China-Pakistan Economic Corridor

Experts discuss ways, means to improving exports, regional trade

Observer Report

Islamabad

CE-CPEC and PIDE organized a Roundtable Discussion on "Strategies for Improving Exports – with special attention to CPEC and Regional Trade". The seminar was attended by experts on the topic from Ministry of Commerce, SBP and PIDE at PIDE.

There are deep structural problems, due to which Pakistan has performed extremely poorly in exports over the past several decades. Our pattern of exports is not aligned with the current configurations of global trade. For instance, while textiles and garments are 70% of the our exports, these form only 4% of the global trade. The largest categories are Engineering Goods, Chemicals and Plastics, Metals and Minerals, which account for more than 60% of global trade. Pakistan is conspicuous by its absence in these areas. Costs of business are high, competitiveness is low, tax policies are not business friendly, and energy shortages are common; these create a major barrier to export promotion. Another significant factor which was highlighted was the absence of Foreign Direct Investment (FDI). In the recent past, all of the stars in exports, like India, China, and Bangladesh, have attracted massive amounts of FDI. Interestingly, the volume of exports in each of these countries closely matches the FDI, showing the strong relationship between the two. Yet another negative is lack of friendly relations with our neighbours, which creates major impediments for exports.

So what are the solutions, the strategies we can use to move forward? In terms of the FDI gap, CPEC presents a big step forward. Not only is China investing in Pakistan, but the CPEC initiative has had a strong crowding-in effect; many other countries and institutions who are coming forward with investment projects in Pakistan built around synergies with the Belt and Road Initiative. The deep structural problems will take a longer time to resolve, especially because the way forward is blocked by powerful vested interests, both within and without Pakistan, which resist the structural changes required. However, there are several methods to work around these obstacles, and to pluck low hanging fruits which can boost exports and economic growth in the short run.

First, the nine Special Export Zones (SEZs) will bypass most of the structural problems, allowing them to operate as pilot projects for new types of industries required for the structural transformation. Domestic business fears that these will compete with, and destroy, local industry, are not well-founded. This is because the SEZs will build industries in areas where little-to-nothing exists, and will manufacture for exports in areas where we have no exports. These will also capitalize on global trade connections of China, which Pakistan lacks. Furthermore, partnership ventures are envisaged where Chinese technology, and export linkages will be transferred to domestic partners.

Secondly, there are many areas, where easy opportunities to boost exports exist. As the second phase of the free trade agreement (FTA) with China comes into effect, a significant jump in Rice and Soybean exports to China is expected. Marble and Granite are in huge demand in the construction sectors in China, and Pakistan is plentifully endowed. Improvement in trade relations can lead to several low-technology labour intensive products which would suit the comparative advantages of Pakistani production. For example, mushroom exports is USD 9 billion export industry in China, but unknown in Pakistan. Similarly, there is a huge potential for high end diary product exports.

Thirdly, fears about the burden of debt created by the FDI are misconceived since the debt is being used for productive investments and imports of raw materials. A large part of the debt will take the shape of roads and energy projects within Pakistan, which will bring direct and immediate benefits to the domestic economy. The drive towards export promotion is partly driven by the fears of a Balance of Payments deficit. Incoming FDI is in form of soft loans on easy terms, which will build productive capacity. While there will be short term stress on the BoP, there will be substantial easing within two years as the energy projects come on line, significantly reducing our import bills.

Finally there are some traps we need to avoid. Despite widespread belief to the contrary, solid empirical evidence shows that depreciation of currency will not have a favourable effect on our balance of payments – our import bills will increase by more than our export revenues, and our debt burden will also increase. Also, if some diplomatic genius could engineer what seems like an impossible dream, peace with our neighbours, this would lift us out of the terrorism and security trap that is damaging our prospects for progress.