Trade policy: focusing on future challenges

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Trade policy announced on 21st July lays out a roadmap which if executed with vigour and commitment can set pace to meet challenges likely to be created by WTO regime on 1st January, 2005, free market forces and international competition to exports. It will also help to increase export earnings by at least 10 per cent each year and will give impetus to economic growth and alleviate poverty. The most important question is: are there any visible and invisible constraints to achieve the objectives laid down in the trade policy?

The ground is favourably set to achieve broad objectives of trade policy and to meet export target of $12.2 billion with $700 million trade deficit set for the current fiscal year. Macro-economic stability that helped to achieve beyond last year's export target of $10.4 billion, by $0.8 billion or 6 per cent is likely to stay on board and financial liquidity will also be available to exporters at quite cheaper interest rates. Nevertheless, there will be serious challenge of implementing the trade policy in domestic political environment, which are prone to be unstable. Demand in economies where our exports land will be yet another crucial factor for the success of export policy.

Export performance: FY-03

A brief reference to export performance during FY-03 is of interest to evaluate new trade policy and ascertain the possibility of its success. Pakistan achieved export value of $11.2 billion during the period when ex-

A number of other factors such as investment in textile sector for BMR / expansion, overall increase in unit values of export products, stable exchange rate, low inflation, export financing at low interest rate consistent economic policies, reduced tariff, availability of raw material and finance, liberal imports played pivotal role in boosting exports.

Notwithstanding breaking through $10.0 billion export target that had alluded exporters and government during past 3-4 years alike, the country has been without a well-articulated futuristic export policy. This time the government realising the challenges exports are likely to face in coming years, has defined broad objectives of export policy, laid down an export promo-

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technology.

These broad objectives are well meaning and two of them i.e., opening domestic industry to international competition and facilitating latest technology for value-addition are the most crucial. Domestic industry grew and wants to stay under protection. It is least desirable as is the case of auto-industry, in an era of free trade, free market and international competition. Opening domestic industry to competition will improve quality of its products, make them competitive price-wise and will add to value-addition. Equally important is to facilitate acquisition of latest technology. Unless it is done, exports will not pick up in international free market, which is quality thirsty. Acquisition of technology cannot be possible without joint ventures with multinationals. Export policy has adequately tackled these important points.

Export promotion strategy

Export promotion strategy is well meaning. It aims at reducing cost of business, which should be possible in a financial market awash with liquidity and where credit is available at lower interest rate. Keeping in view growth of textile-centric exports, it has focused on textile sector to exploit its export potential fully, which according to an estimate is as high as around $12.0 billion. For this trade policy envisages establishment of Special Export Zones (SEZs) and Garment Cities (GCs). It also aims at establishing five more industrial clusters in addition to existing five ones. It lays emphasis on increasing market access, im-

Export policy has not minced words to re-emphasise the fact that textile products are going to stay as our main exports. The policy envisages to meet the WTO challenge. which will through textile sector across the world into open competition on 1st January 2005 by abolishing quota system that is to remain in vogue till December 2004. Within 18 months from now the country is to make up for any deficiency to meet the challenge. For this SEZs and GCs are the answers provided by the trade policy.

SEZs will be established to make corporate sector more active. These zones will be managed by corporate entities in which the government, multilateral institutions and stakeholders would be equity partners. CBs will play the role of financing the zones under SBPs prudential regulations at a rate higher by two per cent than 6 months treasure auction rate. The zones will be readied to be equipped with all essentials of modern infrastructure required for dying, processing and finishing textile products. Two SEZs will be established, one in Karachi, and the other in any one of the cities of the Punjab. Like SEZs, GCs will facilitate textile exports. Three GCs, one each in Karachi, Lahore and Faisalabad will be established. SEZs as well as GCs will cut short on raising new infrastructure that is linked with establishing export promotion zones. The main thrust will be towards modernising or expanding existing infrastructure. Investors would be encouraged because they would be investing in a sector whose credibility in exports is well established.

its success. Pakistan achieved export value of $11.2 billion during the period when export markets were sluggish and the Japanese, US and European economies were facing recession and demand of goods was bare minimum. Nevertheless, exports increased by 21 per cent over preceding year 2001-02, trade deficit reduced marginally by 4 per cent to $1.5 billion and exports-GDP ratio increased by 2 per cent to 17 per cent of GDP. Textile sector fetched 67 per cent of total export earning i.e., $7.17 billion. Its volume increased by 24 per cent over previous year. In this sector, bed-wear, woven garments and knitwear crossed $1.0 billion mark. Export of rice, wheat, and leather footwear POL products increment increased over past year by a substantial percentage. Increase in export to different markets was as stated: American region by 15 per cent; European region by 27 per cent because greater market access allowed by the European Union; ME by 36 per cent and Asia by 14 per cent.

tion strategy and suggested measures to implement the policy that should help to achieve the export-import targets. It should set pace to achieve higher export growth rate and export earning in long-term perspective.

Broad objectives

It is not so that broad objectives were not articulated in the past year's export policies. They are more realistic, in consonance with time and have direct bearing on future challenges. They are: opening domestic industry to international competition to force on it the art of survival and stand on sound footing, providing adequate raw material through reduced tariff and allowing liberal import of machinery for industry, construction, gas and oil sector and agriculture. The objectives also include not to starve consumers by making consumer-friendly commodities available in the market in abundance and to facilitate latest

addition to existing five ones. It lays emphasis on increasing market access, improvement of technological skills of workforce, capacity building and value-addition for exports and creating export-oriented environment.

Trade policy addresses a number of problems, which inhibit export-oriented environment. These problems are the concern of countries importing our products. They are specific to waste water treatment and intellectual property rights. In addition to this, some of the measures such as promoting "Pakistani Products", acquiring brand names through joint commercial ventures with multinationals, EXPO Pakistan, improving Pakistan's image abroad as an exporter, awarding civil awards for promoting exports, reducing cost of electricity for industrial sector by asking WAPDA and KESC to charge "off peak hour rates" and "bulk rates", and providing freight subsidy on exports with a few soft conditionalities will go a long way in promoting exports and diversifying exports to some extent.

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Like SEZs and GCs, trade policy based on the experience of five industrial clusters already working in Gujrat (Electric fans), Wazirabad (Cutlery), Lahore (Woven Garments), Korangi Creek, Karachi (Garments) and Jewellery, envisages five more clusters. They will be in Sialkot (sports goods), Karachi (auto-parts, electrical appliances and knitwear), and Lahore (knitwear). These industrial clusters will be facilitated through one-window-operation and looked after by the Directorate of Cluster Development in EPB. These clusters could come up as good quality export vendors if they were managed well.

Imports and chronic trade deficit

A liberal import policy is quintessential if exports are to go up. Major imports during previous year were edible oils, POL, machinery for textile, industry and agriculture, fertilizers, and steel.

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The trend is to persist. Trade policy has liberal import content to meet domestic consumption needs and needs of raw materials and machinery for industry. Such a policy should facilitate export-building capacity and give boost to exports. It will generate employment and economic growth.

Pakistan's trade deficit problem is chronic. It needs to be zeroed and changed to surplus in short and long term perspective respectively. Last year trade deficit was $1.15 billion, less than 4 per cent of trade deficit for the year 2002. This year target is set at $700 million. It might be difficult to achieve in view of liberal import policy.

Conclusion

Broad objectives of trade policy, export promotion strategy and measures to meet challenges of WTO, free market and international competition have been well articulated in the trade policy. The real challenge is not about appreciation of problems and offering solutions to solve them. But, it is about executing measures that are out lined in bureaucratic milieu whose mindset is least responsive to needs of executing export policy on war footing particularly in not-so-stable domestic political environment and non-so-certain economic conditions in countries, which import our goods.