‘Anti-export’ bias

Shahid Sattar | Eman Ahmed

There is a dire need for transparency and rationalization in Pakistan’s tariff policymaking. It has been oft emphasized by export-oriented industries that the import tariffs on industry inputs ultimately serve as a tax on exports. This policy is thereby hampering the profitability of the very sector that is positioned to enable economic growth for Pakistan. The anti-export bias that emerges also hinders investments and the productivity of the sector.

Pakistan cannot dream of higher economic growth without moving into value-addition, particularly in the highly productive textile sector, where the predominant focus is on cotton. Pakistan textile millers need to focus on specialized yarn and tap into the growing market for sportswear and athleisure. With a myopic focus on short staple fiber raw cotton, we are essentially relying on a shrinking market while neglecting the rapidly expanding market for MMF. The MMF tariff regime effectively prevents Pakistan from aligning its products in tandem with the rest of the world. More than 60% of world textile trade is in MMF materials, the demand for which has grown exponentially owing to the convenience it affords as a cheap material used in the production of the ever-relevant active-wear trend.

However, the duty protection given to obsolete plants in Pakistan is denying the Pakistani industry any chance to compete in this booming market, internationally or domestically. This brings us to the issue of polyester staple fiber, a raw material of the industry upon which it would be unreasonable to apply any duties. Alarmingly, at present there is a 7% customs duty on the import of polyester staple fiber. This racks up the total import duties, which subsequently fall in the range of 20% including antidumping duty. Despite the antidumping duty on cheap Chinese materials having expired, the duty has been extended for a further year.

In recent years, there has been widespread usage of antidumping policies, especially by developing countries, as well as the rapid expansion of Preferential Trade Agreements. Both antidumping and PTAs discriminate against trading partners. Until the 1990s, antidumping was primarily used by developed high-income countries; however, a significant number of developing countries have followed suit. Antidumping duties increase the level of protection on certain suppliers whereas PTAs decrease the level of protection between certain traders. Trade facilitation must be maintained for economic growth, whereby the simplification, modernization and harmonization of export and import processes can take place. It enhances border efficiency and reduces uncertainty (regulatory and arrival times), and is particularly important in the world of global value chains, where goods cross the border multiple times, and firms import intermediate inputs to produce and export. Reliable and timely delivery of inputs is essential.

Tariffs are typically used to protect domestic industries or as leverage in trade negotiations and disputes. It is useful to study the tariff structures and sector incentives of certain textile economies, notably Bangladesh, Cambodia, Ethiopia, Myanmar and Vietnam. Most of them benefit from the duty-free input of machinery and raw materials, particularly for the production of export commodities. Subsidized utility rates are also available in Bangladesh, Cambodia and Ethiopia. Furthermore, Bangladesh benefits from an exemption from value-added tax on utility services related to the production of goods. This has allowed these countries to maintain textile-led export growth and achieve impressive trade volumes.

It is vital to rectify Pakistan's dependency on the trade of traditional goods, and to diversify into value-added and service sectors. In order to protect itself from market volatility as well as high risk exposure associated with single-product dependency, it is important for the country to nurture and develop other industrial sectors which have high growth potential. This must be accompanied by introducing sector specific policies that benefit large and small firms alike, introducing a stable and declining tariff regime, creating efficient manufacturing clusters and reducing the cost disadvantage compared to other regional players. Pakistan needs to increase trade competitiveness and ease of doing business by removing obstacles such as delayed payments and slow processes for obtaining permits through improvements like e-governance at local levels.

Textiles in Pakistan are highly sensitive to developments in the energy sector, such that inefficiencies, issues of availability and uncompetitive pricing policies balloon into large-scale hindrances in exports. Pakistan's energy conundrum has resulted in increased cost of business, severe liquidity crises and reduced overall profitability for businesses. The textile industry of Pakistan, for instance–20.9% in QIM – bears the burden of the highest energy tariffs in the region. Electricity, despite being recently reduced from 13.3 cents/kWh to 9.0 cents/kWh, and gas at $6.5 / MMBTU – is still significantly higher than regional players like India and Bangladesh. Captive generation costs 7 cents, so the electricity tariff for export-oriented sectors must be rationalized at the regionally competitive rate of 7 cents, without which we are being deprived of the export market we have gained in the last year. It is also proving impossible to achieve much-needed revenue targets, leaving little room for crucial modernization or expansion.

In several of our past articles, we have alluded to a snake-and-ladder situation as a metaphor for the illogical issues that arise each time a positive development is seen in the textile sector and in exports. Initially, the unavailability of energy proved to be a major hindrance in the textile sector's performance. The energy made available in the subsequent period was too costly to keep the industry competitive. After a long fight to finally obtain energy prices that are at least comparable to regional competitors, albeit still not at par with regional rates, the industry is now faced with the issue of discrimination in gas supply which is unacceptable. If the industry is to obtain gas, it has to take it directly for the machine and not for engine/steam, so the cost should be uniform across the country.

The proverbial snake has once again bitten, as in an effort to offset the electricity surplus, an abrupt decision has been taken by CCoE to suspend supply of gas/RLNG to users having Captive Generation. The industry is encouraged to shift from gas-based Captive Power Generation to the national Power Grid to save merely 485 MMCFD of gas (300 for South and 185 for North) which roughly translates into 1500 MW of electricity. Suspending gas supply to industry, at this stage where there has been an unprecedented growth in exports, will hurt Pakistan's economy severely. Apart from production losses that'll compromise industry's and eventually Pakistan's credibility in performing orders, there will be adverse consequences from reduced exports, unemployment and loss on already made investments. The negative impact of moratorium on supply of gas will be far greater than making 150 MMCFD natural gas available for utilization to the power sector.

The textile sector is the only sector of the country with an exportable surplus, and thus requires special attention and facilitation to double its exports in the next four years. Textiles are achieving higher export volumes and are set to capture additional market share in recent times. However, the sector remains burdened with the relatively higher energy tariffs of the region. While India has focused on further lowering these prices from current levels which are already well below Pakistan's, they paradoxically continue to rise in Pakistan. This has left Pakistani goods highly uncompetitive in the market. Furthermore, the government's tendency towards taxing imports has been detrimental to the export-oriented industries which rely on internationally-sourced inputs, and yet are unable to acquire them at world prices. These hindrances, along with a plethora of others, have been highlighted at length in the Textile Policy of Pakistan, along with detailed strategies to address them.

It is no surprise that Pakistan ranks low in the ease of doing business and competitiveness indices, as many potential startups are burdened by overregulation that hinders them from taking off. Meanwhile, the textile sector remains under immense pressure to maintain the majority of Pakistan's exports, and therefore must be considered critical for Pakistan's economic prosperity.

Earnings through exports serve as a crucial inflow to the economy. Policy support is an absolute requirement that ties into this, but the measures taken by the government are often insufficient. It is essential to direct our confidence and incentives towards our local business community as well as our entrepreneurs. We must also push for improvements in quality education, training and job opportunities for the youth. Considering the export-led economic prosperity that is taking Bangladesh to new heights, Pakistan must mitigate its reliance on primary and traditional commodities, rationalize tariff structures and fast-track the shift towards manufactured, value added services and nontraditional goods for export. Most importantly, the policies that are meant to support exports and economic growth must be consistent and not offset by irrational complications every time we begin to see growth. The sheer number of times we have seen this situation is highlighted in our past articles:

"Ladder and the Snake" accessible at https://fp.brecorder.com/2019/05/20190522477836/

"The Snake Has Truly Bitten" accessible at https://fp.brecorder.com/2019/07/20190702493518/

It is pertinent to mention that both of these were published nearly two years ago, showing the recurrence and pervasiveness of this issue. Even in the face of these hurdles, we must continue to target the objective of export-led economic growth and not allow the positive growth of recent months to be sullied by illogical and discriminatory policies.