**[Growth & exports](https://nation.com.pk/04-Mar-2020/growth-exports%22%20%5Ct%20%22_new)**

Dr Kamal Monnoo March 04, 2020

Congratulations the hospital seems to have been saved, regrettably though the patients didn’t survive! The Pakistani economy more or less seems on a similar path - supposedly the economy is on track to be balanced, doesn’t matter though if in the process businesses and livelihoods get eroded. GDP growth is expected to drop below 2%, which with a high population base of 220 Million people where mostly are young (more than 65% below 35 years of age by some estimates), nearly 2/3 million enter the job market every year, and the government offers little in safety nets, is simply a recipe for disaster. And even more troubling is the fact that nearly two years down the road the economic managers are still undecided on their choice of the principal driver of Growth. The economic history by now is quite clear in indicating that in order for developing countries (like ours) to succeed, governments need to clearly select their growth-driver of choice and then to single mindedly back it. Ironically for South Asia and even for most East Asian countries the choices have not been many except to focus on an export led growth: Capitalizing on cheap labor force amidst an enabling operating environment (provided by the respective government) and in fast tracking skill development to gradually climb up the value addition ladder. The stories of Japan (in the 50s to 70s), Thailand, China, and Vietnam, etc. (more recently), all fit this pattern. And now lately, the emerging South Asian Tigers like Bangladesh and Myanmar have also simply replicated this formula of success without trying to unnecessarily reinvent the wheel. Bangladesh today is maintaining a GDP growth rate of around 7.50% and Myanmar is also galloping at nearly 6.50% per annum. Despite a fairly high export base now (nearly $45 billion per annum) Bangladesh grows its exports at about 8-10% every year and Myanmar, which was only at $1.50 billion/annum in 2017, clocked $4.50 billion in 2019, with a target of reaching $10 billion by 2025 (equivalent nearly 70% of our total textile exports). Pakistan on the other hand is on the losing end. Temporarily helped by an abrupt devaluation, the resultant short-term competitive advantage seem to have evaporated pre-maturely owing to high inflation, ill-advised and ill-timed taxation drives, unnecessarily enhanced government oversight and some plainly poor economic policies (interest rate, exorbitant utility price hikes, abolishing of zero-rating, etc.). Over a period of 6 months since prime devaluation (as much as 30% or higher) the exports have only risen by 2.50%, whereas, in more recent context have in fact been declining by about 2% month-on-month over the last two months.

Also, a much touted success story of dramatically contracting the current account deficit seems to be fading away. One has held this argument for a long time now that in many ways Pakistan’s imports are largely inelastic and a sustainable solution primarily lies in instead ensuring a sustainable cum significant increase in country’s exports. Meaning, devaluation as a tool to increase exports or gain global competitive advantage should not only be used very sparingly, but also that beyond a certain point (5/7% in our case at the time) the step in fact becomes counterproductive. This is precisely what is happening – imports, which initially contracted by 18% have once again started to rise and in January 2020, month-on-month, were only lower by approximately 9% over January 2019.

Point being that with effectively two operational years of this government’s tenure remaining (the last year is invariably clouded by election overrides) it will serve the decision makers well to quickly adopt ‘Exports’ as its choice driver of economic growth. However, this can only happen if the government is ready to facilitate exports on a war footing – Mere lip service will not do. Countries that do indeed take their exports seriously tend to keep the notion at a pedestal that equates them to literally being sacred; anyone trying to put a spoke in the exporting wheel is dealt with in terms of being anti-estate. Not anywhere in the world (over the last 2 decades) such zeal or commitment to exports per se, has been displayed better than as shown in Bangladesh – And the results are for everyone to see. Today, one can now see a similar passion brewing in Myanmar and already the country has been virtually doubling its exports each year, over the two years!

So, what then are the main challenges facing Pakistan’s exports today? Well, no real secret that the main export-manufacturing industries of Pakistan are currently going through a very tough period, with no real relief in sight in the near future. A great deal of supply-chain, especially in textiles & leather, faces a complete standstill due to perhaps the worst financial crisis these industries have faced in a long time. The main reasons being: Removal of zero-rating and instead imposing a 17 percent sales tax, CNIC condition for all transactions regardless of the size of the vender, an ever-increasing and unstable electricity tariffs, and an exorbitantly high cost of bank borrowings. This situation or the resultant liquidity crunch is further amplified by an invariable delay in refunds’ claim processing (minimum of 9 months on average).

In comparison, in Bangladesh the Sales Tax rate is 15% and the exporting entities are either guaranteed swift refunds through a banking mechanism (30 days) or they can in certain cases or inputs just qualify for a bonded zero-rating by dint of being located in specified zones, and in Myanmar the entire export chain simply operates on zero-rating. The disadvantage is not just limited to zero-rating and even in some other areas Pakistani exporters tend to be operating in unfavorable conditions as compared to their regional competitors - For example, the central bank’s discount rate in Bangladesh is 5%, in Myanmar 9.5%, whereas, in Pakistan 13.25%; likewise, electricity tariff in Bangladesh is $0.063/kWh, Myanmar $0.026/kWh, whereas, in Pakistan it has recently climbed up to $0.13/kWh. In short, a mixture of incorrect priorities vis-à-vis taxes, zero-rating, uncertain power tariffs and needless operational constraints are presenting multiple adverse challenges to exporting industries in Pakistan and unless these are quickly addressed not only will Pakistan’s exports continue to dwindle, but also as result both unemployment and poverty will further rise in absence of any meaningful cum sustainable growth in the national GDP!