Public-Private Policy Symposium on Achieving Export Competitiveness in Pakistan
Background

• To support the Government of Pakistan in the preparation of its new Strategic Trade Policy Framework (2018-23) we conducted a series of private sector stakeholder consultations

• Private sector representatives participated in four separate meetings organized in different provinces with the following objectives:

  – To identify constraints being faced by existing exporters
  – To identify barriers that potential exporters, particularly small and medium enterprises (SMEs) are facing while engaging in trade
  – To point out regulatory, policy, infrastructural and knowledge gaps
  – To identify major restrictions and barriers that are being faced by existing and potential women exporters.
Global and regional trade integration offers Pakistan tremendous potential in driving and sustaining growth. Despite this potential, trade has not been effectively leveraged to catalyze growth in Pakistan in recent years.

Trends in relative trade and competitiveness have been worrying, with export earnings declining over the period FY2011-2017 and market share contracting.

Understanding the constraints on trade and competitiveness from the perspective of the private sector engaged in export activities is critical to developing and implementing effective trade policy.
Objective of today’s meeting

• Present perspectives of private sector regarding challenges and possible entry points for supporting export competitiveness

• Discussing most critical and urgent components of forthcoming trade policy

• Brainstorming how demands of the private sector can be facilitated through revisiting the implementation mechanism of trade policy

• Discussing trade policy’s alignment with other related interventions particularly the fiscal policy.
• **Identification**: We split the enterprises for consultation across four groups. These included current exporters, past exporters, services sector and potential exporters

• **Provincial heterogeneity**: A key reason to host the meetings at various exporting hubs of Pakistan with in different provinces was to document the heterogeneity of issues faced by different regions

• **Response differentiation**: Separate tools for each type of export/ type of business persons was used

• **Constraint type**: Our focus remains on macro-level constraints to exports faced by all sectors. Sector-specific methodology was not used.
• Total responses received from 254 enterprises

• Split across sectors:
  – Manufacturing 61%
  – Services 26%
  – Agro processing 10%
  – Agriculture 3%

• Export profile
  – 35 percent were current exporters
  – 23 percent were past exporters
  – 22 percent were from the services sector
  – 20 percent were potential exporters

• 72 percent of our participants represented SMEs, while 28 percent were from larger entities.
Findings-I: Current challenges faced by exporters
1. Cost of energy still the largest budget item

• The frequent changes in rates of utilities have adversely affected the forecasted cash flows and result in reduced competitiveness vis-à-vis peer economies

• The potential exporters explained that while the supply of energy has improved over the past 12 to 18 months, however cost per unit has not come down

• The current exporters suggested that gas and electricity tariffs should be in-line with the competitor economies e.g. Bangladesh, India and Vietnam.
2. Tax compliance cost has increased

- Arbitrary changes in tariffs and regulatory duties distort production decisions
- Refunds mechanism for exporters needs reform (in line with the Tax Reform Commission’s report)
- Additional compliance at provincial level with rise of new tax authorities in provinces
- Tax compliance also being demanded for several obsolete taxes raising miniscule revenue.
3. Need to expedite customs processing reforms

• The time taken for custom clearance must be reduced in order to facilitate exports, especially for perishable items

• In the case of delays in clearance of perishable items, there must be a mechanism of public-private risk sharing

• The customs software at land route trading posts often suffers due to lack of efficient internet connectivity. This allows officials to resort to the manual customs processing in turn also opening the doors for rent seeking.
4. Lack of financial intermediation

- The lack of adequate banking channels with neighboring countries and non-traditional export destinations is not letting exporters realize their potential.

- The existing banking system must be made compatible with key export destinations in order to ensure that there are no undue financial barriers to trade.

- The past exporters explained that the financing under State Bank of Pakistan’s Export Finance Scheme and Long Term Financing Facility (LTFF) should be expanded for past exporters currently failing to regain their market.
5. Exchange rate regime

• Currently there are varying views within the government regarding the overvalued exchange rate

• The current exporters suggested that an overvalued exchange rate should be allowed to gradually adjust to its equilibrium value

• The management of exchange rate policy should also take into account the fast changing value of currencies in the competitor economies.
6. Engagement by export promotion bodies

- There is a need for the trade associations, chambers of commerce and industry and the federal and provincial governmental trade promotion departments to develop their capacity to research non-traditional markets abroad and possible future export destinations and products.

- Broadbased engagement with commercial and trade officials posted in Pakistani embassies abroad demanded.

- A diverse market may enhance the probability of exporting all types of goods.
7. Transport and warehousing

- Weak consultation around National Transport Policy 2017

- A more participatory consultation is required around Pakistan Courier and Logistics Regulatory Authority Act 2017

- The travel and dwell time faced by consignments is uncertain due to bottlenecks in in-land- and border-related trade infrastructure

- Currently, several dry ports across the country are not effectively operational

- One way to achieve this may be through lowering the burden of taxes (and other levies) on transport and warehousing sector in return for certainty and lowering of price by private operators.
8. Is fiscal support reaching exporters?

- All fiscal incentives or subsidy packages provided to the exporters should be evidence-based. There should be a careful evaluation of past textile export packages.

- Most export packages suffer from weak targeting.

- Current capacity doesn’t allow clear identification of new and potential exporters. Fiscal support should be strictly targeted towards these groups. Furthermore, such support should be time bound and with clear export targets in volume or value (of exports).
9. Role of FTAs and evaluation of GSP+

• An evaluation is also required to see why Pakistan has not been able to achieve the benefits at a scale envisaged after the awarding of the European Union’s GSP+ arrangement.

• All FTAs and preferential trade agreements (PTAs) may be carefully reviewed in the interest of local manufacturing industry and services sectors. This is particularly important at this stage as Pakistan is negotiating the next phase of China-Pakistan FTA.

• It was revealed that a key reason why Pakistan was unable to achieve the anticipated gains from GSP+ was weak knowledge of certification requirements.
10. Layers of regulatory burden

• Permits (renewal) regime at sub-national level; also differs by sector

• Difficulties and delays in obtaining connection of utilities

• For plant expansion and land acquisition, application-and-wait time for licenses and NOCs

• One window services often claimed for compliance with tax, labour, environmental and related NOCs not operational.
Other macro-level constraints

- Other issues include:
  - Agricultural inputs costs
  - Gaps in skilled and semi-skilled labour market
  - Gender specific barriers to trade
  - Issues specific to services exports.
Findings-II: Province specific prioritization of issues
Province-wise priorities

**Sindh**
- Taxation
- Labour
- Tariffs
- Lack of land route trade
- Weak engagement with federal

**Balochistan**
- Trade facilitation
- Exchange rate
- Delays in receipt of uplift package
- Lack of information regarding export incentives
- Large informal economy

**Punjab**
- Regulatory burden
- Labour
- Taxation
- Delays in receipt of fiscal support
- Trade facilitation

**Khyber Pakhtunkhwa**
- Energy
- Taxation
- Certification
- Credit
- Exploring other sectors e.g. minerals
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Thank You