the discussion.

While STPF 2012-15 may be a good place to start to accelerate growth in the export sector, it is a weak blueprint for even success in the medium term. It can provide a good foundation to come up with a comprehensive structure for a trade policy framework which fits well with larger national goals (both: economic and non-economic). The stated resolve to revitalize and boost Pakistan's export sector should pave way for the creation of a multi-faceted strategy that works on different levels to achieve **s**pecific, **m**easurable, **a**ttainable, **r**ealistic and **t**imely goals that is forward looking and periodically updated to factor in the changes in the environment by taking all stakeholders on board.

Appendix

GSP+ Status[1]:

When Pakistan was awarded with the GSP+ status by the European Union, it was met with great optimism as PM Sharif stated that an increase in exports would do a great deal in reviving the economy and help in reducing unemployment. Moreover, there were claims that the textile industry alone would be churning out profits in excess of Rs 1 trillion, and would be able to compete with regional rivals such as Bangladesh and Sri Lanka. In the first half of 2014, there were skeptics who maintained that Pakistan had failed to take advantage of the GSP+ status as growth in textile exports were nominal owing to electricity and gas shortage along with the devaluation of the dollar. However, the situation might not be as bad as some are making it out to be considering all the obstacles the sector is facing. There has been an overall growth of 25% in exports of knitwear between the months of July-October 2014 in contrast to the corresponding period of the previous year. While exports of knitwear and ready-made garments have increased, there is no denying the fact that the drop in exports of cotton cloth and cotton yarn is worrisome. With the year coming to an end, Pakistan has been unable to reduce unemployment, add $1 billion every year to total exports to the EU and improve its export standing against regional rivals such as Bangladesh. To get a perspective, Bangladesh earned $21 billion of revenues last year by exporting garments to the West, while Pakistan earned $2.6 billion. Pakistan is similar to Bangladesh in terms of labour capacity, as both the countries have millions of uneducated, unskilled and unemployed workers. As a matter of fact, Pakistan holds a competitive advantage on quite a few factors of production over Bangladesh. But it is our security situation that has kept most Western visitors out of the country. The $600 million jump in textile exports does point to the fact that Pakistan is capable of achieving its targets, but that can only be done if significant steps are taken to improve the security and energy crisis situation. Only then will we be able to take full advantage of the GSP+ status.

PKR USD Parity[2]:

As mentioned in the Trade policy, it is one of the government’s main objectives to improve the BOP position and increase exports from the current level of $24 billion, to a highly ambitious one of $95 billion. However, it remains to be seen how this target will be achieved considering the appreciation of the PKR against the USD that took place in March. Whether this was engineered or a true reflection of the competitiveness of the economy is a separate matter, what is of more concern is the impact this development will have on the BOP position. As a direct consequence, imports will be cheaper and exports will suffer, despite the imported material required for export products being cheaper. And this is what the reports seem to reflect as the trade deficit from July through October this year was $8.8 billion. This figure is 50% higher than the deficit in the comparative period previous year.

Power Crisis (Circular Debt Issue)[3]:

The circular debt issue has plagued Pakistan's energy sector since 2006 which reached its peak in June 2013. There seemed to be some respite when the PML-N government paid off Rs 480 billion after coming in to power, however, due to lack of structural reforms; it climbed back to Rs 300 billion by May 2014. According to the National Power Policy that was formulated in 2013, one of the main objectives was to eliminate load shedding by 2017. But that seems highly unlikely considering the current scenario. With the debt figure being around Rs 400 billion by the end of August, this means that government is not going to be able to achieve its exploration target of drilling 400 wells within the next four years, in order to swell its oil and gas supplies. Furthermore, the Independent Power Producers (IPPs) are on the verge of collapsing due to the alarming levels of circular debt and default in payments by WAPDA and NTDC. It is imperative to keep in mind that IPPs contribute more than 50% of Pakistan's energy supply, and with this starting to seem like a never-ending cycle; the prospects of the government attracting international and local investors to the power sector seem to be bleak.

BoP:

The country's balance of payment position weakened in 2013-2014, as the foreign exchange reserves held by the central bank went down to only $2.8 billion in February. In addition, Pakistan's trade deficit widened to a record high of PKR 227.6 billion in June of 2014, as compared to PKR 153.6 billion in the previous month, owing to a surge in imports. Things didn't really improve in the first three months of 2014-2015, as the current account deficit widened by $62 million in contrast to the same three month period of the preceding fiscal year when it was recorded at $1.26 billion. With imports increasing and exports decreasing during the first quarter of 2015, the country's current account was put under pressure. Analyzing the current scenario, it appears that the government needs to re-assess the situation and adopt a more pragmatic approach with regards to setting its export targets.

Suggested additional reading[4]

- A picture we've seen before
  http://blogs.rediff.com/mkbhadrakumar/2014/12/02/a-picture-weve-seen-before/
- SAARC's blame game
  http://www.zoneasia-pk.com/saarcs-blame-game/

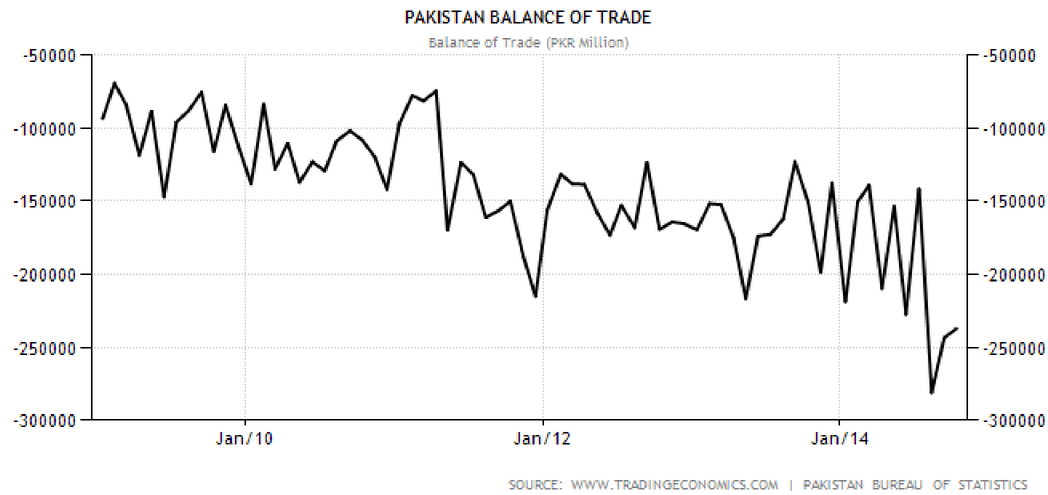

Figure 1: Balance of Trade 2009-2014

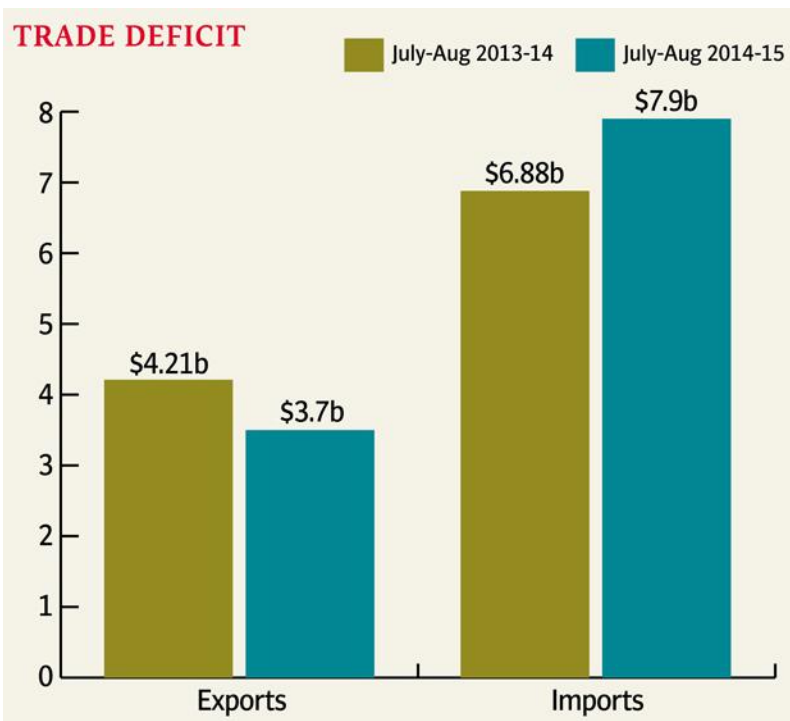

Figure 2: Trade Deficit FY 2014-2015

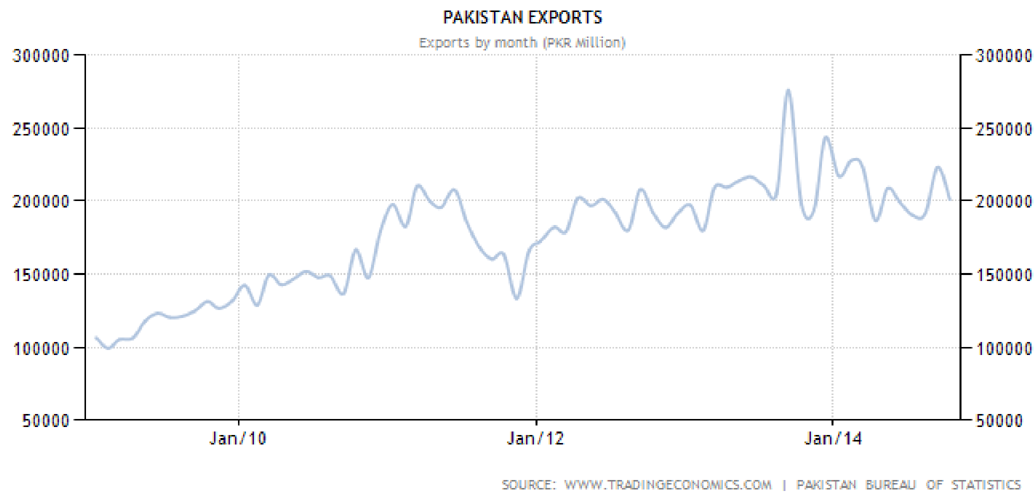

Figure 3: Pakistan exports 2009-2014

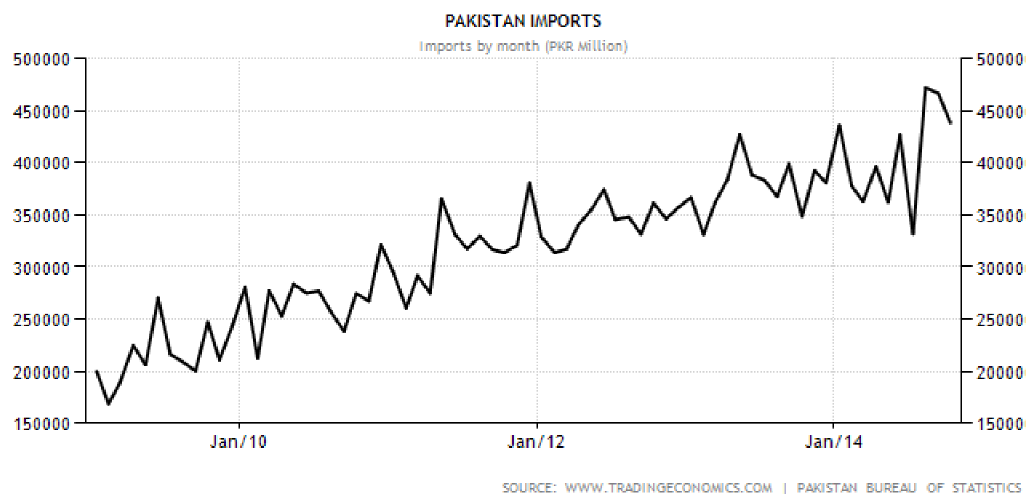

Figure 4: Pakistan imports 2009-2014

Overall GDP (at Constant Basic Prices of 2005-06)

Growth in percent; contribution in percentage points

	Growth			Contribution to growth	
	FY13[R]	FY14[T]	FY14[P]	FY13[R]	FY14[P]
Agriculture (21%)	2.9	3.8	2.1	0.6	0.5
Industry (20.8%)	1.4	4.8	5.8	0.3	1.2
Services (58.1%)	4.9	4.6	4.3	2.8	2.5
GDP	**3.7**	**4.4**	**4.1**	**3.7**	**4.1**

R = Revised; T = Target; and P = Provisional

Note: Figures in parentheses are sectoral share in GDP for FY14.

Source: Pakistan Bureau of Statistics

Figure 5: Contribution of sectors towards overall GDP

Value Addition by Agriculture

Share and growth in percent; contribution in percentage points

	FY14 Share	Growth		Contribution to growth in agriculture	
		FY13^{R}	FY14^{P}	FY13^{R}	FY14^{P}
Crop	40.0	2.3	1.2	0.9	0.5
Major crops	25.6	1.2	3.7	0.3	0.9
Other crops	11.6	6.1	-3.5	0.7	-0.4
Cotton ginning	2.8	-2.9	-1.3	-0.1	0.0
Livestock	55.9	3.5	2.9	1.9	1.6
Forestry	2.0	1.0	1.5	0.0	0.0
Fishing	2.0	0.7	1.0	0.0	0.0
Overall	**100.0**	**2.9**	**2.1**		
Annual target		4.1	3.8		

Source: Pakistan Bureau of Statistics

Table 2.4: Major Crops

Production in million tons; for cotton million bales; Growth in percent

	FY13	FY14^{T}	FY14	Growth	
				FY13	FY14
Cotton	13.0	14.1	12.8	-4.1	-2.0
Rice	5.5	6.2	6.8	-10.1	22.8
Sugarcane	63.8	65.0	66.5	9.2	4.3
Wheat	24.2	25.0	25.3	3.1	4.4
Maize	4.2	4.6	4.5	-2.7	7.3

Source: Pakistan Bureau of Statistics

Figure 6: Value addition by Agriculture

Value Addition by Services

Share and growth in percent; contribution in percentage points

	Share in FY14	Growth		Contribution to growth in services	
		FY13^{R}	FY14^{P}	FY13^{R}	FY14^{P}
Wholesale & retail trade	31.9	3.4	5.2	1.1	1.6
Transport, storage & communication	22.3	2.9	3.0	0.7	0.7
Finance & insurance	5.4	9.0	5.2	0.5	0.3
Housing services	11.6	4.0	4.0	0.5	0.5
General govt. services	12.1	11.3	2.2	1.3	0.3
Other private services	16.6	5.2	5.8	0.9	1.0
Overall	**100.0**	**4.9**	**4.3**	**4.9**	**4.3**

P: Provisional; R: Revised

Source: Pakistan Bureau of Statistics

Figure 7: Value addition by services